

THE EASTERN COMPANY

2001

Annual
Report

The Eastern Company

The Eastern Company is a 144-year-old manufacturer of industrial hardware, security products and metal castings. It operates from nine locations in the U.S., Canada, Mexico, Taiwan and China. The diversity of the Company's products enables it to respond to the changing requirements of a broad array of markets.

Industrial Hardware

The Industrial Hardware Group manufactures an extensive selection of latches, locks and other security hardware used throughout the transportation and industrial sector of the economy. The Group is headed by the Eberhard Division. For more than 100 years, Eberhard has been an industry leader setting the standard for high-quality hardware for a variety of applications, especially in the transportation industry. The Industrial Hardware Group offers strong engineering and manufacturing capabilities that enable it to address specialty applications and satisfy unique product requirements. With facilities in Canada and Mexico as well as in the U.S., the Group is a reliable source of product throughout North America.

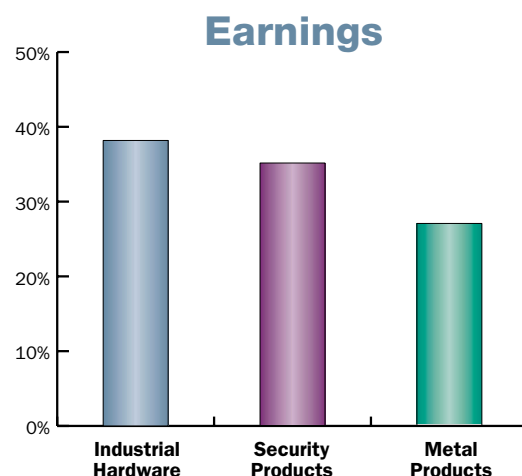
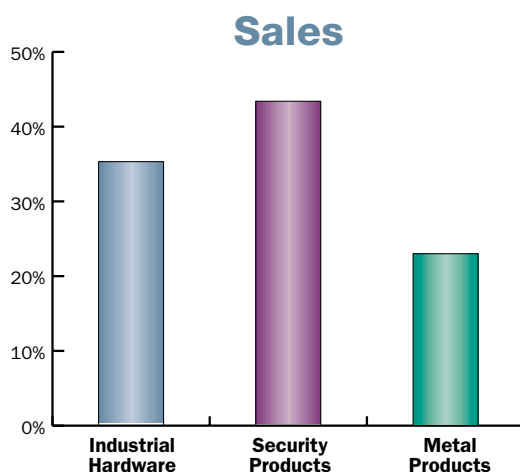
Security Products

The Security Products Group meets the need for products that safeguard property and control access – a need that has become universal in today's global economy. The Greenwald Industries Division is a major manufacturer of coin acceptors and metering systems to secure the cash used in self-service laundry facilities. Greenwald products are distributed throughout North and South America as well as in other areas of the world. Through its Intellicard operation, the Division also offers "smart card" products to the commercial laundry market.

The Illinois Lock Division produces custom-engineered locks for a variety of original equipment manufacturers serving diverse markets. The CCL Security Products Division is a leading producer of keyless locks sold under well-known brand names such as Sesamee, Presto and Huski. With our Asian Operations, World Lock and World Security, The Company can offer competitive pricing, service and delivery in a global economy.

Metal Products

The Company's Metal Products Group consists of the Frazer & Jones Division. Frazer & Jones' which manufactures anchoring devices for supporting underground mine roofs, continues to be the recognized leader in the production of these critical safety devices for the United States, Canadian and Australian mining industries.



Financial Highlights (in thousands)

	2001	2000	1999	1998	1997
Net Sales	\$ 82,825	\$ 88,192	\$ 74,678	\$ 70,750	\$ 67,331
Net Income	3,913	7,055	6,538	5,443	3,723
Income Taxes	2,172	3,602	3,356	3,280	2,085
Income Before Taxes	6,085	10,657	9,894	8,723	5,808
Interest Expense	2,259	1,786	646	549	297
Depreciation and Amortization	4,461	3,639	2,723	2,912	2,978
EBITDA	12,805	16,082	13,263	12,184	9,083
Capital Expenditures	1,895	5,065	3,690	4,397	2,230
Dividends Paid	1,599	1,601	1,573	1,429	1,268

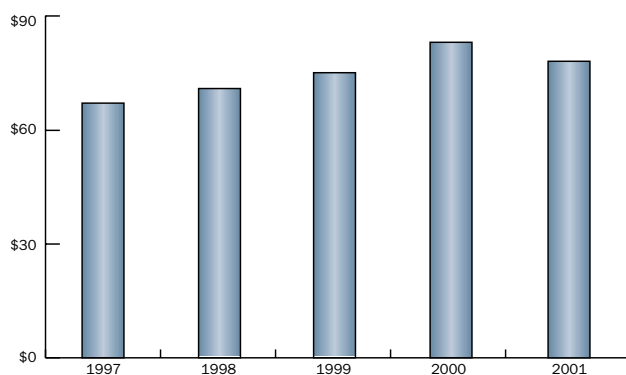
Per Share Data

Net Income (Basic)	\$ 1.08	\$ 1.95	\$ 1.80	\$ 1.49	\$ 0.93
Net Book Value	11.06	10.64	9.21	7.81	7.33
Tangible Net Worth	7.45	6.73	8.77	7.34	6.83
Net Working Capital	7.63	7.26	6.82	5.79	3.73
Dividends	0.44	0.44	0.43	0.39	0.32
Average Shares Outstanding (Basic)	3,623,291	3,621,449	3,626,001	3,645,360	3,987,272

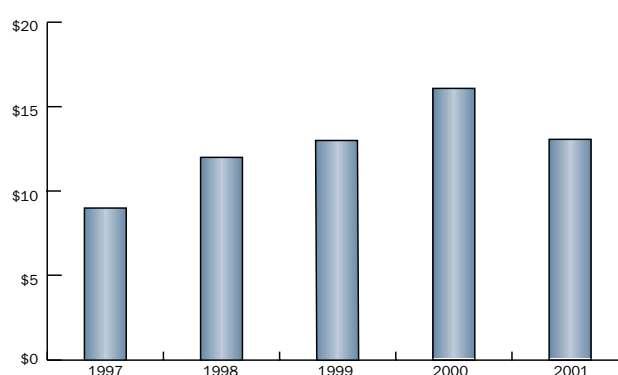
Financial Ratios

Return on Investments	10%	21%	23%	19%	13%
Net Income as a % of Sales	5%	8%	9%	8%	6%
Gross Profit Margin	27%	29%	30%	30%	28%
Sales Per Employee (in thousands)	\$139	\$139	\$142	\$138	\$137
Net Income Per Employee (in thousands)	\$7	\$11	\$12	\$11	\$8
Current Ratio	3.8	3.2	4.4	3.8	2.3

Sales (in millions of dollars)



EBITDA (in millions of dollars)



Letter to our shareholders



The Company and its employees faced unexpected challenges in 2001, both economic and emotional. Before I discuss them, I would like to reassure our shareholders, in the wake of the many reports about corporate accounting irregularities and inadequate disclosures, that our annual report to you contains more than adequate disclosure of our business activities and the financial results of those activities. In the back pocket is a copy of the Company's Form 10-K, which contains extensive descriptions of our business, complete financial statements and related footnotes, and the opinion of our independent auditors, Ernst & Young, LLP. I invite all of you to read the 10-K. Further, you should know that the Company does not engage its independent auditors to perform any consulting services outside the realm of accounting and tax matters.

As for last year, it began with a sluggish business environment that only worsened as the months went by. With the weak conditions came an ongoing debate as to whether the economy had slipped into recession. This debate led to additional business uncertainties, and in some cases business retrenchments, that had a very negative impact on all the markets we serve. Then the catastrophic events of September 11 cast a further pall over many business and personal activities, causing a greater erosion of the business marketplace and postponement of any appearance of a more robust economy.

The manufacturing sector of the economy, in which our business units primarily operate, reacted as it normally would in anticipation of recessionary conditions—it curtailed purchases. Consequently, our sales

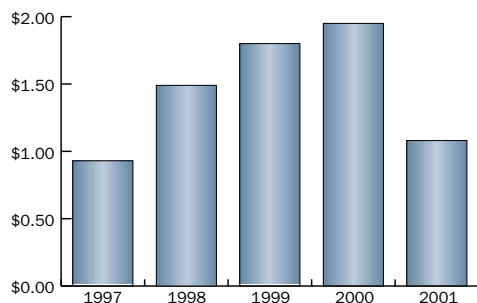
volume for the year—\$82.8 million—was significantly lower than what we had expected when the year began. It was also 6% lower than the \$88.2 million we achieved in 2000. Net income for 2001 declined by 45%, to \$3.9 million from \$7.1 million in 2000. Earnings declined more sharply than sales because of the additional fixed overhead charges we incurred in connection with our building expansion programs and acquisition initiatives in 1999 and 2000. This increase in overhead required higher sales levels, which had been anticipated but did not materialize as the manufacturing sector of the economy fell into a recession.

Throughout the year, we took steps to respond to the changing economic conditions. We made reductions in personnel, lowered capital expenditures and cut expenses. However, we implemented those measures as cautiously as we could so we would not jeopardize achievement of our longer-range goals.

As previously reported, our primary goals are to keep our finances strong, sustain internal product growth and operating efficiencies, and seek out acquisitions or other strategic growth opportunities. We believe that these objectives continue to be in the best long-term interest of our shareholders. While our progress toward these goals was slowed down somewhat by the economic and other events of 2001, we have not abandoned them and indeed will pursue them vigorously in the months ahead.

The economic downturn notwithstanding, there was a positive development in 2001 that benefited the operations of our Frazer & Jones Division in the Metal Products Group. This division is the premier producer

Earnings Per Share



of mine roof anchors used in underground mining. The positive development was the unexpected strength of the marketplace for coal and the consequent need for our product, sales of which grew 16% in 2001. During 2000, higher prices for natural gas had led to increased demand for coal. As coal stockpiles dwindled in 2001, mines—including the many underground mines that use our roof anchors—operated at peak levels to replenish supplies and keep up with the increased market demand. The demand for coal has remained strong thus far in 2002. While underground mining activity may not continue at these higher levels, it is still expected that coal will remain the cornerstone of our country's energy supply.

Total shipments of malleable iron castings from Frazer & Jones declined throughout 2001, but we expect to see a rebound around mid-2002 as overall casting demand rises. However, despite such increases in overall demand, we also expect that imports from around the world will continue to affect shipments of malleable iron castings from all domestic foundries. In response, the Company has invested in the necessary equipment and developed the technical knowledge necessary to begin the production of ductile iron. Ductile iron is a superior metal when compared to malleable iron, and it is lower in cost to produce. We also expect that the market for ductile iron will grow as it is substituted for malleable iron.

The markets for our Industrial Hardware Group began weakening in the latter part of 2000, and that trend continued throughout 2001. The principal area of decline was in the heavy hardware we sell to the tractor-trailer industry. As the economy contracted, the need to move goods lessened and there was less demand for tractor-trailer equipment. We expect that the transportation industry will recover as the economy rebounds.

New product development in the Industrial Hardware Group focused on the other markets we serve, such

as specialty trucks and emergency and service vehicles. One new product we introduced was an electronic door control device for school and courtesy bus doors. Several school bus manufacturers are currently testing this product, and once it is approved, we anticipate orders in the second quarter of 2002. Overall, sales of new products were not nearly enough to offset the decline in the heavy hardware portion of our business.

Building the security segment of our business has been, and will continue to be, one of the strategic objectives of our company. The events of September 11 have made "safety" and "security" an even more important part of our daily vocabularies. We believe this heightened concern will provide us with many future business opportunities, including the further development of access control devices that utilize Smart Card technologies.

At the Greenwald Division of our Security Products Group, for example, our Smart Card products have been widely accepted for use in commercial laundry, access control and parking applications. We are now exploring the addition of biometric sensors that read fingerprints to our Smart Cards to provide even greater security in access control applications. During 2001, however, sales of both the Smart Card products and the division's basic product line—coin acceptors, coin chutes, money boxes and meter cases—were negatively affected by the downturn in the economy.

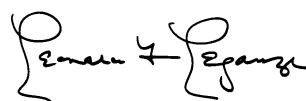
Our lock manufacturing units also saw reduced sales as a result of the significant events of 2001. Our Illinois Lock Division is an important supplier to the computer industry, which suffered a downturn along with many other high-technology businesses. Our CCL Security Products Division, which supplies products to the luggage industry, was affected by the sharp reduction in travel caused by the events of September 11. In addition, other

CCL markets related to travel and entertainment, such as gaming and vending, were also depressed as a result of the reduction in travel.

During the year, we successfully consolidated our CCL manufacturing operations (previously located in New Britain, Connecticut) with those of Illinois Lock in Wheeling, Illinois. The move should result in greater productivity and future cost savings.

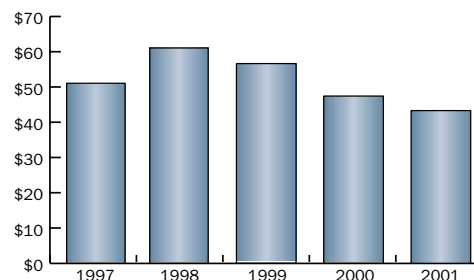
In the months ahead, we will continue to focus on the development of new products and new markets in order to improve our operating efficiencies and effectively compete with low-wage countries like China and Mexico. We also will continue to seek growth through acquisitions which complement our product lines and enhance our market position.

Though far less than we had anticipated at the beginning of the year, the financial results we achieved in 2001 demanded the dedication and hard work of all our employees in the face of a very difficult economy. I thank them all for their great efforts.



Leonard F. Leganza
President and Chief Executive Officer

Market Capitalization
(in millions of dollars)



Industrial Hardware

Sales	35%
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Earnings	38%
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The Industrial Hardware Group manufactures and sells industrial and vehicular hardware throughout North America. The markets for the groups products are the specialty truck market comprised of tractor-trailers, manufacturers of chassis and truck bodies such as those used by construction, emergency and utility customers. In addition, the group furnishes products for industrial markets requiring access door hardware.

Tractor-trailers require locking gear hardware, steps and cargo restraints that meet the demanding needs of the transportation industry. The Industrial Hardware group also designs and produces latches, hinges and actuators for various tonneau covers and tool box applications for automotive manufacturers and the

aftermarket. Many models of civilian and military vehicles, trucks and buses as well have a need for specialized latching and hinging devices which are provided by Eberhard. In addition, we supply closure devices used to secure access doors on various types of industrial equipment such as metal cabinets, communication shelters, transport containers, machinery housings and electronic instruments.



Security Products

Sales 43%

Earnings 35%



The Security Products segment provides the products that safeguard property and control access – a universal need in an uncertain world. The

Illinois Lock Division is one of the foremost producers of custom-engineered keyed and keyless locks and has become one of the industry leaders in lock design and manufacture. Its products include ultra high security quick change cam locks, double bitted DUO locks, electronic switch locks with wire harness assemblies, a complete line of weather resistant locks to new combination pushbutton locks. Illinois Lock's products are as diverse as the markets they serve. From system – integrated locks for the computer industry, or fuel – dispensing control units for the oil industry, to high – security pushbutton locks for the medical cabinetry industry.

CCL Security Products Division is a leading producer of keyless combination locks sold under the well-known brand names of Sesamee, Presto and Huski. CCL also manufactures high quality custom pin

and disc tumbler padlock and cam locks for all application. For years CCL has been a key supplier to the locksmith industry, industrial distributors, hardware stores, luggage retailers and original equipment manufacturers. Through our Asian operations World Lock and World Security we are able to provide competitive pricing and service throughout out the world.

For over 50 years Greenwald Industries Division has been a leading supplier of coin acceptors, metering and security products for the self-service laundry market throughout the world. Greenwald's expanded product line includes Smart Card payment systems and off-line access control systems.



Metal Products

Sales 23%

Earnings 27%



The Company's Metal Products Group consists of the Frazer & Jones Division. Frazer & Jones is a world class ductile and

malleable iron foundry producing approximately 90 million castings per year. High volume, high quality castings range in weights from ounces to ten pounds. Distribution is throughout North America, South America, Australia and the Pacific Rim. In addition to serving automotive, natural gas, electrical, utility, construction and tool industries for more than 150

years, they are the leading producers of underground mine roof expansion anchors for the United States, Canadian and Australian mining industries.



Summarized Financial Data

Statements of Earnings

	2001	2000	1999
Net sales	\$ 82,825,353	\$ 88,192,294	\$ 74,678,420
Cost of products sold	60,782,769	62,191,769	52,459,895
Other expenses	15,957,229	15,343,658	12,324,514
	<u>76,739,998</u>	<u>77,535,427</u>	<u>64,784,409</u>
Income before income taxes	6,085,355	10,656,867	9,894,011
Income taxes	2,172,436	3,601,378	3,356,079
NET INCOME	<u>\$ 3,912,919</u>	<u>\$ 7,055,489</u>	<u>\$ 6,537,932</u>
Net Income per share:			
Basic	\$ 1.08	\$ 1.95	\$ 1.80
Diluted	<u>\$ 1.07</u>	<u>\$ 1.93</u>	<u>\$ 1.75</u>

Balance Sheets

ASSETS

Current assets	\$ 37,541,018	\$ 38,068,718	\$ 31,947,612
Property, plant and equipment, net	25,985,645	27,327,706	16,364,838
Prepaid pension cost	5,321,110	5,293,873	4,980,689
Other assets, net	13,048,281	14,166,773	1,601,253
TOTAL ASSETS	<u>\$ 81,896,054</u>	<u>\$ 84,857,070</u>	<u>\$ 54,894,392</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	\$ 9,909,811	\$ 11,770,775	\$ 7,213,238
Deferred federal income taxes	3,126,500	3,350,700	2,927,000
Long-term debt, less current portion	25,013,906	28,539,515	8,565,027
Accrued postretirement benefits	2,735,910	2,658,532	2,789,314
Interest rate swap obligation	1,054,420	—	—
Shareholders' equity	40,055,507	38,537,548	33,399,813
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 81,896,054</u>	<u>\$ 84,857,070</u>	<u>\$ 54,894,392</u>

Cash Flows

CASH FLOWS FROM OPERATIONS

Net income	\$ 3,912,919	\$ 7,055,489	\$ 6,537,932
Depreciation and amortization	4,460,704	3,639,384	2,722,885
Other, net	(1,412,586)	(285,187)	(2,855,962)
Net cash provided by operating activities	<u>6,961,037</u>	<u>10,409,686</u>	<u>6,404,855</u>

INVESTING ACTIVITIES:

Purchases of equipment	(1,894,723)	(5,065,275)	(3,690,157)
Acquisitions	—	(27,547,304)	—
Other	—	98,872	7,538
Net cash used by investing activities	<u>(1,894,723)</u>	<u>(32,513,707)</u>	<u>(3,682,619)</u>

FINANCING ACTIVITIES:

Payments on debt	(3,028,830)	(7,396,103)	(2,265,721)
Issuance of debt	—	30,009,694	2,471,870
Sales of Common Stock	23,437	104,671	538,705
Treasury Stock purchases	(23,432)	(416,438)	(783,260)
Dividends paid	(1,598,809)	(1,600,511)	(1,573,045)
Net cash (used) provided by financing activities	<u>(4,627,634)</u>	<u>20,701,313</u>	<u>(1,611,451)</u>

Effect of exchange rate changes on cash	<u>(25,366)</u>	<u>4,224</u>	<u>39,504</u>
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Net increase (decrease) in cash	413,314	(1,398,484)	1,150,289
Cash at beginning of year	4,541,706	5,940,190	4,789,901
Cash at end of year	<u>\$ 4,955,020</u>	<u>\$ 4,541,706</u>	<u>\$ 5,940,190</u>

The information presented above has been derived from the audited consolidated financial statements of the Company included in the Form 10-K included in the inside back cover pocket of the report.

Board of Directors

John W. Everets

Chairman of H.P.S.C. Inc.
Boston, Massachusetts

Charles W. Henry

Partner of Kernan & Henry
Waterbury, Connecticut

Leonard F. Leganza

President and Chief Executive Officer
of the Company

David C. Robinson

President of The Robinson Co.
Waterbury, Connecticut

Donald S. Tuttle, III

Vice President and Account Executive
Paine Webber
Middlebury, Connecticut

Russell G. McMillen

Director Emeritus

Common Stock Market Prices and Dividends Paid

The Company's Common Stock is traded on the American Stock Exchange (ticker symbol **EML**). High and low stock prices and dividend payments for the last two years were:

2001			
Quarter	Sales Price		Cash Dividends Declared
	High	Low	
First	\$17.05	\$13.00	\$.11
Second	15.60	14.15	.11
Third	15.31	12.50	.11
Fourth	13.45	11.65	.11
2000			
Quarter	Sales Price		Cash Dividends Declared
	High	Low	
First	\$16.44	\$13.63	\$.11
Second	14.63	12.75	.11
Third	14.75	11.25	.11
Fourth	16.00	11.75	.11

Officers and Executives

Leonard F. Leganza

President and
Chief Executive Officer

John L. Sullivan III

Vice President,
Secretary and Treasurer

Frank J. Breker

Vice President
Eberhard Manufacturing Division
Eberhard Hardware Manufacturing, Ltd.
Sesamee Mexicana, S.A. de C.V.

Leonard V. Samela

Vice President
Greenwald Industries Division

Raymond L. Wright

Vice President
Frazer & Jones Division

Robert G. Alexander

Managing Director
Eberhard Hardware Manufacturing, Ltd.

Roger Chang

Managing Director
World Lock Co. Ltd.
World Security Industries Co. Ltd.

Thomas D. Melkus

Managing Director
CCL Security Products Division

Brian D. Reed

Managing Director
Illinois Lock Division

THE EASTERN COMPANY

P.O. Box 460, Naugatuck, CT 06770-0460

INDUSTRIAL HARDWARE GROUP

Eberhard Manufacturing Division

Cleveland, Ohio
www.eberhard.com

Eberhard Hardware Manufacturing, Ltd.

Tillsonburg, Ontario, Canada
www.eberhardcanada.com

Sesamee Mexicana, S.A. de C.V.

Lerma, Mexico
www.sesamee.com.mx

SECURITY PRODUCTS GROUP

Greenwald Industries Division

Chester, Connecticut;
Boynton Beach, Florida
www.greenwaldindustries.com

CCL Security Products Division

New Britain, Connecticut
www.cclsecurity.com

The Illinois Lock Company Division

Wheeling, Illinois
www.illinoislock.com

World Lock Co. Ltd.

World Security Industries Co. Ltd.
Taipei, Taiwan; China

METAL PRODUCTS GROUP

Frazer & Jones Division

Syracuse, New York
www.frazerandjones.com

Phone: (203) 729-2255 Fax: (203) 723-8653

E-mail: ir@easterncompany.com Homepage: www.easterncompany.com

Notes

Annual Meeting

The annual meeting of shareholders of The Eastern Company will be held on Wednesday, April 24, 2002 at 11:00 a.m., local time, at the office of The Company, 112 Bridge Street, Naugatuck, Connecticut 06770

Independent Auditors

Ernst & Young LLP, Hartford, Connecticut

Transfer Agent and Registrar

American Stock Transfer & Trust Co.
40 Wall Street, New York, NY 10005
Phone: 1-800-937-5449

Dividend Reinvestment & Stock Purchase Plan

The Eastern Company offers a Dividend Reinvestment Plan (DRP) which also features a no-load stock purchase program. It is available to all interested investors who would like to initiate or increase their holdings in Eastern Company stock. To receive a brochure and application form for this plan, contact The Eastern Company directly at (203) 729-2255, ext. 110, or phone the program administrator, American Stock Transfer & Trust Co. at 1-800-278-4353. You may also enroll online by logging onto www.INVESTPOWER.com and by entering the Company Ticker Symbol **EML** under Plan Search.

Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect the Company's current expectations regarding its products, its markets and its future financial and operating performance. These statements, however, are subject to risks and uncertainties that may cause the Company's actual results in future periods to differ materially from those expected. Such risks and uncertainties include, but are not limited to, unanticipated slowdowns in the Company's major markets, changing customer preferences, lack of success of new products, loss of customers, competition, increased raw material prices, problems associated with foreign sourcing of parts and products, worldwide conditions and foreign currency fluctuations that may affect results of operations and other factors discussed from time to time in the Company's filings with the Securities and Exchange Commission. The Company is not obligated to update or revise the aforementioned statements for those new developments.