

EASTERN CO
Form 10-Q
November 06, 2012

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 September 29, 2012

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
(State or other jurisdiction of
incorporation or organization)

06-0330020
(I.R.S. Employer
Identification No.)

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

06770
(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

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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 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	Outstanding as of October 24, 2012
Common Stock, No par value	6,219,334

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

THE EASTERN COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	September 29, 2012	December 31, 2011
Current Assets		
Cash and cash equivalents	\$ 17,823,345	\$ 11,147,297
Accounts receivable, less allowances: \$523,000 - 2012; \$423,000 - 2011	19,682,686	18,633,088
Inventories	28,975,858	29,793,434
Prepaid expenses and other assets	3,248,445	3,313,186
Recoverable income taxes receivable	-	647,950
Deferred income taxes	1,332,663	1,881,775
Total Current Assets	71,062,997	65,416,730
Property, Plant and Equipment	58,456,044	54,863,020
Accumulated depreciation	(32,610,329)	(30,228,924)
	25,845,715	24,634,096
Goodwill	13,948,576	13,905,209
Trademarks	163,182	152,446
Patents, technology, and other intangibles net of accumulated amortization	1,688,462	1,770,008
Deferred income taxes	1,062,236	821,485
	16,862,456	16,649,148
TOTAL ASSETS	\$ 113,771,168	\$ 106,699,974

LIABILITIES AND SHAREHOLDERS' EQUITY	September 29, 2012	December 31, 2011
Current Liabilities		
Accounts payable	\$ 8,263,899	\$ 8,412,245
Accrued compensation	3,075,349	2,999,478
Other accrued expenses	2,169,272	1,060,143
Current portion of long-term debt	1,428,571	3,714,286
Total Current Liabilities	14,937,091	16,186,152
Other long-term liabilities	655,001	655,001
Long-term debt, less current portion	6,428,571	3,035,714
Accrued postretirement benefits	1,939,189	1,853,157
Accrued pension cost	14,363,288	15,811,622
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: 8,914,063 shares in 2012 and 8,908,607 shares in 2011	28,579,340	28,499,779
Treasury Stock: 2,694,729 shares in 2012 and 2011	(19,105,723)	(19,105,723)
Retained earnings	78,237,582	73,200,362
Accumulated other comprehensive income (loss):		
Foreign currency translation	2,713,716	2,107,187
Unrecognized net pension and postretirement benefit costs, net of tax	(14,976,887)	(15,543,277)
Accumulated other comprehensive loss	(12,263,171)	(13,436,090)
Total Shareholders' Equity	75,448,028	69,158,328
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 113,771,168	\$ 106,699,974

See accompanying notes.

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

	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	\$ 121,699,533	\$ 104,798,740	\$ 39,644,050	\$ 36,089,946
Cost of products sold	(96,104,184)	(84,993,869)	(31,478,557)	(29,533,528)
Gross margin	25,595,349	19,804,871	8,165,493	6,556,418
Selling and administrative expenses	(14,947,179)	(13,659,793)	(4,830,971)	(4,429,312)
Operating profit	10,648,170	6,145,078	3,334,522	2,127,106
Interest expense	(281,142)	(173,686)	(93,238)	(53,643)
Other income	14,185	17,528	3,462	8,012
Income before income taxes	10,381,213	5,988,920	3,244,746	2,081,475
Income taxes	3,479,284	1,948,006	1,020,771	621,534
Net income	\$ 6,901,929	\$ 4,040,914	\$ 2,223,975	\$ 1,459,941
Earnings per Share:				
Basic	\$ 1.11	\$.66	\$.36	\$.24
Diluted	\$ 1.11	\$.65	\$.36	\$.24
Cash dividends per share:	\$.30	\$.27	\$.10	\$.09

See accompanying notes.

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

	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net income	\$ 6,901,929	\$ 4,040,914	\$ 2,223,975	\$ 1,459,941
Other comprehensive income/(loss):				
Change in foreign currency translation	606,529	(483,490)	554,596	(903,487)
Change in pension and postretirement benefit costs, net of taxes of:	566,390	518,316	206,013	172,772

2012 – \$308,343 and \$112,154,
 respectively

2011 – \$281,495 and \$94,057,
 respectively

Total other comprehensive
 income/(loss)

	1,172,919		34,826		760,609		(730,715)
Comprehensive income	\$ 8,074,848		\$ 4,075,740		\$ 2,984,584		\$ 729,226

See accompanying notes.

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

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Operating Activities		
Net income	\$ 6,901,929	\$ 4,040,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,550,290	2,793,149
Loss on sale of equipment and other assets	17,713	(2,000)
Provision for doubtful accounts	94,315	54,696
Deferred income taxes	18	-
Issuance of Common Stock for directors' fees	18,451	12,301
Changes in operating assets and liabilities:		
Accounts receivable	(923,685)	(6,213,779)
Inventories	1,058,395	(1,811,220)
Prepaid expenses and other	94,487	(178,772)
Prepaid pension cost	(555,684)	40,103
Recoverable taxes receivable	647,949	-
Other assets	(86,365)	(48,897)
Accounts payable	(243,280)	3,542,043
Accrued compensation	62,476	(1,211,652)
Other accrued expenses	1,132,760	633,132
Net cash provided by operating activities	10,769,769	1,650,018
Investing Activities		
Purchases of property, plant and equipment	(3,549,674)	(2,934,833)
Proceeds from sales of equipment and other assets	19,000	2,000
Net cash used in investing activities	(3,530,674)	(2,932,833)
Financing Activities		
Principal payments on long-term debt	(892,857)	(535,714)
Principal payments on revolving credit loan	(3,000,000)	-
Proceeds from issuance of long-term debt	5,000,000	-
Proceeds from sales of Common Stock	61,110	447,690
Tax benefit from disqualifying disposition of incentive stock options	-	98,034
Dividends paid	(1,864,709)	(1,664,966)
Net cash used in financing activities	(696,456)	(1,654,956)
Effect of exchange rate changes on cash	133,409	46,850
Net change in cash and cash equivalents	6,676,048	(2,890,921)
Cash and cash equivalents at beginning of period	11,147,297	12,224,608
Cash and cash equivalents at end of period	\$ 17,823,345	\$ 9,333,687

See accompanying notes.

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THE EASTERN COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 September 29, 2012

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 do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. Refer to the Company's consolidated financial statements and notes thereto included in its Form 10-K for the year ended December 31, 2011 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. All intercompany accounts and transactions are eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

The condensed consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated balance sheet at that date.

Note B – Earnings Per Share

The denominators used in the earnings per share computations follow:

	Nine Months Ended		Three Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Basic:				
Weighted average shares outstanding	6,216,113	6,167,262	6,219,241	6,172,193
Diluted:				
Weighted average shares outstanding	6,216,113	6,167,262	6,219,241	6,172,193
Dilutive stock options	15,816	44,090	15,486	30,303
Denominator for diluted earnings per share	6,231,929	6,211,352	6,234,727	6,202,496

Note C – Inventories

The components of inventories follow:

September 29, 2012 December 31, 2011

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Raw material and component parts	\$ 11,532,392	\$ 11,863,199
Work in process	6,258,785	6,425,914
Finished goods	11,184,681	11,504,321
	\$ 28,975,858	