

EASTERN CO
Form 10-Q
November 05, 2009

**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 October 3, 2009

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: 0599

THE EASTERN COMPANY
(Exact name of registrant as specified in its charter)

Connecticut 06-0330020
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

112 Bridge Street, Naugatuck, Connecticut 06770
(Address of principal executive offices) (Zip Code)

(203) 729-2255
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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.

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Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, No par value

Outstanding as of October 3, 2009
6,002,577

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PART 1 FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

THE EASTERN COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	October 3, 2009	January 3, 2009
Current Assets		
Cash and cash equivalents	\$ 17,607,315	\$ 8,967,625
Accounts receivable, less allowances: \$544,000 - 2009; \$328,000 - 2008	15,037,499	17,021,774
Inventories	23,900,647	30,796,879
Prepaid expenses and other assets	1,987,786	2,366,634
Recoverable taxes receivable	-	1,313,628
Deferred income taxes	1,225,723	1,225,723
Total Current Assets	59,758,970	61,692,263
Property, Plant and Equipment	50,581,097	48,428,057
Accumulated depreciation	(27,235,424)	(24,517,348)
	23,345,673	23,910,709
Goodwill	13,825,508	13,700,356
Trademarks	144,908	143,818
Patents, technology, and other intangibles net of accumulated amortization	3,004,067	3,415,012
Deferred income taxes	2,732,079	3,154,810
	19,706,562	20,413,996
TOTAL ASSETS	\$ 102,811,205	\$ 106,016,968

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LIABILITIES AND SHAREHOLDERS EQUITY	October 3, 2009	January 3, 2009
Current Liabilities		
Accounts payable	\$ 5,412,702	\$ 7,081,303
Accrued compensation	1,433,571	1,919,322
Other accrued expenses	1,905,954	1,706,681
Current portion of long-term debt	2,857,143	2,240,202
Total Current Liabilities	11,609,370	12,947,508
Other long-term liabilities	1,158,676	1,614,833
Long-term debt, less current portion	8,571,428	11,428,571
Accrued postretirement benefits	740,817	1,062,719
Accrued pension cost	16,325,712	15,311,924
Interest rate swap obligation	866,040	1,169,848
Shareholders Equity		
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		
Issued: 8,606,732 shares in 2009 and 8,553,353 shares in 2008	25,062,317	24,418,916
Treasury Stock: 2,604,155 shares in 2009 and 2,588,334 shares in 2008	(17,803,379)	(17,578,088)
Retained earnings	67,730,274	68,676,943
Accumulated other comprehensive income (loss):		
Foreign currency translation	1,396,169	664,990
Unrecognized net pension and postretirement benefit costs, net of tax	(12,286,065)	(12,944,539)
Derivative financial instruments, net of taxes	(560,154)	(756,657)
Accumulated other comprehensive loss	(11,450,050)	(13,036,206)
Total Shareholders Equity	63,539,162	62,481,565
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 102,811,205	\$ 106,016,968

See accompanying notes.

THE EASTERN COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Nine Months Ended		Three Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Net sales	\$ 84,651,194	\$ 103,568,528	\$ 28,131,092	\$ 34,550,899
Cost of products sold	(69,832,292)	(84,486,176)	(22,409,041)	(29,104,229)
Gross margin	14,818,902	19,082,352	5,722,051	5,446,670
Selling and administrative expenses	(12,863,825)	(13,607,617)	(4,371,875)	(4,379,689)
Operating profit	1,955,077	5,474,735	1,350,176	1,066,981
Interest expense	(682,595)	(810,472)	(235,414)	(265,720)
Other income	49,352	42,834	9,666	17,012
Income before income taxes	1,321,834	4,707,097	1,124,428	818,273
Income taxes	654,605	1,270,678	217,051	(56,768)
Net income	\$ 667,229	\$ 3,436,419	\$ 907,377	\$ 875,041
Earnings per Share:				
Basic	\$.11	\$.59	\$.15	\$.15
Diluted	\$.11	\$.56	\$.15	\$.14
Cash dividends per share:	\$.27	\$.24	\$.09	\$.08

See accompanying notes.

THE EASTERN COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Nine Months Ended		Three Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Net income	\$ 667,229	\$ 3,436,419	\$ 907,377	\$ 875,041
Other comprehensive income:				
Change in foreign currency translation	731,179	(126,487)	415,049	(336,732)
Change in pension and postretirement benefit costs, net of taxes of:				
2009	\$359,575	and \$119,858,	respectively	
2008	\$57,534	and \$19,178,	respectively	
Change in fair value of derivative financial instruments, net of income taxes of:	658,474	102,077	219,491	34,026
2009	\$107,304	and \$2,712,	respectively	
2008	\$15,254	and \$881,	respectively	
Comprehensive income	\$ 2,253,385	\$ 3,439,071	\$ 1,546,883	\$ 573,896

See accompanying notes.

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THE EASTERN COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended October 3,	
	2009	September 27, 2008
Operating Activities		
Net income	\$ 667,229	\$ 3,436,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,055,594	3,004,113
Provision for doubtful accounts	261,718	-
Loss on sale of equipment and other assets	482	771
Issuance of Common Stock for directors' fees	24,603	27,840
Changes in operating assets and liabilities:		
Accounts receivable	1,848,284	(2,912,006)
Inventories	7,157,473	978,417
Prepaid expenses and other	1,709,516	1,214,722
Prepaid pension cost	2,068,254	785,170
Other assets	(73,290)	(111,362)
Accounts payable	(1,749,903)	557,621)
Accrued compensation	(493,541)	(504,217)
Other accrued expenses	(689,021)	(1,471,027)
Net cash provided by operating activities	13,787,398	5,006,461
Investing Activities		
Purchases of property, plant and equipment	(1,774,868)	(1,730,843)
Business acquisition	-	(128,325)
Net cash used in investing activities	(1,774,868)	(1,859,168)
Financing Activities		
Principal payments on long-term debt	(2,240,202)	(2,342,568)
Proceeds from sales of Common Stock	544,963	1,651,558
Tax benefit from exercise of incentive stock options	73,835	309,526
Purchases of Common Stock for treasury	(225,291)	