

The
Eastern

COMPANY

ANNUAL REPORT 2002



The Eastern Company is a 145-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.

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. Their expanded product line also includes the latest in "Smart Card" payment systems.

The Illinois Lock Company/CCL Security Products Division produces custom-engineered locks for a variety of original equipment manufacturers and 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.

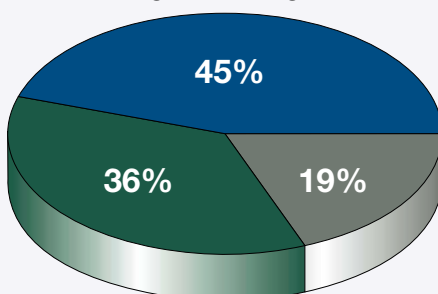
INDUSTRIAL HARDWARE

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.

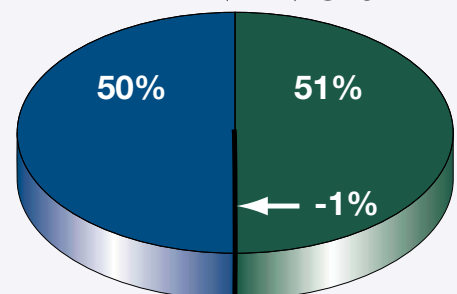
METAL PRODUCTS

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.

S A L E S



E A R N I N G S



Financial Highlights (in thousands)

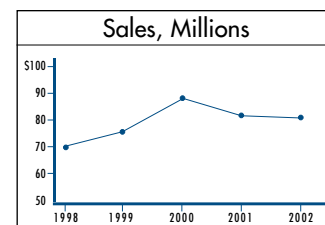
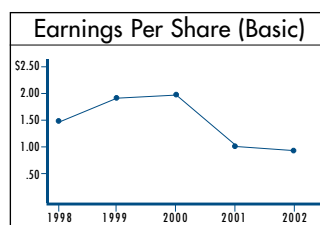
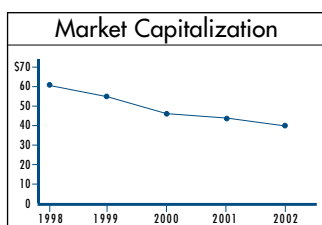
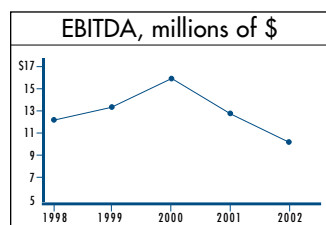
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net Sales	\$81,337	\$82,825	\$88,192	\$74,678	\$70,750
Net Income	3,292	3,913	7,055	6,538	5,443
Income Taxes	1,442	2,172	3,602	3,356	3,280
Income Before Taxes	4,734	6,085	10,657	9,894	8,723
Interest Expense	1,716	2,259	1,786	646	549
Depreciation and Amortization	3,565	4,461	3,639	2,723	2,912
EBITDA	10,015	12,805	16,082	13,263	12,184
Capital Expenditures	1,560	1,895	5,065	3,690	4,397
Dividends Paid	1,598	1,599	1,601	1,573	1,429

PER SHARE DATA

Net Income (Basic)	\$ 0.91	\$ 1.08	\$ 1.95	\$ 1.80	\$ 1.49
Net Book Value	10.44	11.06	10.64	9.21	7.81
Tangible Net Worth	6.65	7.45	6.73	8.77	7.34
Net Working Capital	7.05	7.49	7.26	6.82	5.79
Dividends	0.44	0.44	0.44	0.43	0.39
Average Shares Outstanding (Basic)	3,631,278	3,623,291	3,621,449	3,626,001	3,645,360

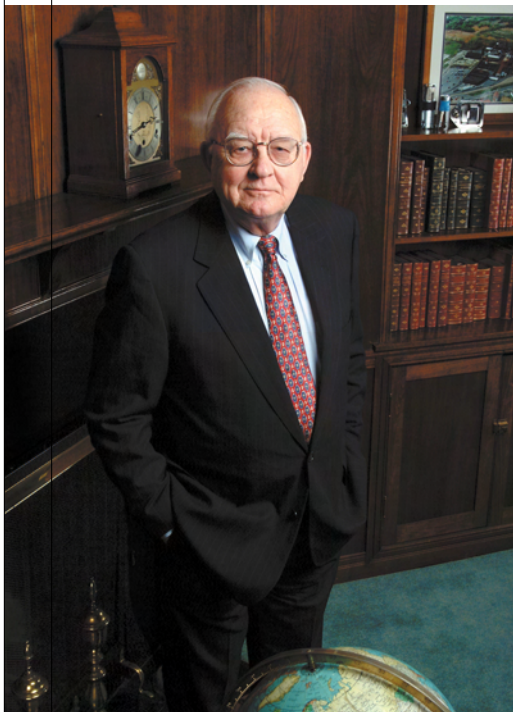
FINANCIAL RATIOS

Return on Investments	8%	10%	21%	23%	19%
Net Income as a % of Sales	4%	5%	8%	9%	8%
Gross Profit Margin	25%	27%	29%	30%	30%
Sales Per Employee (in thousands)	\$151	\$139	\$139	\$142	\$138
Net Income Per Employee (in thousands)	\$6	\$7	\$11	\$12	\$11
Current Ratio	3.5	3.7	3.2	4.4	3.8



Letter

TO OUR SHAREHOLDERS



The soft economic conditions we faced in 2001 continued during 2002. As a result, our sales volume for 2002 was little changed from its 2001 level — \$81.3 million compared with \$82.8 million. Both sales and our other financial results fell far short of our business plan for the year. Although 2002 began with a sluggish economy, the prevailing view was that a general economic recovery would take place in the second half of the year. We incorporated that view into our business plan, but the recovery never really occurred. Nor has there been much evidence of a strong and permanent rebound thus far in 2003.

Net income for 2002 was \$3.3 million, down 16% from the \$3.9 million reported for 2001. However, the 2001 result included a one-time gain of \$450,000 that stemmed from the Company's receipt of 26,000 shares of Prudential Financial Inc. common stock when Prudential became publicly traded. Excluding this nonrecur-

ring gain, net income for 2002 was down only 4% from 2001. Additionally, most of our business units generated operating profits. The Company as a whole generated cash flow of \$11.4 million in 2002, which enabled us to service our debt, provide for necessary capital investments and continue our long record of dividend payments.

While the soft economy was the main factor affecting our 2002 earnings, other factors were also at work. We encountered some unexpected and unplanned-for expenses, which totaled approximately \$2 million. Among other items, these expenses included increases in our pension expenses as a result of the decline in the stock market (and therefore in our pension plan assets), and increases in most of our insurance premiums.

Building Long-Term Strength

Manufacturing companies such as ours are particularly affected by economic downturns, and they respond in a variety of ways to offset the negative impact. In our case, for example, lower sales volume have meant lower utilization of plant facilities. To compensate, we have worked hard to reduce the overhead expenses associated with those facilities, for example, by making personnel reductions and cutting capital expenditures. In addition, we have realized further cost savings and improved profit margins by enhancing manufacturing efficiency throughout the Company using "lean" techniques. While such techniques are a normal way of life in a manufacturing environment, difficult times require even greater emphasis on productivity in order to preserve profit margins and remain competitive.

But over these last two difficult years, we haven't limited ourselves to

responding to negative economic conditions. We have continued our growth efforts and made decisions that we believe will enhance the long-term strength of the Company. For example:

- In October of 2002, we acquired the assets and business operations of Canadian Commercial Vehicles Corporation, which is located in Kelowna, British Columbia. The company produces the "sleeper boxes" that can be added to the cab of Class 8 trailer trucks to provide sleeping accommodations for overnight trips. This product expands our current broad line of offerings for the transportation industry. It also gives us the opportunity to have a strong supplier relationship with Freightliner LLC, a dominant producer of Class 8 trailer trucks. In addition, the sleeper boxes are made of a lightweight core composite material. We believe there are several potential new markets where this material might be used, and we intend to explore those opportunities.



- In March of 2002, we also acquired certain assets of the Big Tag Division of Dolan Enterprises, Inc. The identification tags produced by this company add to the line of travel accessory products we offer through the CCL division of our Security Products Group.
- We undertook internal strategic and organizational initiatives to further strengthen our operations and profitability.

For example, during the latter part of 2001 we made the decision to consolidate our CCL division (located in New Britain, Connecticut) into our Illinois Lock division in Wheeling, Illinois. We completed this process during 2002. The consolidation has already begun to yield productivity gains and customer service advantages, and we expect to realize even more benefits in the future.

We also decided to downsize our Frazer & Jones division for greater efficiency. Frazer & Jones will focus more intensively on the manufacturing and marketing of its core proprietary product, mine roof anchor supports, and will reduce its activity in the highly competitive contract casting business. The downsizing process caused us to incur some one-time costs, and the change in focus will result in lower sales volume at the outset, but we do expect Frazer & Jones to be more profitable in the future. Despite the shift in focus, the division will continue to pursue the market for ductile iron castings.

- We continued to emphasize internal product development. In 2002, we introduced new products, and we will be bringing out more in 2003 and beyond.
- Recognizing the present and future importance of China in the world of commerce, particularly in the manufacturing sector, we have added Mr. Steven Zhang to our corporate staff as U.S. Managing Director of Asian Operations. Mr. Zhang, with his extensive background, will act as liaison between all of our domestic divisions and

our current operations in Taiwan and China. He will also seek out more sources of lower cost products in order to enhance our profitability and improve customer service in the United States. In addition, he will explore the potential for selling our diversified products in all Asian markets.

Corporate Governance

In July of 2002, the U.S. Congress enacted the Sarbanes-Oxley Act. This extensive legislation focuses on the governance and reporting obliga-

we will, as required, undertake a special review of these practices and systems in 2003. Meanwhile, I want to assure our shareholders that each of the members of our Board of Directors, except for me as an employee, is "independent" as that term is defined in the legislation. Also, as required, I and our Chief Financial Officer certify the accuracy of the financial statements we file with the Securities and Exchange Commission. However, I want to emphasize that our accounting practices and internal control procedures



tions of all publicly traded corporations, large and small. It requires that companies provide for stronger governance practices, including having at least half the corporate board consist of independent directors and having the board's audit committee consist entirely of independent directors. In addition, it defines more extensive relationships between the independent auditors and the audit committee. It also specifies additional requirements to strengthen internal accounting controls and the disclosure of financial information. We intend, of course, to fully comply with all the terms of the law which pertain to us.

While our governance practices and control systems have been reviewed each year and found to be adequate,

have always been and continue to be beyond reproach.

The past two years of difficult and uncertain economic conditions have required total dedication and perseverance on the part of all our employees and in particular our senior executives. They have, as usual, responded to the challenge. Not only did they produce successful results for 2002, but they also strengthened the Company and positioned it well for the future. I thank them all for their hard work and dedication. I also thank our Board of Directors for their continued support and guidance.

Leonard F. Leganza
President and Chief Executive Officer

Security Products

SALES 45% EARNINGS 50%

The Security Products Group 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.



Industrial Hardware

SALES 36% EARNINGS 51%

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.



Metal Products

SALES 19% EARNINGS -1%

The Company's Metal Products Group consists of the Frazer & Jones Division. Frazer & Jones is a world class ductile and malleable iron foundry producing millions of 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 Statements

STATEMENTS OF EARNINGS

	2002	2001	2000
Net sales	\$ 81,337,207	\$ 82,825,353	\$ 88,192,294
Cost of products sold	60,637,151	60,782,769	62,191,769
Other expenses	15,965,748	15,957,229	15,343,658
	<u>76,602,899</u>	<u>76,739,998</u>	<u>77,535,427</u>
Income before income taxes	4,734,308	6,085,355	10,656,867
Income taxes	1,442,408	2,172,436	3,601,378
NET INCOME	<u>\$ 3,291,900</u>	<u>\$ 3,912,919</u>	<u>\$ 7,055,489</u>
Net Income per Share:			
Basic	\$ 0.91	\$ 1.08	\$ 1.95
Diluted	\$ 0.89	\$ 1.07	\$ 1.93

BALANCE SHEETS

ASSETS

Current assets	\$ 36,006,517	\$ 37,041,018	\$ 37,568,718
Property, plant and equipment, net	25,049,969	26,485,645	27,827,706
Prepaid pension cost	1,338,010	5,321,110	5,293,873
Other assets, net	13,738,041	13,048,281	14,166,773
TOTAL ASSETS	<u>\$ 76,132,537</u>	<u>\$ 81,896,054</u>	<u>\$ 84,857,070</u>

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities	\$ 10,406,518	\$ 9,909,811	\$ 11,770,775
Deferred income taxes	737,987	3,126,500	3,350,700
Long-term debt, less current portion	18,920,747	25,013,906	28,539,515
Accrued postretirement benefits	2,578,156	2,735,910	2,658,532
Interest rate swap obligation	1,138,086	1,054,420	-
Accrued pension obligation	4,448,197	-	-
Shareholders' equity	37,902,846	40,055,507	38,537,548
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 76,132,537</u>	<u>\$ 81,896,054</u>	<u>\$ 84,857,070</u>

CASH FLOWS

CASH FLOWS FROM OPERATIONS

Net income	\$ 3,291,900	\$ 3,912,919	\$ 7,055,489
Depreciation and amortization	3,565,460	4,460,704	3,639,384
Other, net	4,510,363	(1,412,586)	(285,187)
Net cash provided by operating activities	<u>11,367,723</u>	<u>6,961,037</u>	<u>10,409,686</u>

INVESTING ACTIVITIES:

Purchases of equipment	(1,559,863)	(1,894,723)	(5,065,275)
Acquisitions	(303,746)	-	(27,547,304)
Other	-	-	98,872
Net cash used by investing activities	<u>(1,863,609)</u>	<u>(1,894,723)</u>	<u>(32,513,707)</u>

FINANCING ACTIVITIES:

Payments on debt	(6,853,694)	(3,028,830)	(7,396,103)
Issuance of debt	-	-	30,009,694
Sales of Common Stock	-	23,437	104,671
Treasury Stock purchases	(55,855)	(23,432)	(416,438)
Dividends paid	(1,597,864)	(1,598,809)	(1,600,511)
Net cash (used) provided by financing activities	<u>(8,507,413)</u>	<u>(4,627,634)</u>	<u>20,701,313</u>

Effect of exchange rate changes on cash	<u>(12,489)</u>	<u>(25,366)</u>	<u>4,224</u>
Net increase (decrease) in cash	984,212	413,314	(1,398,484)
Cash at beginning of year	4,955,020	4,541,706	5,940,190
Cash at end of year	<u>\$ 5,939,232</u>	<u>\$ 4,955,020</u>	<u>\$ 4,541,706</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
UBS PaineWebber
Middlebury, Connecticut

Russell G. McMillen

Director Emeritus

Common Stock Market Prices & 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:

2002			
Quarter	Sales Price High	Low	Cash Dividends Declared
First	\$16.25	\$11.75	\$.11
Second	16.10	14.36	.11
Third	14.60	12.00	.11
Fourth	12.35	11.00	.11
2001			
Quarter	Sales Price High	Low	Cash Dividends Declared
First	\$17.05	\$13.00	\$.11
Second	15.60	14.15	.11
Third	15.31	12.50	.11
Fourth	13.45	11.65	.11

Officers & Executives

Leonard F. Leganza

President and
Chief Executive Officer

John L. Sullivan III

Vice President,
Secretary and Treasurer

Theresa P. Dews

Assistant Secretary

Brian H. Kay

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

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.

Richard E. Luehr

Managing Director
Canadian Commercial Vehicles Corporation

Thomas D. Melkus

Managing Director
Illinois Lock Company/
CCL Security Products Division

Steven Zhang

U.S. Managing Director
of Asian Operations

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

Canadian Commercial Vehicles Corporation

Kelowna, British Columbia, Canada
www.ccvcc.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

The Illinois Lock Company/ CCL Security Products Division

Wheeling, Illinois
www.illinoislock.com
www.cclsecurity.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 23, 2003 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
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.