

THE EASTERN COMPANY

# THE EASTERN COMPANY

- METAL PRODUCTS
- SECURITY PRODUCTS
- INDUSTRIAL HARDWARE

ANNUAL REPORT 2010

## LETTER TO OUR SHAREHOLDERS



I am pleased to report that our company delivered significantly improved results in 2010, even though the economy failed to become as robust as everyone would have liked. A key contributor to the improvement, we believe, was the series of actions we took during 2009 in response to the recession.

Sales in 2010 grew 16% to \$130.1 million from \$112.7 million in 2009, while net earnings grew 435% to \$5.5 million from \$1.0 million. We cautiously anticipate further improvement in 2011.

As I noted in my 2009 annual report letter, the severe economic downturn had begun to negatively affect most of our businesses starting in late 2008 and continuing into 2009. We experienced sales declines in almost all of the many markets we serve, and those declines led to underutilization of our facilities and a significant drop in our earnings. To alleviate the impact of facility underutilization, in 2009 we implemented a number of common-sense business decisions that focused on realigning our operations. We executed those short-term actions in the most thoughtful manner we could under the circumstances.

In particular, we were very careful not to jeopardize any of our longer term initiatives or potential strategic opportunities, and we were very concerned to treat our employees in the fairest manner possible.

Basically, we did what most companies would do under similar business conditions—we reduced our labor costs through layoffs, furloughs and shortened work schedules; looked for ways to cut costs throughout our manufacturing processes; and cut back other operating expenses wherever practical. In so doing, we made our operations even leaner than they already were, and—most important—better positioned them to benefit from any future economic recovery.

While none of the markets we serve can be described in 2010 as having recovered from the downturn, some of them did show signs of strengthening. The resulting increase in our sales improved the utilization of our facilities, which helped increase our profitability. But it was the realignment we undertook in 2009 that was the main contributor to our 2010 results.

We had ended 2009 in strong financial condition, as illustrated by our balance sheet. But because the prospects for improvement in the economy looked uncertain, during 2010 we gave even greater attention to our liquidity. By emphasizing the management of our cash and working capital and by restructuring our corporate debt, we were able to provide the funds necessary for debt service, for improvements to our equipment and facilities, and for product development programs. All of these are vital undertakings if we are to remain competitive in a global economy. Additionally, our efforts to strengthen liquidity put us in a position to return more money to our stockholders. Therefore, at its October 2010 meeting, the Board of Directors declared a one-time extra dividend payment of \$0.16 per common share in addition to a regular dividend payment of \$0.09 per share.

### SEGMENT PERFORMANCE

**Metal Products Group**—This segment primarily manufactures a proprietary line of mine roof anchors used for securing the roofs of underground coal and metallurgical mines. Last year, sales increased by 29%—to \$26.7 million from \$20.7 million in 2009—because of strong demand for our products. Notwithstanding all the environmental rhetoric, we believe coal mining will continue to be a significant industry because of the important role that coal plays in the world's energy supplies. For that reason, we are continuing our initiative to establish a presence in China's coal mining industry with our roof anchors.

During 2010, we invested approximately \$2.5 million in the Metal Products Group, reaffirming our positive expectations

for the segment. Those funds have provided for upgrades of our major as well as supporting equipment, which have led to increased productivity and improved product quality. Both of those gains will strengthen our competitiveness in the markets for both malleable and ductile iron products.

**Industrial Hardware Group**—Our Eberhard units produce latches and other hardware products for trailer trucks, service vehicles, school buses and military vehicles; Eberhard also furnishes locks and latches to other diverse markets. The Canadian Commercial Vehicles subsidiary manufactures panels made of a lightweight composite material; its major product is sleeper cabs for the Class 8 truck market (which includes tractor trailers). The Industrial Hardware segment sales in 2010 increased over those in 2009—\$57.5 million versus \$50.0 million, respectively—reflecting early signs of improvement in its key vehicular markets. (In 2009, the segment had seen its sales drop as a result of the recession.) Current projections for truck manufacturing are positive, indicating that 2011 will be a stronger year for the Industrial Hardware Group. Improvement in the truck sector—an industry that is an important part of our business plans—is generally a harbinger of recovery in the broader economy.

Canadian Commercial Vehicles continued to provide sleeper cabs for the Class 8 truck market and for the military version of Class 8 vehicles. It also experienced good acceptance of its proprietary lightweight composite material for some products in high-technology markets.

**Security Products Group**—This segment produces locks under the SearchAlert™, Sesamee® and Prestolock® brand names, as well as coin collection and Smart Card products for the commercial laundry market. Sales last year rose to \$45.9 million from \$42.0 million in 2009, a 9% increase. (Of our three segments, Security Products had suffered the largest drop in sales in 2009.) Contributing to the 2010 upturn were improved conditions in the travel, computer and vehicular markets, which are among the many industry sectors served by the segment. Despite introducing several new products in the commercial laundry market last year, we experienced flat sales in that area. For 2011, we expect to see improved conditions in the laundry sector and greater acceptance of our new offerings.

## CORPORATE GOVERNANCE

In January 2011, the Securities and Exchange Commission adopted final rules on shareholder approval of executive compensation (referred to as “say-on-pay”). These rules implement one section of last year’s Dodd-Frank Wall Street

Reform and Consumer Protection Act. The final rules require us, among other things, to:

1. Provide our shareholders with the opportunity to cast an advisory vote on executive compensation at least once every three years.
2. Allow our shareholders to vote on how often they wish us to present them with the advisory vote on executive compensation.

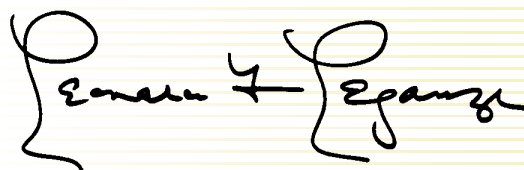
In accordance with existing proxy rules, our proxy statement comprehensively discusses, in the section entitled “Compensation Discussion and Analysis,” all of the compensation arrangements which I and our Chief Financial Officer have with the Company. That discussion also describes the process which the Compensation Committee of the Board uses in its annual evaluation of those arrangements. In view of the SEC’s further mandate, I think it important that all shareholders read the relevant pages of our proxy.

The following pages of our Annual Report and the enclosed Form 10-K filed with the SEC contain more extensive information about the Company’s operations, including detailed financial data. I urge you to read in particular the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The 10-K report also includes the required certifications attesting to the adequacy of the Company’s internal accounting controls and our compliance with the requirements of the Sarbanes-Oxley Act.

## WE’RE READY

Throughout the economic downturn, we continued to develop our product lines, improve our production processes and seek out strategic opportunities to enhance the value of our shareholders’ investment. While we do not know what the coming year will bring, we are confident that when the economy does get stronger and all our markets improve, we will be in a strong position to benefit from that recovery.

I thank our shareholders and Board of Directors for their confidence and support, and all of our employees for their efforts during these difficult times.



Leonard F. Leganza  
Chairman of the Board, President and Chief Executive Officer

## METAL PRODUCTS GROUP

### FRAZER & JONES DIVISION

The Frazer & Jones Division is the leading producer of rock anchors in North America. These proprietary anchoring devices are a key component for underground mine roof support in coal and metallurgical mines. In the construction industry the rock anchors are used in tunneling, securing cross-country transmission towers and hydro construction. The Frazer & Jones Division is the only producer in the Western Hemisphere to combine design, engineering and the manufacturing of these products. Frazer & Jones also produces ductile and malleable iron castings to customer engineered specifications for the industrial hardware, pipefitting and construction industries.





## SECURITY PRODUCTS GROUP

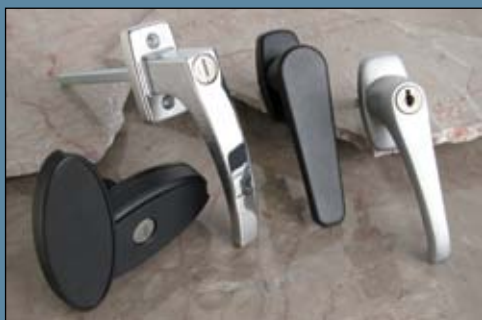


### GREENWALD INDUSTRIES DIVISION

Founded in 1954, Greenwald is a leading supplier of Coin and Smart Card vending solutions found primarily in the Commercial Laundry Market. Our full line of traditional products includes coin acceptors, money boxes, meter cases and mechanical timers. Our state-of-the-art Smart Card products for both our “contact” and “contactless” payment systems include Smart Cards, Readers, Add Value Stations and Web based management software. In 2006, Greenwald acquired Summit Manufacturing, a designer and manufacturer of oven safety latches and door switches used in residential appliances

### THE ILLINOIS LOCK COMPANY/ CCL SECURITY PRODUCTS/ROYAL LOCK DIVISION WORLD LOCK CO. LTD. WORLD SECURITY INDUSTRIES CO. LTD.

The Illinois Lock/CCL Security Products/Royal Lock Division designs and manufactures custom-engineered locks for a variety of household name Original Equipment Manufacturers and is a leading supplier of keyless locks sold under the well known brand names Sesamee®, Prestolock®, HUSKI™ and SearchAlert™. The combination of our US engineering and Asian manufacturing resources enables the division to provide its customers with high value engineering services and competitively priced products across a broad range of markets.



## INDUSTRIAL HARDWARE GROUP



### EBERHARD MANUFACTURING DIVISION

The Eberhard Manufacturing Division of Cleveland, Ohio is a leading designer and manufacturer of industrial latching systems servicing various Original Equipment Manufacturers throughout North America. The extensive selection of products Eberhard provides includes external and internal operating handles and rotary latches for military, fire and rescue, service body, and other specialty and commercial vehicles; operating push buttons and slam latches for toolboxes and tonneau covers for the automotive and truck accessory markets. Eberhard also provides many other enclosure devices such as locking gear for over the road tractor trailers, door operating devices for school and commercial buses as well as many access door devices for electrical, electronic and specialty metal enclosures.





#### **CANADIAN COMMERCIAL VEHICLES CORPORATION**

Canadian Commercial Vehicles ("CCV") is a full-service custom manufacturer of state-of-the-art lightweight honeycomb structures, fabricated metal products and assemblies for transportation, construction, and industrial and technology applications.



#### **EBERHARD HARDWARE MANUFACTURING LIMITED**

Eberhard Hardware Manufacturing Limited of Ontario, Canada provides the wide line of traditional industrial latching products to the Canadian market as well as specialty hardware items for global markets. Working with toolbox OEM's in Canada and the United States, new and improved latching systems have also been developed. Additional specialty products include various connectors, brackets, stampings and assemblies for the appliance and electrical OEM markets.



#### **SESAMEE MEXICANA, S.A. DE C.V.**

Sesamee is a distribution center for the Eberhard Manufacturing Division as well as other manufacturers of industrial and vehicular components. Located near Mexico City, Sesamee services the Original Equipment Manufacturers in the vehicular body, electrical enclosure and instrument case markets with hardware, drawer slides, rubber gaskets, and pneumatic gas springs as well as other complimentary components. Recently, Sesamee began manufacturing truck body kits made from our lightweight composite material.



#### **EASTERN INDUSTRIAL LIMITED**

Eastern Industrial, Ltd., Shanghai offers comprehensive capabilities for Asian sourcing, machine tool design, engineering, rapid prototyping, extensive manufacturing including metal stampings and plastic injection molding to final assembly.



## FINANCIAL HIGHLIGHTS (IN THOUSANDS)

	2010	2009	2008	2007	2006
<b>SELECTED FINANCIAL DATA</b>					
Net Sales	<b>\$130,130</b>	\$112,665	\$135,878	\$156,281	\$138,465
Net Income	<b>5,543</b>	1,036	4,505	10,081	9,659
Income Taxes	<b>2,705</b>	865	1,538	4,765	5,187
Income Before Taxes	<b>8,248</b>	1,902	6,043	14,845	14,846
Interest Expense	<b>266</b>	1,728	1,064	1,289	1,098
Depreciation and Amortization	<b>3,943</b>	4,103	4,128	4,370	3,746
Capital Expenditures	<b>4,733</b>	2,226	2,331	2,868	6,722
Dividends Paid	<b>3,182</b>	2,155	1,938	1,802	1,715
<b>PER SHARE DATA</b>					
Net Income (Diluted)	<b>\$0.90</b>	\$0.17	\$0.73	\$1.68	\$1.67
Net Book Value	<b>11.31</b>	10.67	10.14	11.82	9.43
Tangible Net Worth	<b>8.67</b>	7.98	7.34	8.81	6.30
Net Working Capital	<b>7.79</b>	7.09	7.91	7.85	6.16
Dividends	<b>0.52*</b>	0.36	0.33	0.32	0.31
Average Shares Outstanding (Diluted)	<b>6,192,019</b>	6,241,780	6,159,563	5,989,754	5,768,108
<b>FINANCIAL RATIOS</b>					
Return on Investment	<b>8%</b>	2%	6%	19%	21%
Net Income as a % of Sales	<b>4%</b>	1%	3%	6%	7%
Gross Profit Margin	<b>20%</b>	18%	19%	23%	25%
Sales per Employee (in thousands)	<b>\$206</b>	\$189	\$195	\$211	\$199
Net Income Per Employee (in thousands)	<b>\$9</b>	\$2	\$6	\$14	\$14
Current Ratio	<b>4.9</b>	3.9	4.8	3.9	2.5

### Common Stock Market Prices and Dividends Paid

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

2010				2009			
Quarter	Sales Price		Cash Dividends	Quarter	Sales Price		Cash Dividends
	High	Low	Declared		High	Low	Declared
First	\$ 14.02	\$ 10.90	\$.09	First	\$ 12.43	\$ 8.11	\$.09
Second	16.57	12.08	.09	Second	17.48	10.35	.09
Third	17.75	13.09	.09	Third	18.42	15.30	.09
Fourth	19.56	15.45	.25*	Fourth	17.57	11.14	.09

\* The Company paid an additional one-time extra dividend of \$0.16 in the fourth quarter of 2010.



## SUMMARIZED FINANCIAL DATA

	2010	2009	2008
<b>Statements of Earnings</b>			
Net sales	\$ 130,130,360	\$ 112,665,464	\$ 135,878,490
Cost of products sold	103,458,137	92,031,078	110,415,392
Other expenses	18,423,805	18,732,857	19,420,250
	<u>121,881,942</u>	<u>110,763,935</u>	<u>129,835,642</u>
Income before income taxes	8,248,418	1,901,529	6,042,848
Income taxes	2,705,413	865,122	1,538,225
NET INCOME	<u>\$ 5,543,005</u>	<u>\$ 1,036,407</u>	<u>\$ 4,504,623</u>
Net income per share:			
Basic	\$ 0.91	\$ 0.17	\$ 0.77
Diluted	\$ 0.90	\$ 0.17	\$ 0.73
<b>Balance Sheets</b>			
ASSETS			
Current assets	\$ 60,633,425	\$ 59,761,021	\$ 61,692,263
Property, plant and equipment, net	24,464,036	22,973,633	23,910,709
Prepaid pension cost	-	36,838	-
Deferred income taxes	912,043	1,283,323	3,154,810
Other assets, net	16,343,976	16,817,044	17,259,186
TOTAL ASSETS	<u>\$ 102,353,480</u>	<u>\$ 100,871,859</u>	<u>\$ 106,016,968</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	\$ 12,371,895	\$ 15,480,771	\$ 12,947,508
Other long-term liabilities	713,202	1,077,247	1,614,833
Long-term debt, less current portion	3,750,000	4,285,713	11,428,571
Accrued postretirement benefits	1,461,371	1,341,498	1,062,719
Accrued pension cost	14,013,269	12,089,326	15,311,924
Interest rate swap obligation	-	-	1,169,848
Shareholders' equity	70,043,743	66,597,304	62,481,565
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 102,353,480</u>	<u>\$ 100,871,859</u>	<u>\$ 106,016,968</u>
<b>Cash Flows</b>			
Cash flows from operations	\$ 9,501,272	\$ 13,343,558	\$ 7,613,225
Investing activities	(4,732,969)	(2,226,025)	(2,446,420)
Financing activities	(9,419,933)	(3,405,870)	(4,169,446)
Effect of exchange rate changes on cash	<u>129,565</u>	<u>67,385</u>	<u>(239,456)</u>
Net increase in cash and cash equivalents	(4,522,065)	7,779,048	757,903
Cash and cash equivalents at beginning of year	16,746,673	8,967,625	8,209,722
Cash and cash equivalents at end of year	<u>\$ 12,224,608</u>	<u>\$ 16,746,673</u>	<u>\$ 8,967,625</u>

The information presented above has been derived from the audited consolidated financial statements of the Company as presented in the Form 10-K included in this report.

# BOARD OF DIRECTORS / OFFICERS AND EXECUTIVES

## Board of Directors

Leonard F. Leganza  
Chairman of the Board, President  
and Chief Executive Officer  
of the Company

John W. Everets  
Chairman and CEO  
SBM Financial Inc.  
Gardiner, Maine

Charles W. Henry  
Partner of Henry & Federer, LLP  
Southbury, Connecticut

David C. Robinson  
Business Consultant

Donald S. Tuttle, III  
Business Consultant

## Officers and Executives

Leonard F. Leganza  
Chairman of the Board, President  
and Chief Executive Officer

John L. Sullivan III  
Vice President and  
Chief Financial Officer

Kenneth R. Sapack  
Chief Accounting Officer

Gene A. Finelli  
Treasurer

Theresa P. Dews  
Secretary

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

Leonard V. Samela  
Vice President  
Greenwald Industries Division  
The Illinois Lock Company/  
CCL Security Products/  
Royal Lock Division

Angelo Labbadia  
Vice President  
Frazer & Jones Division

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Richard E. Luehr  
Managing Director  
Canadian Commercial Vehicles Corporation

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

## NOTES

### **ANNUAL MEETING**

The annual meeting of shareholders of The Eastern Company will be held on Wednesday, April 27, 2011 at 11:00a.m., local time, at the office of the Company, 112 Bridge Street, Naugatuck, Connecticut.

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Fiondella, Milone & LaSarcina LLP, Glastonbury, Connecticut

### **TRANSFER AGENT AND REGISTRAR**

American Stock Transfer & Trust Co.

59 Maiden Lane, Plaza Level, New York, NY 10038

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 The Eastern Company stock. To receive a brochure and application form for this plan, contact The Eastern Company directly at (203) 729-2255, ext. 104, 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](http://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.

## INDUSTRIAL HARDWARE GROUP

Eberhard Manufacturing Division  
Cleveland, Ohio  
[www.eberhard.com](http://www.eberhard.com)

Eberhard Hardware Manufacturing, Ltd.  
Tillsonburg, Ontario, Canada  
[www.eberhardcanada.com](http://www.eberhardcanada.com)

Canadian Commercial Vehicles Corporation  
Kelowna, British Columbia, Canada  
[www.ccvbc.com](http://www.ccvbc.com)

Eastern Industrial, Ltd.  
Shanghai, China  
[www.easternindustrialchina.com.cn](http://www.easternindustrialchina.com.cn)

Sesamee Mexicana, S.A. de C.V.  
Composite Panel Technologies  
Lerma, Mexico  
[www.sesamee.com.mx](http://www.sesamee.com.mx)  
[www.cptech.com.mx](http://www.cptech.com.mx)

## SECURITY PRODUCTS GROUP

Greenwald Industries Division  
Chester, Connecticut  
[www.greenwaldindustries.com](http://www.greenwaldindustries.com)

The Illinois Lock Company/  
CCL Security Products/ Royal Lock Division  
Wheeling, Illinois  
[www.illinoislock.com](http://www.illinoislock.com)  
[www.cclsecurity.com](http://www.cclsecurity.com)  
[www.royallock.com](http://www.royallock.com)

World Lock Co. Ltd.  
World Security Industries Co. Ltd.  
Taipei, Taiwan; China  
[www.worldlock.com.tw](http://www.worldlock.com.tw)

## METAL PRODUCTS GROUP

Frazer & Jones Division  
Syracuse, New York  
[www.frazerandjones.com](http://www.frazerandjones.com)