

EASTERN CO
Form 10-Q
November 01, 2011

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 1, 2011

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 27, 2011 |
|----------------------------|------------------------------------|
| Common Stock, No par value | 6,213,566 |

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

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

| ASSETS | October 1, 2011 | January 1, 2011 |
|---|-----------------|-----------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 9,333,687 | \$ 12,224,608 |
| Accounts receivable, less allowances: \$561,000 - 2011; \$519,000 - 2010 | 22,185,318 | 16,424,766 |
| Inventories | 29,742,752 | 28,190,175 |
| Prepaid expenses and other assets | 2,810,528 | 2,652,132 |
| Deferred income taxes | 1,141,744 | 1,141,744 |
| Total Current Assets | 65,214,029 | 60,633,425 |
| Property, Plant and Equipment | 56,053,067 | 53,328,353 |
| Accumulated depreciation | (31,030,096) | (28,864,317) |
| | 25,022,971 | 24,464,036 |
| Goodwill | 13,878,251 | 13,933,990 |
| Trademarks | 150,751 | 150,751 |
| Patents, technology, and other intangibles net of accumulated amortization | 1,797,197 | 2,259,235 |
| Deferred income taxes | 630,548 | 912,043 |
| | 16,456,747 | 17,256,019 |
| TOTAL ASSETS | \$ 106,693,747 | \$ 102,353,480 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | October 1, 2011 | January 1, 2011 |
|--|-----------------|-----------------|
| Current Liabilities | | |
| Accounts payable | \$ 10,828,024 | \$ 7,518,969 |
| Accrued compensation | 1,766,376 | 2,997,126 |
| Other accrued expenses | 1,702,163 | 1,141,514 |
| Current portion of long-term debt | 714,286 | 714,286 |
| Total Current Liabilities | 15,010,849 | 12,371,895 |
| Other long-term liabilities | 713,202 | 713,202 |
| Long-term debt, less current portion | 3,214,286 | 3,750,000 |
| Accrued postretirement benefits | 1,507,206 | 1,461,371 |
| Accrued pension cost | 13,235,662 | 14,013,269 |
| 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: 8,892,966 shares in 2011 and 8,852,762 shares in 2010 | 28,275,343 | 27,717,318 |
| Treasury Stock: 2,694,729 shares in 2011 and 2010 | (19,105,723) | (19,105,723) |
| Retained earnings | 72,295,567 | 69,919,619 |
| Accumulated other comprehensive income (loss): | | |
| Foreign currency translation | 1,965,185 | 2,448,675 |
| Unrecognized net pension and postretirement benefit costs, net of tax | (10,417,830) | (10,936,146) |
| Accumulated other comprehensive loss | (8,452,645) | (8,487,471) |
| Total Shareholders' Equity | 73,012,542 | 70,043,743 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 106,693,747 | \$ 102,353,480 |

See accompanying notes.

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

| | Nine Months Ended | | Three Months Ended | |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2011 | October 2, 2010 | October 1, 2011 | October 2, 2010 |
| Net sales | \$ 104,798,740 | \$ 97,490,901 | \$ 36,089,946 | \$ 33,958,681 |
| Cost of products sold | (84,993,869) | (77,615,059) | (29,533,528) | (27,040,159) |
| Gross margin | 19,804,871 | 19,875,842 | 6,556,418 | 6,918,522 |
| Selling and administrative expenses | (13,659,793) | (13,736,128) | (4,429,312) | (4,680,232) |
| Operating profit | 6,145,078 | 6,139,714 | 2,127,106 | 2,238,290 |
| Interest expense | (173,686) | (203,040) | (53,643) | (64,971) |
| Other income | 17,528 | 511 | 8,012 | 20 |
| Income before income taxes | 5,988,920 | 5,937,185 | 2,081,475 | 2,173,339 |
| Income taxes | 1,948,006 | 2,026,908 | 621,534 | 683,591 |
| Net income | \$ 4,040,914 | \$ 3,910,277 | \$ 1,459,941 | \$ 1,489,748 |
| Earnings per Share: | | | | |
| Basic | \$.66 | \$.64 | \$.24 | \$.24 |
| Diluted | \$.65 | \$.63 | \$.24 | \$.24 |
| Cash dividends per share: | \$.27 | \$.27 | \$.09 | \$.09 |

See accompanying notes.

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

| | Nine Months Ended | | Three Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2011 | October 2, 2010 | October 1, 2011 | October 2, 2010 |
| Net income | \$ 4,040,914 | \$ 3,910,277 | \$ 1,459,941 | \$ 1,489,748 |
| Other comprehensive income: | | | | |
| Change in foreign currency translation | (483,490) | 331,079 | (903,487) | 436,845 |
| Change in pension and postretirement benefit costs, net of taxes of: | 518,316 | 488,066 | 172,772 | 160,389 |
| 2011 – \$281,495 and \$94,057, respectively | | | | |

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2010 – \$266,520 and \$87,584,
respectively

| | | | | | | | |
|----------------------|----|-----------|----|-----------|-----------|----|-----------|
| Comprehensive income | \$ | 34,826 | \$ | 819,145 | (730,715) | \$ | 597,234 |
| | | 4,075,740 | | 4,729,422 | 729,226 | | 2,086,982 |

See accompanying notes.

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

| | Nine Months Ended | |
|---|-------------------|-----------------|
| | October 1, 2011 | October 2, 2010 |
| Operating Activities | | |
| Net income | \$ 4,040,914 | \$ 3,910,277 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,793,149 | 2,920,327 |
| Provision for doubtful accounts | 54,696 | 170,388 |
| (Gain)/Loss on sale of equipment and other assets | (2,000) | 115,038 |
| Issuance of Common Stock for directors' fees | 12,301 | 18,456 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (6,213,779) | (2,859,473) |
| Inventories | (1,811,220) | (1,644,318) |
| Prepaid expenses and other | (178,772) | (579,781) |
| Prepaid pension cost | 40,103 | 1,250,320 |
| Other assets | (48,897) | (137,414) |
| Accounts payable | 3,542,043 | 3,065,325 |
| Accrued compensation | (1,211,652) | 823,385 |
| Other accrued expenses | 633,132 | (106,969) |
| Net cash provided by operating activities | 1,650,018 | 6,945,561 |
| Investing Activities | | |
| Purchases of property, plant and equipment | (2,934,833) | (3,622,267) |
| Proceeds from sale of equipment and other assets | 2,000 | 275 |
| Net cash used in investing activities | (2,932,833) | (3,621,992) |
| Financing Activities | | |
| Principal payments on long-term debt | (535,714) | (11,964,286) |
| Proceeds from issuance of long-term debt | - | 5,000,000 |
| Proceeds from sales of Common Stock | 447,690 | 1,123,649 |
| Tax benefit from exercise of incentive stock options | 98,034 | 47,809 |
| Purchases of Common Stock for treasury | - | (730,307) |
| Dividends paid | (1,664,966) | (1,644,039) |
| Net cash used in financing activities | (1,654,956) | (8,167,174) |
| Effect of exchange rate changes on cash | 46,850 | 25,115 |
| Net change in cash and cash equivalents | (2,890,921) | (4,818,490) |
| Cash and cash equivalents at beginning of period | 12,224,608 | 16,746,673 |
| Cash and cash equivalents at end of period | \$ 9,333,687 | \$ 11,928,183 |

See accompanying notes.

THE EASTERN COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 October 1, 2011

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 January 1, 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 January 1, 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 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2011 | October 2, 2010 | October 1, 2011 | October 2, 2010 |
| Basic: | | | | |
| Weighted average shares outstanding | 6,167,262 | 6,090,452 | 6,172,193 | 6,131,401 |
| Diluted: | | | | |
| Weighted average shares outstanding | 6,167,262 | 6,090,452 | 6,172,193 | 6,131,401 |
| Dilutive stock options | 44,090 | 97,519 | 30,303 | 76,818 |
| Denominator for diluted earnings per share | 6,211,352 | 6,187,971 | 6,202,496 | 6,208,219 |

Note C – Inventories

The components of inventories follow:

| | October 1, 2011 | January 1, 2011 |
|----------------------------------|-----------------|-----------------|
| Raw material and component parts | \$ 8,536,170 | \$ 8,090,149 |
| Work in process | 5,591,637 | 5,298,939 |
| Finished goods | 15,614,945 | 14,801,087 |

\$ 29,742,752 \$ 28,190,175

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Note D – Segment Information

Segment financial information follows:

| | Nine Months Ended | | Three Months Ended | |
|---|-------------------|-----------------|--------------------|-----------------|
| | October 1, 2011 | October 2, 2010 | October 1, 2011 | October 2, 2010 |
| Revenues: | | | | |
| Sales to unaffiliated customers: | | | | |
| Industrial Hardware | \$ 46,616,318 | \$ 42,971,288 | \$ 17,150,236 | \$ 14,733,993 |
| Security Products | 37,025,245 | 34,646,960 | 12,431,267 | 12,581,626 |
| Metal Products | 21,157,177 | 19,872,653 | 6,508,443 | 6,643,062 |
| | \$ 104,798,740 | \$ 97,490,901 | \$ 36,089,946 | \$ 33,958,681 |
| Income before income taxes: | | | | |
| Industrial Hardware | \$ 3,077,782 | \$ 3,960,738 | \$ 1,093,102 | \$ 1,571,604 |
| Security Products | 2,676,151 | 2,308,792 | 1,037,122 | 926,098 |
| Metal Products | 391,145 | (129,816) | (3,118) | (259,412) |
| Operating Profit | 6,145,078 | 6,139,714 | 2,127,106 | 2,238,290 |
| Interest expense | (173,686) | (203,040) | (53,643) | (64,971) |
| Other income | 17,528 | 511 | 8,012 | 20 |
| | \$ 5,988,920 | \$ 5,937,185 | \$ 2,081,475 | \$ 2,173,339 |

Note E – Recent Accounting Pronouncements

In January 2010, the FASB issued new accounting guidance which requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The guidance also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The new guidance was effective for interim and annual reporting periods beginning after December 15, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements were effective for fiscal years beginning after December 15, 2010. As this guidance requires only additional disclosure, there was no impact on the consolidated financial statements of the Company upon adoption.

In December 2010, the FASB issued authoritative guidance which updates the guidance regarding Intangibles—Goodwill & Other. The amendments affect all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. The amendments modify Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company adopted this guidance effective January 2, 2011 and it had no impact on the consolidated financial statements of the Company.

In December 2010, the FASB issued authoritative guidance which updates the guidance regarding business combinations. The objective of this new guidance is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this guidance specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring

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pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments affect any public entity that enters into business combinations that are material on an individual or aggregate basis. The Company adopted this guidance effective January 2, 2011 and it had no impact on the consolidated financial statements of the Company.

In May 2011, the FASB issued authoritative guidance which clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareowners' equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. This guidance will become effective for fiscal years and interim periods beginning on or after December 15, 2011. This guidance is not expected to have an impact on our consolidated financial statements or disclosures as there are presently no recurring Level 3 fair value measurements.

In June 2011, the FASB issued authoritative guidance aimed at increasing the prominence of items reported in other comprehensive income in the financial statements. This guidance requires companies to present comprehensive income in a single statement below net income or in a separate statement of comprehensive income immediately following the income statement. Companies will no longer be allowed to present comprehensive income on the statement of changes in shareholders' equity. In both options, companies must present the components of net income, total net income, the components of other comprehensive income, total other comprehensive income and total comprehensive income. This update does not change which items are reported in other comprehensive income or the requirement to report reclassifications of items from other comprehensive income to net income. This guidance will become effective for fiscal years and interim periods beginning after December 15, 2011 and will require retrospective application for all periods presented. The adoption of this guidance may impact the presentation of the consolidated financial statements of the Company, but it will not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

In September 2011, the FASB issued authoritative guidance on testing goodwill for impairment. This guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that the fair value of a reporting unit is less than its carrying amount, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit, if any. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption permitted. The Company will adopt this guidance with its fiscal year effective January 1, 2012.

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 F – Debt

On January 29, 2010, the Company signed a secured Loan Agreement with People's United Bank ("People's") which included a \$5,000,000 term portion and a \$10,000,000 revolving credit portion. The term portion of the loan requires quarterly payments of \$178,571 for a period of seven (7) years, maturing on January 31, 2017. The revolving credit portion has a quarterly commitment fee of one quarter of one percent (0.25%). There was no balance outstanding on the revolving credit portion at any time during the life of the Loan Agreement.

Interest on the term portion of the Loan Agreement is fixed at 4.98%. The interest rate on the revolving credit portion of the Loan Agreement varies based on the LIBOR rate or People's Prime rate plus a margin spread of 2.25%, with a floor rate of 4.0%.

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Note G – Goodwill

The following is a roll-forward of goodwill from year-end 2010 to the end of the third quarter 2011:

| | Industrial Hardware Segment | Security Products Segment | Metal Products Segment | Total |
|------------------------------|-----------------------------------|---------------------------------|------------------------------|---------------|
| B e g i n n i n g balance | \$ 2,100,174 | \$ 11,833,816 | \$ — | \$ 13,933,990 |
| F o r e i g n exchange | (55,739) | — | — | (55,739) |
| Ending balance | \$ 2,044,435 | \$ 11,833,816 | \$ — | \$ 13,878,251 |

Note H – Intangibles

Patents are recorded at cost and are amortized using the straight-line method over the lives of the patents. Technology and licenses are recorded at cost and are generally amortized on a straight-line basis over periods ranging from 5 to 17 years. Non-compete agreements and customer relationships are being amortized using the straight-line method over a period of 5 years. Trademarks are not amortized as their lives are deemed to be indefinite.

The gross carrying amount and accumulated amortization of amortizable intangible assets:

| | Industrial Hardware Segment | Security Products Segment | Metal Products Segment | Total | Weighted-Average Amortization Period (Years) |
|-------------------------------------|-----------------------------------|---------------------------------|------------------------------|--------------|--|
| 2011 Gross Amount: | | | | | |
| Patents and developed technology | \$ 2,672,217 | \$ 1,046,767 | \$ 26,382 | \$ 3,745,366 | 16.0 |
| Customer relationships | 45,825 | 1,921,811 | — | 1,967,636 | 5.0 |
| N o n - c o m p e t e agreements | 30,000 | 90,735 | — | 120,735 | 5.0 |
| Total Gross Intangibles | \$ 2,748,042 | \$ 3,059,313 | \$ 26,382 | \$ 5,833,737 | 11.9 |
| 2011 Accumulated Amortization: | | | | | |
| Patents and developed technology | \$ 1,467,021 | \$ 478,466 | \$ 25,781 | \$ 1,971,268 | |
| Customer relationships | 34,369 | 1,918,881 | — | 1,953,250 | |
| N o n - c o m p e t e agreements | 22,500 | 89,522 | — | 112,022 | |
| T o t a l G r o s s Amortization | \$ 1,523,890 | \$ 2,486,869 | \$ 25,781 | \$ 4,036,540 | |

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| | | | | | | | | |
|--|----|-----------|----|---------|----|-----|----|-----------|
| Net October 1, 2011 per Balance Sheet | \$ | 1,224,152 | \$ | 572,444 | \$ | 601 | \$ | 1,797,197 |
|--|----|-----------|----|---------|----|-----|----|-----------|

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| | Industrial Hardware Segment | Security Products Segment | Metal Products Segment | Total | Weighted-Average Amortization Period (Years) |
|--|-----------------------------------|---------------------------------|------------------------------|--------------|--|
| 2010 Gross Amount: | | | | | |
| Patents and developed technology | \$ 2,746,918 | \$ 1,016,936 | \$ 26,382 | \$ 3,790,236 | 16.0 |
| Customer relationships | 45,825 | 1,921,811 | — | 1,967,636 | 5.0 |
| N o n - c o m p e t e agreements | 30,000 | 90,735 | — | 120,735 | 5.0 |
| Total Gross Intangibles | \$ 2,822,743 | \$ 3,029,482 | \$ 26,382 | \$ 5,878,607 | 11.9 |
| 2010 Accumulated Amortization: | | | | | |
| Patents and developed technology | \$ 1,416,034 | \$ 417,801 | \$ 25,307 | \$ 1,859,142 | |
| Customer relationships | 27,495 | 1,630,581 | — | 1,658,076 | |
| N o n - c o m p e t e agreements | 18,000 | 84,154 | — | 102,154 | |
| T o t a l G r o s s Amortization | \$ 1,461,529 | \$ 2,132,536 | \$ 25,307 | \$ 3,619,372 | |
| Net January 1, 2011 per Balance Sheet | \$ 1,361,214 | \$ 896,946 | \$ 1,075 | \$ 2,259,235 | |

Note I – Retirement Benefit Plans

The Company has non-contributory defined benefit pension plans covering certain U.S. employees. Plan benefits are generally based upon age at retirement, years of service and, for its salaried plan, the level of compensation. The Company also sponsors unfunded nonqualified supplemental retirement plans that provide certain current and 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 third quarter and first nine months of fiscal 2011 and 2010 follow:

| | Pension Benefits | | | |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Nine Months Ended | | Three Months Ended | |
| | October 1, 2011 | October 2, 2010 | October 1, 2011 | October 2, 2010 |
| Service cost | \$ 1,590,755 | \$ 1,679,157 | \$ 530,252 | \$ 559,719 |
| Interest cost | 2,212,255 | 2,181,721 | 737,418 | 727,241 |
| Expected return on plan assets | (2,737,713) | (2,508,828) | (912,571) | (836,276) |
| Amortization of prior service cost | 145,612 | 153,428 | 48,537 | 51,142 |

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| | | | | |
|------------------------------|--------------|--------------|------------|------------|
| Amortization of the net loss | 672,791 | 632,366 | 224,264 | 210,789 |
| Net periodic benefit cost | \$ 1,883,700 | \$ 2,137,844 | \$ 627,900 | \$ 712,615 |

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| | Postretirement Benefits | | | |
|------------------------------------|-------------------------|--------------------|--------------------|--------------------|
| | Nine Months Ended | | Three Months Ended | |
| | October 1, 2011 | October 2, 2010 | October 1, 2011 | October 2, 2010 |
| Service cost | \$ 94,848 | \$ 83,090 | \$ 31,616 | \$ 12,590 |
| Interest cost | 102,564 | 101,233 | 34,188 | 31,533 |
| Expected return on plan assets | (74,475) | (70,693) | (24,825) | (23,343) |
| Amortization of prior service cost | (17,916) | (13,290) | (5,972) | (1,340) |
| Amortization of the net loss | - | (17,916) | - | (12,616) |
| Net periodic benefit cost | \$ 105,021 | \$ 82,424 | \$ 35,007 | \$ 6,824 |

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 2011, the Company is required to contribute \$2,301,000 into its pension plans and \$151,000 into its postretirement plan. As of October 1, 2011, the Company has made contributions totaling \$1,827,000 into its pension plans and \$104,000 into its postretirement plan and will make the remaining contributions as required during the remainder of the year.

The Company has a contributory savings plan under Section 401(k) of the Internal Revenue Code covering substantially all U.S. non-union employees. The plan allows participants to make voluntary contributions of up to 100% of their annual compensation on a pretax basis, subject to IRS limitations. The plan provides for contributions by the Company at its discretion. The Company made contributions of \$44,690 and \$137,847 in the third quarter and first nine months of 2011, respectively and \$44,388 and \$129,869 in the third quarter and first nine months of 2010, respectively.

Note J – Stock Based Compensation and Stock Options

The Company has stock option plans for officers, other key employees, and non-employee directors. As of October 1, 2011 two plans have shares reserved for future issuance, the 1995 and 2010 plans. Incentive stock options granted under the 1995 and 2010 plans must have exercise prices that are not less than 100% of the fair market value of the stock on the dates the options are granted. Restricted stock awards may also be granted to participants under the 2010 plan with restrictions determined by the Compensation Committee of the Company's Board of Directors. Under the 1995 and 2010 plans, nonqualified stock options granted to participants will have exercise prices determined by the Compensation Committee of the Company's Board of Directors. No options or restricted stock were granted in the first nine months of 2011 or 2010.

As of October 1, 2011, there were 500,000 shares available for future grant under the above noted 2010 plan and there were no shares available for grant under the 1995 plan. As of October 1, 2011, there were 540,500 shares of common stock reserved under all option plans for future issuance.

| Nine Months Ended October 1, 2011 | | Year Ended January 1, 2011 | |
|--------------------------------------|---|-------------------------------|--|
| Shares | Weighted - Average Exercise Price | Shares | Weighted - Average Exercise Price |
| 80,000 | \$ 12.471 | 221,750 | \$ 10.581 |

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| | | | | |
|------------------------------------|----------|--------|-----------|--------|
| Outstanding at beginning of period | | | | |
| Granted | — | — | — | — |
| Exercised | (39,500) | 11,334 | (141,750) | 9,514 |
| Outstanding at end of period | 40,500 | 13,580 | 80,000 | 12,471 |

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Options Outstanding and Exercisable

| Exercise Price | Outstanding as of October 1, 2011 | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price |
|----------------|-----------------------------------|--|----------------------------------|
| \$13.58 | 40,500 | 3.2 | 13.580 |

At October 1, 2011, outstanding and exercisable options had an intrinsic value of \$194,400. The total intrinsic value of stock options exercised in the first nine months of 2011 was \$293,815. For the nine month periods ended October 1, 2011 and October 2, 2010, the Company recognized tax benefits of \$98,034 and \$47,809, respectively, resulting from the disqualification of incentive stock options that were exercised and sold prior to the required holding period.

Note K – Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008 and non-U.S. income tax examinations by tax authorities prior to 2005. During the quarter, the State of New York completed its audit for the 2007, 2008 and 2009 tax years. The audit resulted in no adjustments and all of the returns were accepted as filed.

The total amount of unrecognized tax benefits could increase or decrease within the next twelve months for a number of 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 Accounting Standards Codification (“ASC”) 740. There have been no significant changes to the amount of unrecognized tax benefits during the three or nine months ended October 1, 2011. 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 – Financial Instruments and Fair Value Measurements

Financial Risk Management Objectives and Policies

The Company is exposed primarily to credit, interest rate and currency exchange rate risks which arise in the normal course of business.

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 receivable accounts with customers. The Company has established credit limits for customers and monitors their balances to mitigate the risk of loss. At October 1, 2011 and January 1, 2011, there were no significant concentrations of credit risk. No one customer represented more than 10% of the Company’s net trade receivables at October 1, 2011 and January 1, 2011. The maximum exposure to credit risk is primarily represented by the carrying amount of the Company’s accounts receivable.

Interest Rate Risk

On October 1, 2011, the Company has no exposure to the risk of changes in market interest rates as the interest rate on the outstanding debt is fixed at 4.98%.

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Fair Value Measurements

Assets and liabilities that require fair value measurement are recorded at fair value using market and income valuation approaches and considering the Company's and counterparty's credit risk. The Company uses the market approach and the income approach to value assets and liabilities as appropriate. There are no assets or liabilities requiring fair value measurements on October 1, 2011 or January 1, 2011.

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 Company's financial position and results of operations for the thirty-nine weeks ended October 1, 2011. The interim financial statements and 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 January 1, 2011 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 January 1, 2011.

Certain statements set forth in this discussion and analysis of financial condition and results of operations are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this release. These forward-looking statements involve a number of risks and uncertainties, and actual future results and trends may differ materially depending on a variety of factors, including changing customer preferences, lack of success of new products, loss of customers, competition, increased raw material prices, problems associated with foreign sourcing of parts and products, changes within our industry segments and in the overall economy, litigation and legislation. In addition, terrorist threats and the possible responses by the U.S. government, the effects on consumer demand, the financial markets, the travel industry, the trucking industry and other conditions increase the uncertainty inherent in forward-looking statements. Forward-looking statements reflect the expectations of the Company at the time they are made, and investors should rely on them only as expressions of opinion about what may happen in the future and only at the time they are made. The Company undertakes no obligation to update any forward-looking statement. 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.

In addition, the Company makes estimates and assumptions that may materially affect reported amounts and disclosures. These relate to valuation allowances for accounts receivable and for 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.

Overview

Sales in the third quarter of 2011 increased 6% compared to the third quarter of 2010. In the third quarter of 2011, Industrial Hardware sales increased 16%, Security Products sales decreased 1% and Metal Products sales decreased 2% compared to the prior year period. The increase in the Industrial Hardware segment was primarily due to the increase in sales of lightweight composite panels used in an interactive electronic board product. The decrease in the Security Products segment was primarily the result of decreased sales volume of existing products used in the commercial laundry market. The decrease in the Metals Products segment was primarily a result of the 2010 period

benefiting from a temporary shutdown of production at a competing foundry.

Gross margin as a percentage of sales for the three months ended October 1, 2011 was 18% as compared to 20% in the same period a year ago. This decrease was the result generally of increased manufacturing costs that could not be currently recovered by price increases in addition to the mix of products sold.

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Sales in the first nine months of 2011 increased 8% compared to the prior year period. Sales increased in the first nine months of 2011 by 9% in the Industrial Hardware segment, by 7% in the Security Products segment, and by 7% in the Metal Products segment compared to the prior year period. The increase in the Industrial Hardware segment was primarily due to an increase in sales of lightweight composite panels used in an interactive electronic board product. The increase in the Security Products segment was primarily the result of increased sales volume of existing products to the many markets that use our lock products. The increase in the Metals Products segment was primarily a result of continued strong demand for our mine roof products to the U.S. coal mining market.

Gross margin as a percentage of sales for the nine months ended October 1, 2011 was 19% compared to 20% in the comparable period a year ago. This decrease was the result generally of increased manufacturing costs that could not be currently recovered by price increases as well as the mix of products sold.

Raw material prices have increased compared to the prior year periods. The Company, through price increases, is recovering these additional costs from our customers, wherever possible. The Company expects that raw material costs will continue to increase as worldwide economic conditions improve, which may have a negative impact on future operating margins if not recovered by price increases. Currently, there is no indication that the Company will be unable to obtain supplies of all the raw materials that it requires.

Cash flow from operations in the first nine months of 2011 decreased compared to the same period in 2010. This decrease is primarily due to the changes in working capital associated with the higher sales volume in 2011. The Company has not found it necessary to utilize its revolving line of credit since the revolving line of credit was established. Cash on hand, cash flow from operations, along with the result of controlling discretionary expenditures, should enable the Company to meet all its existing obligations and continue its quarterly dividend payments.

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

Results of Operations

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

| | Three Months Ended October 1, 2011 | | | |
|------------------------------------|------------------------------------|----------------------|-------------------|--------|
| | Industrial Hardware | Security Products | Metal Products | Total |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 81.9% | 76.1% | 92.9% | 81.9% |
| Gross margin | 18.1% | 23.9% | 7.1% | 18.1% |
| Selling and administrative expense | 11.7% | 15.6% | 7.1% | 12.2% |
| Operating profit | 6.4% | 8.3% | 0.0% | 5.9% |

| | Three Months Ended October 2, 2010 | | | |
|-----------------------|------------------------------------|----------------------|-------------------|--------|
| | Industrial Hardware | Security Products | Metal Products | Total |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 74.7% | 76.5% | 96.6% | 79.6% |

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| | | | | |
|------------------------------------|-------|-------|-------|-------|
| Gross margin | 25.3% | 23.5% | 3.4% | 20.4% |
| Selling and administrative expense | 14.6% | 16.2% | 7.3% | 13.8% |
| Operating profit/(loss) | 10.7% | 7.3% | -3.9% | 6.6% |

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The following table shows the amount of change for the third quarter of 2011 compared to the third quarter of 2010 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

| | Industrial Hardware | Security Products | Metal Products | Total |
|-------------------------------------|------------------------|----------------------|-------------------|----------|
| Net sales | \$ 2,416 | \$ (150) | \$ (135) | \$ 2,131 |
| Volume | 13.3% | -2.5% | -6.0% | 3.7% |
| Prices | 0.7% | 0.6% | 3.8% | 1.3% |
| New products | 2.4% | 0.7% | 0.2% | 1.3% |
| | 16.4% | -1.2% | -2.0% | 6.3% |
| Cost of products sold | \$ 3,035 | \$ (154) | \$ (369) | \$ 2,512 |
| | 27.6% | -1.6% | -5.8% | 9.3% |
| Gross margin | \$ (619) | \$ 4 | \$ 234 | \$ (381) |
| | -16.6% | 0.1% | 104.0% | -5.5% |
| Selling and administrative expenses | \$ (141) | \$ (107) | \$ (22) | \$ (270) |
| | -6.5% | -5.2% | -4.5% | -5.8% |
| Operating profit | \$ (478) | \$ 111 | \$ 256 | \$ (111) |
| | -30.4% | 12.0% | 98.8% | -5.0% |

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

| | Nine Months Ended October 1, 2011 | | | |
|------------------------------------|-----------------------------------|----------------------|-------------------|--------|
| | Industrial Hardware | Security Products | Metal Products | Total |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 80.1% | 76.7% | 91.1% | 81.1% |
| Gross margin | 19.9% | 23.3% | 8.9% | 18.9% |
| Selling and administrative expense | 13.3% | 16.1% | 7.1% | 13.0% |
| Operating profit | 6.6% | 7.2% | 1.8% | 5.9% |

| | Nine Months Ended October 2, 2010 | | | |
|-----------------------|-----------------------------------|----------------------|-------------------|--------|
| | Industrial Hardware | Security Products | Metal Products | Total |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 75.8% | 76.4% | 93.4% | 79.6% |
| Gross margin | 24.2% | 23.6% | 6.6% | 20.4% |

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| | | | | |
|------------------------------------|-------|-------|-------|-------|
| Selling and administrative expense | 15.0% | 16.9% | 7.3% | 14.1% |
| Operating profit/(loss) | 9.2% | 6.7% | -0.7% | 6.3% |

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The following table shows the amount of change for the first nine months of 2011 compared to the first nine months of 2010 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

| | Industrial Hardware | Security Products | Metal Products | Total |
|-------------------------------------|------------------------|----------------------|-------------------|----------|
| Net sales | \$ 3,645 | \$ 2,378 | \$ 1,285 | \$ 7,308 |
| Volume | 6.4% | 5.2% | 3.6% | 5.4% |
| Prices | 0.5% | 1.0% | 2.8% | 1.1% |
| New products | 1.6% | 0.7% | 0.1% | 1.0% |
| | 8.5% | 6.9% | 6.5% | 7.5% |
| Cost of products sold | \$ 4,760 | \$ 1,905 | \$ 714 | \$ 7,379 |
| | 14.6% | 7.2% | 3.8% | 9.5% |
| Gross margin | \$(1,115) | \$ 473 | \$ 571 | \$ (71) |
| | -10.7% | 5.8% | 43.5% | -0.4% |
| Selling and administrative expenses | \$ (232) | \$ 106 | \$ 50 | \$ (76) |
| | -3.6% | 1.8% | 3.5% | -0.6% |
| Operating profit | \$ (883) | \$ 367 | \$ 521 | \$ 5 |
| | -22.3% | 15.9% | 401.3% | 0.1% |

Industrial Hardware Segment

Net sales in the Industrial Hardware segment were up 16% in the third quarter of 2011 and up 9% in the first nine months compared to the prior year periods. The higher sales in both the third quarter and first nine month periods reflected an increase in sales of existing products, primarily lightweight composite panels used in an interactive electronic board product in 2011 compared to the same periods in 2010, selective price increases to customers and the introduction of new products. Sales to the military market have been below those experienced in recent years due to lower levels of government spending. However, the Industrial Hardware segment continues to develop new latching systems for the military and continues to actively pursue expansion of hardware sales to the military markets. All of the new products were developed internally and included a rotary latch and a line of vent products for the Class 8 truck market, several lock and latch assemblies for the distributor markets and a spacer for the military market. Sales of our sleeper cabs to the Class 8 truck market are predicted to remain steady through the end of the year.

Cost of products sold for the Industrial Hardware segment increased 28% in the third quarter and 15% in the first nine months of 2011 compared to the prior year periods. The increases are primarily due to increased costs for payroll and payroll related charges, raw materials and purchased parts. In addition, 2011 includes the costs associated with the start-up and operation of our new lightweight composite panel facility in Ontario, Canada, which began manufacturing and shipping product during the second quarter of 2011.

Gross margin as a percent of net sales in the third quarter of 2011 decreased to 18% from 25% in the 2010 third quarter. Gross margin in the first nine months of 2011 decreased to 20% from 24% in the prior year period. The decrease in gross margin for the 2011 periods reflects the lower volume of military business in 2011, the mix of products produced and the cost associated with the start-up of our new composite panel facility in Ontario.

Selling and administrative expenses decreased by 7% in the 2011 third quarter and by 4% in the first nine months of 2011 compared to the prior year periods, primarily due to decreased expenses for payroll and payroll related charges.

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Security Products Segment

Net sales in the Security Products segment decreased 1% in the third quarter and increased 7% in the first nine months of 2011 compared to the 2010 periods. The decrease in sales in the third quarter was primarily the result of lower sales of commercial laundry products compared to the prior year period. The sales increase in the first nine months of 2011 in the Security Products segment is a combination of increased sales of existing products, selective price increases to customers and sales of new products. The increase in sales of existing products in the first nine months of 2011 in the Security Products segment resulted from sales to the many markets served by this segment, including: distributors, computer, storage, enclosure and commercial laundry. Sales of new products included new lock products for the storage and enclosure markets and products developed for the commercial laundry market including a wireless and contactless cash payment system and a digital coin recognition system.

Cost of products sold for the Security Products segment decreased 2% in the third quarter and increased 7% in the first nine months of 2011 compared to the same periods in 2010. The decrease in the third quarter was primarily the result of an allocation of corporate charges, which is based on sales volume. In addition, the Security Products segment experienced increases in the cost of raw materials which were offset by reduced costs in many areas reflecting the slightly lower sales volume in the 2011 period. The increase in the first nine months of 2011 was primarily the result of increased cost for raw materials, purchased parts, engineering, and payroll and payroll related charges. The increase was partially offset by decreases in expenses for utilities, freight on sales, fire and liability insurance, depreciation and an allocation of corporate charges, which is based on sales volume.

Gross margin as a percentage of sales in the third quarter of both 2011 and 2010 were comparable at 24%. Gross margin in the first nine months of 2011 decreased slightly to 23% from 24% in the 2010 period. The slight decrease in the first nine months of 2011 was primarily the result of the increased raw material costs.

Selling and administrative expenses decreased 5% in the third quarter of 2011 as compared to the 2010 period and increased 2% in the first nine months of 2011 as compared to the 2010 period. The decrease in the third quarter of 2011 was primarily due to lower expenses for advertising and bad debts compared to the prior year period. The increase in the first nine months of 2011 was primarily due to increased payroll and payroll related charges, higher sales commission payments and higher travel costs compared to 2010. These increased expenses exceeded the reduction in advertising and bad debt expenses.

Metal Products Segment

Net sales in the Metal Products segment were down 2% in the third quarter and up 7% in the first nine months of 2011 as compared to the prior year periods. Sales of mining products were up 8% in the third quarter and up 9% in the first nine months of 2011 compared to the prior year periods. The increase in sales of mining products was driven by continued strong demand primarily in the U.S. mining market compared to the prior year periods. Sales of contract castings decreased 47% in the third quarter and 23% in the first nine months of 2011 from the prior year levels. The decrease in sales of contract castings was primarily the result of the 2010 periods benefiting from a temporary shutdown of production at a competing foundry. Sales of new products in 2011 consisted of a new steel shell assembly for the mining market.

Cost of products sold decreased 6% in the third quarter and increased 4% in the first nine months of 2011 compared to the same periods in 2010. Although increased raw material costs were experienced in both the third quarter and nine month periods in 2011, the Metal Products segment experienced a decrease in cost of products sold in the third quarter of 2011 which is attributable to the product mix, costs associated with the lower volume of sales in 2011, and reductions in costs primarily for processing outside parts and supplies and tools. In addition to the increased raw material costs, the increase in cost of products sold in the nine month period in 2011 is attributable to the product mix,

costs associated with the higher volume of sales in 2011, and increased costs for payroll and payroll related charges.

Gross margin as a percentage of net sales increased to 7% in the third quarter of 2011 from 3% in the 2010 period and increased to 9% for the first nine months of 2011 from 7% in the 2010 period. The improvement in gross margin in both the third quarter and the first nine months of 2011 as compared to the prior year period is due to the mix of products produced, elimination of products with unacceptable profit margins, price increases to customers,

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and improvement in manufacturing processes in the 2011 period resulting from the capital expenditure program in 2010.

Selling and administrative expenses were down 5% in the third quarter and up 4% in the first nine months of 2011 compared to the same periods in 2010. The decrease in the third quarter of 2011 is primarily the result of an allocation of corporate charges, which is based on sales volume. The increase in the first nine months of 2011 compared to the same period in 2010 is primarily the result of increased costs for payroll and payroll related charges and the allocation of corporate charges, which is based on sales volume.

Other Items

Interest expense decreased 17% in the third quarter and 14% in the first nine months of 2011 compared to the prior year period primarily due to the decreased level of debt.

Other income was not material to the financial statements.

Income taxes - the effective tax rate in the third quarter of 2011 was 29.9% compared to 31.5% in the third quarter of 2010. The lower effective tax rate in the third quarter of 2011 was the result of the Company's recognition of tax benefits resulting from the expiration of the statute of limitations. In the third quarter of 2010, similar benefits were recognized; however, these benefits were offset by the tax recorded on the repatriation of foreign earnings of \$1.45 million with no corresponding foreign tax credit to offset the U.S. tax impact. The effective tax rate for the first nine months of 2011 was 32.5% compared to 34.1% in the first nine months of 2010. The nine month 2010 effective tax rate was higher primarily due to the impact on the rate as a result of the repatriation of foreign earnings of \$1.45 million with no corresponding foreign tax credit to offset the U.S. tax impact.

Liquidity and Sources of Capital

The Company provided \$1.7 million from its operations during the first nine months of 2011 compared to having provided \$6.9 million during the same period in 2010. The decrease in cash flows in the period was primarily the result of the associated timing differences in the collections of accounts receivable, payments of liabilities, and changes in inventories. Cash flow from operations coupled with cash on hand at the beginning of the year was sufficient to fund capital expenditures, debt service, and dividend payments. The Company has not utilized its revolving line of credit since the revolving line of credit was established on January 29, 2010.

Additions to property, plant and equipment were \$2.9 million for the first nine months of 2011 compared to \$3.6 million for the same period in 2010. Total capital expenditures for 2011 are expected to be approximately \$4 - \$5 million. As of October 1, 2011, there is approximately \$1.4 million of outstanding commitments for these capital expenditures.

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

| | Third Quarter 2011 | Third Quarter 2010 | Year End 2010 |
|--|--------------------------|--------------------------|---------------------|
| Current ratio | 4.3 | 4.6 | 4.9 |
| Average days' sales in accounts receivable | 56 | 49 | 47 |
| Inventory turnover | 3.8 | 3.9 | 3.7 |

| | | | |
|------------------------------------|------|------|------|
| Total debt to shareholders' equity | 5.4% | 6.4% | 6.4% |
|------------------------------------|------|------|------|

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

| | Third Quarter 2011 | Third Quarter 2010 | Year End 2010 |
|--|--------------------------|--------------------------|---------------------|
| Cash and cash equivalents | \$ 9.3 | \$ 11.9 | \$ 12.2 |
| Working capital | 50.2 | 47.2 | 48.3 |
| Net cash (used)/provided by operating activities | 1.7 | 6.9 | 9.5 |
| Change in working capital impact on net cash (used)/provided by operating activities | (5.2) | (0.2) | (0.8) |
| Net cash used in investing activities | (2.9) | (3.6) | (4.7) |
| Net cash used in financing activities | (1.7) | (8.2) | (9.4) |

The \$5.2 million decrease in net cash provided by operating activities from the third quarter of 2010 compared to the third quarter of 2011 was primarily related to the changes in working capital, and was anticipated given the higher sales volume in the first nine months of 2011.

Total inventories as of October 1, 2011 were \$29.7 million, compared to \$28.2 million at year end 2010 and \$26.3 million at the end of the third quarter of 2010. Accounts receivable increased to \$22.2 million from \$16.4 million at year end 2010 and \$18.1 million at the end of the third quarter of fiscal 2010. The increases are related to higher sales in the first nine months of the current year.

Cash on hand, cash flow from operating activities and funds available under the revolving credit portion of the Company's Loan Agreement are expected to be sufficient to cover future foreseeable working capital requirements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from what was reported in the 2010 Annual Report on Form 10-K.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures:

As of the end of the quarter ended October 1, 2011, 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 Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 240.13a-15. As defined in Exchange Act Rules 240.13a-15(e) and 240.15d-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 Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission'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 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.” Based upon that evaluation, the CEO and CFO concluded that the Company’s current disclosure controls and procedures were effective as of the October 1, 2011 evaluation date.

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

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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.

Changes in Internal Controls:

During the period covered by this report, there have been no significant changes in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal controls.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

During the fourth quarter of 2010, the Company was contacted by the State of Illinois regarding potential ground contamination at our plant in Wheeling, Illinois. The Company enlisted into a voluntary remediation program in Illinois and has engaged an environmental clean-up company to perform testing and develop a remediation plan, if needed. No estimate for the cost of remediation was available when this Form 10-Q was filed with the SEC.

During 2008, the U.S. Environmental Protection Agency identified the Company as a potentially responsible party in connection with a site in Cleveland, Ohio based on the ownership of the site by a division of the Company in the 1960's. According to the Agency, the current occupant of the site filed bankruptcy, leaving behind plating operations which required remedial action. The Company declined to participate in the remedial action, and intends to defend against any efforts of the Agency to impose any liability against the Company for environmental conditions on this site which may have occurred in the years since its ownership.

There are no other legal proceedings, other than ordinary routine litigation incidental to the Company's business, to which either the Company or any of its subsidiaries is a party or to which any of their property is the subject.

ITEM 1A – RISK FACTORS

There have been no material changes in risk factors from what was reported in the 2010 Annual Report on Form 10-K.

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

There have been no sales of unregistered securities by the Company or purchases of registered equity securities by the Company during the period covered by this report.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – (REMOVED AND RESERVED)

ITEM 5 – OTHER INFORMATION

None

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ITEM 6 – EXHIBITS

31) 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

32) Certifications pursuant to Rule 13a-14(b) and 18 USC 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99(1)) The Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2011 is incorporated herein by reference.

99(2)) Form 8-K filed on April 27, 2011 setting forth the press release reporting the Company's earnings for the quarter ended April 2, 2011 is incorporated herein by reference.

99(3)) Form 8-K filed on April 28, 2011 setting forth the results of the vote at the annual meeting of shareholders of the Company which was held on April 27, 2011 is incorporated herein by reference.

99(4)) Form 8-K filed on July 27, 2011 setting forth the press release reporting the Company's earnings for the quarter ended July 2, 2011 is incorporated herein by reference.

99(5)) Form 8-K filed on October 26, 2011 setting forth the press release reporting the Company's earnings for the quarter ended October 1, 2011 is incorporated herein by reference.

SIGNATURES

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

THE EASTERN COMPANY
(Registrant)

DATE: November 1, 2011

/s/Leonard F. Leganza
Leonard F. Leganza
Chairman, President and Chief Executive Officer

DATE: November 1, 2011

/s/John L. Sullivan III
John L. Sullivan III
Vice President and Chief Financial Officer