

REFINITIV

# DELTA REPORT

## 10-Q

EML - EASTERN CO

10-Q - JUNE 29, 2024 COMPARED TO 10-Q - MARCH 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	604
CHANGES	114
DELETIONS	244
ADDITIONS	246

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**

**for the  
quarterly  
period  
ended  
June 29,  
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 Number001-35383**

**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  
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

☐

Accelerated filer

☒

Non-accelerated filer



Smaller reporting company



Emerging growth company



If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 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** **June 29, 2024**, **6,233,510** **6,228,432** 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, JUNE 29, 2024**

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## PART 1 – FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

## THE EASTERN COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)						
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)			CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)			
	Three Months Ended		Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net sales	\$ 67,929,087	\$ 72,495,367	\$ 73,151,889	\$ 68,337,790	\$ 141,080,976	\$ 140,833,158
Cost of products sold	(51,732,988)	(56,997,668)	(54,941,336)	(53,189,948)	(106,674,324)	(110,187,615)
Gross margin	16,196,099	15,497,699	18,210,553	15,147,842	34,406,652	30,645,543
Product development expense	(1,359,797)	(1,401,199)	(1,301,487)	(1,431,110)	(2,661,284)	(2,832,309)
Selling and administrative expenses	(11,498,958)	(11,937,637)	(11,536,949)	(11,289,037)	(23,035,906)	(23,226,674)
Operating profit	3,337,344	2,158,863	5,372,117	2,427,695	8,709,462	4,586,560
Interest expense	(845,035)	(726,006)	(829,934)	(781,104)	(1,674,969)	(1,507,110)
Other income (expense)	10,354	(630,699)				
Other (expense) income			(20,066)	252,180	(9,712)	(378,520)
Income before income taxes	2,502,663	802,158	4,522,117	1,898,771	7,024,781	2,700,930
Income tax expense	(555,091)	(194,845)	(1,014,245)	(499,564)	(1,569,336)	(694,409)
Net income	\$ 1,947,572	\$ 607,313	\$ 3,507,872	\$ 1,399,207	\$ 5,455,445	\$ 2,006,521
Earnings per share:						
Basic	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.22	\$ 0.88	\$ 0.32
Diluted	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.22	\$ 0.87	\$ 0.32
Cash dividends per share:	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.22
See accompanying notes.	See accompanying notes.					

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

	Three Months Ended		Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net income	\$ 1,947,572	\$ 607,313	\$ 3,507,872	\$ 1,399,207	\$ 5,455,445	\$ 2,006,521
Other comprehensive income:						
Change in foreign currency translation	(157,000)	336,585	(472,078)	(431,042)	(629,078)	(94,457)
Change in fair value of foreign currency swap, net of tax cost (benefit) of:						
2024 - \$96,724; 2023 - \$(87,691)	403,016	(277,687)				
Change in fair value of foreign currency swap, net of tax benefit of:						
2024 - \$(109,797) and \$(17,103) respectively			(477,378)	-	(74,362)	-
Change in fair value of interest rate swap, net of tax benefit of:						
2023 - \$(274,957) and \$(362,648) respectively			-	(1,172,067)	-	(1,449,754)
Change in pension and postretirement benefit costs, net of taxes of:						
2024 - \$71,355; 2023 - \$74,360	243,336	252,668				
Total other comprehensive income	489,352	311,566				
2024 - \$71,355 and \$142,710 respectively; 2023 - \$74,359 and \$148,719 respectively			237,501	252,670	480,837	505,338
Total other comprehensive loss			(711,955)	(1,350,439)	(222,603)	(1,038,873)
Comprehensive income	\$ 2,436,924	\$ 918,879	\$ 2,795,917	\$ 48,768	\$ 5,232,842	\$ 967,648
See accompanying notes.	See accompanying notes.					

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

	June 29, 2024 (unaudited)	December 30, 2023
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,706,497	\$ 8,299,453
Marketable securities	2,034,602	986,477
Accounts receivable, less allowances: 2024 - \$562,498; 2023 - \$564,816	42,327,344	37,057,488
Inventories	56,879,677	59,272,207
Current portion of notes receivable	192,933	573,269
Prepaid expenses and other assets	5,127,614	6,047,814
<b>Total Current Assets</b>	<b>118,268,667</b>	<b>112,236,708</b>
<b>Property, Plant and Equipment</b>	<b>62,804,268</b>	<b>60,270,096</b>
Accumulated depreciation	(33,485,314)	(31,980,335)
<b>Property, Plant and Equipment, Net</b>	<b>29,318,954</b>	<b>28,289,761</b>

Goodwill	70,700,912	70,776,893
Trademarks	5,514,853	5,514,960
Patents and other intangibles net of accumulated amortization	13,372,930	15,325,927
Long term notes receivable, less current portion	284,330	374,932
Deferred Income Taxes	2,536,357	2,283,571
Right of Use Assets	15,682,994	17,236,449
Other Long-Term Assets	222,504	-
<b>Total Other Assets</b>	<b>108,314,880</b>	<b>111,512,732</b>
<b>TOTAL ASSETS</b>	<b>\$ 255,902,501</b>	<b>\$ 252,039,201</b>

See accompanying notes.

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

	March 30, 2024 (unaudited)	December 30, 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 - \$541,103; 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>
<b>Goodwill</b>	<b>70,722,962</b>	<b>70,776,893</b>
<b>Trademarks</b>	<b>5,514,884</b>	<b>5,514,960</b>
<b>Patents and other intangibles net of accumulated amortization</b>	<b>14,360,192</b>	<b>15,325,927</b>
<b>Long term notes receivable, less current portion</b>	<b>329,970</b>	<b>374,932</b>
<b>Deferred Income Taxes</b>	<b>2,283,571</b>	<b>2,283,571</b>
<b>Right of Use Assets</b>	<b>16,521,127</b>	<b>17,236,449</b>
<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.

	June 29, 2024 (unaudited)	December 30, 2023
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		

<b>Current Liabilities</b>		
Accounts payable	\$ 27,683,500	\$ 25,319,473
Accrued compensation	5,493,325	5,379,381
Other accrued expenses	5,098,540	4,556,623
Current portion of operating lease liability	3,846,537	4,424,369
Current portion of finance lease liability	182,219	182,010
Current portion of long-term debt	2,853,935	2,871,870
Other current liabilities	296,866	-
<b>Total Current Liabilities</b>	<b>45,454,922</b>	<b>42,733,726</b>
<b>Other long-term liabilities</b>		
	640,724	640,724
<b>Operating lease liability, less current portion</b>	<b>11,836,457</b>	<b>12,812,079</b>
<b>Finance lease liability, less current portion</b>	<b>665,217</b>	<b>728,100</b>
<b>Long-term debt, less current portion</b>	<b>39,575,849</b>	<b>41,063,865</b>
<b>Accrued postretirement benefits</b>	<b>579,832</b>	<b>554,758</b>
<b>Accrued pension cost</b>	<b>20,662,798</b>	<b>21,025,365</b>
<b>Total Liabilities</b>	<b>119,415,799</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	34,575,179	33,950,859
Issued: 9,122,953 shares as of 2024 and 9,091,815 shares as of 2023		
Outstanding: 6,228,432 shares as of 2024 and 6,217,370 shares as of 2023		
Treasury Stock: 2,894,521 shares as of 2024 and 2,874,445 shares as of 2023	(23,762,587)	(23,280,467)
Retained earnings	148,891,689	144,805,168
Accumulated other comprehensive loss:		
Foreign currency translation	(1,495,677)	(866,599)
Unrealized loss on foreign currency swap, net of tax	(74,362)	-
Unrecognized net pension and postretirement benefit costs, net of tax	(21,647,540)	(22,128,377)
Accumulated other comprehensive loss	(23,217,579)	(22,994,976)
<b>Total Shareholders' Equity</b>	<b>136,486,702</b>	<b>132,480,584</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 255,902,501</b>	<b>\$ 252,039,201</b>
See accompanying notes.		

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

	March 30, 2024 (unaudited)	December 30, 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>
<b>Operating lease liability, less current portion</b>	<b>12,325,261</b>	<b>12,812,079</b>
<b>Finance lease liability, less current portion</b>	<b>696,584</b>	<b>728,100</b>
<b>Long-term debt, less current portion</b>	<b>40,271,398</b>	<b>41,063,865</b>
<b>Accrued postretirement benefits</b>	<b>565,727</b>	<b>554,758</b>
<b>Accrued pension cost</b>	<b>21,150,758</b>	<b>21,025,365</b>
<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.

	Six Months Ended	
	June 29, 2024	July 1, 2023
<b>Operating Activities</b>		
Net income	\$ 5,455,445	\$ 2,006,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,741,969	3,621,126
Reduction in carrying amount of ROU assets	1,553,455	4,404,043
Unrecognized pension and postretirement benefits	10,219	656,655
Loss on sale of equipment and other assets	40,801	318,775
Provision for doubtful accounts	4,000	(16,731 )
Stock compensation expense	624,320	10,185
Changes in operating assets and liabilities:		
Accounts receivable	(5,266,258 )	918,871
Inventories	2,365,449	7,711,536
Prepaid expenses and other	1,006,407	562,548
Other assets	28,721	163,077



Accounts payable	2,939,089	(953,660)
Accrued compensation	96,109	(165,590)
Operating lease liability	(1,553,455)	(4,395,424)
Other accrued expenses	(784,960)	(1,283,477)
<b>Net cash provided by operating activities</b>	<b>10,261,311</b>	<b>13,558,455</b>
<b>Investing Activities</b>		
Marketable securities	(999,960)	-
Business acquisition	-	(547,638)
Payments received from notes receivable	470,937	2,309,236
Proceeds from sale of equipment	18,000	-
Purchases of property, plant, and equipment	(2,834,977)	(1,978,784)
<b>Net cash used in investing activities</b>	<b>(3,346,000)</b>	<b>(217,186)</b>
<b>Financing Activities</b>		
Proceeds from new long-term debt financing	-	60,000,000
Principal payments on long-term debt	(1,505,952)	(69,248,743)
Payments on short term borrowings (revolver)	-	(252,025)
Financing leases, net	(62,674)	674,558
Purchase common stock for treasury	(482,120)	-
Dividends paid	(1,368,924)	(1,369,941)
<b>Net cash used in financing activities</b>	<b>(3,419,670)</b>	<b>(10,196,151)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(88,597)</b>	<b>(127,966)</b>
<b>Net change in cash and cash equivalents</b>	<b>3,407,044</b>	<b>3,017,152</b>
Cash and cash equivalents at beginning of period	8,299,453	10,187,522
<b>Cash and cash equivalents at end of period</b>	<b>\$ 11,706,497</b>	<b>\$ 13,204,674</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest	\$ 1,639,713	\$ 1,364,527
Income taxes	1,599,765	315,120
<b>Non-cash investing and financing activities</b>		
Right of use asset	144,445	4,404,043
Lease liability	(144,445)	(5,355,510)
<i>See accompanying notes</i>		

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
<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	(999,960)	-
Payments received from notes receivable	-	2,233,192
Proceeds from sale of equipment	18,000	-
Purchases of property, plant, and equipment	(1,776,954)	(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	(792,467)	(4,858,000)
Financing leases, net	(31,236)	723,254
Purchase common stock for treasury	(234,800)	-
Dividends paid	(683,065)	(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	8,299,453	10,187,522
<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	\$ 831,462	\$ 716,763
Income taxes	230,523	(59,681)
<b>Non-cash investing and financing activities</b>		
Right of use asset	140,939	(652,914)
Lease liability	(140,939)	(328,721)
See accompanying notes		

## 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 in this Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2024 (this "Form 10-Q") 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 second quarter of 2023, the first second fiscal quarter of 2023, the first quarter of fiscal 2023 or the three months ended April 1, 2023 July 1, 2023, mean the 13-week period from January 1, 2023 April 2, 2023 to April 1, 2023 July 1, 2023. References to the first second quarter of 2024, the first fiscal quarter of 2024, the first second fiscal quarter of 2024 or the three months ended March 30, 2024 June 29, 2024, mean the 13-week period from March 31, 2023 to June 29, 2024. References to the first six months of 2023 or the six months ended July 1, 2023 mean the period from January 1, 2023 to July 1, 2023. References to the first six months of 2024 or the six months ended June 29, 2024 mean the period from December 31, 2023 to March 30, 2024 June 29, 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:

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

  

	Three Months Ended		Six Months Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Basic:				
Weighted average shares outstanding	6,233,153	6,232,717	6,224,596	6,227,873
Diluted:				
Weighted average shares outstanding	6,233,153	6,232,717	6,224,596	6,227,873
Dilutive stock appreciation rights	25,626	32,462	25,626	32,462
Denominator for diluted earnings per share	6,258,779	6,265,179	6,250,222	6,260,335

## **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), [designated foreign currency hedge contracts – see Note O, Financial Instruments and Fair Value Measurements](#), 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](#) [June 29, 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, 2024</b>	<b>December 30, 2023</b>	<b>June 29, 2024</b>	<b>December 30, 2023</b>
<b>Raw material and component parts</b>	<b>\$ 23,084,312</b>	<b>\$ 24,500,087</b>	<b>\$ 23,511,138</b>	<b>\$ 24,500,087</b>
<b>Work in process</b>	<b>9,381,683</b>	<b>9,957,068</b>	<b>9,555,150</b>	<b>9,957,068</b>
<b>Finished goods</b>	<b>23,381,076</b>	<b>24,815,052</b>	<b>23,813,389</b>	<b>24,815,052</b>
<b>Total inventories</b>	<b>\$ 55,847,071</b>	<b>\$ 59,272,207</b>	<b>\$ 56,879,677</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](#) [June 29, 2024](#). No impairment was recognized in the [first](#) [second](#) 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.

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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** **nineteen** operating leases with a lease liability of **\$16.5 million** **\$15.7 million** and two finance leases with a lease liability of **\$0.9 million** **\$0.8 million** as of **March 30, 2024** **June 29, 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** **June 29, 2024** are as follows:

	Operating	Finance	Operating	Finance
2024	\$ 3.2	\$ 0.1	\$ 2.1	\$ 0.1
2025	3.2	0.2	3.2	0.2
2026	2.5	0.2	2.5	0.2
2027 and thereafter	10.2	0.6		
2027			2.1	0.2
2028			1.9	0.2
thereafter			6.4	0.2
	19.1	1.1	18.3	1.0
Less effects of discounting	(2.6)	(0.2)	(2.6)	(0.2)
Lease liabilities recognized	\$ 16.5	\$ 0.9	\$ 15.7	\$ 0.8

As of **March 30, 2024** **June 29, 2024**, the weighted average lease term for all operating and finance leases is 7.0 and **5.8** **5.6** years, respectively. The weighted average discount rate associated with operating and finance leases was **6.3%** **6.4%** and **6.4%** **6.3%**, 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 of 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** **June 29, 2024**.

The term loan bears interest at a variable rate based on the **term secured overnight financing rate** **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** **June 29, 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 six months of fiscal 2024 and fiscal 2023. 2023, the Company granted stock awards with respect to 92,016 and 64,500 shares of Company common stock, respectively, that were subject to the meeting of performance measurements or time based. For the first three six 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 six months of fiscal 2024 and 2023.

Stock-based compensation (income) expense, (income), including forfeitures, in connection with SARs and stock awards previously granted to employees was approximately \$434,000 \$(20,000) and \$(184,000) \$21,000 in the first second quarter of 2024 and the first second quarter of 2023, respectively, and was approximately \$414,000 and \$(163,000) in the first six months of fiscal years 2024 and 2023, respectively.

As of March 30, 2024 June 29, 2024, there were 879,924 792,819 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 March 30, 2024				Year Ended December 30, 2023				Six Months Ended June 29, 2024				Year Ended December 30, 2023			
	Units		Weighted Average Exercise Price		Units		Weighted Average Exercise Price		Units		Weighted Average Exercise Price		Units		Weighted Average Exercise Price	
	Units		Price		Units		Price		Units		Price		Units		Price	
Outstanding at beginning of period	13,000	\$	24.19		146,166	\$	23.22		13,000	\$	24.19		146,166	\$	23.22	
Expired	(9,000)		26.30		(50,833)		24.24		(9,000)		26.30		(50,833)		24.24	
Exercised	-		-		(33,333)		21.10		-		-		(33,333)		21.10	
Forfeited	-		-		(49,000)		22.80		-		-		(49,000)		22.80	
Outstanding at end of period	4,000	\$	20.20		13,000	\$	24.19		4,000		20.20		13,000		24.19	

  

SARs Outstanding and Exercisable	SARs Outstanding and Exercisable				SARs Outstanding and Exercisable				SARs Outstanding and Exercisable				SARs Outstanding and Exercisable			
	Range of Exercise Prices		Weighted Average Remaining Contractual Life		Range of Exercise Prices		Weighted Average Remaining Contractual Life		Range of Exercise Prices		Weighted Average Remaining Contractual Life		Range of Exercise Prices		Weighted Average Remaining Contractual Life	
	Range of Exercise Prices	Outstanding as of March 30, 2024	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Range of Exercise Prices	Outstanding as of March 30, 2024	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Range of Exercise Prices	Outstanding as of June 29, 2024	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Range of Exercise Prices	Outstanding as of June 29, 2024	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$	20.20	4,000	1.1	\$ 20.20	20.20	4,000	1.1	\$ 20.20	20.20	4,000	0.8	\$ 20.20	20.20	4,000	0.8	\$ 20.20

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

	Three Six Months Ended March 30, June 29, 2024	Year Ended December 30, 2023
	Shares	Shares
Outstanding at beginning of period	89,400	64,500
Issued	92,016	82,800
Exercised	(23,734)	(10,600)
Forfeited	(1,433) 11,266	(47,300)
Outstanding at end of period	64,233 146,416	89,400

As of March 30, 2024 June 29, 2024, outstanding SARs and stock awards had an intrinsic value of \$2,245,274. \$3,750,304.

**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 second 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	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	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				
December 31, 2024 – March 30, 2024	10,076	23.30	10,076	149,924				
Balance as of March 30, 2024					50,076	\$ 19.38	50,076	149,924
March 31, 2024 – June 29, 2024					10,000	24.73	10,000	139,924

Balance				
as of				
March 30,				
2024	50,076	\$ 19.38	50,076	149,924
Balance				
as of				
June 29,				
2024	60,076	\$ 20.27	60,076	139,924

#### 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. at the federal jurisdiction, and state levels, 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 six months ended March 30, 2024 June 29, 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 three months and first six months 2024 and 2023 are as follows:

	Pension Benefits		Pension Benefits			
	Three Months Ended		Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Service cost	\$ 178,003	\$ 216,153	\$ 178,004	\$ 216,153	\$ 356,007	\$ 432,306
Interest cost	966,702	990,054	966,704	990,053	1,933,406	1,980,107
Expected return on plan assets	(1,099,035)	(1,049,016)	(1,099,034)	(1,049,014)	(2,198,069)	(2,098,030)



Amortization of prior service cost			-	-	-	-
Amortization of the net loss	327,365	342,865	327,363	342,865	654,728	685,730
Net periodic benefit cost	\$ 373,035	\$ 500,056				
Net periodic benefit cost (benefit)			\$ 373,037	\$ 500,057	\$ 746,072	\$ 1,000,113

	Other Postretirement Benefits		Other Postretirement Benefits			
	Three Months Ended		Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Service cost	\$ 3,574	\$ 6,486	\$ 3,574	\$ 6,486	\$ 7,148	\$ 12,972
Interest cost	12,951	14,533	12,951	14,533	25,902	29,066
Expected return on plan assets	(4,684)	(4,849)	(4,684)	(4,849)	(9,368)	(9,698)
Amortization of prior service cost	1,060	1,060	1,060	1,060	2,120	2,120
Amortization of the net loss	(19,567)	(16,895)	(19,567)	(16,895)	(39,134)	(33,790)
Net periodic benefit (gain) cost	\$ (6,666)	\$ 335				
Net periodic benefit cost			\$ (6,666)	\$ 335	\$ (13,332)	\$ 670

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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** **June 29, 2024**, the Company has contributed **\$450,000** **\$979,000** to its pension plans and **\$7,000** **\$14,000** to its postretirement plan **in fiscal year 2024** 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:

	Three Months Ended		Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Regular matching contribution	\$ 285,563	\$ 252,761	\$ 261,993	\$ 253,665	\$ 547,556	\$ 506,426
Transitional credit contribution	28,906	34,320	21,964	26,344	50,870	60,663
Non-discretionary contribution	110,890	431,950	102,873	89,163	213,763	521,112
Total contributions for the period	\$ 425,359	\$ 719,031	\$ 386,830	\$ 369,172	\$ 812,189	\$ 1,088,201

The non-discretionary contribution of \$328,953 made in the **three** **six** months ended **April 1, 2023** **July 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")** **FASB** issued **Accounting Standards Update ("ASU")** **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** **June 29, 2024**, there was one significant concentration of credit risk with a customer, who had receivables representing **12%** **13%** of our net accounts receivable. **One single** **This same** 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 **under the credit agreement**, 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****Note O – Financial Instruments and Fair Value Measurements**

The Company incurs certain manufacturing, marketing, and selling costs in international markets in local currency. Accordingly, earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the U.S. dollar, the Company's reporting currency. The Company has a program in place that is designed to mitigate the exposure to changes in foreign currency **exposure is concentrated** exchange rates. The program includes the use of derivative financial instruments to minimize, for a period of time, the impact on its financial results from changes in foreign exchange rates. The Company utilizes foreign currency forward contracts to hedge the **Canadian dollar**, anticipated cash flows from transactions denominated in foreign currencies, namely Mexican **peso**, **New Taiwan dollar**, **Chinese RMB**, pesos. This does not eliminate the impact of the volatility of foreign exchange rates. However, because the Company generally enters into forward contracts twelve to eighteen months out, rates are fixed for a twelve-to-eighteen-month period, thereby facilitating financial planning and **Hong Kong dollar**. **Because** resource allocation.

**Designated Foreign Currency Hedge Contracts**

All of the Company's **limited exposure** designated foreign currency hedge contracts as of June 29, 2024 were cash flow hedges under ASC 815, "Derivatives and Hedging" ("ASC 815"). The Company records the effective portion of any change in the fair value of designated foreign currency hedge contracts in other comprehensive income until the related third-party transaction occurs. Once the related third-party transaction occurs, the Company reclassifies the effective portion of any related gain or loss on the designated foreign currency hedge contracts to earnings. In the event the hedged forecasted transaction does not occur, or it becomes probable that it will not occur, the Company will reclassify the amount of any **single** gain or loss on the related cash flow hedge to earnings at that time. The Company had designated foreign **market, any exchange gains** currency hedge contracts outstanding in the contract amount of \$14.4 million as of June 29, 2024 and \$0.0 million as of December 30, 2023. As of June 29, 2024 a loss of \$0.1 million, net of tax, will be reclassified to earnings within the next eighteen months. All currency cash flow hedges outstanding as of June 29, 2024 mature within eighteen months.

**Fair Value of Derivative Instruments**

The following table presents the effect of the Company's derivative instruments designated as cash flow hedges under ASC 815 in its unaudited Condensed Consolidated Statements of Operations for the six months ended June 29, 2024:

Derivative Instruments	Amount of Loss	Amount of Gain	
	Recognized in	Reclassified from	Location in
	Accumulated	Accumulated	Condensed
	Other	Other	Consolidated
	Comprehensive	Comprehensive	Statement of
	Income	Income	Operations
		into Earnings	

Designated foreign currency hedge contracts, net of tax			Cost of products sold
	\$ (57,259)	\$ 18,891	

ASC 815 requires all derivative instruments to be recognized at their fair values as either assets or losses have not been material liabilities on the balance sheet. The Company determines the fair value of its derivative instruments using the framework prescribed by ASC 820, "Fair Value Measurements and Disclosures", by considering the estimated amount it would receive or pay to sell or transfer these instruments at the reporting date. Generally, the Company uses inputs that include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not expected to be material in active; other observable inputs for the future asset or liability; and inputs derived principally from, or corroborated by, observable market data by correlation or other means. As a result, of June 29, 2024, the Company does not attempt to mitigate has classified its foreign currency exposure through derivative assets and liabilities within Level 2 of the acquisition fair value hierarchy prescribed by ASC 815, as discussed below, because these observable inputs are available for substantially the full term of any speculative or leveraged financial its derivative instruments.

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The following tables present the fair value of the Company's derivative instruments as they appear in its Condensed Consolidated Balance Sheets as of June 29, 2024 and December 30, 2023:

	Location in Condensed Consolidated Balance Sheets	As of June 29, 2024	As of December 30, 2023
<b>Derivative Assets:</b>			
Designated foreign currency hedge contracts	Other long-term assets	\$ 222,504	\$ -
<b>Derivative Liabilities:</b>			
Designated foreign currency hedge contracts	Other current liabilities	\$ 296,866	\$ -

**Note Q P – 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 ASC Topic 805) 805, "Business Combinations". 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.

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**ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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 and six months ended March 30, 2024 June 29, 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 in this Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2024 (this "Form 10-Q") 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 second quarter of 2023, the first second fiscal quarter of 2023, the first quarter of fiscal 2023 or the three months ended July 1, 2023, mean the 13-week period from April 1, 2023, to July 1, 2023. References

to the second quarter of 2024, the second fiscal quarter of 2024 or the three months ended June 29, 2024 mean the 13-week period from March 31, 2024 to June 29, 2024. References to the first six months of 2023 or the six months ended July 1, 2023 mean the period from January 1, 2023 to April 1, 2023 July 1, 2023. References to the first quarter six months of 2024, the first fiscal quarter of 2024, the first quarter of fiscal 2024 or the three six months ended March 30, 2024 June 29, 2024 mean the 13-week period from December 31, 2023 to March 30, 2024 June 29, 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 Part I, Item 1A, *Risk Factors*, and in Part II, 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 second** quarter of 2024 **decreased 6%** increased 7% to **\$67.9 million** \$73.2 million from **\$72.5 million** \$68.3 million in the corresponding period in 2023. **Sales declined** Net sales for the first six months of 2024 increased 0.2% to \$141.1 million from \$140.8 million in the **first** corresponding period last year. Sales increased in the second quarter of 2024 primarily due to increased demand for truck mirror assemblies of \$8.0 million and returnable transport packaging products of \$0.4 million, offset by lower demand for truck accessories of \$3.6 million. In the second quarter of 2024, truck mirror assemblies volume was favorably impacted by additional orders of approximately \$5.0 million from two key customers due to our operational flexibility and competitive advantages. Sales were relatively flat for the first six months of 2024 compared to the first six months of 2023 with increased demand for truck mirror assemblies of \$12.2 million offset by lower demand for truck accessories of \$7.6 million and returnable transport packaging products **partially offset by increased demand for truck mirror assemblies** of \$4.3 million. Our backlog as of **March 30, 2024** June 29, 2024 increased **85%** 43% to **\$97.4 million** \$107.3 million from **\$72.0 million** \$75.3 million as of **April 1, 2023** July 1, 2023, driven by increased orders for various truck mirror **assemblies** assemblies and returnable transport packaging products.

Net sales of existing products declined **11%** 2% in the **second quarter of 2024** and 7% for the first **quarter six months** of 2024 compared to the corresponding **period periods** in 2023. Price increases and new products increased net sales by **5%** 9% in the second quarter of 2024 and 7% in the first **quarter six months** of 2024, compared to the corresponding **period periods** in 2023. New products included various truck mirror assemblies, rotary latches, D-rings, and mirror cams.

**Cost of products sold** **decreased \$5.3 million** increased \$1.8 million, or **9%** 3%, in the second quarter of 2024 and decreased by \$3.5 million, or 3% in the first **quarter six months** of 2024 compared to the corresponding period in 2023. The **decreases** increase in cost of products sold in the **first second** quarter of 2024 are primarily due to higher sales volume. The decrease in cost of products sold in the first six months of 2024 when compared to the same period last year is primarily due to lower **sales volumes**, production volumes and other cost savings initiatives. Additionally, the Company paid tariff costs on China-sourced products of approximately **\$0.7 million** \$0.6 million and \$1.2 million in the **first second** quarter of 2024 and first six months of 2024 respectively, compared to **\$0.6 million** \$0.5 million and \$1.1 million in the **first second** quarter of **fiscal 2023**, 2023 and first six months of 2023, respectively. Most tariffs on China-sourced products have been recovered through price increases.

**Gross margin** as a percentage of sales was 25% in the second quarter of 2024 and 24% in the first **quarter six months** of 2024 compared to **21%** 22% in **both** the second quarter and first **quarter six months** of **fiscal 2023**. Our gross margins in the **first second** 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** decreased \$0.1 million in the second quarter of 2024 and decreased \$0.2 million in the first **quarter six months** of 2024 compared to the corresponding **period periods** in 2023 as we continue to invest in new products at **our** Eberhard, Velvac, and Big **3, 3** businesses. As a percentage of net sales, product development costs were **2.0%** 1.8% for the second quarter of 2024 and 1.9% for the first **quarter six months** of 2024, compared to **1.9%** 2.1% and 2.0% for the corresponding **period periods** in 2023.

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**Selling, general and administrative expenses** **decreased \$0.4 million** increased \$0.2 million, or **4%** 2%, in the **first second** quarter of 2024 when compared to the **first second** quarter of 2023 primarily due to higher payroll-related expense of \$0.4 million and higher travel expenses of \$0.1 million, partially offset by lower legal and professional expenses of \$0.1 million, and lower selling costs and payroll-related expenses. In the first quarter of 2023, selling, general \$0.2 million. Selling and administrative expenses **included severance** decreased \$0.2 million, or 1% in the first six months of 2024 when compared to the corresponding period in 2023 primarily due to lower payroll-related expenses of \$0.1 million, lower legal and professional expenses of \$0.3 million, and lower selling expenses of \$0.1 million, partially offset by higher travel 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. \$0.3 million.

**Interest expense** increased \$0.1 million in the second quarter of 2024 and \$0.2 million in the first **quarter six months** of 2024 compared to the corresponding period in 2023 due to higher interest **rates** rates, partially offset by lower principal balances.

**Other income and expense** decreased \$0.3 million in the second quarter of **\$0.0 million** 2024 and increased **\$0.6 million** \$0.4 million in the first six months of 2024 when compared to the corresponding periods in 2023. The decrease in other income of \$0.3 million in the second quarter of 2024 was primarily driven by a \$1.6 million favorable adjustment for the final settlement of our swap agreement with Santander Bank, N.A. ("Santander") in the second quarter of 2023, partially offset by \$1.4 million expense associated with the closure of Associated Toolmakers, Ltd. in the second quarter of 2023. The increase in other income of \$0.4 million for the first six months 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 2023 was primarily driven by \$1.4 million of expense associated with the closure of Associated Toolmakers, Ltd. in the second quarter of 2023, an unfavorable final working capital adjustment of \$0.4 million related to the sale of the Greenwald business in the first quarter of 2023, partially offset by a \$1.6 million favorable adjustment for the final settlement of our swap agreement with Santander in the second quarter of 2023.

**Net income** for the **first second** quarter of fiscal 2024 was **\$1.9 million** \$3.5 million, or **\$0.31** \$0.56 per diluted share compared to net income of **\$0.6 million** \$1.4 million, or **\$0.10** \$0.22 per diluted share, for the comparable period in 2023. In the first six months of 2024 net income was \$5.5 million, or \$0.87 per diluted share compared to net income of \$2.0 million, or \$0.32 per diluted share for the comparable period in 2023.

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

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## 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:

	Three Months Ended		Six Months Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of products sold	75.1 %	77.8 %	75.6 %	78.2 %
Gross margin	24.9 %	22.2 %	24.4 %	21.8 %
Product development expense	1.8 %	2.1 %	1.9 %	2.0 %
Selling and administrative expense	15.8 %	16.5 %	16.3 %	16.5 %
Operating Profit	7.3 %	3.6 %	6.2 %	3.3 %

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	Three Months Ended	
	March 30, 2024	April 1, 2023
Net sales	100.0 %	100.0 %
Cost <a href="#">Table of products sold</a>	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 % <a href="#">Contents</a>

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

	Three Months Ended March 30, 2024	Three Months Ended June 29, 2024	Six Months Ended June 29, 2024
Net Sales	\$ (4,566)	\$ 4,814	\$ 248
Volume	-11.0 %	(2.0) %	(6.6) %
Price	2.0 %	2.0 %	2.0 %
New products	2.7 %	7.0 %	4.8 %
	-6.3 %	7.0 %	0.2 %
Operating Profit	\$ 1,178	\$ 2,944	\$ 4,123

## Liquidity and Sources of Capital

The Company generated [\\$3.6 million](#) [\\$10.3 million](#) of cash from operations during the first [three six](#) months of fiscal 2024 compared to generating [\\$6.9 million](#) [\\$13.6 million](#) during the first [three six](#) months of fiscal 2023. Cash flow from operations in the first [three six](#) 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](#) [\\$2.8 million](#) and [\\$1.2 million](#) [\\$2.0 million](#) for the first [three six](#) months of 2024 and 2023, respectively. As of [March 30, 2024](#) [June 29, 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:

	First Quarter 2024	First Quarter 2023	Fiscal Year 2023	Second Quarter 2024	Second Quarter 2023	Fiscal Year 2023
Current ratio	2.6	2.7	2.6	2.6	2.9	2.6
Average days' sales in accounts receivable	58	57	48	55	55	48
Inventory turnover	3.5	4.0	3.5	3.8	3.8	3.5
Total debt to shareholders' equity	32.1%	46.6%	33.2%	31.1%	43.1%	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):

	First Quarter 2024	First Quarter 2023	Fiscal Year 2023	Second Quarter 2024	Second Quarter 2023	Fiscal Year 2023
Cash and cash equivalents						
- Held in the United States	\$ 6.0	\$ 9.7	\$ 7.0	\$ 10.3	\$ 8.8	\$ 7.0
- Held by a foreign subsidiary	1.4	3.4	1.3	1.4	4.4	1.3
	7.4	13.1	8.3	11.7	13.2	8.3
Working capital	71.3	76.7	69.5	72.8	77.8	69.5
Net cash provided by operating activities	3.6	6.9	26.5	10.3	13.6	26.5
Change in working capital impact on net cash used in operating activities	(1.2)	3.6	9.7	0.4	7.0	9.7
Net cash (used in) provided by investing activities	(2.8)	1.1	(5.4)			
Net cash used in investing activities				(3.3)	(0.2)	(5.4)
Net cash used in financing activities	(1.7)	(5.1)	(22.9)	(3.4)	(10.2)	(22.9)

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Inventories of \$55.8 million \$56.9 million as of March 30, 2024 June 29, 2024 declined by \$3.4 million \$2.4 million, or 5.8% 4.0%, when compared to \$59.3 million at the end of fiscal year 2023 and declined \$1.8 million \$0.6 million, or 3.1% 1.0%, when compared to \$57.7 million \$57.5 million at the end of the first second quarter of fiscal 2023. Accounts receivable, less allowances, were \$42.9 million \$42.3 million as of March 30, 2024 June 29, 2024, as compared to \$37.1 million at 2023 fiscal year end and \$44.5 million \$42.0 million at the end of the first second 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. Santander. See Note G Debt, 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 of our covenants as of March 30, 2024 June 29, 2024 and had no outstanding borrowings under the revolving commitment portion of the credit facility as of this such 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 June 29, 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 second** 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 **Part II, Item 7, 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 **since the filing of the 2023 Form 10-K**, 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			
Adjusted Net Income and Adjusted Earnings per Share Calculation	Adjusted Net Income and Adjusted Earnings per Share Calculation		Earnings per Share Calculation			
For the Three Months ended March 30, 2024 and April 1, 2023						
			For the Three and Six Months ended June 29, 2024 and July 1, 2023			
(\$000's)						
	Three Months Ended		Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net income as reported per generally accepted accounting principles (GAAP)	\$ 1,948	\$ 607	\$ 3,508	\$ 1,399	\$ 5,455	\$ 2,007
Earnings per share as reported under generally accepted accounting principles (GAAP):						
Basic	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.22	\$ 0.88	\$ 0.32
Diluted	\$ 0.31	\$ 0.10	\$ 0.56	\$ 0.22	\$ 0.87	\$ 0.32
Adjustments:						
Severance and accrued compensation	-	1,799 a	-	-	-	1,799 a
Greenwald final sale adjustment	-	390 b	-	-	-	390 b
Associated Toolmakers, Ltd. closure			-	1,448 c	-	1,448 c
Non-GAAP tax impact of adjustments (1)	-	(547)	-	(362)	-	(909)
Total adjustments (non-GAAP)	\$ -	\$ 1,642	\$ -	\$ 1,086	\$ -	\$ 2,728
Adjusted net income	\$ 1,948	\$ 2,249	\$ 3,508	\$ 2,485	\$ 5,455	\$ 4,735
Adjusted earnings per share (non-GAAP):						
Basic	\$ 0.31	\$ 0.36	\$ 0.56	\$ 0.40	\$ 0.88	\$ 0.76
Diluted	\$ 0.31	\$ 0.36	\$ 0.56	\$ 0.40	\$ 0.87	\$ 0.76

- (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 estimate the income taxes.
- 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
- a) Severance expenses associated with accrued compensation and severance related to the elimination of the Chief Operating Officer position and the departure of the former Chief Executive Officer
- b) Final settlement of working capital adjustment associated with Greenwald sale
- c) Associated Toolmakers, Ltd. closure costs

Reconciliation of Non-GAAP Measures Adjusted EBITDA Calculation						
For the Three Months ended March 30, 2024 and April 1, 2023						
For the Three and Six Months ended June 29, 2024 and July 1, 2023						
	For the Three and Six Months ended June 29, 2024 and July 1, 2023					
(\$000's)						
	Three Months Ended		Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net income as reported per generally accepted accounting principles (GAAP)	\$ 1,948	\$ 607	\$ 3,508	\$ 1,399	\$ 5,455	\$ 2,007
Interest expense	845	726	830	781	1,675	1,507
Provision for income taxes	555	195	1,014	500	1,569	694
Depreciation and amortization	1,876	1,815	1,866	1,806	3,742	3,621
Severance and accrued compensation	-	1,799 a	-	-	-	1,799 a
Greenwald final sale adjustment	-	390 b	-	-	-	390 b
Associated Toolmakers, Ltd. closure			-	1,448 c	-	1,448 c
Adjusted EBITDA	\$ 5,224	\$ 5,532	\$ 7,218	\$ 5,934	\$ 12,441	\$ 11,466

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

- 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
- c) Associated Toolmakers, Ltd. closure costs

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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 June 29, 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 June 29, 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 June 29, 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 June 29, 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 second** 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>
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
March 31, 2024 - May 4, 2024	-	\$ -	-	149,924
May 5, 2024 - June 1, 2024	-	-	-	149,924
June 2, 2024 - June 29, 2024	10,000	24.73	10,000	139,924
<b>Total</b>	<b>10,000</b>	<b>\$ 24.73</b>	<b>10,000</b>	<b>139,924</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 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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>
10.1)	<a href="#">Form of Award Agreement – Performance-Based Stock Awards (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 16, 2024).</a>
10.2)	<a href="#">Form of Award Agreement – Non-Qualified Stock Options (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on May 16, 2024).</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 <b>March 30, 2024</b> June 29, 2024, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of <b>Income</b> Operations (Unaudited) for the three months ended <b>March 30, 2024</b> June 29, 2024 and <b>April 1, 2023</b> July 1, 2023; (ii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended <b>March 30, 2024</b> June 29, 2024, and <b>April 1, 2023</b> July 1, 2023; (iii) Condensed Consolidated Balance Sheets (Unaudited) as of <b>March 30, 2024</b> June 29, 2024 and December 30, 2023; (iv) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended <b>March 30, 2024</b> June 29, 2024 and <b>April 1, 2023</b> July 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

SIGNATURES

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** August 6, 2024

/s/Mark Hernandez

Mark Hernandez

President and Chief Executive Officer

DATE: **May 6, 2024** August 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

**EXHIBIT 31**

#### 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 that** involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: **May 6, 2024** **August 6, 2024**

/s/Nicholas Vlahos

Nicholas Vlahos

**CFO** Chief Financial Officer

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**EXHIBIT 32**

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 the** Company's Quarterly Report on Form 10-Q for the **Period period** ended **March 30, 2024** **June 29, 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, **as amended**; and
- 2) **The 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, witness whereof**, the undersigned have set their hands hereto as of the 6<sup>th</sup> day of **May** **August** 2024.

By: **/s/** **/s/**Mark Hernandez

Mark Hernandez

**CEO** Chief Executive Officer

By: **/s/**Nicholas Vlahos

Nicholas Vlahos

**CFO** Chief Financial Officer

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).

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