

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended January 1, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35383

**THE EASTERN COMPANY**

(Exact name of registrant as specified in its charter)

Connecticut

(State or other jurisdiction of  
incorporation or organization)

06-0330020

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

112 Bridge Street, Naugatuck, Connecticut

(Address of principal executive offices)

06770

(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of July 3, 2021, the last day of registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$156,645,484 (based on the closing sales price of the registrant's common stock on the last trading date prior to that date). Shares of the registrant's common stock held by each officer and director and shares held in trust by the pension plans of the Company have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 15, 2022, 6,247,163 shares of the registrant's common stock, no par value per share, were issued and outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the Company's 2022 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after January 1, 2022.

The Eastern Company

Form 10-K

FOR THE FISCAL YEAR ENDED JANUARY 1, 2022

## TABLE OF CONTENTS

	Page
<a href="#">Table of Contents</a>	2.
<a href="#">Safe Harbor Statement</a>	3.
<b>PART I</b>	
<a href="#">Item 1. Business</a>	4.
<a href="#">Item 1A. Risk Factors</a>	7.
<a href="#">Item 1B. Unresolved Staff Comments</a>	15.
<a href="#">Item 2. Properties</a>	16.
<a href="#">Item 3. Legal Proceedings</a>	17.
<a href="#">Item 4. Mine Safety Disclosures</a>	17.
<b>PART II</b>	
<a href="#">Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	18.
<a href="#">Item 6. Reserved</a>	18.
<a href="#">Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	19.
<a href="#">Item 7A. Quantitative and Qualitative Disclosures About Market Risk</a>	29.
<a href="#">Item 8. Financial Statements and Supplementary Data</a>	30.
<a href="#">Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	66.
<a href="#">Item 9A. Controls and Procedures</a>	66.
<a href="#">Item 9B. Other Information</a>	68.
<a href="#">Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</a>	68.
<b>PART III</b>	
<a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a>	69.
<a href="#">Item 11. Executive Compensation</a>	69.
<a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	70.
<a href="#">Item 13. Certain Relationships and Related Transactions, and Director Independence</a>	70.
<a href="#">Item 14. Principal Accounting Fees and Services</a>	70.
<b>PART IV</b>	
<a href="#">Item 15. Exhibits, Financial Statement Schedules</a>	71.
<a href="#">Exhibit Index</a>	72.
<a href="#">Item 16. Form 10-K Summary</a>	72.

[Table of Contents](#)SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995

Statements contained in this Annual Report on Form 10-K of The Eastern Company (together with its consolidated subsidiaries, unless otherwise specified or suggested by the context, the “Company,” “Eastern,” “we,” “us,” or “our”) 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 “should,” “could,” “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intend,” “continue,” 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 scope and duration of the COVID-19 pandemic, including timing of the distribution of COVID-19 vaccines and rates of vaccination, the extent of resurgences, the emergence of additional virus variants and how quickly and to what extent normal economic activity can resume, and economic effects of the COVID-19 pandemic, including supply chain disruptions, cost inflation, delays in delivery of our products to our customers, impact on demand for our products, reductions in production levels, increased costs, including costs of raw materials, the impact on global economic conditions, the availability, terms and cost of financing, including borrowings under credit arrangements or agreements, and risks associated with employees working remotely or operating with reduced workforce. Other factors include, but are not limited to 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; restrictions on operating flexibility imposed by the agreement governing our credit facility; the inability to achieve the savings expected from global sourcing of materials; the impact of higher raw material and component costs, including the impact of supply chain shortages and inflation, particularly steel, plastics, scrap iron, zinc, copper and electronic components; lower-cost competition; our ability to design, introduce and sell new products and related components; market acceptance of our products; the inability to attain expected benefits from acquisitions or the inability to effectively integrate such acquisitions and achieve expected synergies; domestic and international economic conditions, including the impact, length and degree of economic downturns on the customers and markets we serve and more specifically conditions in the automotive, construction, aerospace, energy, oil and gas, transportation, electronic, and general industrial markets; costs and liabilities associated with environmental compliance; the impact of climate change or terrorist threats and the possible responses by the U.S. and foreign governments; failure to protect our intellectual property; cyberattacks; materially adverse or unanticipated legal judgments, fines, penalties or settlements; and other risks identified and discussed in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 1A, *Risk Factors*, and Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, of this 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.

**COVID-19 Update**

The COVID-19 pandemic has affected our businesses, including our supply chain, our operations, the labor force, and rising costs throughout 2021. We continue to follow CDC guidelines, including the use of proper personal protection equipment, social distancing, and sanitizing work areas. As a result of these measures, the COVID pandemic had minimal impact on our capacity utilization at most of our production facilities. Many of the Company’s employees have received COVID-19 vaccinations, and we will continue to encourage our workforce to get vaccinated. We do not anticipate further significant interruption in our operations unless another variant of COVID-19 emerges resulting in another global response to prevent its spread. A significant resurgence of the COVID-19 pandemic or development of additional severe or highly contagious variants could cause further disruptions in our business and could adversely affect our financial condition, results of operations and cash flow.

During the past two years and continuing into 2022, the Company implemented a broad range of policies and procedures to ensure that employees at all our locations remain healthy. Steps that we have taken to reduce the risk of COVID-19 to our employees include, among others: protecting employee health by instructing employees to stay home if they exhibit symptoms of COVID-19; requiring employees to wear masks upon entry into the workplace; providing standard surgical masks and educating employees on hand hygiene to help stop the spread. We maintain a clean work environment by frequently cleaning all touch points with products that meet EPA criteria for use against COVID-19; educating employees to clean their personal workspace at the beginning and the end of every shift; and providing hand sanitizer and disposable wipes. We encourage social distancing, limit in-person meetings, eliminated all non-essential workplace travel and continue to seek and implement additional methods to reduce the risk of COVID-19 to our employees.

To the extent our operations will be further affected by COVID-19 in 2022 is dependent on future developments including new COVID variants, effectiveness of vaccines, new medication, and government restrictions. All these factors could result in further supply chain shortages and resulting cost inflation, increased operating cost, difficulty in finding workers, continued port congestion, and higher shipping costs. With the inherent uncertainty of the COVID-19 pandemic it is difficult to predict with any confidence the likely impact of the COVID-19 pandemic on our future operations and the extent of the effects it could have on our consolidated business, results of operations and financial condition. For a discussion of certain COVID-19-related risks, see Part I, Item 1A, “*Risk Factors*”, of this Form 10-K.

[Table of Contents](#)

## ITEM 1 BUSINESS

### General Development of Business

The Eastern Company was incorporated under the laws of the State of Connecticut in October 1912, succeeding a co-partnership established in October 1858. The businesses of the Company design, manufacture and sell unique engineered solutions for industrial markets.

Today, the Company maintains 19 physical locations across North America, Europe, and Asia.

### **BUSINESS HIGHLIGHTS**

On November 3, 2021, the Company sold its Greenwald Industries division (“Greenwald”). Greenwald is an original equipment manufacturer (“OEM”) offering a range of payment solutions from coin-vending products to smart card systems and payment applications.

On November 22, 2021, the Company sold its Frazer & Jones Company division (“Frazer & Jones”). Frazer & Jones is a high quality ductile and malleable iron foundry located in Syracuse, NY.

In the second fiscal quarter of 2021 the Company determined that the companies included in its Diversified Products segment, including Greenwald, Frazer & Jones, and Argo EMS, no longer fit with our long-term strategy and met the criteria to be treated as held for sale, and that the assets held for sale qualify for discontinued operations.

On November 19, 2020, the Company sold its subsidiary Sesamee Mexicana, S.A. de C.V. (“Sesamee Mexicana”). Sesamee Mexicana designs and manufactures composite panels and distributes industrial hardware. Eastern has exited the composite panels business as part of its strategy to streamline its business.

On August 10, 2020, 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 Hallink, RSB Inc. These assets are held in our subsidiary, Hallink Moulds, Inc. (“Hallink Moulds”). Hallink Moulds is a leader in innovative injection blow mold tooling and is a leading supplier of blow molds and change parts to the food, beverage, healthcare and chemical industries. Hallink Moulds specializes in the design, development and manufacture of 2-step stretch blow molds, and related components for the stretch blow molding industry offering integrated turnkey solutions to its customers worldwide. The total consideration for the acquisition of Hallink Moulds was approximately \$7.2 million which was paid out of the Company’s cash reserves.

On June 15, 2020, the Company sold its subsidiary, the Canadian Commercial Vehicles Corporation (“CCV”). CCV designs and manufactures composite panels. Eastern has exited the composite panels business as part of its strategy to streamline its business.

### [Table of Contents](#)

### Description of Business

The Eastern Company manages industrial businesses that design, manufacture and sell unique engineered solutions to industrial markets. We believe Eastern’s businesses operate in industries with long-term macroeconomic growth opportunities. We look to acquire businesses that produce stable and growing earnings and cash flows. Eastern focuses on acquisitions that further strengthen its core business but may pursue acquisitions in industries other than those in which its businesses currently operate if an acquisition presents an attractive opportunity.

Eastern manages the financial, operational, and strategic performance of its businesses to increase cash generation, operating earnings, and long-term shareholder value. Among other things, Eastern monitors financial and operational performance of each of its businesses and instills consistent financial discipline. Eastern’s management analyzes and pursues prudent organic growth strategies and works to execute attractive external growth and acquisition opportunities.

In addition, Eastern recruits and retains talented managers to operate its businesses. We look for leaders who are accountable, maintain cost discipline, act quickly, and build strong followership.

### **Company Operations**

The Company’s operations consist of Big 3 Precision, including Big 3 Precision Products Inc. (“Big 3 Products”) and Big 3 Mold Services, Inc. (“Big 3 Mold”), Hallink Moulds, Inc. (“Hallink Moulds” or “Hallink”), and Associated Toolmakers Ltd. (“Associated Toolmakers”); Eberhard Manufacturing Company (“Eberhard Manufacturing”), Eastern Industrial Ltd, World Lock Company Ltd., Dongguan Reeworld Security Products Ltd., and World Security Industries (together “Eberhard”); and Velvac Holdings Inc. (“Velvac”). These businesses design, manufacture, and market a diverse product line of custom and standard vehicular and industrial hardware, including turnkey returnable packaging solutions, access and security hardware, mirrors, and mirror-cameras.

Big 3 Products and Big 3 Mold’s turnkey returnable packaging solutions are used in the assembly processes of vehicles, aircraft, and durable goods and in the production processes of plastic packaging products, packaged consumer goods and pharmaceuticals. Big 3 Products works with leading OEMs to design and produce custom returnable transport packaging to integrate with OEM assembly processes. Big 3 Mold is a global leader in the design and manufacture of blow mold tools. Hallink Moulds is a leader in innovative injection blow mold tooling and is a leading supplier of blow molds and change parts to the food, beverage, healthcare, and chemical industry. Hallink specializes in the design, development and manufacture of 2-step stretch blow molds, and related components for the stretch blow molding industry offering integrated turnkey solutions to its customers worldwide.

In 2020, we combined all businesses associated with the Eberhard Manufacturing and Illinois Lock Company to create Eberhard, a global leader in the engineering and manufacturing of access and security hardware. Eberhard offers a standard product line of rotary latches, compression latches, draw latches, hinges, camlocks, key switches, padlocks, and handles among other products, as well as comprehensive development and program management

services for custom electromechanical and mechanical systems designed for specific OEMs and customer applications. Eberhard's products are found in an expansive range of applications and products globally.

Velvac is a designer and manufacturer of proprietary vision technology for OEMs and aftermarket applications, and a leading provider of aftermarket components to the heavy-duty truck market in North America. Velvac serves diverse, niche segments within the heavy- and medium-duty truck, motorhome, and bus markets.

## **Human Capital**

We believe our success depends on the skills, experience, and industry knowledge of our key talent. As such, our management team places significant focus and attention on the attraction, development, and retention of employees, as well as ensuring our corporate culture reflects Eastern's values, and our Board of Directors (our "Board") provides oversight for various employee initiatives. Eastern values and Code of Business Conduct and Ethics guide our actions, reflect our culture, and drive our performance. We have made and continue to make investments in training, and we have a well-established performance management process.

An engaged, innovative, skilled, and collaborative workforce is critical to our continued leadership in the design and manufacture of unique engineered solutions to industrial markets. We operate globally under policies and programs that provide competitive wages, benefits, and terms of employment. We are committed to efforts to increase diversity and foster an inclusive work environment that supports our global workforce through recruiting efforts and equitable compensation policies.

## [Table of Contents](#)

The health and safety of our employees is also a top priority. Our focus on the reduction of injuries and illnesses has significantly improved our safety performance. We have attained these improvements by fostering a global safety culture supported with regular training and education that includes robust systems and philosophies centered on personal responsibility and accountability. The Board established an Environment, Health and Safety Committee in 2019. There is a high-level of leadership engagement, ensuring installation and maintenance of appropriate safety equipment at all of our manufacturing sites worldwide combined with vigorous reviews of root causation and systemic corrective actions of any safety incidents that may occur.

In response to the emergence of COVID-19 in early 2020, we implemented a proactive internal procedure and complied with local, federal, and international governmental guidance that has enabled us to operate safely. Each of our facilities continues to adhere to these practices, and we have also adjusted our remote worker safety procedures to ensure that remote employees are better integrated into our safety and health systems.

Employee levels are managed to align with business demand and management believes it currently has sufficient human capital to operate its business successfully. As of January 1, 2022, we employed 1,191 full-time employees: 627 in the United States and 564 in other countries. Approximately 20% of employees in the United States are represented by collective bargaining agreements. We believe that our relations with employees, unions and works' councils are in good standing.

## **General**

Patent and trademark protection for the various product lines of the Company is limited, but the Company believes the current patents and trademark protection is sufficient to protect the Company's competitive positions. Patent durations are from 2 to 20 years. No business operation is dependent on any patent, nor would the loss of any patent have any material adverse effect on the Company's business.

During the second fiscal quarter of 2021, the Company announced plans to sell the companies included in our Diversified Products segment, these assets met the criteria to be treated as held for sale and reported as discontinued operations. Subsequently, in the fourth quarter of fiscal 2021, the Company sold its Greenwald Industries and Frazer & Jones divisions.

The Company's businesses are not subject to seasonal variations.

Customers for the Company are broad-based by geography and by market, and sales are not highly concentrated by customer. Foreign sales were not significant.

The Company encounters competition in its businesses. Imports from Asia and Latin America with favorable currency exchange rates and low-cost labor have created additional pricing pressure. The Company competes successfully by offering high quality custom engineered products on a timely basis. To compete, the Company deploys internal engineering resources, maintains cost effective manufacturing capabilities through its wholly owned Asian subsidiaries, expands its product lines through product development and acquisitions, and maintains sufficient inventory for fast turnaround of customer orders.

The Company does not anticipate that compliance with federal, state, or local environmental laws or regulations is likely to have a material effect on the Company's capital expenditures, earnings, or competitive position.

The Company obtains materials from nonaffiliated domestic, Asian affiliated and Asian nonaffiliated sources. Availability and prices of raw materials and outside services were affected by measures taken in response to the COVID-19 pandemic for some of the Company's businesses during 2020 and 2021. We expect raw materials and outside services to be more readily available in 2022 unless resurgence of the COVID-19 pandemic occurs.

The Company's ratio of working capital (current assets less current liabilities) to sales was 27.2% in 2021 and 36.0% in 2020. Working capital includes cash held in various foreign subsidiaries. Other factors affecting working capital include our average days' sales in accounts receivable, inventory turnover ratio and payment of vendor accounts payable. In some cases, the company must hold extra inventory due to extended lead time in receiving products ordered from our foreign subsidiaries to ensure product is available for our customers. The Company continues to monitor working capital needs with the goal of reducing our ratio of working capital to sales.

## **Available Information**

The Company makes available, free of charge through its Internet website at <http://www.easterncompany.com>, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The Company's reports filed with, or furnished to, the SEC are also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

## **ITEM 1A RISK FACTORS**

In addition to the other information contained in this Form 10-K and the Company's other filings with the SEC, the following risk factors should be considered carefully in evaluating the Company's business. The Company's business, financial condition or results of operation could be materially adversely affected by any of these risks or additional risks not presently known to the Company, or by risks the Company currently deems immaterial, which may also adversely affect its business, financial condition, or results of operations. Additionally, there can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business or that information publicly available with respect to these matters is complete and correct.

### **Risks Related to Our Business**

#### **Our financial and operating performance may be adversely affected by epidemics and other health related issues.**

As a result of the COVID-19 pandemic, the Company has experienced and could continue to experience disruptions to its business, its operations, the delivery of its products and customer demand for its products, including the following:

- The broader economic impact of the COVID-19 pandemic, including resurgences, may continue to result in unfavorable operating earnings and cash flow generation in the months to follow. Current global economic conditions are highly volatile due to the COVID-19 pandemic, resulting in economic slowdowns that have caused and are likely to continue to cause contractions in some or all the markets we serve, which has led to and may continue to lead to decreased demand for the Company's products, which in turn has, and may continue to negatively impact the Company's financial condition and operating results. Other macroeconomic factors also remain dynamic, and any causes of market size contraction, including economic uncertainty related to the United Kingdom's exit from the European Union, and overall economic slowdowns, could reduce the Company's sales or erode operating margin, in either case reducing earnings. In addition, volatile global economic conditions may cause foreign exchange rate fluctuations, which could result in increases or decreases in earnings and may adversely affect the value of the Company's assets outside the United States. Increased pricing in response to fluctuations in foreign currency exchange rates may offset portions of the currency impacts but could also have a negative impact on demand for the Company's products, which would affect sales and profits. Exchange rate fluctuations could also increase pricing pressure and impair the ability of the Company's products to compete with products imported from regions with favorable exchange rates.
- Shutdowns and other restrictions imposed to slow the spread and resurgence of COVID-19 have impacted and may continue to impact the prices and availability of certain of the raw materials used in the production of the Company's products, which could impair the Company's ability to procure the required raw materials for its operations or increase the cost of manufacturing its products. The Company may be unable to pass increases in the cost of raw materials on to its customers and could experience reductions to its profit margins. Also, any decrease in the availability of raw materials could impair the Company's ability to meet production requirements in a timely manner or at all.
- The Company's management has been focused on mitigating the impact of the COVID-19 pandemic on our employees and operations, which has required and will continue to require a substantial investment of time and resources. This has resulted and can be expected to continue to result in a diversion of management attention and resources away from strategic initiatives, new business opportunities, potential acquisitions, and the overall profitability of our business, and the Company cannot predict how long this may continue.

- The economic downturn has resulted and could continue to result in the carrying value of goodwill or other intangible assets exceeding their fair value, which has required and could continue to require the Company to recognize asset impairment.
- To the extent the Company draws under the revolving portion of the Credit Agreement, debt of the Company would increase. Such an increase in indebtedness could adversely affect the Company's financial results or ability to incur additional debt and could negatively impact credit ratings. The continuing impact of the COVID-19 pandemic, including any resurgences, could also negatively impact the Company's compliance with the financial covenants under the Credit Agreement or the interest rate of borrowings under the Credit Agreement. In addition, as a result of the risks described above, the Company may in the future be required to raise additional debt or equity financing, and the availability, terms and cost of such financing would depend on, among other things, global economic conditions, conditions in the global financing markets, trading prices of the Company's common stock, the credit ratings of the Company, and the outlook for the industries in which the Company operates, all of which could be negatively impacted by the COVID-19 pandemic, including the extent of any resurgences. There can be no assurance that such financing would be available on acceptable terms, in sufficient quantities, or at all.
- Pension plan funded status, the ratio of plan assets over plan liabilities, is largely influenced by current market conditions. To the extent asset returns and interest rates, which are used to discount future plan benefits, change from prior measurement periods, the plan's funded ratio has the potential to change significantly.

#### **Indebtedness may affect our business and may restrict our operating flexibility.**

As of January 1, 2022, the Company had \$71,314,000 in total consolidated indebtedness. Subject to restrictions contained in the Credit Agreement, the Company may incur additional indebtedness in the future, including indebtedness incurred to finance acquisitions. The level of indebtedness and servicing costs associated with that indebtedness could have important effects on our operation and business strategy. For example, the indebtedness could:



- Place the Company at a competitive disadvantage relative to the Company’s competitors, some of which have lower debt service obligations and greater financial resources;
- Limit the Company’s ability to borrow additional funds;
- Limit the Company’s ability to complete future acquisitions;
- Limit the Company’s ability to pay dividends;
- Limit the Company’s ability to make capital expenditures; and
- Increase the Company’s vulnerability to general adverse economic and industry conditions.

The Company’s ability to make scheduled principal payments, to pay interest on, or to refinance our indebtedness and to satisfy other debt obligations will depend upon future operating performance, which may be affected by factors beyond the Company’s control. In addition, there can be no assurance that future borrowings or the issuance of equity would be available to the Company on favorable terms for the payment or refinancing of the Company’s debt. If the Company is unable to service its indebtedness, the business, financial condition, and results of operation would be materially adversely affected.

The Company’s credit facility contains covenants requiring the Company to achieve certain financial and operations results and maintain compliance with specified financial ratios. The Company’s ability to meet the financial covenants or requirements in its credit facility may be affected by events beyond our control, and the Company may not be able to satisfy such covenants and requirements. A breach of these covenants or the Company’s inability to comply with the financial ratios, tests or other restrictions contained in our credit facility could result in an event of default under such credit facility. Upon the occurrence of an event of default under our credit facility and/or the expiration of any grace periods, the lenders could elect to declare all amounts outstanding under our credit facility, together with accrued interest, to be immediately due and payable. If this were to occur, the Company’s assets may not be sufficient to fully repay the amounts due under our credit facility or the Company’s other indebtedness.

In addition, the Company’s growth strategy involves expanding sales of its products into foreign markets. There is no guarantee that the Company’s products will be accepted by foreign customers or how long it may take to develop sales of the Company’s products in these foreign markets.

[Table of Contents](#)

**The phaseout of the London Interbank Offered Rate (LIBOR), or the replacement of LIBOR with a different reference rate, may adversely affect interest rates.**

On July 27, 2017, the Financial Conduct Authority (the “FCA”) (the authority that regulates LIBOR) announced that it would phase out LIBOR by the end of 2021. In December 2020, the ICE Benchmark Administration (the “IBA”) announced a market consultation regarding the extension of US dollar LIBOR tenors through June 30, 2023, which the FCA supports. On March 5, 2021, the IBA released its feedback statement reporting the results of the market consultation. Pursuant to its feedback statement, the IBA intends to cease publication of all settings of non-US dollar LIBOR and only the one-week and two-month U.S. dollar LIBOR settings on December 31, 2021, with the publication of the remaining U.S. dollar LIBOR settings being discontinued after June 30, 2023. The Alternative Reference Rates Committee (ARRC), a financial industry group convened by the Federal Reserve Board, has recommended the use of SOFR to replace LIBOR. The difference between LIBOR and SOFR is that LIBOR is a forward-looking rate which means the interest rate is set at the beginning of the period with payment due at the end. SOFR is a backward-looking overnight rate which has implications for how interest and other payments are based. Changes in the method of calculating the replacement of LIBOR with a fallback rate (effectively SOFR plus a spread adjustment) will become effective in June 2023 unless adopted earlier. The effect of this change is still unknown and could adversely affect the Company’s results of operations, cash flow, and liquidity.

**Risks Related to Competition and Global Operations**

**The Company’s business is subject to risks associated with conducting business overseas.**

International operations could be adversely affected by changes in political and economic conditions, trade protection measures, restrictions on repatriation of earnings, differing intellectual property rights and changes in regulatory requirements that restrict the sales of products or increase costs. Changes in exchange rates between the U.S. dollar and foreign currencies could result in increases or decreases in earnings and may adversely affect the value of the Company’s assets outside the United States. The Company’s operations are also subject to the effects of international trade agreements and regulations. These trade agreements could impose requirements that adversely affect the Company’s business, such as, but not limited to, setting quotas on products that may be imported from a particular country into the Company’s key markets in North America.

The Company’s ability to import products in a timely and cost-effective manner may also be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes, severe weather or increased homeland security requirements in the United States or other countries. These issues could delay importation of products or require the Company to locate alternative ports or warehousing providers to avoid disruption to customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on the Company’s business, financial conditions, or results of operations.

The Company is also subject to the impacts of political, economic, and social instability. For example, the United Kingdom’s withdrawal from the European Union, commonly referred to as “Brexit,” was completed on December 31, 2020. There remains significant uncertainty about the impact of Brexit on the free movement of goods, services, and people between the United Kingdom and the European Union, and Brexit could result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe. The uncertainty surrounding the United Kingdom’s withdrawal and its consequences, as well as any deterioration in economic conditions, could adversely impact consumer and investor confidence, and the level of consumer purchases of discretionary items and retail products, including our products. Any of these effects, among others, could materially adversely affect our business, results of operations, and financial condition.

Additionally, Brexit has contributed to the volatility of the U.S. dollar against foreign currencies in which the Company conducts business. Because the Company translates revenue denominated in foreign currency into U.S. dollars for its financial statements, during periods of a volatile U.S. dollar, the Company’s reported earnings from foreign operations are affected. As a result of Brexit, there may be further periods of volatility in the currencies in which the Company conducts business.

**Supply chain disruptions, delays in production, and forecast inaccuracies could affect our ability to meet customer demand, lead to higher costs, result in excess inventory, and could have an adverse effect on our results of operations and financial condition.**

Raw materials needed to manufacture products are obtained from numerous suppliers. Under normal market conditions, these raw materials are readily available on the open market from a variety of producers. However, from time to time, the prices and availability of these raw materials fluctuate due to the impact of inflation, as well as changes in existing and expected rates of inflation, which could impair the Company's ability to procure the required raw materials for its operations or increase the cost of manufacturing its products. If the price of raw materials increases, the Company may be unable to pass these increases on to its customers and could experience reductions to its profit margins. Additionally, any decrease in the availability of raw materials could impair the Company's ability to meet production requirements in a timely manner or at all.

[Table of Contents](#)

**The Company faces active global competition and if it does not compete effectively, its business may suffer.**

The Company encounters competition in all its business operations, and imports from Asia and Latin America with favorable currency exchange rates and low-cost labor have resulted in pricing pressure. The Company competes with other companies that offer comparable products or that produce different products appropriate for the same uses. To remain profitable and defend market share, the Company must continue to offer high quality custom engineered products on a timely basis, deploy internal engineering resources, maintain cost-effective manufacturing capabilities through its wholly owned Asian subsidiaries, expand its product lines through product development and acquisitions, and maintain sufficient inventory for fast turnaround of customer orders. The Company may not be able to compete effectively on all these fronts and with all its competitors, and the failure to do so could have a material adverse effect on its sales and profit margins.

In addition, the Company may have to reduce prices on its products and services, or make other concessions, to stay competitive and retain market share. Price reductions taken by the Company in response to customer and competitive pressures, as well as price reductions and promotional actions taken to drive demand that may not result in anticipated sales levels, could also negatively impact the Company's business.

**If tariffs on imported Chinese products are further expanded to include additional products and the tariff is reinstated to 25%, our cost of raw materials may increase, which could adversely affect our business, results of operations and financial condition.**

The Company obtains raw materials used in the production of its products from domestic, Asian affiliated and nonaffiliated sources. On January 15, 2020, the U.S. and China signed the U.S.-China Phase One trade deal which, among other things, rolls back tariffs on \$120 billion of Chinese products from 15% to 7.5% effective February 14, 2020. The U.S. agreed not to proceed with the 15% tariffs on \$160 billion of consumer goods which were scheduled to take effect December 15, 2019. However, the 25% tariffs on \$250 billion of Chinese imports will remain in effect subject to further reductions depending on the progress of future negotiations. If China does not follow through on its agreed upon commitments and tariffs are reinstated on \$550 billion of Chinese products at the 25% rate, it could result in a loss of business and possible reduced margins for the Company if the tariffs cannot be fully offset by higher selling prices.

**Changes in competition in the markets that the Company services could impact revenues and earnings.**

Any change in competition may result in lost market share or reduced prices, which could result in reduced profits and margins. This may impair the ability to grow or even maintain current levels of revenues and earnings. The loss of certain customers could adversely affect the Company's business, financial condition, or results of operations until such business is replaced, and no assurances can be made that the Company would be able to regain or replace any lost customers.

**Risks Related to Acquisitions and Organic Growth**

**The inability to develop new products could limit growth.**

Demand for new products and the inability to develop and introduce new competitive products at favorable profit margins could adversely affect the Company's performance and prospects for future growth, and the Company would not be positioned to maintain current levels of revenues and earnings. The uncertainties associated with developing and introducing new products, such as the market demands and the costs of development and production, may impede the successful development and introduction of new products. Acceptance of the new products may not meet sales expectations due to several factors, such as the Company's potential inability to accurately predict market demand or to resolve technical issues in a timely and cost-effective manner. Additionally, the inability to develop new products on a timely basis could result in the loss of business to competitors.

[Table of Contents](#)

**The inability to identify or complete acquisitions could limit growth.**

The Company's future growth may partly depend on its ability to acquire and successfully integrate new businesses. The Company intends to seek additional acquisition opportunities, both to expand into new markets and to enhance the Company's position in existing markets. However, there can be no assurances that the Company will be able to successfully identify suitable candidates, negotiate appropriate terms, obtain financing on acceptable terms, complete proposed acquisitions, successfully integrate acquired businesses or expand into new markets. Once acquired, operations may not achieve anticipated levels of revenues or profitability.

Acquisitions involve risk, including difficulties in the integration of the operations, technologies, services and products of the acquired companies and the diversion of management's attention from other business concerns. Although the Company's management will endeavor to evaluate the risks inherent in any particular transaction, there can be no assurances that the Company's management will properly ascertain all such risks. In addition, prior acquisitions have resulted, and future acquisitions could result in the incurrence of substantial debt and other expenses. Future acquisitions may also result in potentially



dilutive issuances of equity securities. Difficulties encountered with acquisitions may have a material adverse effect on our business, financial condition, and results of operations.

**We may be unable to successfully execute or effectively integrate acquisitions of any businesses we may acquire in the future.**

We regularly review our portfolio of businesses and pursue growth through acquisitions. We may not be able to complete transactions on favorable terms, on a timely basis, or at all, and the success of any such acquisitions depends on our ability to combine the acquired business with our existing business in a manner that does not disrupt our and the acquired business's ongoing relationships with customers, suppliers, and employees. Our results of operations and cash flows may be adversely impacted by (i) the failure of acquired businesses to meet or exceed expected returns, including risk of impairment; (ii) the failure to integrate multiple acquired businesses into the Company simultaneously and on schedule or to achieve expected synergies and (iii) the discovery of unanticipated liabilities, cybersecurity and compliance issues, labor relations difficulties or other problems in acquired businesses for which we lack contractual protections, or insurance or indemnities.

**Risks Related to Technology and Information Security**

**Our technology is important to the Company's success and the failure to protect this technology could put the Company at a competitive disadvantage.**

Some of the Company's products rely on proprietary technology; therefore, the Company believes that the development and protection of intellectual property rights through patents, copyrights, trade secrets, trademarks, confidentiality agreements and other contractual provisions are important to the future success of its business. Despite the Company's efforts to protect proprietary rights, unauthorized parties or competitors may copy or otherwise obtain and use the Company's products or technology. Actions to enforce these rights may result in substantial costs and diversion of resources and the Company makes no assurances that any such actions will be successful.

In addition to the United States, we have applied for intellectual property protection in other jurisdictions with respect to certain innovations and new products, product features, and processes. The laws of certain foreign countries in which we do business, or contemplate doing business in the future, do not recognize intellectual property rights or protect them to the same extent as U.S. law. As a result, these factors could weaken our competitive advantage with respect to our products, services, and brands in foreign jurisdictions, which could adversely affect our financial performance. We may also encounter significant problems in protecting and defending our licensed and owned intellectual property in foreign jurisdictions. For example, China currently affords less protection to a company's intellectual property than some other jurisdictions. As such, the lack of strong patent and other intellectual property protection in China may significantly increase our vulnerability regarding unauthorized disclosure or use of our intellectual property and undermine our competitive position. Proceedings to enforce our intellectual property rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

**[Table of Contents](#)**

**The Company relies on information and technology for many of its business operations, which could fail and cause disruption to the Company's business operations.**

The Company's business operations are dependent upon information technology networks and systems to securely transmit, process and store electronic information and to communicate among its locations around the world and with clients and vendors. A shut-down of, or inability to access, one or more of the Company's facilities, a power outage, or a failure of one or more of the Company's information technology, telecommunications or other systems could significantly impair the Company's ability to perform such functions on a timely basis. Computer viruses, cyberattacks, other external hazards and human error could result in the misappropriation of assets or sensitive information, corruption of data or operational disruption. If sustained or repeated, such a business interruption, system failure, service denial or data loss and damage could result in a deterioration of the Company's ability to write and process orders, provide customer service, or perform other necessary business functions.

**A breach in the security of the Company's software could harm its reputation, result in a loss of current and potential customers, and subject the Company to material claims, which could materially harm our operating results and financial condition.**

If the Company's security measures are breached, an unauthorized party may obtain access to the Company's data or users' or customers' data. In addition, cyber-attacks and similar acts could lead to interruptions and delays in customer processing or a loss or breach of a customer's data. Because the techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, the Company may be unable to anticipate these techniques or to implement adequate preventative measures. The risk that these types of events could seriously harm the Company's business is likely to increase as the Company expands the number of web-based products we offer, the services we provide, and our global operations.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection. In addition, the interpretation and application of consumer and data protection laws in the United States and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with the Company's data practices. If so, in addition to the possibility of fines, this could result in an order requiring that the Company change its data practices, which could have an adverse effect on its business and results of operations.

Any security breaches for which the Company is, or is perceived to be, responsible, in whole or in part, could subject us to legal claims or legal proceedings, including regulatory investigations, which could harm the Company's reputation and result in significant litigation costs and damage awards or settlement amounts. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could materially harm our operating results and financial condition. Security breaches also could cause the Company to lose current and potential customers, which could have an adverse effect on our business. Moreover, the Company may be required to expend significant financial and other resources to further protect against security breaches or to rectify problems caused by any security breach.

**Litigation, Compliance and Regulatory Risks**

**Delays in, or disagreements with the Company’s independent registered public accounting firm regarding, the Company’s evaluation of its internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on the market price of the Company’s stock or its borrowing ability. In addition, future changes in operating conditions could result in inadequate internal control over financial reporting.**

The Company is an “accelerated filer” as defined in Rule 12b-2 under the Exchange Act and is thus required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires the Company to include in its report management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of the end of the fiscal period for which the Company is filing its Annual Report on Form 10-K. This report must also include disclosure of any material weaknesses in internal control over financial reporting that the Company has identified. Additionally, the Company’s independent registered public accounting firm is required to issue a report on the Company’s internal control over financial reporting and their evaluation of the operating effectiveness of the Company’s internal control over financial reporting. The Company’s assessment requires it to make subjective judgments, and the independent registered public accounting firm may not agree with the Company’s assessment. If the Company or its independent registered public accounting firm were unable to complete the assessments within the period prescribed by Section 404 and thus be unable to conclude that the internal control over financial reporting is effective, investors could lose confidence in the Company’s reported financial information, which could have an adverse effect on the market price of the Company’s common stock or impact the Company’s borrowing ability. In addition, changes in operating conditions and changes in compliance with policies and procedures currently in place may result in inadequate internal control over financial reporting in the future.

---

[Table of Contents](#)

**Environmental compliance costs and liabilities could increase the Company’s expenses and adversely affect the Company’s financial condition.**

The Company’s operations and properties are subject to laws and regulations relating to environmental protection, including air emissions, water discharges, waste management and workplace safety. These laws and regulations can result in the imposition of substantial fines and sanctions for violations and could require the installation of pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. The Company must conform its operations and properties to these laws and adapt to regulatory requirements in the countries in which the Company’s businesses operate as these requirements change.

The Company uses and generates hazardous substances and wastes in its operations and, as a result, could be subject to potentially material liabilities relating to the investigation and clean-up of contaminated properties and to claims alleging personal injury. The Company has experienced, and expects to continue to experience, costs relating to compliance with environmental laws and regulations. In connection with the Company’s acquisitions, the Company may assume significant environmental liabilities, some of which it may not be aware of at the time of acquisition. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require the Company to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business, financial condition, and results of operations.

**Changes in climate may increase the frequency and intensity of adverse weather patterns and may negatively impact our business.**

Natural disasters, changes in climate, and geo-political events could materially adversely affect our financial performance. The occurrence of one or more natural disasters, such as hurricanes, tropical storms, floods, fires, earthquakes, tsunamis, cyclones, typhoons, weather conditions such as major or extended winter storms, droughts and tornadoes, whether as a result of climate change or otherwise, severe changes in climate and geo-political events, such as war, civil unrest or terrorist attacks in a country in which we operate or in which our suppliers are located could adversely affect our operations and financial performance.

**The Company could be subject to litigation, which could have a material impact on the Company’s business, financial condition, or results of operations.**

From time to time, the Company’s operations are parties to or targets of lawsuits, claims, investigations, and proceedings, including product liability, personal injury, patent and intellectual property, commercial, contract, and environmental and employment matters, which are defended and settled in the ordinary course of business. Any litigation to which the Company may be subject could have a material adverse effect on its business, financial condition, or results of operations. See Item 3 – *Legal Proceedings* of this Form 10-K for a discussion of current litigation.

**The Company could be subject to additional tax liabilities.**

The Company is subject to income tax laws of the United States, its states, and municipalities and those of other foreign jurisdictions in which the Company has business operations. These laws are complex and subject to interpretations by the taxpayer and the relevant governmental taxing authorities. Significant judgment and interpretation are required in determining the Company’s worldwide provision for income taxes. In the ordinary course of business, transactions arise where the ultimate tax determination is uncertain. Although the Company believes that our tax estimates are reasonable, the outcome of tax audits and any related litigation could be materially different from that which is reflected in historical income tax provisions and accruals. Based on the status of a given tax audit or related litigation, a material effect on the Company’s income tax provision or net income may result during the period or periods from the initial recognition of a particular matter in the Company’s reported financial results to the final closure of that tax audit or settlement of related litigation when the ultimate tax and related cash flow is known with certainty.

---

[Table of Contents](#)

**General Risk Factors**

**The Company’s goodwill or indefinite-lived intangible assets may become impaired, which could require a significant charge to earnings be recognized.**

Under accounting principles generally accepted in the United States, goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment at least annually. Future operating results used in the assumptions, such as sales or profit forecasts, may not materialize, and the Company has been and could in the future be required to record a significant charge to earnings in the financial statements during the period in which any impairment is determined, resulting in an unfavorable impact on our results of operations. Approximately \$1.0 million of goodwill was impaired and written off in December 2020 in connection with closing the operations of Eberhard Hardware Manufacturing Ltd. in Ontario, Canada (“Eberhard Hardware”).

**The Company may need additional capital in the future, which may not be available on acceptable terms, if at all.**

From time-to-time, the Company has historically relied on outside financing to fund expanded operations, capital expenditure programs and acquisitions. The Company may require additional capital in the future to fund operations or strategic opportunities. The Company cannot be assured that additional financing will be available on favorable terms, or at all. In addition, the terms of available financing may place limits on the Company’s financial and operating flexibility. If the Company is unable to obtain sufficient capital in the future, the Company may not be able to expand or acquire complementary businesses and may not be able to continue to develop new products or otherwise respond to changing business conditions or competitive pressures.

**The Company’s stock price may become highly volatile.**

The Company’s stock price may change dramatically when buyers seeking to purchase shares of the Company’s common stock exceed the shares available on the market, or when there are no buyers to purchase shares of the Company’s common stock when shareholders are trying to sell their shares.

**The Company depends on key management and technical personnel, the loss of whom could harm its businesses.**

The Company depends on key management and technical personnel. The loss of one or more key employees could materially and adversely affect the Company.

The Company’s success also depends on its ability to attract and retain highly qualified technical, sales and marketing and management personnel necessary for the maintenance and expansion of its activities. The Company faces strong competition for such personnel and may not be able to attract or retain such personnel. In addition, when the Company experiences periods with little or no profits, a decrease in compensation based on profits may make it difficult to attract and retain highly qualified personnel.

To attract and retain executives and other key employees, the Company must provide a competitive compensation package. If the Company’s profits decrease, or if the Company’s total compensation package is not viewed as competitive, the Company’s ability to attract, retain and motivate executives and key employees could be weakened. The failure to successfully hire and retain executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

**The Company may not be able to reach acceptable terms for contracts negotiated with its labor unions and be subject to work stoppages or disruption of production.**

During 2022, union contracts covering approximately 11% of the Company’s total workforce will expire. The Company has been successful in negotiating new contracts over the years but cannot guarantee that will continue. Failure to negotiate new union contracts could result in the disruption of production, inability to deliver product, or a number of unforeseen circumstances, any of which could have an unfavorable material impact on the Company’s results of operations or financial condition.

**Deterioration in the creditworthiness of several major customers could have a material impact on the Company’s business, financial condition, or results of operations.**

Included as a significant asset on the Company’s balance sheet are accounts receivable from our customers. If several large customers become insolvent or are otherwise unable to pay for products or become unwilling or unable to make payments in a timely manner, it could have an unfavorable material impact on the Company’s results of operations or financial condition.

Although the Company is not dependent on any one customer, deterioration in several large customers at the same time could have an unfavorable material impact on the Company’s results of operations or financial condition. One customer exceeded 10% of total accounts receivable for 2021 and one customer exceeded 10% of total accounts receivable for 2020.

---

[Table of Contents](#)

**The Company’s operating results may fluctuate, which makes the results of operations difficult to predict and could cause the results to fall short of expectations.**

The Company’s operating results may fluctuate because of several factors, many of which are outside of our control. As a result, comparing the Company’s operating results on a period-to-period basis may not be meaningful, and past results should not be relied upon as an indication of future performance. Quarterly, year to date, and annual costs and expenses as a percentage of revenues may differ significantly from historical or projected levels. Future operating results may fall below expectations. These types of events could cause the price of the Company’s stock to fall.

**New or existing U.S. or foreign laws could subject the Company to claims or otherwise impact the Company’s business, financial condition, or results of operations.**

The Company is subject to a variety of laws in both the U.S. and foreign countries that are costly to comply with, can result in negative publicity and diversion of management time and effort, and can subject the Company to claims or other remedies.

**ITEM 1B UNRESOLVED STAFF COMMENTS**

None.

[Table of Contents](#)**ITEM 2 PROPERTIES**

The corporate office of the Company owns an 8,000 square feet two-story brick building on 2.1 acres of land located in Naugatuck, Connecticut

All the Company's properties are owned or leased and are adequate to satisfy current requirements. All the Company's properties have the necessary flexibility to cover any long-term expansion requirements.

**Company facilities include the following:**

Big 3 Products in Centralia, Illinois owns 156,160 square feet of administrative and manufacturing space located in an industrial park. The single-story building is steel frame with steel siding and roof.

Big 3 Products in Dearborn, Michigan leases 86,250 square feet of building space. The building is made from industrial block. Approximately 6,000 square feet of office space is used for design engineers. The current lease expires on February 4, 2025.

Big 3 Products in Chesterfield, Michigan leases 45,000 square feet for a design and manufacturing facility. This building is industrial block and metal frame. The current lease expires on February 28, 2026.

Big 3 Mold in Holliston, Massachusetts leases 1,920 square feet of building space. The building is industrial block. The current lease expires on December 31, 2022.

Big 3 Mold in Millville, New Jersey owns 54,450 square feet of building space. The building is industrial block.

Big 3 Precision in Pleasant Hill, Missouri leases 1,000 square feet of office space. The building is metal frame. The current lease expires on April 2, 2022.

Big 3 Precision in Kimball, Michigan leases 3,500 square feet of building space. The current lease expires on April 30, 2022, with an option to renew for an additional twelve months.

Associated Tool, a wholly owned subsidiary in Wrexham, Wales leases 5,000 square feet of building space. The building is industrial block and metal frame. The current lease expires on August 10, 2022.

Hallink Moulds, a wholly owned subsidiary in Cambridge, Ontario, leases 15,000 square feet of building space. The building is industrial block and metal frame. The current lease expires on January 31, 2024, with the option to renew for an additional twenty-four months.

Eberhard Manufacturing in Strongsville, Ohio owns 9.6 acres of land and a building containing 157,580 square feet, located in an industrial park. The building is steel frame, is one-story and has curtain walls of brick, glass, and insulated steel panels. The building has two high bays, one of which houses two units of automated warehousing.

Eberhard Manufacturing leases 8,551 square feet of office space in Arlington Heights, IL. The current lease expires on September 1, 2026.

Eastern Industrial Ltd., a wholly owned subsidiary in Shanghai, China, leases brick and concrete buildings containing approximately 47,500 square feet of space that are in both industrial and commercial areas. In 2016, Eastern Industrial, Ltd. Entered a six-year lease, which expires on March 31, 2022, and is renewable.

Illinois Lock Company/CCL Security Products owns 2.5 acres of land and a building containing 44,000 square feet in Wheeling, Illinois. The building is brick and is in an industrial park. The building was sold on February 15, 2022.

The World Lock Co. Ltd. Subsidiary leases 5,285 square feet of space in a building located in Taipei, Taiwan. The building is made from brick and concrete and is protected by a fire alarm and sprinklers. The current lease expires on October 31, 2023.

[Table of Contents](#)

The Dongguan Reeworld Security Products Ltd. Subsidiary leases 103,800 square feet of space in concrete buildings that are in an industrial park in Dongguan, China. The current lease expires on May 31, 2022 and is renewable for a three-year period.

Velvac, Inc., a wholly owned subsidiary in New Berlin, Wisconsin, leases a 98,000 square foot building. The building includes 17,000 square feet of office space and 81,000 square feet of warehousing and distribution operations. The current lease expires on May 31, 2024.

Velvac de Reynosa, S. De R.L De C.V., a maquiladora wholly owned in Reynosa, Tamaulipas, Mexico, leases 150,000 square feet of building space located in an industrial park identified as Lots 2, 3 and 4. The building is one level and is made from brick and concrete. The current lease expires on December 1, 2030.

Argo EMS, currently reported as discontinued operations, leases approximately 17,000 square feet of space in a building located in an industrial park in Clinton, Connecticut. The building is a two-story steel frame structure and is situated on 2.9 acres of land. The current lease expires on March 31, 2022, and a three-year extension has been exercised.

All owned properties are free and clear of any encumbrances.

**ITEM 3 LEGAL PROCEEDINGS**

The Company is party to various legal proceedings from time to time related to its normal business operations. Currently, the Company is not involved in any material pending legal proceedings, and no such material proceedings are known to the Company to be contemplated by governmental authorities.

In 2016, the Company created a plan to remediate a landfill of spent foundry sand maintained at the Company’s previously owned metal casting facility in New York. This plan was agreed to by the New York State Department of Environmental Conservation (the “NYSDEC”) on March 27, 2018. Based on estimates provided by the Company’s environmental engineers, the anticipated cost to remediate and monitor the landfill was \$430,000. The Company accrued for and expensed the entire \$430,000 in the first quarter of 2018 and fiscal 2017. In the fall of 2018, detailed construction drawings were prepared by an outside consultant in conjunction with informal progress reviews by the NYSDEC. Long-term groundwater monitoring commenced in April 2019. Verbal approval for the closure plan was received from the NYSDEC in May 2019, and written approval was received in October 2020. Construction of the closure remedies, including improved drainage system, regrading, and installation of a low permeability cap was completed in October 2021. A closure report and long-term maintenance plan were submitted to the NYSDEC in November 2021. The 30-year annual groundwater monitoring and site maintenance program are underway and will continue through 2048.

#### ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

[Table of Contents](#)

## PART II

#### ITEM 5 MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company’s common stock is quoted on the NASDAQ Global Market under the symbol “EML”. The approximate number of record holders of the Company common stock on January 1, 2022, was 308.

The Company expects to continue its policy of paying regular cash dividends, although there can be no assurance as to future dividends because they are dependent on future earnings, capital requirements and financial condition.

During fiscal years 2021 and 2020, there were no sales by the Company of its securities that were not registered under the Securities Act of 1933, as amended (the “Securities Act”).

On May 2, 2018, the Company announced that its Board of Directors had authorized a new program to repurchase up to 200,000 shares of the Company’s common stock. 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 Exchange Act.

Below is a summary of the Company’s share repurchases during the year ended January 1, 2022:

Issuer Repurchases of Equity Securities				
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
	(a)	(b)	(c)	(d)
January 3, 2021 to April 3, 2021	--	\$ --	--	--
April 4, 2021 to July 3, 2021	--	--	--	--
July 4, 2021 to October 2, 2021	--	--	--	--
October 3, 2021 to January 1, 2022	14,596	25.33	14,596	130,404
<b>Total</b>	<u>14,596</u>	<u>\$ 25.33</u>	<u>14,596</u>	<u>130,404</u>

#### ITEM 6 RESERVED

[Table of Contents](#)

#### ITEM 7 MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company’s fiscal year ends on the Saturday nearest to December 31. Fiscal year 2021 was 52 weeks in length and fiscal year 2020 was 53 weeks in length. References in this Management’s Discussion and Analysis of Financial Condition and Results of Operations to results for “2021” or “fiscal year 2021” mean the fiscal year ended January 1, 2022, and references to results for “2020” or “fiscal year 2020” mean the fiscal year ended January 2, 2021. References to the “fourth quarter of 2021” or the “fourth fiscal quarter of 2021” mean the thirteen-week period from October 3, 2021 to January 1, 2022, and references to the “fourth quarter of 2020” or the “fourth fiscal quarter of 2020” mean the thirteen-week period from October 4, 2020 to January 2, 2020.



The following analysis excludes discontinued operations.

## Summary

Sales for 2021 were \$246.5 million compared to \$197.6 million for 2020. Net income for 2021 was \$16.2 million, or \$2.58 per diluted share, compared to \$11.0 million, or \$1.76 per diluted share, for 2020. Sales for the fourth quarter of 2021 were \$59.6 million compared to \$50.6 million for the same period in 2020. Net income for the fourth quarter of 2021 was \$3.9 million, or \$0.62 per diluted share compared to \$3.2 million, or \$0.50 per diluted share, for the comparable 2020 period.

During 2021, the Company experienced rising material costs, supply chain disruption, labor shortages and abnormally high freight costs all having a negative impact on our gross margin. Despite all these challenges, demand for our products are at an all-time high. The Company's backlog was \$82.8 million on January 1, 2022, compared to \$64.7 million on January 2, 2021, primarily due to an increase of \$10.1 million in backlog for locks and hardware at Eberhard due to new product launches and an increase of \$8.5 million in backlog related to the launch of new mirror programs for Class 8 trucks being awarded to our Velvac subsidiary.

During 2021 the Company experienced price increases for many of the raw materials used in producing its products, including: scrap iron, stainless steel, hot and cold rolled steel, zinc, copper, aluminum, and nickel. These increases could negatively impact the Company's gross margin if raw material prices increase too rapidly for the Company to recover those cost increases through either price increases to our customers or cost reductions in other areas of the business.

## 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. Areas of uncertainty that require judgments, estimates and assumptions include items such as the accounting for derivatives; environmental matters; the testing of goodwill and other intangible assets for impairment; proceeds on assets to be sold; pensions and other postretirement benefits; leases; and tax matters. Management uses historical experience and all available information to make its estimates and assumptions, but actual results will inevitably differ from the estimates and assumptions that are used to prepare the Company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related footnotes provide a meaningful and fair presentation of the Company's financial position and results of operations.

Management believes that the application of these estimates and assumptions on a consistent basis enables the Company to provide the users of the financial statements with useful and reliable information about the Company's operating results and financial condition.

### *Allowance for Doubtful Accounts*

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company reviews the collectability of its receivables on an ongoing basis, considering a combination of factors. The Company reviews potential problems, such as past due accounts, a bankruptcy filing or deterioration in the customer's financial condition, to ensure that the Company has adequately accrued for potential loss. Accounts are considered past due based on when payment was originally due. If a customer's situation changes, such as a bankruptcy or a change in its creditworthiness, or there is a change in the current economic climate, the Company may modify its estimate of the allowance for doubtful accounts. The Company will write off accounts receivable after reasonable collection efforts have been made and the accounts are deemed uncollectible.

---

## [Table of Contents](#)

### *Inventory*

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the last-in, first-out ("LIFO") method at Eberhard while Big 3 Precision and Velvac are valued on a first-in, first-out ("FIFO") method. Accordingly, a LIFO valuation reserve is calculated using the dollar value link chain method.

We review the net realizable value of inventory in detail on an ongoing basis, considering deterioration, obsolescence, and other factors. Based on these assessments, we provide for an inventory reserve in the period in which an impairment is identified. The reserve fluctuates with market conditions, design cycles, and other economic factors.

### *Goodwill and Other Intangible Assets*

Intangible assets with finite useful lives are generally amortized on a straight-line basis over the periods benefited. Goodwill and other intangible assets with indefinite useful lives are not amortized. The Company performed its annual qualitative assessment as of the end of fiscal 2021 on the carrying value of goodwill and determined that it is more likely than not that no impairment of goodwill existed at the end of 2021. See Note 4 – *Accounting Policies – Goodwill*, in Item 8, *Financial Statements and Supplementary Data* for more detail. The Company will perform annual qualitative assessments in subsequent years as of the end of each fiscal year. Additionally, the Company will perform an interim analysis whenever conditions warrant.

### *Pension and Other Postretirement Benefits*

The amounts recognized in the consolidated financial statements related to pension and other postretirement benefits are determined from actuarial valuations. Inherent in these valuations are assumptions about such factors as expected return on plan assets, discount rates at which liabilities could be settled, rate of increase in future compensation levels, mortality rates, and trends in health insurance costs. These assumptions are reviewed annually and updated as required. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect the expense recognized and obligations recorded in future periods.



The discount rate used is based on a single equivalent discount rate derived with the assistance of our actuaries by matching expected future benefit payments in each year to the corresponding spot rates from the FTSE Pension Liability Yield Curve, comprised of high quality (rated AA or better) corporate bonds. The Company calculates its service and interest costs in future years by applying the specific spot rates along the selected yield curve to the relevant projected cash flows.

The expected long-term rate of return on assets is also developed with input from the Company's actuarial firms. We consider the Company's historical experience with pension fund asset performance, the current and expected allocation of our plan assets and expected long-term rates of return. The long-term rate-of-return assumption used for determining net periodic pension expense was 7.5% for 2021 and 2020. The Company reviews the long-term rate of return each year.

Future actual pension income and expense will depend on future investment performance, changes in future discount rates and various other factors related to the population of participants in the Company's pension plans.

The Company expects to make cash contributions of approximately \$300,000 and \$50,000 to our pension plans and other postretirement plan, respectively, in 2022.

In connection with our pension and other postretirement benefits, the Company reported income of \$2.1 million and an expense of \$5.7 million (net of tax) on its Consolidated Statement of Comprehensive Income for fiscal years 2021 and 2020, respectively. The main factor driving this expense was the change in the discount rate during the applicable period.

Assumptions used to determine net periodic pension benefit cost for the fiscal years indicated were as follows:

	2021	2020
Discount rate	2.40% - 2.48%	3.18% - 3.23%
Expected return on plan assets	7.5%	7.5%
Rate of compensation increase	0.0%	0.0%

Assumptions used to determine net periodic other postretirement benefit cost are the same as those assumptions used for the pension benefit cost, except that the rate of compensation is not applicable for other postretirement benefit cost.

[Table of Contents](#)

The changes in assumptions had the following effect on the net periodic pension and other postretirement costs recorded in Other Comprehensive Income as follows:

	Year ended	
	January 1, 2022	January 2, 2021
Discount rate	\$ 5,412,964	\$ (10,824,709)
Additional recognition due to significant event	(71,547)	--
Asset gain or (loss)	(781,059)	6,263,566
Amortization of:		
Unrecognized gain or (loss)	1,717,776	1,274,625
Unrecognized prior service cost	99,380	91,127
Other	(3,105,208)	(4,276,259)
Comprehensive income, before tax	3,272,306	(7,741,650)
Income tax	(1,208,497)	(1,776,264)
Comprehensive income, net of tax	<u>\$ 2,063,809</u>	<u>\$ (5,695,386)</u>

The Plan has been investing a portion of the assets in long-term bonds to better match the impact of changes in interest rates on its assets and liabilities and thus reduce some of the volatility in Other Comprehensive Income. Please refer to Note 11 – *Retirement Benefit Plans* in Item 8, *Financial Statements and Supplementary Data* of this Form 10-K for additional disclosures concerning the Company's pension and other postretirement benefit plans.

[Table of Contents](#)

**RESULTS OF OPERATIONS**

**Fourth Quarter 2021 Compared to Fourth Quarter 2020**

The following table shows, for the fourth quarter of 2021 and 2020, selected line items from the consolidated statements of income as a percentage of net sales for the Company's operations. The Company's continuing operations include (1) Big 3 Precision, including Big 3 Products and Big 3 Mold, Hallink Moulds, and Associated Toolmakers; (2) Eberhard Manufacturing, Eberhard Hardware, Eastern Industrial Ltd., Illinois Lock Company/CCL Security Products, World Lock Company Ltd., Dongguan Reeworld Security Products Ltd., and World Security Industries Ltd.; and (3) Velvac Holdings.

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net Sales	100.0%	100.0%

Cost of Products Sold	79.8%	77.3%
Gross Margin	20.2%	22.7%
Product Development Expense	1.7%	0.7%
Selling and Administrative Expense	12.5%	13.7%
Goodwill Impairment Loss	--	1.9%
Restructuring Costs	--	1.3%
Operating Profit	6.0%	5.1%

**Net sales** in the fourth quarter of 2021 increased 18% to \$59.6 million from \$50.6 million in the fourth quarter of 2020. Sales increases were due to higher demand for trucks accessories, distribution products and automotive returnable packaging and improved pricing. Sales volume of existing products increased 6%, prices and new products contributed 12% in sales growth in the fourth quarter of 2021 when compared to sales in the fourth quarter of 2020. New products included various truck, mirrors, latches, and accessories.

Sales of new products contributed 8% to sales growth in the fourth quarter compared to 4% sales growth from new products in the fourth quarter of 2020. New products in the fourth quarter included various new truck mirrors and truck latches.

**Cost of products sold** in the fourth quarter of 2021 increased \$8.5 million or 22% from the corresponding period in 2020. The increase in cost of products sold is primarily attributable to increased sales volume, increases in the cost of materials, and increases in freight costs due to expedite fees associated with supply chain constraints. During the fourth quarter of 2021, material costs have begun to decrease from the third quarter of 2021 levels with costs for hot rolled steel decreasing 16% and costs for cold roll steel decreasing by 7%. Material costs increased over the third quarter of 2021 for aluminum, copper, nickel, and zinc which increased by 2%, 4%, 5% and 15%, respectively.

**Gross margin** as a percentage of net sales for the fourth quarter of 2021 was 20% compared to 23% in the prior year fourth quarter. The decrease reflects the combination of higher material and freight costs.

**Product development** expenses in the fourth quarter of 2021 of \$1.0 million were up 192% when compared to the fourth quarter of 2020. As a percentage of net sales, product development costs were 1.7% and 0.7% for the fourth quarter of 2021 and 2020 respectively as part of our investment in new products at Eberhard and Velvac.

**Selling and administrative** expenses in the fourth quarter of 2021 increased 8% compared to the fourth quarter of 2020. The increase was primarily the result of increased payroll and payroll related expenses, increased travel, and other expenses as business returned to more normal operations in 2021.

**Goodwill impairment** expense of \$1.0 million was incurred in the fourth quarter of 2020 as the Company announced the closure of Eberhard Hardware in Ontario, Canada.

[Table of Contents](#)

**Restructuring expenses** of \$0.7 million were incurred in the fourth quarter of 2020 due to severance expenses related to the closure of Eberhard Hardware in Ontario Canada.

**Net income** for the fourth quarter of 2021 increased 24% to \$3.9 million, or \$0.62 per diluted share, from \$3.2 million, or \$0.50 per diluted share, in 2020. In the fourth quarter of 2020, net income was negatively impacted by non-cash goodwill impairment charges of \$0.7 million, net of tax, and non-recurring restructuring, factory relocation, and transaction costs of \$0.9 million net of tax.

**Fiscal Year 2021 Compared to Fiscal Year 2020**

The following table shows, for fiscal year 2021 and fiscal year 2020, selected line items from the consolidated statements of income as a percentage of net sales for the Company's operations. The Company's continuing operations include (1) Big 3 Precision, including Big 3 Products, Big 3 Mold, Hallink Moulds and Associated Toolmakers Ltd.; (2) Eberhard Manufacturing Company, Eberhard Hardware, Eastern Industrial Ltd., Illinois Lock Company/CCL Security Products, World Lock Company Ltd., Dongguan Reeworld Security Products Ltd. and World Security Industries Ltd.; and (3) Velvac Holdings.

	Fiscal Year Ended	
	January 1, 2022	January 2, 2021
Net Sales	100.0%	100.0%
Cost of Products Sold	77.0%	75.7%
Gross Margin	23.0%	24.3%
Product Development Expense	1.6%	1.4%
Selling and Administrative Expense	14.3%	15.3%
Goodwill Impairment Loss	--	0.5%
Restructuring Costs	--	0.3%
Operating Profit	7.1%	6.8%

**Summary**

**Net sales** for 2021 increased 25% to \$246.5 million from \$197.6 million in 2020. The sales increase was due to higher demand for trucks accessories, distribution products and automotive returnable packaging. Sales volume of existing products increased by 15% in 2021 compared to 2020 while price increases and new products increased sales in 2021 by 10%. Sales of new products contributed 8% to sales growth in 2021 compared to 4% sales growth from new products in 2020. New products in 2021 included various new truck mirrors, truck compression latches, cable locks, and locking assemblies.

**Cost of products sold** increased by \$40.2 million or 27% to \$189.8 million in 2021 from \$149.5 million in 2020. The increase in cost of products sold is primarily attributable to increased sales volume, increases in the price of materials, and increases in freight costs due to expedite fees associated with

supply chain constraints. Material costs have increased substantially over prior year for hot rolled steel by 75%; cold rolled steel by 94%; aluminum by 66%; copper by 36%, nickel by 27% and zinc by 31%. Many of our supply contracts contain price adjustment clauses when material cost increase by a certain percentage. Tariffs incurred during 2021 were \$2.9 million from China-sourced products as compared to \$2.6 million in 2020. Most of the tariffs were recovered through price increases.

**Gross margin** as a percentage of sales was 23% in 2021 compared to 24% in 2020. The decrease reflects the combination of higher material and freight costs.

**Product development expenses** as a percentage of sales increased to 1.6% 2021 from 1.4% in 2020. The increase reflects the Company's on-going efforts to continue developing new products to better serve our customers.

[Table of Contents](#)

**Selling and administrative expenses** increased \$5.0 million or 17% to \$35.2 million in 2021 from \$30.2 million in 2020. The increase relates to increased payroll and payroll related costs, increased travel, and other expenses as our businesses returned to more normal operations in 2021.

**Net income** for 2021 increased by 47% to \$16.2 million, or \$2.58 per diluted share, from \$11.0 million, or \$1.76 per diluted share, in 2020. In 2021, net income was positively impacted by a \$1.4 million gain, net of tax, related to the sale of the Eberhard Hardware property in the first quarter, partially offset by one-time factory relocation and start-up costs of \$0.5 million, net of tax. Net income for 2020 was adversely impacted by non-cash goodwill impairment charges of \$0.7 million, net of tax and non-recurring restructuring, factory relocation, and transaction costs of \$1.3 million, net of tax.

**Other Items**

The following table shows the amount of change from the year ended January 2, 2021 as compared to the year ended January 1, 2022 in other items (dollars in thousands):

	<u>Amount</u>	<u>%</u>
Interest expense	\$ (311)	-15%
Other income	\$ 1,601	91%
Income taxes	\$ 706	32%

**Interest expense** decreased in 2021 from 2020 due to principal payments made on long-term debt.

**Other income** in 2021 increased \$1.6 million over 2020. Other income in 2021 included a favorable \$1.5 million pension cost adjustment and a \$1.8 million gain on the sale of the Eberhard Hardware property. In 2020, other income included a favorable \$1.2 million pension cost adjustment and a \$0.4 million gain on a sale/leaseback transaction.

**The effective tax rate** for 2021 was 8% compared to the 2020 effective tax rate of 10%. The effective tax rate for 2021 was reduced due to the impact of foreign subsidiaries on the effective tax rate and the R&D credit. Total income taxes paid were \$2.3 million in 2021 and \$3.8 million in 2020.

**Liquidity and Sources of Capital**

The primary source of the Company's cash is earnings from operating activities adjusted for cash generated from or used for net working capital. The most significant recurring non-cash items included in net income are depreciation and amortization expense. Changes in working capital fluctuate with the changes in operating activities. As sales increase, there generally is an increased need for working capital. The Company closely monitors inventory levels and attempts to match production to expected market demand, keeping tight control over the collection of receivables, and optimizing payment terms on its trade and other payables.

The Company is dependent on continued demand for its products and subsequent collection of accounts receivable from its customers. The Company serves a broad base of customers and industries with a variety of products. As a result, any fluctuations in demand or payment from a particular industry or customer should not have a material impact on the Company's sales and collection of receivables. Management expects that the Company's foreseeable cash needs for operations, capital expenditures, debt service and dividend payments will continue to be met by the Company's operating cash flows and available credit facility.

[Table of Contents](#)

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

	<u>2021</u>	<u>2020</u>
Current ratio	2.5	2.8
Average days' sales in accounts receivable	64	56
Inventory turnover	3.0	3.5
Ratio of working capital to sales	27.2%	36.0%
Total debt to shareholders' equity	62.2%	85.1%

The following table shows important liquidity measures as of the fiscal year-end balance sheet date for each of the preceding two years (in millions):

	<u>2021</u>	<u>2020</u>
--	-------------	-------------

Cash and cash equivalents		
- Held in the United States	\$ 4.3	\$ 10.0
- Held by foreign subsidiaries	2.3	6.1
	<u>6.6</u>	<u>16.1</u>
Working capital	74.1	71.1
Net cash (used in) provided by operating activities	(7.8)	14.6
Change in working capital impact on net cash used in operating activities	(22.9)	(5.6)
Net cash provided by (used in) in investing activities	13.6	(8.4)
Net cash used in by financing activities	(20.3)	(13.2)

All cash held by foreign subsidiaries is readily convertible into other currencies, including the U.S. dollar.

Net cash used in by operating activities was \$7.8 million in 2021 compared to \$14.6 million net cash provided by operating activities in 2020. In 2021 the Company contributed \$2.3 million to its defined benefit retirement plan.

In 2021, cash used to support additional working capital requirements was \$22.9 million, which was primarily due to management's focus on ensuring availability of inventory to meet customer demands during the current supply chain constraints. In 2020, cash used to support additional working capital requirements was \$5.6 million.

The Company provided \$13.6 million and used \$8.4 million for investing activities in 2021 and 2020, respectively. In 2021 the company sold businesses associated with its discontinued operations for \$17.3 million and one of its buildings for \$1.7 million, the Company also issued a note receivable of \$2.5 million as part of the sale of the discontinued operations. In 2020 the Company invested \$7.2 million to acquire Hallink Moulds and received \$3.2 million for divestures of subsidiaries and equipment. The Company issued notes receivable of \$2.2 million as part of the sale of its subsidiaries. These transactions are more fully discussed in Note 2 to the 2021 Consolidated Financial Statements located in Item 8 of this Form 10-K. The Company invested in capital expenditures of \$3.7 million and \$2.3 million in 2021 and 2020, respectively. Capital expenditures in fiscal year 2022 are expected to be approximately \$5.3 million.

In 2021, the Company made total debt payments of \$17.3 million, of which \$11.0 million was an accelerated principal payment, and used \$2.8 million for payment of dividends. The Company did not draw down on its \$20.0 million revolving credit facility in 2021. On January 11, 2022, the Company drew down \$5.0 million on its revolving credit facility to support ongoing working capital requirements brought on by current supply chain constraints. The Company has \$15.0 million available on its revolving line of credit. See *Note 7 - Debt* for further discussion on the Company's debt facilities.

[Table of Contents](#)

In 2020, the Company made total debt payments of \$10.0 million, of which \$5.0 million was an accelerated principal payment, and used \$2.8 million for payment of dividends. The Company did not draw down on its \$20.0 million revolving credit facility in 2020.

The Company leases certain equipment and buildings under cancelable and non-cancelable operating leases that expire at various dates up to five years. Rent expense amounted to approximately \$2.3 million in 2021 and \$1.9 million in 2020.

On August 30, 2019, the Company entered into the Credit Agreement with Santander Bank, N.A., for itself, People's United Bank, National Association and TD Bank, N.A. as lenders, that included a \$100.0 million term portion and a \$20.0 million revolving commitment portion. Proceeds of the term loan were used to repay the Company's remaining outstanding term loan (and to terminate its existing credit facility) with People's United Bank, N.A. (approximately \$19.0 million) and to acquire Big 3 Precision. The term portion of the loan requires quarterly principal payments of \$1.25 million for an 18-month period beginning December 31, 2019. The repayment amount then increases to \$1.875 million per quarter beginning September 30, 2021 and continues through June 30, 2023. The repayment amount then increases to \$2.5 million per quarter beginning September 30, 2023 and continues through June 30, 2024. The term loan is a five-year loan with the remaining balance due on August 30, 2024. The revolving commitment portion has an annual commitment fee of 0.25% based on the unused portion of the revolver. The revolving commitment portion has a maturity date of August 30, 2024. During 2021 and 2020, the Company did not borrow any funds on the revolving commitment portion of the facility. The interest rates on the term and revolving credit portion of the Credit Agreement vary. The interest rates may vary based on the LIBOR rate plus a margin spread of 1.25% to 2.25%. 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 August 30, 2019 with Santander 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 4.25 to 1. In addition, the Company will be required to maintain a fixed charge coverage ratio to be not less than 1.25 to 1.

On August 30, 2019, the Company entered into an interest rate swap contract with Santander Bank, N.A., with an original notional amount of \$50.0 million, which was equal to 50% of the outstanding balance of the term loan on that date. The Company has a fixed interest rate of 1.44% on the swap contract and will pay the difference between the fixed rate and LIBOR when LIBOR is below 1.44% and will receive interest when the LIBOR rate exceeds 1.44%. On January 2, 2021, the interest rate for half (\$27.8 million) of the term portion was 1.6%, using a one-month LIBOR rate, and 3.19% on the remaining balance (\$43.8 million) of the term loan based on a one-month LIBOR rate.

The interest rates on the Credit Agreement, and interest rate swap contract are susceptible to changes to the method that LIBOR rates are determined and to the potential phasing out of LIBOR after 2021. Information regarding the potential phasing out of LIBOR is provided below.

On July 27, 2017, the Financial Conduct Authority (the "FCA") (the authority that regulates LIBOR) announced that it would phase out LIBOR by the end of 2021. In December 2020, the ICE Benchmark Administration (the "IBA") announced a market consultation regarding the extension of US dollar LIBOR tenors through June 30, 2023, which the FCA supports. On March 5, 2021, the IBA released its feedback statement reporting the results of the market consultation. Pursuant to its feedback statement, the IBA intends to cease publication of all settings of non-US dollar LIBOR and only the one-week and two-month U.S. dollar LIBOR settings on December 31, 2021, with the publication of the remaining U.S. dollar LIBOR settings being discontinued after June 30, 2023. The Alternative Reference Rates Committee (ARRC), a financial industry group convened by the Federal Reserve Board, has recommended the use of SOFR to replace LIBOR. The difference between LIBOR and SOFR is that LIBOR is a forward-looking rate which means the interest rate is set at the beginning of the period with payment due at the end. SOFR is a backward-looking overnight rate which has implications for how interest and other

payments are based. Changes in the method of calculating the replacement of LIBOR with a fallback rate (effectively SOFR plus a spread adjustment) will become effective in June 2023 unless adopted earlier. The effect of this change is still unknown and could adversely affect the Company's results of operations, cash flow, and liquidity.

[Table of Contents](#)

**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 accounting principles generally accepted in the United States ("U.S. GAAP").

To supplement the consolidated financial statements prepared in accordance with U.S. GAAP, we have presented Adjusted Net Income from Continuing Operations, Adjusted Earnings Per Share from Continuing Operations and Adjusted EBITDA from Continuing Operations, 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 common share, or other measures prescribed by U.S. GAAP, and there are limitations to using non-GAAP financial measures.

Adjusted Net Income from Continuing Operations is defined as net income from continuing operations excluding, when they occur, the impacts of impairment losses, losses on sale of subsidiaries, transaction expenses, gain on sale of property, factory start-up costs, factory relocation expenses and restructuring costs. Adjusted Net Income from Continuing Operations 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.

Adjusted Earnings Per Share from Continuing Operations is defined as diluted earnings per share from continuing operations excluding, when they occur, the impacts of impairment losses, losses on sale of subsidiaries, transaction expenses, gain on sale of building, factory start-up costs, factory relocation expenses and restructuring costs. We believe that Adjusted Earnings Per Share from Continuing Operations provides important comparability of underlying operational results, allowing investors and management to access operating performance on a consistent basis.

Adjusted EBITDA from Continuing Operations is defined as net income from continuing operations before interest expense, provision for income taxes, and depreciation and amortization and excluding, when they occur, the impacts of impairment losses, losses on sale of subsidiaries, transaction expenses, gain on sale of building, factory start-up costs, factory relocation expenses and restructuring expenses. Adjusted EBITDA from Continuing Operations 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 including our business operations, 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.

[Table of Contents](#)

**Reconciliation of Non-GAAP Measures**

**Adjusted Net Income and EPS from Continuing Operations Calculation  
For the Three and Twelve Months ended January 1, 2022 and January 2, 2021**

(\$000's)

	Three Months Ended		Twelve Months Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
Net income from continuing operations as reported per generally accepted accounting principles (GAAP)	\$ 3,913	\$ 3,156	\$ 16,182	\$ 11,035
Earnings per share from continuing operations as reported under generally accepted accounting principles (GAAP):				
Basic	0.62	0.51	2.58	1.77
Diluted	0.62	0.50	2.58	1.76
Adjustments:				
Goodwill impairment loss, net of tax		715A		715A
Gain on sale of Eberhard Hardware property, net of tax			(1,353) B	
Factory relocation, net of tax		300C	105 F	475C
Factory start-up costs, net of tax	161G		348 G	
Restructuring costs, net of tax		489D		489D
Transaction expenses		96E		300E
Total adjustments (Non-GAAP)	\$ 161	\$ 1,600	\$ (900)	\$ 1,979

Adjusted net income from continuing operations	<u>\$ 4,074</u>	<u>\$ 4,756</u>	<u>\$ 15,282</u>	<u>\$ 13,014</u>
--	-----------------	-----------------	------------------	------------------

Adjusted earnings per share from continuing operations (Non-GAAP):

Basic	\$ 0.65	\$ 0.76	\$ 2.44	\$ 2.09
Diluted	\$ 0.65	\$ 0.76	\$ 2.44	\$ 2.08

- A) Goodwill impairment
- B) Gain on sale of Eberhard Hardware Ltd property
- C) Cost incurred on relocation of Velvac factory in Reynosa, MX
- D) Costs incurred on announced reorganization of Eberhard Hardware
- E) Cost incurred in the acquisition of Hallink RSB, Inc.
- F) Costs incurred on relocation of ILC facility in Wheeling, IL
- G) Costs incurred on start-up of Eberhard factory in Reynosa, MX

28

[Table of Contents](#)

### Reconciliation of Non-GAAP Measures

#### Adjusted EBITDA from Continuing Operations Calculation

For the Three and Twelve Months ended January 1, 2022 and January 2, 2021

(\$000's)

	Three Months Ended		Twelve Months Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
Net income from continuing operations as reported per generally accepted accounting principles (GAAP)	\$ 3,913	\$ 3,156	\$ 16,182	\$ 11,035
Interest expense	359	498	1,748	2,059
Provision for income taxes	(802)	(295)	2,771	2,182
Depreciation and amortization	2,052	1,849	7,241	6,816
Goodwill impairment loss		973A		973A
Gain on sale of Eberhard Hardware property			(1,841)B	
Factory relocation		428C	139F	679C
Factory start-up costs	215G		465G	
Restructuring costs		666D		666D
Transaction expenses		96E		300E
Adjusted EBITDA from continuing operations	<u>\$ 5,737</u>	<u>\$ 7,371</u>	<u>\$ 26,705</u>	<u>\$ 24,710</u>

- A) Goodwill impairment
- B) Gain on sale of Eberhard Hardware property
- C) Cost incurred on relocation of Velvac factory in Reynosa, MX
- D) Costs incurred on announced reorganization of Eberhard Hardware
- E) Cost incurred in the acquisition of Hallink RSB, Inc.
- F) Costs incurred on relocation of ILC facility in Wheeling, IL
- G) Costs incurred on start-up of Eberhard factory in Reynosa, MX

### ITEM 7A 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 Exchange Act, the Company is not required to provide information under this Item 7A.

29

[Table of Contents](#)

### ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### The Eastern Company

#### Consolidated Balance Sheets

	January 1, 2022	January 2, 2021
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,168,304	\$ 15,320,776
Accounts receivable, less allowances: 2021 - \$515,000;2020 - \$487,000	43,151,500	31,804,207
<b>Inventories:</b>		
Raw materials and component parts	25,113,487	14,713,452
Work in process	9,636,009	4,465,411
Finished goods	<u>28,112,846</u>	<u>23,942,873</u>



	62,862,342	43,121,736
Current portion of note receivable	1,027,125	398,414
Prepaid expenses and other assets	6,943,691	3,152,721
Current assets held for sale	3,521,899	17,937,918
<b>Total Current Assets</b>	<b>123,674,861</b>	<b>111,735,772</b>
<b>Property, Plant and Equipment</b>		
Land	1,292,890	1,298,850
Buildings	16,318,957	17,139,857
Machinery and equipment	39,323,233	38,550,887
Accumulated depreciation	(28,631,329)	(27,965,412)
<b>Property, Plant and Equipment, net</b>	<b>28,303,751</b>	<b>29,024,182</b>
<b>Other Assets</b>		
Goodwill	72,211,873	72,219,404
Trademarks	5,409,720	5,404,284
Patents, technology and other intangibles net of accumulated amortization	22,863,497	27,089,071
Long term note receivable, less current portion	2,726,698	1,677,277
Right of Use Assets	11,138,535	12,594,663
Long-term assets held for sale	-	15,783,701
<b>Total Other Assets</b>	<b>114,350,323</b>	<b>134,768,400</b>
<b>TOTAL ASSETS</b>	<b>\$ 266,328,935</b>	<b>\$ 275,528,354</b>

See accompanying notes.

[Table of Contents](#)

	January 1, 2022	January 2, 2021
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 29,633,974	\$ 21,311,618
Accrued compensation	4,375,867	3,474,686
Other accrued expenses	4,808,000	3,362,032
Current portion of lease liability	2,664,895	2,827,392
Current portion of long-term debt	7,500,000	6,437,689
Current liabilities held for sale	580,990	3,252,545
<b>Total Current Liabilities</b>	<b>49,563,726</b>	<b>40,665,962</b>
<b>Deferred income taxes</b>	<b>1,151,759</b>	<b>2,899,074</b>
<b>Other long-term liabilities</b>	<b>668,354</b>	<b>1,144,127</b>
<b>Lease liability</b>	<b>8,639,339</b>	<b>9,806,173</b>
<b>Long-term debt, less current portion</b>	<b>63,813,522</b>	<b>82,255,803</b>
<b>Accrued postretirement benefits</b>	<b>1,284,589</b>	<b>1,185,139</b>
<b>Accrued pension cost</b>	<b>26,605,382</b>	<b>33,188,623</b>
<b>Long-term liabilities held for sale</b>	<b>-</b>	<b>76,995</b>
<b>Total Liabilities</b>	<b>151,726,671</b>	<b>171,221,896</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		
Issued: 9,029,852 shares in 2021 and 8,996,625 shares in 2020		
Outstanding: 6,265,527 shares in 2021 and 6,246,896 shares in 2020		
	32,620,008	31,501,041
Treasury Stock: 2,765,325 shares in 2021 and 2,749,729 shares in 2020	(20,907,613)	(20,537,963)
Retained earnings	129,422,625	122,840,131
Accumulated other comprehensive loss:		
Foreign currency translation	818,446	953,864
Unrealized (loss) gain on interest rate swap, net of tax	(355,988)	(1,391,592)
Unrecognized net pension and postretirement benefit costs, net of tax	(26,995,214)	(29,059,023)
Accumulated other comprehensive loss	(26,532,756)	(29,496,751)
<b>Total Shareholders' Equity</b>	<b>114,602,264</b>	<b>104,306,458</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 266,328,935</b>	<b>\$ 275,528,354</b>

See accompanying notes.

## Consolidated Statements of Income

	Year Ended	
	January 1, 2022	January 2, 2021
<b>Net sales</b>	<b>\$ 246,522,823</b>	<b>\$ 197,614,590</b>
Cost of products sold	<b>(189,756,610)</b>	<b>(149,527,553)</b>
Gross margin	<b>56,766,213</b>	<b>48,087,037</b>
Product development expense	<b>(4,101,399)</b>	<b>(2,749,333)</b>
Selling and administrative expenses	<b>(35,218,028)</b>	<b>(30,193,768)</b>
Goodwill impairment loss	<b>-</b>	<b>(972,823)</b>
Restructuring costs	<b>-</b>	<b>(665,861)</b>
Operating profit	<b>17,446,786</b>	<b>13,505,252</b>
Interest expense	<b>(1,747,723)</b>	<b>(2,058,600)</b>
Other income	<b>3,371,497</b>	<b>1,770,158</b>
<b>Income from continuing operations before income taxes</b>	<b>19,070,560</b>	<b>13,216,810</b>
Income taxes	<b>(2,888,217)</b>	<b>(2,181,891)</b>
<b>Net income from continuing operations</b>	<b>\$ 16,182,343</b>	<b>\$ 11,034,919</b>
<b>Discontinued Operations (see note 3)</b>		
Gain (loss) from operations of discontinued units	<b>\$ 2,870,588</b>	<b>\$ (7,191,198)</b>
Loss on sale of businesses	<b>(11,807,512)</b>	<b>-</b>
Income tax benefit	<b>2,103,752</b>	<b>1,561,801</b>
<b>Net loss on discontinued operations</b>	<b>\$ (6,833,172)</b>	<b>\$ (5,629,397)</b>
<b>Net Income</b>	<b>\$ 9,349,171</b>	<b>\$ 5,405,522</b>
<b>Earnings per Share from continuing operations:</b>		
Basic	<b>\$ 2.58</b>	<b>\$ 1.77</b>
Diluted	<b>\$ 2.58</b>	<b>\$ 1.76</b>
<b>Loss per Share from discontinued operations:</b>		
Basic	<b>\$ (1.09)</b>	<b>\$ (0.90)</b>
Diluted	<b>\$ (1.09)</b>	<b>\$ (0.90)</b>
<b>Total Earnings per Share:</b>		
Basic	<b>\$ 1.49</b>	<b>\$ 0.87</b>
Diluted	<b>\$ 1.49</b>	<b>\$ 0.86</b>
<b>Cash dividends per share:</b>	<b>\$ 0.44</b>	<b>\$ 0.44</b>

See accompanying notes.

## Consolidated Statements of Comprehensive Income

	Year Ended	
	January 1, 2022	January 2, 2021
Net income	<b>\$ 9,349,171</b>	<b>\$ 5,405,522</b>
Other comprehensive income:		
Change in foreign currency translation	<b>(135,418)</b>	<b>2,991,816</b>
Change in fair value of interest rate swap, net of tax (cost) benefit of: \$327,118 in 2021 and \$490,234 in 2020	<b>1,035,604</b>	<b>(1,558,610)</b>
Change in pension and other postretirement benefit costs, net of taxes of: \$1,208,497 in 2021 and \$1,776,264 in 2020	<b>2,063,809</b>	<b>(5,695,386)</b>
Total other comprehensive income (loss)	<b>2,963,995</b>	<b>(4,262,180)</b>
Comprehensive income	<b>\$ 12,313,166</b>	<b>\$ 1,143,342</b>

See accompanying notes.

[Table of Contents](#)

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
<b>Balances at December 28, 2019</b>	8,975,434	\$30,651,815	(2,734,729)	\$ (20,169,098)	\$ 120,189,111	\$ (25,234,571)	\$ 105,437,257
Net income					5,405,522		5,405,522
Cash dividends declared, \$0.44 per share					(2,754,502)		(2,754,502)
Currency translation adjustment						2,991,816	2,991,816
Change in fair value of interest rate swap						(1,558,610)	(1,558,610)
Change in pension and other postretirement benefit costs, net of tax						(5,695,386)	(5,695,386)
Treasury Stock Purchase			(15,000)	(368,865)			(368,865)
Issuance of SARS		376,083					376,083
Issuance of Common Stock for directors' fees	21,191	473,143					473,143
<b>Balances at January 2, 2021</b>	<u>8,996,625</u>	<u>\$31,501,041</u>	<u>(2,749,729)</u>	<u>\$(20,537,963)</u>	<u>\$ 122,840,131</u>	<u>\$ (29,496,751)</u>	<u>\$ 104,306,458</u>
<b>Net income</b>					9,349,171		9,349,171
<b>Cash dividends declared, \$0.44 per share</b>					(2,766,677)		(2,766,677)
<b>Currency translation adjustment</b>						(135,418)	(135,418)
<b>Change in fair value of interest rate swap</b>						1,035,604	1,035,604
<b>Change in pension and other postretirement benefit costs, net of tax</b>						2,063,809	2,063,809
<b>Stock Options Exercised</b>	14,681	196,950					196,950
<b>Treasury Stock Purchase</b>			(14,596)	(369,650)			(369,650)
<b>Issuance of SARS</b>		418,000					418,000
<b>Issuance of Common Stock for directors' fees</b>	18,546	504,017					504,017
<b>Balances at January 1, 2022</b>	<u>9,029,852</u>	<u>\$32,620,008</u>	<u>(2,764,325)</u>	<u>\$(20,907,613)</u>	<u>\$ 129,422,625</u>	<u>\$ (26,532,756)</u>	<u>\$ 114,602,264</u>

See accompanying notes.

[Table of Contents](#)

## Consolidated Statements of Cash Flows

	Year Ended	
	January 1, 2022	January 2, 2021
<b>Operating Activities</b>		
Net income	\$ 9,349,171	\$ 5,405,522
Less: Loss from discontinued operations	(6,833,172)	(5,629,397)
Income from continuing operations	\$ 16,182,343	\$ 11,034,919
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,241,073	6,815,783
Loss on disposition of subsidiaries	-	(192,466)
Unrecognized pension and postretirement benefits	(4,032,917)	(1,010,684)
Goodwill impairment	-	4,975,372
Gain on sale of equipment and other assets	(2,470,339)	(333,590)
Provision for doubtful accounts	73,097	156,286
Stock compensation expense	1,118,967	849,226
Deferred taxes	(3,010,111)	(2,118,551)
Changes in operating assets and liabilities:		
Accounts receivable	(11,282,090)	311,887
Inventories	(19,608,565)	(836,465)
Prepaid expenses and other	(3,527,171)	(473,615)
Other assets	(519,478)	(4,581,818)

Accounts payable	8,834,545	(295,834)
Accrued compensation	947,171	(81,413)
Other accrued expenses	2,296,052	342,794
<b>Net cash (used in) provided by operating activities</b>	<b>(7,757,423)</b>	<b>14,561,831</b>
<b>Investing Activities</b>		
Marketable securities	28,951	5,354
Business acquisition, net of cash acquired	-	(7,172,868)
Business disposition	2,325	2,785,657
Issuance of notes receivable	(2,500,000)	(2,172,068)
Payments received from notes receivable	821,868	96,377
Proceeds from sale of businesses	17,030,726	-
Proceeds from sale of building and equipment	1,980,729	445,212
Purchases of property, plant and equipment	(3,719,815)	(2,335,308)
<b>Net cash provided by (used in) investing activities</b>	<b>13,644,784</b>	<b>(8,347,644)</b>
<b>Financing Activities</b>		
Principal payments on long-term debt	(17,274,410)	(10,049,577)
Financing leases, net	126,797	(10,500)
Purchase common stock for treasury	(369,651)	(368,864)
Dividends paid	(2,755,686)	(2,754,650)
<b>Net cash used in financing activities</b>	<b>(20,272,950)</b>	<b>(13,183,591)</b>
<b>Discontinued Operations</b>		
Cash provided by operating activities	5,733,884	6,126,931
Cash used in investing activities	(1,022,256)	(1,407,932)
<b>Cash provided by discontinued operations</b>	<b>4,711,628</b>	<b>4,718,999</b>
<b>Effect of exchange rate changes on cash</b>	<b>174,756</b>	<b>355,535</b>
<b>Net change in cash and cash equivalents</b>	<b>(9,499,205)</b>	<b>(1,894,870)</b>
Cash and cash equivalents at beginning of period	16,101,635	17,996,505
<b>Cash and cash equivalents at end of period <sup>1</sup></b>	<b>\$ 6,602,430</b>	<b>\$ 16,101,635</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest	\$ 2,271,818	\$ 2,754,980
Income taxes	2,318,018	3,755,475
<b>Non-cash investing and financing activities</b>		
Right of use asset	(1,456,128)	425,552
Lease liability	1,329,331	(464,454)

<sup>1</sup> includes cash from assets held for sale of \$0.4 million as of January 1, 2022 and \$0.8 million as of January 2, 2021

See accompanying notes

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements

**1. DESCRIPTION OF BUSINESS**

The Eastern Company, and its subsidiaries (the “Company,” “Eastern,” “we,” “us” or “our”) manages industrial businesses that design, manufacture and sell engineered solutions to industrial markets. Eastern’s businesses operate in industries with long-term macroeconomic growth opportunities. We look to acquire businesses that produce stable and growing earnings and cash flows. Eastern may pursue acquisitions in industries other than those in which its businesses currently operate if an acquisition presents an attractive opportunity.

Eastern manages the financial, operational, and strategic performance of its businesses to increase cash generation, operating earnings, and long-term shareholder value.

Eastern encompasses four operating entities within the United States, one wholly owned Canadian subsidiary located in Cambridge, Ontario, Canada, a wholly owned Taiwanese subsidiary located in Taipei, Taiwan, a wholly owned subsidiary in Hong Kong, two wholly owned Chinese subsidiaries (one located in Shanghai, China, and one located in Dongguan, China), a wholly owned subsidiary in Reynosa, Mexico and a wholly owned subsidiary in Wrexham, United Kingdom.

**Company Operations**

The Company’s operations consist of Big 3 Precision, including Big 3 Precision Products, Inc. (“Big 3 Products”) and Big 3 Mold Services, Inc. (“Big 3 Mold”), Hallink Moulds, Inc. (“Hallink Moulds”), and Associated Toolmakers Ltd. (“Associated Toolmakers”); Eberhard Manufacturing Company (“Eberhard Manufacturing”), Eberhard Hardware Manufacturing Ltd. (“Eberhard Hardware”), Eastern Industrial Ltd, World Lock Company Ltd., Dongguan Reeworld Security Products Ltd., and World Security Industries (together “Eberhard”); and Velvac Holdings Inc. (“Velvac”). These businesses

design, manufacture, and market a diverse product line of custom and standard vehicular and industrial hardware, including turnkey returnable packaging solutions, access and security hardware, mirrors, and mirror-cameras.

Big 3 Products and Big 3 Mold’s turnkey returnable packaging solutions are used in the assembly processes of vehicles, aircraft, and durable goods and in the production processes of plastic packaging products, packaged consumer goods and pharmaceuticals. Big 3 Products works with original equipment manufacturers (“OEMs”) to design and produce custom returnable transport packaging to integrate with OEM assembly processes. Big 3 Mold designs and manufactures blow mold tools. Hallink Moulds is a producer of injection blow mold tooling and is a supplier of blow molds and change parts to the food, beverage, healthcare, and chemical industry. Hallink specializes in the design, development and manufacture of 2-step stretch blow molds, and related components for the stretch blow molding industry offering integrated turnkey solutions to its customers worldwide.

In 2020, we combined all businesses associated with Eberhard Manufacturing and Illinois Lock Company to create Eberhard, which specializes in the engineering and manufacturing of access and security hardware. Eberhard offers a standard product line of rotary latches, compression latches, draw latches, hinges, camlocks, key switches, padlocks, and handles among other products, as well as comprehensive development and program management services for custom electromechanical and mechanical systems designed for specific OEMs and customer applications. Eberhard’s products are found in an expansive range of applications and products globally.

Velvac is a designer and manufacturer of proprietary vision technology for OEMs and aftermarket applications, and a provider of aftermarket components to the heavy-duty truck market in North America. Velvac serves diverse, niche segments within the heavy- and medium-duty truck, motorhome, and bus markets.

Sales are made to customers primarily in North America.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**2. BUSINESS ACQUISITIONS**

Hallink Moulds, Inc.

Effective August 10, 2020 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 Hallink, RSB Inc. These assets are held in our subsidiary, Hallink Moulds. Hallink Moulds produces injection blow mold tooling and is a supplier of blow molds and change parts to the food, beverage, healthcare and chemical industry. Hallink Moulds specializes in the design, development and manufacture of 2-step stretch blow molds, and related components for the stretch blow molding industry offering integrated turnkey solutions to its customers worldwide.

The cost of the acquisition of Hallink Moulds was approximately \$7,173,000.

The above acquisition was accounted for under ASU 2014-18, Business Combinations (Topic 805). The acquired business is included in the consolidated operating results of the Company from the effective date of the acquisition. The excess of the cost of Hallink Moulds over the fair market value of the net assets acquired of \$2,302,000 has been recorded as goodwill. An independent third party was utilized to establish the fair market value of net assets acquired.

In connection with the above acquisition, the Company recorded the following intangible assets:

Asset Class/Description	Amount	Weighted-Average Useful Lives in Years
Customer relationships	\$ 2,345,000	6
Intellectual property	591,000	6
Non-compete agreements	1,001,000	5
	\$ 3,937,000	

There is no anticipated residual value relating to these intangible assets.

**3. DISCONTINUED OPERATIONS**

We determined that the companies previously included in our former Diversified Products segment no longer fit with our long-term strategy and have initiated the process of selling the companies within the former Diversified Products segment. Selling these companies will allow management to focus on our core capabilities and offerings.

The former Diversified Products segment met the criteria to be held for sale and furthermore, we determined that the assets held for sale qualified for discontinued operations. As such, the financial results of the former Diversified Products segment are reflected in our condensed consolidated statements of operations as discontinued operations for all periods presented. Additionally, current and non-current assets and liabilities of discontinued operations are reflected in the condensed consolidated balance sheets for both periods presented.

On November 3, 2021, the Company sold its Greenwald Industries, Inc. division (“Greenwald”) for a sales price of \$8.0 million, subject to a final working capital adjustment. Greenwald, located in Chester, CT, is an OEM manufacturer offering a range of payment solutions from coin-vending products to smart card systems and payment applications.

On November 22, 2021, the Company sold its Frazer & Jones Company division (“Frazer & Jones”). Frazer & Jones is a ductile and malleable iron foundry located in Syracuse, NY. Eastern has exited the mining business to focus on our three core businesses.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**Summarized Financial Information of Discontinued Operations**

The following table represents income from discontinued operations, net of tax:

	<b>Year Ended</b>	
	<b>January 1, 2022</b>	<b>January 2, 2021</b>
<b>Net sales</b>	<b>\$ 44,289,411</b>	\$ 42,788,524
Cost of products sold	<b>(24,873,717)</b>	(40,701,607)
Gross margin	<b>19,415,694</b>	2,086,917
Selling and administrative expenses	<b>(15,962,532)</b>	(8,591,915)
Restructuring costs	<b>(11,807,512)</b>	-
Operating loss	<b>(8,354,350)</b>	(6,504,998)
Interest expense	<b>(582,574)</b>	(686,200)
<b>Loss from discontinued operations before income taxes</b>	<b>(8,936,924)</b>	(7,191,198)
Income tax benefit	<b>2,103,752</b>	1,561,801
<b>Loss from discontinued operations</b>	<b>\$ (6,833,172)</b>	<b>\$ (5,629,397)</b>

[Table of Contents](#)

Eastern Company

Notes to Consolidated Financial Statements (continued)

The following table represents the assets and liabilities from discontinued operations:

	<b>January 1, 2022</b>	<b>January 2, 2021</b>
Cash	<b>\$ 434,126</b>	\$ 809,809
Accounts receivable	<b>1,153,274</b>	5,944,923
Inventory	<b>1,258,032</b>	9,990,656
Prepaid expenses	<b>59,850</b>	1,192,530
Property, plant and equipment, net	<b>591,920</b>	10,927,791
Patents and other intangibles net of accumulated amortization	-	6,935
Goodwill	-	4,675,611
Right of use assets	<b>24,697</b>	173,364
<b>Total assets of discontinued operations</b>	<b>\$ 3,521,899</b>	<b>\$ 33,721,619</b>
Current assets of discontinued operations <sup>1</sup>	<b>\$ 3,521,899</b>	\$ 17,937,918
Non-current assets of discontinued operations	-	15,783,701
<b>Total assets of discontinued operations</b>	<b>\$ 3,521,899</b>	<b>\$ 33,721,619</b>
Accounts payable	<b>\$ 167,794</b>	\$ 2,196,101
Accrued compensation and other accrued expenses	<b>388,499</b>	937,911
Note payable, current	-	22,164
Current portion of lease liability	<b>24,697</b>	96,369
Other long-term liabilities	-	76,995
<b>Total liabilities of discontinued operations</b>	<b>\$ 580,990</b>	<b>\$ 3,329,540</b>
Current liabilities of discontinued operations <sup>1</sup>	<b>\$ 580,990</b>	\$ 3,252,545
Non-current liabilities of discontinued operations	-	76,995
<b>Total liabilities of discontinued operations</b>	<b>\$ 580,990</b>	<b>\$ 3,329,540</b>

<sup>1</sup> The total assets and liabilities of discontinued operations are presented as current in the January 1, 2022 balance sheet as we expect to sell the



discontinued operations and collect proceeds within one year.

#### 4. ACCOUNTING POLICIES

##### **Fiscal Year**

The Company's year ends on the Saturday nearest to December 31. Based on this policy, fiscal year 2021 was comprised of 52 weeks and fiscal 2020 included 53 weeks. References in these Notes to the consolidated financial statements to "2021" or "fiscal year 2021" mean the fiscal year ended January 1, 2022, and references to "2020" or "fiscal year 2020" mean the fiscal year ended January 2, 2021. References to the "fourth quarter of 2021" or the "fourth fiscal quarter of 2021" mean the thirteen-week period from October 3, 2021 to January 1, 2022, and references to the "fourth quarter of 2020" or the "fourth fiscal quarter of 2020" mean the thirteen-week period from October 4, 2020 to January 2, 2021.

##### [Table of Contents](#)

Eastern Company

Notes to Consolidated Financial Statements (continued)

##### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions are eliminated.

##### **Reclassification**

Product development expense is not a cost of product sold. Rather, these expenses are related to product development. The reclassification of these expenses does not affect the net income reported.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. On an ongoing basis the Company evaluates its estimates, including those related to product returns, bad debts, carrying value of inventories, intangible and other long-lived assets, income taxes, pensions and other postretirement benefits. Actual results could differ from those estimates.

##### **Foreign Currency**

For foreign operations asset and liability accounts are translated with an exchange rate at the respective balance sheet dates; income statement accounts are translated at the average exchange rate for the years. Resulting translation adjustments are made directly to a separate component of shareholders' equity – "Accumulated other comprehensive (loss) – Foreign currency translation". Foreign currency exchange transaction gains and losses are not material in any year.

##### **Cash Equivalents**

Highly liquid investments purchased with a maturity of three months or less are considered cash equivalents. The Company has deposits that exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, but the Company does not consider this a significant concentration of credit risk based on the strength of the financial institution. Approximately 38% of available cash is located outside of the United States in our foreign subsidiaries.

##### **Accounts Receivable**

Accounts receivable are stated at their net realizable value. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company reviews the collectability of its receivables on an ongoing basis considering a combination of factors. The Company reviews potential problems, such as past due accounts, a bankruptcy filing or deterioration in the customer's financial condition, to ensure the Company is adequately accrued for potential loss. Accounts are considered past due based on when payment was originally due. If a customer's situation changes, such as a bankruptcy or change in creditworthiness, or there is a change in the current economic climate, the Company may modify its estimate of the allowance for doubtful accounts. The Company will write off accounts receivable after reasonable collection efforts have been made and the accounts are deemed uncollectible. As of January 1, 2022 and January 2, 2021, the Company's allowance for doubtful accounts total was \$515,000 and \$487,000, respectively. As of January 1, 2022, and January 2, 2021, the Company's bad debt expense was \$48,000 and \$253,000 respectively.

##### **Inventories**

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the last-in, first-out (LIFO) method in the U.S. (\$23.4 million for U.S. inventories at January 1, 2022, excluding Big 3 Precision and Velvac) and by the first-in, first-out (FIFO) method for inventories outside the U.S. (\$4.5 million for inventories outside the U.S. at January 1, 2022) and for Big 3 Precision and Velvac. Cost exceeds the LIFO carrying value by approximately \$3.6 million at January 1, 2022 and \$2.9 million at January 2, 2021. There was no material LIFO quantity liquidation in 2021 or 2020. In addition, as of the balance sheet dates, the Company has recorded reserves for excess/obsolete inventory.

[Table of Contents](#)

Eastern Company

Notes to Consolidated Financial Statements (continued)

**Property, Plant and Equipment and Related Depreciation**

Property, plant, and equipment (including equipment under capital lease) are stated at cost. Depreciation expense (\$3,255,894 in 2021, \$3,208,206 in 2020) is computed using the straight-line method based on the following estimated useful lives of the assets: Buildings - 10 to 39.5 years; Machinery and equipment - 3 to 10 years.

**Impairment of Long-Lived Assets**

In accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews its long-lived assets and certain intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In such an event, the carrying value of long-lived assets is reviewed by management to determine if the value may be impaired. If this review indicates that the carrying amount will not be recoverable, as determined based on the estimated expected future cash flows attributable to the asset over the remaining amortization period, management will reduce the carrying amount to recognize the impairment and recognize an impairment loss. The measurement of the impairment loss to be recognized is to be based on the difference between the fair value and the carrying amount of the asset. Fair value is defined as the amount of which the asset could be bought or sold in a current transaction between willing parties. Where quoted market prices in active markets are not available, management would estimate fair value based on the best information available in the circumstances such as the price of similar assets, a discounted cash flow analysis or other techniques. No impairment losses were recognized for the years ended January 1, 2022 and January 2, 2021.

**Goodwill**

The Company tests 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.

The Company performed qualitative assessments of goodwill as of the end of fiscal 2021 and determined that no impairment existed at the end of 2021.

In the fourth quarter of 2020 the Company announced that the Eberhard Hardware, subsidiary in Ontario, Canada would be closed, and all tangible assets would be moved to Eberhard Manufacturing division in Cleveland, Ohio. As a result, approximately \$1.0 million of goodwill associated with Eberhard Hardware was impaired and an impairment charge was recognized in the fourth quarter of 2020.

The Company will continue to perform annual qualitative assessments as of the end of each fiscal year. Additionally, the Company will perform an interim analysis whenever conditions warrant.

[Table of Contents](#)

Eastern Company

Notes to Consolidated Financial Statements (continued)

**Intangible Assets**

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 amortized on a straight-line basis over periods ranging from 5 to 17 years. Non-compete agreements and customer relationships are amortized using the straight-line method over their useful lives. Trademarks are deemed to have indefinite lives. Amortization expense recognized in 2021 and 2020 was \$3,985,179 and \$3,607,577, respectively. If facts and circumstances indicate that the carrying value of the intangible assets, including definite life intangible assets, may be impaired, an evaluation is performed to determine if a write-down is required. No impairment losses were recognized for the periods ended January 1, 2022 and January 2, 2021.

**Fair Value of Financial 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 pension assets, see Note 10, *Retirement Benefit Plans*, and consists of an interest rate swap.

The Company's interest rate swap is not an exchange-traded instrument. However, it is valued based on observable inputs for similar liabilities and accordingly is classified as Level 2. The amount of the interest rate swap is included in other accrued liabilities.

The carrying amounts of other financial instruments (cash and cash equivalents, accounts receivable, accounts payable and debt) as of January 1, 2022 and January 2, 2021, approximate fair value because of their short-term nature and market based interest rates.

### 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 elected to account for non-lease components as part of the lease component to which they relate. Lease accounting involves significant judgements, including making estimates related to the lease term, lease payments, and discount rate.

The Company has operating leases for buildings, warehouse, 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 of 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. The Company's option to extend certain leases ranges from 1–107 months. 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.

---

### [Table of Contents](#)

Eastern Company

Notes to Consolidated Financial Statements (continued)

Currently, the Company has 28 operating leases and three finance leases with a lease liability of \$11.3 million as of January 1, 2022. The finance lease arrangements are immaterial. The basis, 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. We rent or sublease a part of one real estate property to a third party. There are no related party transactions. There are no leases that have not yet commenced that could create significant rights and obligations for the Company.

Total lease expense for each of the next five fiscal years is estimated to be as follows: 2022 - \$2,664,761; 2023 - \$2,186,238; 2024 - \$1,700,834; 2025 - \$1,081,468; 2026 - \$805,722 and \$2,865,077 thereafter. The weighted average remaining lease term is 6.4 years. The weighted average discount rate used was 5.0%.

### Revenue Recognition

The Company recognizes revenue in accordance with ASC 606 when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The Company considers several factors in determining that control transfers to the customer upon shipment of products. These factors include that legal title transfers to the customer, the Company has a present right to payment, and the customer has assumed the risk and rewards of ownership at the time of shipment.

Big 3 Mold may employ the efforts expended method for the percentage of completion for revenue recognition for certain transactions. The efforts expended method calculates the proportion of effort expended to date in comparison to the total effort expected to be expended for the contract. The amount of revenue recognized employing the percentage of completion method was \$795,000 for the year ended January 1, 2022 and \$505,000 for the year ended January 2, 2021.

Based on historical experience, the Company does not accrue a reserve for product returns. For the years ended January 1, 2022 and January 2, 2021, the Company recorded sales returns of \$395,000 and \$374,000, respectively, as a reduction of revenue.

Sales and similar taxes that are imposed on the Company's sales and collected from the customer are excluded from revenues.

Costs for shipping and handling activities, including those activities that occur subsequent to transfer of control to the customer, are recorded as cost of sales and are expensed as incurred.

For the years ended January 1, 2022 and January 2, 2021, the Company recorded no revenues related to performance obligations satisfied in prior periods. The Company has elected to use the practical expedient to exclude disclosure of transaction prices allocated to remaining performance obligations, and when the Company expects to recognize such revenue, for all periods prior to the date of initial application of the standard.

See Note 13 regarding the Company's revenue disaggregated by geography.

### Cost of Goods Sold

Cost of goods sold reflects the cost of purchasing, manufacturing, and preparing a product for sale. These costs generally represent the expenses to acquire or manufacture products for sale (including an allocation of depreciation and amortization) and are primarily comprised of direct materials, direct labor, and overhead, which includes indirect labor, facility and equipment costs, inbound freight, receiving, inspection, purchasing, warehousing and any other costs related to the purchasing, manufacturing or preparation of a product for sale.

### Shipping and Handling Costs

Shipping and handling costs are included in cost of goods sold.

---

[Table of Contents](#)

Eastern Company

Notes to Consolidated Financial Statements (continued)

### Product Development Costs

Product development costs, charged to expense as incurred, were \$4,101,399 in 2021 and \$2,749,333 in 2020.

### Selling and Administrative Expenses

Selling and administrative expenses include all operating costs of the Company that are not directly related to the cost of purchasing, manufacturing and preparing a product for sale. These expenses represent selling and administrative expenses for support functions and related overhead.

### Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were \$200,482 in 2021 and \$278,392 in 2020.

### Stock Based Compensation

The Company accounts for its stock-based awards in accordance with Accounting Standards Codification subtopic 718-10, Compensation (“ASC 718-10”), which requires a fair value measurement and recognition of compensation expense for all share-based payment awards made to its employees and Directors, including employee stock awards and restricted stock awards. The Company estimates the fair value of granted stock awards using the Black-Scholes valuation model at the date of grant. This model requires the Company to make estimates and assumptions including, without limitation, estimates regarding the length of time an employee will retain vested stock awards before exercising them, the estimated volatility of the Company’s common stock price and the number of awards that will be forfeited prior to vesting. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Changes in these estimates and assumptions can materially affect the determination of the fair value of stock-based compensation and consequently, the related amount recognized in the Company’s consolidated statements of operations.

Under the terms of the Director’s Fee Program, the directors receive their director’s fees in common shares of the Company.

### Income Taxes

The Company and its U.S. subsidiaries file a consolidated federal income tax return.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company accounts for uncertain tax positions pursuant to the provisions of FASB Accounting Standards Codification (“ASC”) 740 which clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements. These provisions detail how companies should recognize, measure, present and disclose uncertain tax positions that have or are expected to be taken. As such, the financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities’ full knowledge of the position and all relevant facts. See Note 9, *Income Taxes*.

---

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

## 5. GOODWILL

The following is a roll-forward of goodwill for 2021 and 2020:

	<u>2021</u>
Beginning Balance	\$ 72,219,404
Foreign Exchange	(7,531)
Ending Balance	<u>\$ 72,211,873</u>
	<u>2020</u>

Beginning Balance	\$ 70,839,853
Investment in Hallink	2,302,000
Impairment Charge	(972,824)
Foreign Exchange	50,375
Ending Balance	<u>\$ 72,219,404</u>

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**6. INTANGIBLES**

Trademarks are not amortized as their lives are deemed to be indefinite. Total amortization expense for each of the next five years is estimated to be as follows: 2022 - \$4.7 million; 2023 - \$4.7 million; 2024 - \$3.9 million; 2025 - \$3.9 million and 2026 - \$3.9 million.

	2021	Weighted-Average Amortization Period (Years)
<b>Gross Amount</b>		
Patents and developed technology	\$ 6,749,169	6.5
Customer relationships	26,040,691	5.9
Non-compete agreements	1,111,756	3.3
Total Gross Intangibles	<u>\$ 33,901,616</u>	5.9
<b>Accumulated Amortization</b>		
Patents and developed technology	\$ 2,959,782	
Customer relationships	7,759,667	
Non-compete agreements	318,670	
Accumulated Amortization	<u>\$ 11,038,119</u>	
<b>Net 2021 per Balance Sheet</b>	<u>\$ 22,863,497</u>	
	<b>2020</b>	
<b>Gross Amount</b>		
Patents and developed technology	\$ 7,063,510	9.3
Customer relationships	26,030,122	8.6
Non-compete agreements	1,107,243	4.3
Total Gross Intangibles	<u>\$ 34,200,875</u>	8.6
<b>Accumulated Amortization</b>		
Patents and developed technology	\$ 2,262,507	
Customer relationships	4,742,839	
Non-compete agreements	106,458	
Accumulated Amortization	<u>\$ 7,111,804</u>	
<b>Net 2020 per Balance Sheet</b>	<u>\$ 27,089,071</u>	

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**7. DEBT**

On August 30, 2019, the Company entered into the Credit Agreement with Santander Bank, N.A., for itself, People's United Bank, National Association, and TD Bank, N.A. as lenders, that included a \$100 million term portion and a \$20 million revolving commitment portion. Proceeds of the term loan were used to repay the Company's remaining outstanding term loan (and to terminate its existing credit facility) with People's United Bank, N.A. (approximately \$19 million) and to acquire Big 3 Precision. The term portion of the loan requires quarterly principal payments of \$1,250,000 for an 18-month period beginning December 31, 2019. The repayment amount then increases to \$1,875,000 per quarter beginning September 30, 2021 and continues through June

30, 2023. The repayment amount then increases to \$2,500,000 per quarter beginning September 30, 2023 and continues through June 30, 2024. The term loan is a 5-year loan with the remaining balance due on August 30, 2024. The revolving commitment portion has an annual commitment fee of 0.25% based on the unused portion of the revolver. The revolving commitment portion has a maturity date of August 30, 2024. During 2020 and 2021, the Company did not borrow any funds on the revolving commitment portion of the facility. The interest rates on the term and revolving credit portion of the Credit Agreement vary. The interest rates may vary based on the LIBOR rate plus a margin spread of 1.25% to 2.25%. The Company's obligations under the Credit Agreement are secured by a lien on certain of the Company's and its U.S. subsidiaries' assets pursuant to a Pledge and Security Agreement, dated August 30, 2019 with Santander 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 4.25 to 1. In addition, the Company will be required to maintain a fixed charge coverage ratio to be not less than 1.25 to 1.

On August 30, 2019, the Company entered into an interest rate swap contract with Santander Bank, N.A., with an original notional amount of \$50,000,000, which was equal to 50% of the outstanding balance of the term loan on that date. The Company has a fixed interest rate of 1.44% on the swap contract and will pay the difference between the fixed rate and LIBOR when LIBOR is below 1.44% and will receive interest when the LIBOR rate exceeds 1.44%. On January 1, 2022, the interest rate for half (\$27.8 million) of the term portion was 1.6%, using a one-month LIBOR rate, and 2.94% one the remaining balance (\$43.8 million) of the term loan based on a one-month LIBOR rate.

The interest rates on the Credit Agreement, and interest rate swap contract are susceptible to changes to the method that LIBOR rates are determined and to the potential phasing out of LIBOR after 2021. Information regarding the potential phasing out of LIBOR is provided below.

On July 27, 2017, the Financial Conduct Authority (the "FCA") (the authority that regulates LIBOR) announced that it would phase out LIBOR by the end of 2021. The ICE Benchmark Administration (the "IBA") recently announced market consultation regarding the extension of US dollar LIBOR tenors through June 30, 2023, which the FCA supports. The Alternative Reference Rates Committee (the "ARRC"), a financial industry group convened by the Federal Reserve Board, has recommended the use of the Secured Overnight Financing Rate ("SOFR") to replace LIBOR. The difference between LIBOR and SOFR is that LIBOR is a forward-looking rate which means the interest rate is set at the beginning of the period with payment due at the end. SOFR is a backward-looking overnight rate, which has implications for how interest and other payments are based.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**7. DEBT (continued)**

Debt consists of:

	2021	2020
Term loans	\$ 71,313,522	\$ 88,693,492
Revolving credit loan	—	—
	<u>71,313,522</u>	<u>88,693,492</u>
Less current portion	7,500,000	6,437,689
	<u>\$ 63,813,522</u>	<u>\$ 82,255,803</u>

Amounts are net of unamortized discounts and debt issuance costs of \$186,478 as of January 1, 2022 and \$273,312 as of January 2, 2021.

The Company paid interest of \$2,271,818 in 2021, \$2,754,980 in 2020.

The Company's loan covenants under the Credit Agreement require the Company to maintain a consolidated fixed charge coverage ratio of at least 1.25 to 1, which is to be tested quarterly on a twelve-month trailing basis. In addition, the Company will be required to show a senior net leverage ratio of 4.25 to 1. The Company was in compliance with all covenants as of January 1, 2022. In addition, the Company has restrictions on, among other things, new capital leases, purchases or redemptions of its capital stock, mergers and divestitures, and new borrowing. The Company was in compliance with all covenants in 2021 and 2020.

As of January 1, 2022, scheduled annual principal maturities of long-term debt for each of the next five years follow:

2022	\$ 7,500,000
2023	8,750,000
2024	55,063,522
Thereafter	—
	<u>\$ 71,313,522</u>

**8. STOCK OPTIONS AND AWARDS**

**Stock Awards**

As of January 1, 2022, the Company has one incentive stock award plan, The Eastern Company 2020 Stock Incentive Plan (the "2020 Plan"), for officers, other key employees, and non-employee Directors. The Eastern Company 2010 Executive Stock Incentive Plan expired in February 2020. Incentive stock awards 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 awards are granted. Restricted stock awards may also be granted to participants under the 2020 Plan with restrictions determined by the Compensation Committee of the Company's Board of Directors. Under the 2020 Plan, non-qualified stock awards granted to participants will have exercise prices determined by the Compensation Committee of the Company's Board of Directors. The Company granted 27,300 awards during 2021. During 2020 the Company did not grant stock awards or restricted stock.



The 2020 Plan also permits the issuance of Stock Appreciation Rights (“SARs”). The SARs are in the form of an award 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 SARs during 2021 and issued 44,000 SARs during 2020.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**8. STOCK OPTIONS AND AWARDS (continued)**

Stock-based compensation expense in connection with stock awards and SARs granted to employees during fiscal year 2021 was \$418,000 and for 2020 was \$376,000. For the period of 2021, the Company used several assumptions which included an expected term of 4 years, volatility deviation of 47.25% to 48.55% and a risk-free rate of 0.18% to 0.35%. For the period of 2020, the Company used several assumptions which included an expected term of 4 years, volatility deviation of 38.62% and a risk-free rate of 0.26%.

As of January 1, 2022, there were 804,703 shares of common stock reserved and available for future grant under the above noted 2020 Plan.

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

	Year Ended January 1, 2022		Year Ended January 2, 2021	
	Units	Weighted - Average Exercise Price	Units	Weighted - Average Exercise Price
<b>Outstanding at beginning of period</b>	244,001	\$ 21.87	276,000	\$ 22.30
<b>Issued</b>	-		44,000	20.20
<b>Exercised</b>	(55,668)	19.31	-	-
<b>Forfeited</b>	(7,500)	21.20	(75,999)	22.00
<b>Outstanding at end of period</b>	<u>180,833</u>	<u>22.88</u>	<u>244,001</u>	<u>21.87</u>

**SARs Outstanding and Exercisable**

Range of Exercise Prices	Outstanding as of January 1, 2022	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Exercisable as of January 1, 2022	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price
\$ 20.20-\$26.30	<u>180,833</u>	1.6	\$ 22.88	<u>118,335</u>	1.12	\$ 23.30

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

	Year Ended January 1, 2022	Year Ended January 2, 2021
	Shares	Shares
<b>Outstanding at beginning of period</b>	25,000	25,000
<b>Issued</b>	27,300	—
<b>Forfeited</b>	(25,000)	—
<b>Outstanding at end of period</b>	<u>27,300</u>	<u>25,000</u>

As of January 1, 2022, outstanding SARs and awards had an intrinsic value of \$1,087,570.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**9. INCOME TAXES**

Deferred income taxes are provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax reporting purposes. Deferred income tax (assets) liabilities relate to:

	2021	2020
Property, plant and equipment	\$ 3,586,257	\$ 4,460,316
Right of Use Asset	2,564,741	3,014,148
Intangible assets	<u>6,364,038</u>	<u>8,913,638</u>

Other		495,881	-
Foreign Withholding Tax		60,462	250,432
Total deferred income tax liabilities		<u>13,071,379</u>	16,638,534
Other postretirement benefits		(292,090)	(279,776)
Inventories		(1,161,354)	(1,091,887)
Allowance for doubtful accounts		(114,113)	(120,150)
Accrued compensation		(390,693)	(399,057)
Lease Obligation		(2,564,741)	(3,014,148)
Pensions		(6,049,532)	(7,761,369)
Foreign Tax Credit		(1,164,515)	(976,000)
Capital Loss Carry forward		(182,582)	-
Other		-	(97,072)
Total deferred income tax assets		<u>(11,919,620)</u>	<u>(13,739,459)</u>
Net deferred income tax (assets) liabilities		<u>\$ 1,151,759</u>	<u>\$ 2,899,075</u>

Income before income taxes consists of:

	2021			2020		
	Continued Operations	Discontinued Operations	Total Income Statement	Continued Operations	Discontinued Operations	Total Income Statement
Domestic	\$14,574,811	\$ (8,936,924)	\$ 5,637,887	\$12,387,294	\$ (7,191,198)	\$5,196,096
Foreign	4,495,749	-	4,495,749	829,516	-	829,516
	<u>\$19,070,560</u>	<u>\$ (8,936,924)</u>	<u>\$10,133,636</u>	<u>\$13,216,810</u>	<u>\$ (7,191,198)</u>	<u>\$6,025,612</u>

50

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**9. INCOME TAXES (continued)**

The provision for income taxes follows:

	2021			2020		
	Continued Operations	Discontinued Operations	Total Income Statement	Continued Operations	Discontinued Operations	Total Income Statement
Current						
Federal	\$ 4,075,121	\$ (1,816,413)	\$ 2,258,708	\$ 993,337	\$ (1,496,443)	\$ (503,106)
Foreign	1,509,693	(287,339)	1,222,354	1,162,197	(65,358)	1,096,839
State	498,939	-	498,939	223,978	-	223,978
Deferred:						
Federal	(2,292,101)	-	(2,292,101)	(46,555)	-	(46,555)
Foreign	(189,970)	-	(189,970)	(65,315)	-	(65,315)
State	(713,465)	-	(713,465)	(85,751)	-	(85,751)
	<u>\$ 2,888,217</u>	<u>\$ (2,103,752)</u>	<u>\$ 784,465</u>	<u>\$2,181,891</u>	<u>\$ (1,561,801)</u>	<u>\$ 620,090</u>

A reconciliation of income taxes computed using the U.S. federal statutory rate to that reflected in operations follows:

	2021		2020	
	Amount	Percent	Amount	Percent
Income taxes using U.S. federal statutory rate	\$ 2,128,063	21%	\$ 1,265,378	21%
State income taxes, net of federal benefit	(165,221)	(2)	96,742	1
Impact on Foreign Repatriation Tax Reform	11,313	0	139,765	2
Impact of foreign subsidiaries on effective tax rate	(282,614)	(3)	165,210	3
Impact of Research & Development tax credit	(188,944)	(3)	(188,944)	(3)
Uncertain tax positions reserve	(417,197)	(3)	(926,101)	(15)
Other net	(300,935)	(3)	68,040	1
	<u>\$ 784,465</u>	<u>7%</u>	<u>\$ 620,090</u>	<u>10%</u>

A reconciliation of income taxes computed using the U.S. federal statutory rate to that reflected in operations follows for continuing operations:

	2021		2020	
	Amount	Percent	Amount	Percent
Income taxes using U.S. federal statutory rate	\$ 4,004,817	21%	\$ 2,775,547	21%
State income taxes, net of federal benefit	61,777	1	148,374	1
Impact on Foreign Repatriation Tax Reform	11,313	0	139,765	1
Impact of foreign subsidiaries on effective tax rate	(282,614)	(2)	165,210	1

Impact of Research & Development tax credit	(188,944)	(1)	(188,944)	(1)
Uncertain tax positions reserve	(417,197)	(2)	(926,101)	(7)
Other net	(300,935)	(2)	68,040	0
	<u>\$ 2,888,217</u>	<u>15%</u>	<u>\$ 2,181,891</u>	<u>16%</u>

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**9. INCOME TAXES (continued)**

A reconciliation of income taxes computed using the U.S. federal statutory rate to that reflected in operations follows for discontinued operations:

	2021		2020	
	Amount	Percent	Amount	Percent
Income taxes using U.S. federal statutory rate	\$ (1,876,754)	(21)%	\$ (1,510,152)	(21)%
State income taxes, net of federal benefit	(226,998)	(3)	(51,632)	(1)
	<u>\$ (2,103,752)</u>	<u>(24)%</u>	<u>\$ (1,561,784)</u>	<u>(22)%</u>

Total income taxes paid were \$2,318,018 in 2021 and \$3,755,475 in 2020.

Under accounting standards (ASC 740), a deferred tax liability is not recorded for the excess of the financial reporting (book) basis over the tax basis of an investment in a foreign subsidiary if the indefinite reinvestment criteria are met. Effective for foreign earnings after December 30, 2017, if such earnings are distributed in the form of cash dividends, the Company would not be subject to additional U.S. income taxes but could be subject to foreign income and withholding taxes. A provision has not been made for additional U.S. federal and foreign taxes at January 1, 2022 on approximately \$11,176,328 of undistributed earnings of foreign subsidiaries because the Company intends to reinvest these funds indefinitely. It is not practicable to estimate the unrecognized deferred tax liability for withholding taxes on these undistributed earnings.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes. The list of changes is comprehensive. The changes include removing exceptions to incremental intraperiod tax allocation of losses and gains from different financial statement components, exceptions to the method of recognizing income taxes on interim period losses and exceptions to deferred tax liability recognition related to foreign subsidiary investments. In addition, ASU 2019-12 requires that entities recognize franchise tax based on an incremental method, requires an entity to evaluate the accounting for step-ups in the tax basis of goodwill as inside or outside of a business combination, and removes the requirement to allocate the current and deferred tax provision among entities in standalone financial statement reporting. The ASU also now requires that an entity reflect enacted changes in tax laws in the annual effective rate, and other Codification adjustments have been made to employee stock ownership plans. For public business entities, the amendments in ASU 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of ASU 2019-12 is permitted, including adoption in any interim period for public business entities for periods for which financial statements have not yet been issued. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The Company adopted ASU 2019-12 in the first interim period of 2021.

On March 27, 2020, the \$2 trillion bipartisan Coronavirus Aid, Relief, and Economic Security Act (H.R. 748) (the "CARES Act") became law. The CARES Act includes a variety of economic and tax relief measures intended to stimulate the economy, including loans for small businesses, payroll tax credits/deferrals, and corporate income tax relief. We are analyzing the following components of the CARES Act to determine their effect on our income tax provision:

- Net operating losses arising in 2018, 2019, and 2020 taxable years may be carried back to each of the preceding five years, which may result in refunds of prior period corporate income tax. The Company had taxable income in 2018, 2019 and 2020, thus we did not benefit from this item of CARES Act relief.
- Furthermore, for taxable years beginning before 2021, net operating loss carryforwards and carrybacks to that year may offset 100% of taxable income in the year. Previously, net operating losses generated through 2017 could offset 100% of taxable income, while losses generated after 2017 could only offset 80% of taxable income. As noted previously, the Company had taxable income in 2018, 2019 and 2020, thus we did not benefit from this item of CARES Act relief.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**9. INCOME TAXES (continued)**

- For taxable years beginning in 2019 and 2020, the interest deduction limitation is increased from 30% to 50% of "adjusted taxable income" (taxable income without interest, tax depreciation and tax amortization) plus interest income. Furthermore, the Company may choose to use the 2019 adjusted taxable income (instead of 2020) in determining the 2020 interest expense limitation. The Company was not subject to an interest limitation in 2019 nor 2020.

A technical correction to the Tax Cuts and Jobs Act permits bonus depreciation and a 15-year straight-line recovery period on qualified improvement property placed in service after December 31, 2017. Prior to this technical correction, such property placed in service after 2017 was subject to the 39-year straight-line recovery period and was ineligible for bonus depreciation. The Company will take advantage of this accelerated recovery period and bonus depreciation. To the extent the Company has eligible improvements in 2021, the Company can claim bonus depreciation which would reduce taxes payable and increase the deferred tax liability for fixed assets.

Other CARES Act corporate income tax provisions will not significantly impact the Company, including alternative minimum tax refunds and increases in the charitable contributions deduction limitation.

The Company will also continue to assess the effect of state level tax relief provisions as enacted, such as state net operating loss rule changes and conformity to the federal interest, depreciation and charitable contribution deduction changes.

A reconciliation of the beginning and ending amount of unrecognized tax benefits are as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 1,078,309	\$ 2,407,382
Increase (decrease) for positions taken during the current period	45,721	(28,637)
Increase (decrease) for positions taken during the prior period	-	-
Increase (decrease) resulting from the expiration of the statute of limitations	(451,932)	(1,300,436)
Balance at end of year	<u>\$ 672,098</u>	<u>\$ 1,078,309</u>

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 2017 and non-U.S. income tax examinations by tax authorities prior to 2015.

Included in the balance at January 1, 2022, are \$243,052 of unrecognized tax benefits that would affect the annual effective tax rate. In 2021, the Company recognized accrued interest related to unrecognized tax benefits in income tax expense. The Company had approximately \$65,836 of accrued interest at January 1, 2022.

The total amount of unrecognized tax benefits could increase or decrease within the next twelve 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 ASC 740. The Company believes that the total amount of unrecognized tax benefits will not increase or decrease significantly over the next twelve months.

## 10. LEASES

The Company leases certain equipment and buildings under operating lease arrangements. Most leases are for a fixed term and for a fixed amount. The Company is not a party to any leases that have capital improvement funding or payment increases based on any index or rate.

### [Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

## 10. LEASES (continued)

Future minimum payments under non-cancelable operating leases with initial or remaining terms more than one year during each of the next five fiscal years follow:

2022	\$ 2,664,895
2023	2,186,238
2024	1,700,834
2025	1,081,468
2026	805,722
	<u>\$ 8,439,157</u>

Rent expense for all operating leases was \$2,816,258 in 2021 and \$2,431,285 in 2020. The weighted average lease term for all operating leases is 6.4 years. The weighted average discount rate for all operating leases is 5%.

## 11. RETIREMENT BENEFIT PLANS

The Company has non-contributory defined benefit pension plans covering some 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 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.

Components of the net periodic benefit cost of the Company's pension benefit plans for the fiscal year indicated were as follows:

	<u>2021</u>	<u>2020</u>
Service cost	\$ 1,087,333	\$ 1,065,739
Interest cost	2,017,015	2,856,569

Expected return on plan assets	(5,794,694)	(5,461,044)
Amortization of prior service cost	99,380	99,380
Amortization of the net loss	1,730,150	1,300,134
Net periodic benefit cost	<u>\$ (860,816)</u>	<u>\$ (139,222)</u>

Service costs are reported in the cost of products sold and the other components of net periodic benefit costs are reported in other income in the consolidated statements of income.

Assumptions used to determine net periodic benefit cost for the Company's pension benefit plans for the fiscal year indicated were as follows:

	2021	2020
<i>Discount rate</i>		
- Pension plans	2.40% - 2.48%	3.18% - 3.23%
- Supplemental pension plans	1.49%	2.61%
Expected return on plan assets	7.5%	7.5%
Rate of compensation increase	0%	0%

54

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**11. RETIREMENT BENEFIT PLANS (continued)**

Components of the net periodic benefit cost of the Company's other postretirement benefit plan were as follows:

	2021	2020
Service cost	\$ 54,505	\$ 43,418
Interest cost	39,369	46,668
Expected return on plan assets	(25,681)	(22,355)
Amortization of prior service cost	-	(8,253)
Amortization of the net loss	(12,374)	(25,509)
Net periodic benefit cost	<u>\$ 55,819</u>	<u>\$ 33,969</u>

Assumptions used to determine net periodic benefit cost for the Company's other postretirement plan for the fiscal year indicated were as follows:

	2021	2020
Discount rate	2.66%	3.35%
Expected return on plan assets	4.0%	4.0%

As of January 1, 2022, and January 2, 2021, the status of the Company's pension benefit plans and other postretirement benefit plan was as follows:

	Pension Benefit		Other Postretirement Benefit	
	2021	2020	2021	2020
Benefit obligation at beginning of year	\$ 111,549,725	\$ 102,991,053	\$ 1,827,169	\$ 1,566,019
Change in discount rate	(5,316,621)	10,606,739	(96,343)	218,000
Service cost	1,087,333	1,065,739	54,505	43,418
Interest cost	2,017,015	2,856,569	39,369	46,668
Plan Amendment	-	-	36,388	-
Actuarial (gain)/loss	2,340,743	(1,786,595)	110,462	32,282
Significant Event	-	-	(218,103)	-
Benefits paid	(4,257,857)	(4,183,750)	(28,865)	(14,654)
Benefit obligation at end of year	<u>\$ 107,420,338</u>	<u>\$ 111,549,725</u>	<u>\$ 1,724,582</u>	<u>\$ 1,827,169</u>

	Pension Benefit		Other Postretirement Benefit	
	2021	2020	2021	2020
Fair value of plan assets at beginning of year	\$ 78,361,102	\$ 74,359,558	\$ 642,030	\$ 558,873
Actual return on plan assets	4,369,247	5,568,671	16,066	83,157
Employer contributions	2,342,462	2,616,623	45,243	33,343
Significant Event	-	-	(218,103)	-
Benefits paid	(4,257,855)	(4,183,750)	(45,243)	(33,343)
Fair value of plan assets at end of year	<u>\$ 80,814,956</u>	<u>\$ 78,361,102</u>	<u>\$ 439,993</u>	<u>\$ 642,030</u>

Funded Status	Pension Benefit		Other Postretirement Benefit	
	2021	2020	2021	2020
Net amount recognized in the balance sheet	<u>\$ (26,605,382)</u>	<u>\$ (33,188,623)</u>	<u>\$ (1,284,589)</u>	<u>\$ (1,185,139)</u>

55

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**11. RETIREMENT BENEFIT PLANS (continued)**

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefit		Other Postretirement Benefit	
	2021	2020	2021	2020
Net (loss)/gain	\$ (40,447,026)	\$ (43,727,607)	\$ 241,621	\$ 349,276
Prior service (cost) credit	(66,252)	(165,632)	-	-
	<u>\$ (40,513,278)</u>	<u>\$ (43,893,239)</u>	<u>\$ 241,621</u>	<u>\$ 349,276</u>

Change in the components of accumulated other comprehensive income consist of:

	Pension Benefit		Other Postretirement Benefit	
	2021	2020	2021	2020
Balance at beginning of period	\$ (43,893,239)	\$ (36,580,267)	\$ 349,276	\$ 507,954
Change due to availability of final actual assets and census data	-	-	-	-
Charged to net periodic benefit cost				
Prior service cost	99,380	99,380	-	(8,253)
Net loss (gain)	1,730,150	1,300,134	(12,374)	(25,509)
Liability (gains)/losses				
Discount rate	5,316,621	(10,606,709)	96,343	(218,000)
Asset (gains)/losses deferred	(771,444)	6,202,764	(9,615)	60,802
Plan Amendments	-	-	(36,388)	-
Significant Event	-	-	(35,159)	-
Other	(2,994,746)	(4,308,541)	(110,462)	32,282
Balance at end of period	<u>\$ (40,513,278)</u>	<u>\$ (43,893,239)</u>	<u>\$ 241,621</u>	<u>\$ 349,276</u>

Assumptions used to determine the projected benefit obligations for the Company's pension benefit plans and other postretirement benefit plan for the fiscal year indicated were as follows:

	2021	2020
Discount rate		
- Pension plans	2.75% - 2.81%	2.40% - 2.48%
- Supplemental pension plans	2.08%	1.49%
- Other postretirement plan	2.93%	2.66%

At January 1, 2022 and January 2, 2021, the accumulated benefit obligation for all qualified and nonqualified defined benefit pension plans was \$107,420,338 and \$111,549,725, respectively. During 2021, the pension benefit obligation decreased between 3.5% to 4.8% due to the decrease in the discount rates from 2.40%-2.48% to 2.75%-2.81%.

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**11. RETIREMENT BENEFIT PLANS (continued)**

Information for the under-funded pension plans with a projected benefit obligation and an accumulated benefit obligation in excess of plan assets:

	2021	2020
Number of plans	5	5
Projected benefit obligation	\$ 107,420,338	\$ 111,549,725
Accumulated benefit obligation	107,420,338	111,549,725
Fair value of plan assets	80,814,956	78,361,102
Net amount recognized in accrued benefit liability	<u>\$ (26,605,382)</u>	<u>\$ (33,188,623)</u>

Estimated future benefit payments to participants of the Company's pension plans are \$4.8 million in 2022, \$5.0 million in 2023, \$5.2 million in 2024, \$5.4 million in 2025, \$5.5 million in 2026 and a total of \$29.2 million from 2027 through 2031.

Estimated future benefit payments to participants of the Company's other postretirement plan are \$50,000 in 2022, \$50,000 in 2023, \$50,000 in 2024, \$52,000 in 2025, \$54,000 in 2026 and a total of \$303,000 from 2027 through 2031.



The Company expects to make cash contributions to its qualified pension plans of approximately \$300,000 and to its other postretirement plan of approximately \$50,000 in 2022.

We consider a number of factors in determining and selecting assumptions for the overall expected long-term rate of return on plan assets. We consider the historical long-term return experience of our assets, the current and expected allocation of our plan assets, and expected long-term rates of return. We derive these expected long-term rates of return with the assistance of our investment advisors and generally base these rates on a 10-year horizon for various asset classes and consider the expected positive impact of active investment management. We base our expected allocation of plan assets on a diversified portfolio consisting of domestic and international equity securities and fixed income securities.

We consider a variety of factors in determining and selecting our assumptions for the discount rate at the end of the year. In 2021, as in 2020, we developed each plan's discount rate with the assistance of our actuaries by matching expected future benefit payments in each year to the corresponding spot rates from the FTSE Pension Liability Yield Curve, comprised of high quality (rated AA or better) corporate bonds.

57

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**11. RETIREMENT BENEFIT PLANS (continued)**

The fair values of the company's pension plans assets at January 1, 2022 and January 2, 2021, utilizing the fair value hierarchy discussed in Note 4 – Accounting Policies – Fair Value of Financial Instruments, follow:

	January 1, 2022			
	Level 1	Level 2	Level 3	Total
<u>Cash and Equivalents:</u>				
Common/collective trust funds	\$ —	\$ 356,173	\$ —	\$ 356,173
<u>Equities:</u>				
The Eastern Company Common Stock	5,460,173		—	5,460,173
Common/collective trust funds				
Russell Multi Asset Core Plus Fund (a)	—	36,142,837	—	36,142,837
<u>Fixed Income:</u>				
Common/collective trust funds				
Target Duration LDI Fixed Income Funds (b)				
· Russell 25 Year LDI Fixed Income Fund	—	4,320,207	—	4,320,207
· Russell 14 Year LDI Fixed Income Fund	—	26,430,482	—	26,430,482
STRIPS Fixed Income Funds (c)				
· Russell 15 to 20 Year STRIPS Fixed Income Fund	—	3,264,328	—	3,264,328
· Russell 10 to 15 Year STRIPS Fixed Income Fund	—	4,840,756	—	4,840,756
Total	\$ 5,460,173	\$ 75,354,783	\$ —	\$ 80,814,956

58

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**11. RETIREMENT BENEFIT PLANS (continued)**

	January 2, 2021			
	Level 1	Level 2	Level 3	Total
<u>Cash and Equivalents:</u>				
Common/collective trust funds	\$ —	\$ 347,538	\$ —	\$ 347,538
<u>Equities:</u>				
The Eastern Company Common Stock	5,230,134		—	5,230,134
Common/collective trust funds				
Russell Multi Asset Core Plus Fund (a)	—	35,139,260	—	35,139,260
<u>Fixed Income:</u>				
Common/collective trust funds				
Target Duration LDI Fixed Income Funds (b)				
· Russell 25 Year LDI Fixed Income Fund	—	2,506,615	—	2,506,615
· Russell 14 Year LDI Fixed Income Fund	—	26,452,904	—	26,452,904
STRIPS Fixed Income Funds (c)				
· Russell 15 to 20 Year STRIPS Fixed Income Fund	—	3,500,718	—	3,500,718
· Russell 10 to 15 Year STRIPS Fixed Income Fund	—	5,183,933	—	5,183,933
Total	\$ 5,230,134	\$ 73,130,968	\$ —	\$ 78,361,102

Equity common funds primarily hold publicly traded common stock of both U.S and international companies selected for purposes of total return and to maintain equity exposure consistent with policy allocations. The Level 1 investment is made up of shares of The Eastern Company Common Stock and is

valued at market price. Level 2 investments include commingled funds valued at unit values provided by the investment managers, which are based on the fair value of the underlying publicly traded securities.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**11. RETIREMENT BENEFIT PLANS (continued)**

- (a) The investment objective of the RITC (formerly Russell) Multi-Asset Core Plus Fund seeks to provide long-term growth of capital over a market cycle by offering a diversified portfolio of funds and separate accounts investing in global stock, return seeking fixed income, commodities, global real estate, and opportunistic investments. They hold a dynamic mix of underlying Russell Investments funds and/or separate accounts. Russell Investments is a strong proponent of disciplined strategic asset allocation and rebalancing strategies and believes that unstable movements in the market have the potential to create opportunities. By identifying short-term mispricing and making small tactical adjustments to the Multi-Asset Core Plus Fund, they believe there is potential to enhance returns while continuing to manage risks.
- (b) The Target Duration LDI Fixed Income Funds seek to outperform their respective Barclays-Russell LDI Indexes over a full market cycle. These Funds invest primarily in investment grade corporate bonds that closely match those found in discount curves used to value U.S. pension liabilities. They seek to provide additional incremental return through modest interest rate timing, security selection and tactical use of non-credit sectors. Generally, for use in combination with other bond funds to gain additional credit exposure, with the goal of reducing the mismatch between a plan's assets and liabilities.
- (c) The STRIPS (Separate Trading of Registered Interest and Principal of Securities) Funds seek to provide duration and Treasury exposure by investing in an optimized subset of the STRIPS universe with a similar duration profile as the Barclays U.S. Treasury STRIPS 10-11 year, 16-16 year or 28-29 year Index. These passively managed funds are generally used with other bond funds to add additional duration to the asset portfolio. This will help reduce the mismatch between a plan's assets and liabilities.

The investment portfolio contains a diversified blend of common stocks, bonds, cash equivalents, and other investments, which may reflect varying rates of return. The investments are further diversified within each asset classification. The portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance. The Company has elected to change its investment strategy to better match the assets with the underlying plan liabilities. Currently, the long-term target allocations for plan assets are 50% in equities and 50% in fixed income although the actual plan asset allocations may be within a range around these targets. The actual asset allocations are reviewed and rebalanced on a periodic basis to maintain the target allocations. It is expected that, as the funded status of the plans improves, more assets will be invested in long-duration fixed income instruments.

The plans' assets include 217,018 shares of the common stock of the Company having a market value of \$5,460,173 and \$5,230,134 on January 1, 2022 and January 2, 2021, respectively. No shares were purchased in 2021 or 2020 nor were any shares sold in either period. Dividends received during 2021 and 2020 on the common stock of the Company were \$95,488 and \$95,488 respectively.

U.S. salaried and non-union hourly employees and most employees of the Company's Canadian subsidiaries are covered by defined contribution plans.

The Company has a contributory savings plan under Section 401(k) of the Internal Revenue Code covering substantially all U.S. non-union employees. This 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.

[Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

**11. RETIREMENT BENEFIT PLANS (continued)**

The Company amended the Eastern Company Savings and Investment Plan ("401(k) Plan Amendment") effective June 1, 2016. The 401(k) Plan Amendment increased this match to 50% of the first 6% of contributions for the remainder of Fiscal 2016. The 401(k) Plan Amendment also provided for an additional non-discretionary contribution (the "transitional credit") for certain non-union U.S. employees who were eligible to participate in the Salaried Plan. The amount of this non-discretionary contribution ranges from 0% to 4% of wages, based on the age of the individual on June 1, 2016. The 401(k) Plan Amendment increased the non-discretionary safe harbor contribution to 3% and changed the eligibility to all non-union U.S. employees.

The Company made contributions to the plan as follows:

	2021	2020
Regular matching contributions	\$ 553,619	\$ 535,910
Transitional credit contributions	138,604	163,464
Non-discretionary contributions	392,865	398,908
Total contributions made for the period	<u>\$ 1,085,088</u>	<u>\$ 1,098,282</u>

As of January 1, 2022, the Company had accrued \$323,082 for the non-discretionary safe harbor contribution this amount was expensed in 2021 and was contributed to the plan in January 2022. As of January 2, 2021, the Company had accrued \$332,092 for the non-discretionary safe harbor contribution. This amount was contributed to the Plan in January 2021 and was expensed in 2020.

## 12. EARNINGS PER SHARE

The denominators used in the earnings per share computations follow:

	<u>2021</u>	<u>2020</u>
<b>Basic:</b>		
Weighted average shares outstanding	<u>6,262,378</u>	<u>6,237,698</u>
<b>Diluted:</b>		
Weighted average shares outstanding	6,262,378	6,237,698
Dilutive stock awards	711	26,823
Denominator for diluted earnings per share	<u>6,263,089</u>	<u>6,264,521</u>

There were no anti-dilutive stock equivalents in 2021 or 2020.

### [Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

## 13. GEOGRAPHIC INFORMATION

	<u>2021</u>	<u>2020</u>
<b>Geographic Information:</b>		
<b>Net Sales:</b>		
United States	\$ 234,300,461	\$ 187,046,011
Foreign	<u>12,222,362</u>	10,568,579
	<u>\$ 246,522,823</u>	<u>\$ 197,614,590</u>

Foreign sales are primarily to customers in North America.

<b>Identifiable Assets:</b>		
United States	\$ 252,961,017	\$ 253,689,704
Foreign	<u>13,367,918</u>	21,838,650
	<u>\$ 266,328,935</u>	<u>\$ 275,528,354</u>

## 14. RECENT ACCOUNTING PRONOUNCEMENTS

### Adopted

In December 2019, FASB issued ASU 2019-12, Simplifying the Accounting for Income Tax. The changes implemented in ASU 2019-12 include removing exceptions to incremental intraperiod tax allocation of losses and gains from different financial statement components, exceptions to the method of recognizing income taxes on interim period losses and exceptions to deferred tax liability recognition related to foreign subsidiary investments. In addition, ASU 2019-12 requires that entities recognize franchise tax based on an incremental method, requires an entity to evaluate the accounting for step-ups in the tax basis of goodwill as inside or outside of a business combination, and removes the requirement to allocate the current and deferred tax provision among entities in standalone financial statement reporting. The ASU also now requires that an entity reflect enacted changes in tax laws in the annual effective rate, and other codification adjustments have been made to employee stock ownership plans. The Company adopted ASU 2019-12 as of January 3, 2021. The adoption of this guidance did not have a material impact on the consolidated financial statements of the Company.

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.

### [Table of Contents](#)

The Eastern Company

Notes to Consolidated Financial Statements (continued)

## 15. CONTINGENCIES

The Company is party to various legal proceedings from time to time related to its normal business operations. Currently, the Company is not involved in any legal proceedings.

In 2016, the Company created a plan to remediate a landfill of spent foundry sand maintained at the Company's previously owned metal casting facility in New York. This plan was agreed to by the New York State Department of Environmental Conservation (the "NYSDEC") on March 27, 2018. Based on estimates provided by the Company's environmental engineers, the anticipated cost to remediate and monitor the landfill was \$430,000. The Company accrued for and expensed the entire \$430,000 in the first quarter of 2018 and fiscal 2017. In the fall of 2018, detailed construction drawings were prepared by an outside consultant in conjunction with informal progress reviews by the NYSDEC. Long-term groundwater monitoring commenced in April 2019. Verbal approval for the closure plan was received from the NYSDEC in May 2019. Construction of the closure remedies, including improved drainage system, regrading, and installation of a low permeability cap was completed in October 2021. A closure report and long-term maintenance plan were submitted to the NYSDEC in November 2021. The 30-year annual groundwater monitoring and site maintenance program are underway and will continue through 2048.

## 16. 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 January 1, 2022, and January 2, 2021, there was one significant concentration of credit risk. One customer represented 11% of total accounts receivable for 2021 and 2020. The maximum exposure to credit risk is primarily represented by the carrying amount of the Company's accounts receivable.

### Interest Rate Risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt, which bears interest at variable rates based on the LIBOR rate plus a margin spread of 1.25% to 2.25%. The Company has an interest rate swap with a notional amount of \$46,875,000 on January 2, 2021, to convert a portion of borrowings under the Credit Agreement from variable to fixed rates. The valuation of this swap is determined using the one-month LIBOR rate index and mitigates the Company's exposure to interest rate risk. Additionally, interest rates on the Company's debt are susceptible to changes to the method that LIBOR rates are determined and to the potential phasing out of LIBOR after 2021. More information regarding the potential phasing out of LIBOR is discussed in greater detail under Note 6, *Debt* to the Consolidated Financial Statements.

### Currency Exchange Rate Risk

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

## [Table of Contents](#)

The Eastern Company

### Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
Naugatuck, Connecticut

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Eastern Company (the Company) as of January 1, 2022 and January 2, 2021, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended January 1, 2022, including the related notes and financial statement schedule appearing under Item 15(a)(2) (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2022 and January 2, 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended January 1, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 1, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2022, expressed an unqualified opinion.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the Audit Committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### Impairment Assessment of Goodwill

#### *Description of the Critical Audit Matter and the Relevant Accounts and Disclosures*

As described in Notes 4 and 5 to the consolidated financial statements, the Company's consolidated goodwill balance is \$72.2 million as of January 1, 2022. Management tests 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. As disclosed by management, reporting units are tested for impairment by utilizing qualitative factors that include a) macroeconomic conditions, b) market and industry conditions, c) cost factors, d) overall financial performance, e) other relevant entity-specific events, and f) events affecting a reporting unit.

#### *Principal Considerations for the Designation of the Critical Audit Matter*

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessments is a critical audit matter are (i) the significant judgments and assumptions used by management when developing the qualitative factors that are part of the impairment assessment; and (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating management's significant judgments and assumptions related to the qualitative factors.

---

64

### [Table of Contents](#)

#### *How the Critical Audit Matter was Addressed in the Audit*

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessments, including controls over the valuation of the Company's reporting units. These procedures also included, among others (i) testing management's process for developing the qualitative factors; (ii) evaluating the appropriateness of the qualitative factors; and (iii) testing the completeness and accuracy of underlying data used in the qualitative factors by corroborating and recalculating the relevant metrics. Evaluating management's significant judgments and assumptions related to qualitative factors involved evaluating whether those significant judgments and assumptions used by management were reasonable considering (i) the current and past performance of the reporting units; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.

### */s/Fiondella, Milone & LaSaracina LLP*

Fiondella, Milone & LaSaracina LLP

We have served as the Company's auditor since 2009.

Glastonbury, Connecticut

March 17, 2022

---

65

### [Table of Contents](#)

#### **ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

#### **ITEM 9A CONTROLS AND PROCEDURES**

##### *Management's Responsibility for Financial Statements*

Management is responsible for the integrity and objectivity of all information presented in this Form 10-K. The consolidated financial statements were prepared in conformity with U.S. GAAP and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent registered public accountants, Fiondella, Milone & LaSaracina LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent registered public accountants. The independent registered public accountants and internal auditors have access to the Audit Committee.

##### *Evaluation of Disclosure Controls and Procedures*

As of the end of the fiscal year ended January 1, 2022, 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 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.” Based upon that evaluation, the CEO and CFO concluded that the Company’s current disclosure controls and procedures were effective as of the January 1, 2022 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 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.

#### *Management’s Annual Report on Internal Control over Financial Reporting*

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 240.13a-15(f) and 240.15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our control over financial reporting was effective as of January 1, 2022. The Company’s registered public accounting firm, Fiondella, Milone & LaSaracina LLP, has issued an attestation report on the Company’s internal control over financial reporting. The attestation report is set forth below in this Item 9A.

#### *Changes in Internal Control over Financial Reporting*

During the fourth quarter of 2021, 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.

#### [Table of Contents](#)

### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of  
The Eastern Company  
Naugatuck, Connecticut

#### **Opinion on Internal Control over Financial Reporting**

We have audited The Eastern Company’s (the Company’s) internal control over financial reporting as of January 1, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows of the Company, and our report dated March 17, 2022, expressed an unqualified opinion.

#### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/Fiondella, Milone & LaSaracina LLP

Fiondella, Milone & LaSaracina LLP

Glastonbury, Connecticut

March 17, 2022

67

[Table of Contents](#)

#### **ITEM 9B OTHER INFORMATION**

None.

#### **ITEM 9C DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.**

Not applicable.

68

[Table of Contents](#)

### **PART III**

#### **ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information concerning directors is incorporated herein by reference to the Company's definitive proxy statement (the "Proxy Statement") for the 2022 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A not later than 120 days after January 1, 2022, under the captions "Item No. 1 – Election of Directors" and "Director Compensation in Fiscal 2021."

The information concerning the Company's executive officers is incorporated herein by reference to the Proxy Statement under the captions "Executive Compensation," "Stock Based Awards," "Outstanding Equity Awards at Fiscal Year-End," and "Termination of Employment and Change in Control Arrangements."

The information concerning the Company's Audit Committee is incorporated herein by reference to the Proxy Statement under the captions "Audit Committee Financial Expert," "Report of the Audit Committee" and "The Board of Directors and Committees." The Audit Committee Charter is also available on the Company's website at <http://www.easterncompany.com> by clicking on Corporate Governance.

The information concerning compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to our Proxy Statement under the caption "Delinquent Section 16(a) Reports."

The Company's Board of Directors has adopted a Code of Business Conduct and Ethics that applies to the Company's Chief Executive Officer, Chief Financial Officer, and the Company's other financial professionals. The Code of Business Conduct and Ethics is available on the Company's website at <https://www.easterncompany.com/> by clicking on Corporate Governance. We intend to disclose any amendment or waiver to the Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or person performing similar functions, on our website within four business days after such amendment or waiver.

#### **ITEM 11 EXECUTIVE COMPENSATION**

Information concerning director and executive compensation is incorporated herein by reference to portions of the Proxy Statement under the captions "Director Compensation in Fiscal 2020," "Executive Compensation," "Stock Based Awards," "Outstanding Equity Awards at Fiscal Year-End," and "Termination of Employment and Change in Control Arrangements." The Compensation Committee of the Board of Directors operates under the Compensation Committee Charter, which can be found on the Company's website at <https://www.easterncompany.com/> by clicking on Corporate Governance.

69

[Table of Contents](#)

#### **ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth information regarding securities authorized for issuance under the Company's equity compensation plans as of January 1, 2022, consisting of the Company's 2021 Executive Stock Incentive Plan (the "2021 Plan").

Equity Compensation Plan Information			
Plan category	Number of securities to be issued upon	Weighted-average exercise price	Number of securities remaining

	exercise of outstanding awards, warrants and rights	of outstanding awards, warrants and rights	available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	43,765	\$ 23.23	804,703
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>43,765</b>	<b>\$ 23.23</b>	<b>804,703</b>

Security ownership of certain beneficial owners and management:

- (a) Information concerning security ownership of certain beneficial owners is incorporated herein by reference to the Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management”.
- (b) Information concerning security ownership of management is incorporated herein by reference to the Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners and Management”, “Executive Compensation”, “Stock Based Awards”, “Awards Exercised in Fiscal 2021”, and “Outstanding Equity Awards at Fiscal Year-End”. See also the equity compensation plan information in Item 5 of this Form 10-K.
- (c) Changes in Control
- None.

### ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding director independence is incorporated herein by reference to the Company’s Proxy Statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after January 1, 2022 under the captions “Item No.1 – Election of Directors” and “The Board of Directors and Committees”.

### ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated herein by reference to the Company’s Proxy Statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after January 1, 2022 under the caption “Item No. 3 – Ratification of Appointment of Independent Registered Public Accounting Firm”.

[Table of Contents](#)

## **PART IV**

### ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULE

(a) Documents filed as part of this Form 10-K:

(1) Financial statements

<a href="#">Consolidated Balance Sheets — January 1, 2022 and January 2, 2021</a>	30.
<a href="#">Consolidated Statements of Income — Fiscal years ended January 1, 2022 and January 2, 2021</a>	32.
<a href="#">Consolidated Statements of Comprehensive Income — Fiscal years ended January 1, 2022 and January 2, 2021</a>	33.
<a href="#">Consolidated Statements of Shareholders’ Equity — Fiscal years ended January 1, 2022 and January 2, 2021</a>	34.
<a href="#">Consolidated Statements of Cash Flows — Fiscal years ended January 1, 2022 and January 2, 2021</a>	35.
<a href="#">Notes to Consolidated Financial Statements</a>	36.
<a href="#">Report of Independent Registered Public Accounting Firm (PCAOB ID 2230)</a>	64.

(2) Financial Statement Schedules

Schedule II — Valuation and qualifying accounts begins on page [73] of this Form 10-K. Schedules other than that listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

[Table of Contents](#)

## Exhibit Index

Exhibits to this Form 10-K listed but not included herein will be provided upon written request sent to the Company's executive offices.

Exhibit No.	Description
<a href="#">2.1</a>	<a href="#">Stock Purchase Agreement dated August 30, 2019, among the Company, Eastern Engineered Systems, Inc., Big 3 Holdings, LLC, Big 3 Precision Mold Services, Inc., Industrial Design Innovations, LLC, Sur-Form, LLC, Associated Toolmakers Limited, TVV Capital Partners III, L.P., TVV Capital Partners III-A, L.P., Alan Scheidt, Todd Riley, Clinton Hyde and Big 3 Holdings, LLC, as the initial Seller Representative (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-35383) filed on September 3, 2019).</a>
<a href="#">3.1</a>	<a href="#">Restated Certificate of Incorporation of the Company (conformed copy) (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 28, 2020 (SEC File No. 001-35383) filed on May 6, 2020).</a>
<a href="#">3.2</a>	<a href="#">Amended and Restated By-Laws of the Company, as Amended through March 11, 2022 (incorporated herein by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K (SEC File No. 001-35383) filed on March 11, 2022).</a>
<a href="#">4</a>	Description of Securities (filed herewith).
<a href="#">10.1*</a>	<a href="#">Amended and Restated Employment Agreement, dated as of January 1, 2018, between the Company and August M. Vlasko (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-35383), filed January 22, 2018).</a>
<a href="#">10.2*</a>	<a href="#">Change in Control Agreement, dated as of March 8, 2021, between the Company and James P. Woidke (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-35383), filed March 12, 2021).</a>
<a href="#">10.3*</a>	<a href="#">Termination Agreement, dated as of January 14, 2022, between the Company and James P. Woidke (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-35383), filed January 19, 2022).</a>
<a href="#">10.4*</a>	<a href="#">The Company's Directors' Fee Program, effective as of October 1, 1996 (incorporated herein by reference to the Company's Registration Statement on Form S-8, as amended (SEC File No. 333-21351) filed on February 7, 1997).</a>
<a href="#">10.5*</a>	<a href="#">The Company's 2010 Executive Stock Incentive Plan, effective July 20, 2010 (incorporated herein by reference to Exhibit 4a to the Company's Registration Statement on Form S-8 (SEC File No. 333-169169), filed on September 2, 2010).</a>
<a href="#">10.6*</a>	<a href="#">The Company's 2020 Executive Stock Incentive Plan, effective February 19, 2020 (incorporated herein by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (SEC File No. 333-238565), filed on May 21, 2020).</a>
<a href="#">10.7</a>	<a href="#">Credit Agreement dated August 30, 2019 among the Company, the lenders from time to time party hereto, and Santander Bank, N.A., as the administrative agent, an LC Issuer (as there defined), and as the Swing Line Lender (as therein defined) (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (SEC File No. 001-35383), filed on September 3, 2019).</a>
<a href="#">10.8</a>	<a href="#">Pledge and Security Agreement, dated August 30, 2019 among the Company, certain of its Subsidiaries (as defined therein), and Santander Bank, N.A., as administrative agent for the benefit of the Secured Creditors (as defined therein) (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K (SEC File No. 001-35383), filed on September 3, 2019).</a>
<a href="#">21</a>	<a href="#">Subsidiaries of the Company (filed herewith).</a>
<a href="#">23</a>	<a href="#">Consent of Fiondella, Milone &amp; LaSarcina LLP (filed herewith).</a>
<a href="#">31</a>	<a href="#">Rule 13a-14(a) Certification of Chief Executive Officer and Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</a>
<a href="#">32</a>	<a href="#">Section 1350 Certification of Chief Executive Officer and Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</a>
<a href="#">99</a>	<a href="#">Letter to our shareholders from the Annual Report 2021 (filed herewith).</a>
<a href="#">101</a>	The following materials from the Company's Annual Report on Form 10-K for the year ended January 1, 2022, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets as of January 1, 2022 and January 2, 2021; (ii) the Consolidated Statements of Income for the fiscal years ended January 1, 2022 and January 2, 2021; (iii) the Consolidated Statements of Comprehensive Income for the fiscal years ended January 1, 2022 and January 2, 2021; (iv) the Consolidated Statements of Shareholders' Equity for the fiscal years ended January 1, 2022 and January 2, 2021; (v) the Consolidated Statements of Cash Flows for the fiscal years ended January 1, 2022 and January 2, 2021; and (vi) the Notes to the Consolidated Financial Statements (filed herewith).

\* Management contract, compensatory plan or arrangement.

### ITEM 16 FORM 10-K SUMMARY

None.

**Schedule II – Valuation and Qualifying accounts**

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts- Describe	Deductions – Describe	Balance at End of Period
Fiscal year ended January 1, 2022:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 545,000	\$ 43,000	\$ -72,000(b)	\$ 0(a)	\$ 515,000
Fiscal year ended January 2, 2021:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 556,000	\$ 13,000	\$ -24,000(b)	\$ 0(a)	\$ 545,000

(a) Uncollectible accounts written off, net of recoveries.

(b) Disposed companies ending balances.

[Table of Contents](#)

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: March 17, 2022

THE EASTERN COMPANY

By /s/ John L. Sullivan III

**John L. Sullivan III**

Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ August M. Vlak  
**August M. Vlak**  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

March 17, 2022

/s/ John L. Sullivan III  
**John L. Sullivan III**  
Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)

March 17, 2022

/s/ James A. Mitarotonda  
**James A. Mitarotonda**  
Chairman of the Board

March 17, 2022

/s/ Fredrick D. DiSanto  
**Fredrick D. DiSanto**  
Director

March 17, 2022

/s/ John W. Everets  
**John W. Everets**  
Director

March 17, 2022

/s/ Charles W. Henry  
**Charles W. Henry**  
Director

March 17, 2022

/s/ Peggy B. Scott  
**Peggy B. Scott**  
Director

March 17, 2022

## LIST OF DIVISIONS AND SUBSIDIARIES

OF

## THE EASTERN COMPANY

<b>Name of Division</b>	<b>State or Other Jurisdiction of Incorporation or Organization</b>
Argo EMS	Connecticut
Eberhard Manufacturing	Ohio
Illinois Lock Company	Illinois
<b>Name of Subsidiary</b>	
Associated Toolmakers Ltd.	England
Big 3 Precision Products, Inc.	Delaware
Big 3 Precision Mold Services, Inc.	Delaware
Dongguan Reeworld Security Products Ltd.	China
Eastern Engineered Systems, Inc.	Delaware
Eastern Industrial Ltd	China
Hallink Moulds, Inc.	Canada
Velvac Holdings, Inc.	Delaware
Velvac, Inc.	Delaware
Velvac International, Inc.	Delaware
Velvac de Reynosa, S. De R.L. De C.V.	Mexico
World Lock Company Ltd.	Taiwan
World Security Industries Co. Ltd.	Hong Kong

**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K of The Eastern Company for the year ended January 1, 2022 of our reports dated March 17, 2022 included in its Registration Statement on Form S-8 (Nos. 333-21351, 333-169169 and 333-238565) relating to the consolidated financial statements and financial statement schedule and internal controls for the two years ended January 1, 2022 listed in the accompanying index.

/s/Fiondella, Milone & LaSaracina LLP

Fiondella, Milone & LaSaracina LLP

Glastonbury, Connecticut

March 17, 2022



CERTIFICATIONS

I, August M. Vlak, certify that:

1. I have reviewed this report on Form 10-K 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: March 17, 2022

/s/ August M. Vlak  
August M. Vlak  
CEO

CERTIFICATIONS

I, John L. Sullivan III, certify that:

1. I have reviewed this report on Form 10-K 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: March 17, 2022

/s/ John L. Sullivan III

John L. Sullivan III

CFO

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER  
Pursuant to 18 United States Code § 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, August M. Vlak, the Chief Executive Officer of The Eastern Company (the "Company") and John L. Sullivan III, the Chief Financial Officer of the Company, hereby certify that, to the best of their knowledge:

- 1) The Company's Annual Report on Form 10-K for the period ended January 1, 2022, and to which this certification is attached as Exhibit 32 (the "Periodic Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 17<sup>th</sup> day of March, 2022.

*/s/ August M. Vlak*

\_\_\_\_\_  
August M. Vlak  
CEO

*/s/ John L. Sullivan III*

\_\_\_\_\_  
John L. Sullivan III  
CFO

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

This certification "accompanies" the Form 10-K 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-K, irrespective of any general incorporation language contained in such filing.)

## 2021 LETTER TO SHAREHOLDERS

To our Shareholders:

2021 was a transformative year for The Eastern Company (“Eastern”). We are proud of how we executed our plan, which we believe will create long-term shareholder value in a dynamic environment. We focused on doing everything we could to keep our teams safe and supply chains moving, ramping up production to address the strong demand for our products, and helping our communities recover. At the same time, our focus on performance and innovation remained unwavering. I want to once again thank our diverse and high-performing teams around the world for their continued commitment to Eastern. I am truly grateful for their efforts every day to ensure our success.

### Strengthening our focus and our businesses

In 2021, we successfully executed several strategic actions to strengthen and focus our business portfolio into a faster-growing, more profitable franchise. We announced our intention to divest three non-core businesses and reported them as discontinued operations on Form 10-Q for the second quarter of 2021. We divested both Frazer & Jones and Greenwald in November 2021, following the sale of Canadian Commercial Vehicles and Sesamee Mexicana in 2020. These actions are part of our ongoing work to streamline our portfolio of businesses and build scale in our largest businesses and generate robust free cash flow. In addition, these divestitures allowed us to reduce our outstanding debt by \$17.3 million and repurchase 14,596 shares in 2021.

We also completed the combination of our Eberhard and Illinois Lock businesses in 2021. We combined these two organizations to build scale, improve innovation, and capture operating synergies. Last year, we closed our manufacturing and warehousing facilities in Tilsonburg, Canada, and in Wheeling, Illinois, and we moved operations to our locations in Strongsville, Ohio and Reynosa, Mexico. In 2022, we plan to further consolidate manufacturing in Reynosa, Mexico. We believe that our expansion in Mexico will build shorter and more robust supply chains to better serve our core customers.

### A Strong Rebound in 2021

In 2021, we capitalized on an extraordinarily strong rebound in customer demand fueled by macro trends, including the surge in outdoor recreational activities and commercial transportation, which fueled demand for truck accessories and distribution products, respectively. Full-year net sales from our continuing operations totaled \$247 million, a 25% increase from the prior year. Our full-year gross margin as a percentage of net sales was 23%, and we delivered diluted earnings of \$2.58 per share from continuing operations, up 47% over the prior year.

Last year, we described 2020 as “unprecedented turmoil.” Yet the environment in 2021 proved equally dynamic. We navigated a rapidly evolving operating environment and prioritized meeting the strong demand from our customers by increasing our safety stocks, adding new suppliers, and implementing price increases to support our margins. Accordingly, free cash flow was temporarily impacted as we strategically built the inventory required to serve our customers, navigate the stretched global supply chain, and support the strong demand we expect for 2022.

Despite the operating environment, our balance sheet continued to strengthen in 2021. We reduced our total debt outstanding to \$71 million at the end of 2021. At the end of 2021, our net leverage ratio was 2.46x, and our fixed charge coverage ratio was 2.2x, both of which comfortably comply with our bank covenants of 4.25x and 1.25x, respectively.

### Outlook

At this time, there are many reasons to be optimistic about 2022, with strong demand in our core markets, recovering supply chains, and less raw material price volatility. While the war in Ukraine is once again driving up the cost of some raw materials, we are not yet seeing costs increase to 2021 highs. In 2022, we should begin to see the impact of the increase in new vehicle launches, the synergies from our consolidation of Eberhard and Illinois, as well as the accelerated growth from the launch of six new truck mirror programs in 2021.

Beyond 2022, we believe that our focus on our three core businesses – Big 3 Precision, Eberhard, and Velvac – will deliver innovation-led organic growth, capitalizing on several industry trends, including electrification, digitization, and automation. Eberhard, for example, has recently launched a full line of electro-mechanical solutions, capitalizing on electrification and digitization across many of our core markets, including commercial transportation and retail. We anticipate that our innovative products will translate into significant sales, earnings, and cash flow growth in 2022 and beyond. At the same time, we continue to pursue bolt-on acquisitions that expand our access to markets, build capabilities and offer synergies for our core businesses. We are working to achieve our goal of becoming a \$100 million EBITDA company through both organic growth and strategic bolt-on acquisitions.

### Commitment to ES&G

Our business strategies and environmental, social, and governance (“ES&G”) responsibilities are inextricably connected. As a result, we believe that our operating model, commercial activities, and practices and procedures are closely aligned with our ES&G responsibilities. In 2021, we began to formalize some of the ways we manage, monitor, and report on ES&G, with the adoption of the Global Reporting Initiative (“GRI”) Sustainability Framework.

Examples of alignment between our current business and ES&G goals include our returnable transport packaging, which reduces packaging waste, especially wood and cardboard, and increases the efficiency of supply chains. Similarly, we are working closely with several customers to design and produce tooling for bottles with larger amounts of post-consumer regrind or recycled material and to eliminate the need for labeling. Further, in 2021, we formally opened our new production facility in Reynosa, Mexico, which includes the latest in energy-efficient lighting, insulation, and HVAC systems to conserve energy.

In 2022, we adopted the GRI framework. The GRI Standards are set by the Global Sustainability Standards Board (GSSB), which combines technical expertise, diversity of experience, and multi-stakeholder perspectives, and performs its work according to a formally defined due process, exclusively in the public interest. We believe the GRI framework uniquely focuses our work on ESG where our company has the greatest impact.

We are grateful for your continued support and look forward to seizing the opportunities that lie ahead.



August M. Vlak  
President and Chief Executive Officer



James A. Mitarotonda  
Chairman of the Board

### Safe Harbor for Forward-Looking Statements

Statements in this document about our future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and the rules, regulations and releases of the Securities and Exchange Commission. Any statements that are not statements of historical fact, including statements containing the words “would,” “should,” “may,” “will,” “believes,” “estimates,” “intends,” “continues,” “reflects,” “plans,” “anticipates,” “expects,” “potential,” “recovering,” “opportunities” and similar expressions, should also be considered to be forward-looking statements. Readers should not place undue reliance on these forward-looking statements, which are based upon management's current beliefs and expectations. These forward-looking statements are subject to risks and uncertainties, and actual results might differ materially from those discussed in, or implied by, the forward-looking statements. The risks and uncertainties that could cause actual results or events to differ materially from those indicated by such forward-looking statements include, but are not limited to, effects of the COVID-19 pandemic (and how quickly and to what extent normal economic activity can resume), including supply chain disruptions, delays in delivery of our products to our customers, impact on demand for our products, reductions in production levels, increased costs, including costs of raw materials, the impact on global economic conditions, the availability, terms and cost of financing, including borrowings under credit arrangements or agreements, and risks associated with employees working remotely or operating with reduced workforce. Other factors include, but are not limited to: 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; restrictions on operating flexibility imposed by the agreement governing our credit facility; the inability to achieve the savings expected from global sourcing of materials; the impact of higher raw material and component costs, particularly steel, plastics, scrap iron, zinc, copper and electronic components; lower-cost competition; our ability to design, introduce and sell new products and related components; market acceptance of our products; the inability to attain expected benefits from acquisitions or the inability to effectively integrate such acquisitions and achieve expected synergies; domestic and international economic conditions, including the impact, length and degree of economic downturns on the customers and markets we serve and more specifically conditions in the automotive, construction, aerospace, energy, oil and gas, transportation, electronic, and general industrial markets; costs and liabilities associated with environmental compliance; the impact of climate change or terrorist threats and the possible responses by the U.S. and foreign governments; failure to protect our intellectual property; cyberattacks; materially adverse or unanticipated legal judgments, fines, penalties or settlements. There are important, additional factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including those set forth in our reports and filings with the Securities and Exchange Commission. We undertake 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.