

THE EASTERN

COMPANY

**SECURITY PRODUCTS  
INDUSTRIAL HARDWARE  
METAL PRODUCTS**

**ANNUAL REPORT 2014**



# LETTER TO OUR SHAREHOLDERS

For 2014, our net sales of \$140.8 million were 1% less than the \$142.5 million we recorded for 2013. Net income, however, increased by 11% to \$7.7 million, or \$1.23 per diluted share, compared with \$6.9 million, or \$1.11 per diluted share in 2013. By paying close attention to our supply chain, using lean techniques in our manufacturing process and controlling our administrative costs, we increased our gross margins to 23% compared with 21% in 2013. Based on 2014's profitability and our strong cash position, we paid a one-time extra dividend of \$0.04 per share in addition to our regular quarterly dividend of \$0.11 per share. Our most recent dividend represented the Company's 298th consecutive quarterly dividend.

We made progress in 2014 with our value-creation strategy both internally and externally. Internally, even as softness in some markets served by our OEM customers affected our results, we were able to continue to invest in the development of new products to expand our business with current customers and make inroads into new market sectors. In addition, we continued to focus on our daily operations to ensure that we maximize profit and produce consistent cash flows to adequately fund our product development, facility improvements and dividend.

Externally, our value-creation strategy includes acquiring high-quality businesses that will further enhance or expand our product lines. Since 2000, the Company has completed more than a half-dozen acquisitions, including three of our largest and most significant purchases of industry-leading names: Greenwald Industries, a manufacturer of products mainly for the commercial laundry industry; Canadian Commercial Vehicles, our primary producer of lightweight composite panels; and Royal Lock Corporation, a marketer of locks and specialty hardware products. We have also made additional investments to improve the productivity and efficiency of our U.S. and China facilities and to expand our Mexican operation.

We continued to grow and diversify through acquisition in 2014 with the December 2014 purchase of Argo Transdata Corporation, a contract manufacturer of printed circuit board assemblies. Argo's products are sold to numerous OEMs in our target markets, including measurement systems, industrial controls, and medical and military markets. This acquisition represents a new initiative and further expands Eastern's markets and security product operations. Argo will be integrated into our Security Products Group, which utilizes printed circuit boards in several of its products. We plan to expand this business in the coming years both organically and through acquisitions of similar and technologically related companies.



Also in 2014, we established a manufacturing plant in Salisbury, North Carolina, that will produce lightweight composite panels. The panels will be used to produce sleeper cabs for a newly redesigned Class 8 truck. Additionally, the new plant will give us an opportunity to expand our marketing and sales of lightweight composite panel products throughout the eastern United States. We expect the facility to begin production early in the second quarter of 2015.

Looking forward to 2015 and beyond, we are excited about our potential, particularly in the areas of security and safety, where we are expanding our capabilities and product offerings. Having a very strong balance sheet gives us the capability to make capital investments,

pursue acquisitions, pay dividends and repurchase shares – all focused on continuing to drive shareholder value. You will be hearing more about these initiatives throughout 2015. Our Board also will continue to receive and consider input from our shareholders, independent consultants and operating management. We appreciate this input and, as always, will evaluate it carefully with regard to the best interests of all shareholders.

Also included in this publication is our Annual Report on Form 10-K, which we submitted to the Securities and Exchange Commission. I encourage you to read the 10-K as it provides additional detail on the Company's operations and financial performance for the past three years, including our certifications regarding the strength of our internal financial and operating controls.

I thank our Board of Directors for their attention to executing our strategy and enhancing our corporate governance. I also thank our team of senior operating executives and our entire workforce for their hard work and commitment to continuous improvement, even during years of difficult economic conditions. The Board and I are extremely proud of what they have been able to accomplish.

And I thank you, our shareholders, for your continued support.

A handwritten signature in black ink, reading "Leonard F. Leganza". The signature is fluid and cursive, with the first name and last name clearly legible.

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

# FINANCIAL HIGHLIGHTS

## Selected Financial Data

(in thousands)

	2014	2013	2012	2011	2010
Net Sales	\$140,825	\$142,458	\$157,509	\$142,856	\$130,130
Net Income	7,661	6,902	8,626	5,505	5,543
Income Taxes	3,867	3,212	4,599	3,002	2,705
Income Before Taxes	11,529	10,114	13,225	8,507	8,248
Interest Expense	255	323	369	231	266
Depreciation and Amortization	3,486	3,825	3,440	3,707	3,943
Capital Expenditures	3,633	5,524	4,217	3,395	4,733
Dividends Paid	2,987	2,613	3,109	2,224	3,182

## Per Share Data

Net Income (Diluted)	\$1.23	\$1.11	\$1.38	\$0.89	\$0.90
Net Book Value	12.02	13.07	11.48	11.13	11.31
Tangible Net Worth	9.19	10.59	8.96	8.58	8.67
Net Working Capital	9.27	9.20	9.13	7.83	7.79
Dividends	0.48*	0.42	0.50*	0.36	0.52*
Average Shares Outstanding (Diluted)	6,237,914	6,237,758	6,233,375	6,216,193	6,192,019

## Financial Ratios

Return on Investment	9%	10%	12%	8%	8%
Net Income as a % of Sales	5%	5%	5%	4%	4%
Gross Profit Margin	23%	21%	21%	19%	20%
Sales per Employee (in thousands)	\$149	\$193	\$216	\$208	\$206
Net Income per Employee (in thousands)	\$8	\$9	\$12	\$8	\$9
Current Ratio	5.3	5.2	4.8	4.0	4.9

\* The Company paid an additional one-time extra dividend of \$0.04 in the third quarter of 2014; \$0.10 in the fourth quarter of 2012; and \$0.16 in the fourth quarter of 2010.

## Common Stock Market Prices and Dividends Paid

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

2014				2013			
Quarter	Market Price High	Market Price Low	Cash Dividends Declared	Quarter	Market Price High	Market Price Low	Cash Dividends Declared
First	\$17.71	\$15.35	\$0.11	First	\$ 20.00	\$ 14.91	\$ .10
Second	17.74	15.05	0.11	Second	18.25	14.58	.10
Third	16.45	15.15	0.15**	Third	17.75	15.27	.11
Fourth	18.49	15.29	0.11	Fourth	17.99	15.39	.11

\*\* The Company paid an additional one-time extra dividend of \$0.04 in the third quarter of 2014.

## INDUSTRIAL HARDWARE GROUP

**EBERHARD  
MANUFACTURING DIVISION**

Eberhard's commitment as a manufacturing company is to provide its customers with quality products by using the highest quality materials that are available. Eberhard is proud to be ISO registered and TS compliant.

Eberhard offers metal stampings, rapid prototyping, customized welding capabilities, laser cutting, injection molding, screw machines, final assembly, various coating applications and many other services.

Eberhard continues to be one of the leading designers and manufacturers of access hardware in the world. Our extensive product line of over 5,000 parts offers customers items such as t-handles, hinges, paddle latches, rotary latches, grab handles, and vents. Eberhard offers its customers a full line of standard products along with the manufacture of one-of-a-kind products either designed by the customer or our engineering staff.

The variety of parts produced allows Eberhard to be involved with many different industries such including trucks, trailers, fire/emergency, bus, enclosure, defense, government, truck accessories and off-highway.



**EBERHARD HARDWARE  
MANUFACTURING, LTD.**

Eberhard Hardware Manufacturing, Ltd. of Ontario, Canada provides a wide line of traditional Eberhard industrial latching products to the Canadian markets as well as specialty hardware items for global markets. Working with toolbox OEMs 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, and most recently, composite panels made of our lightweight honeycomb structures.





# INDUSTRIAL HARDWARE GROUP

## CANADIAN COMMERCIAL VEHICLES CORPORATION ("CCV") COMPOSITE PANEL TECHNOLOGIES ("CPT")

Canadian Commercial Vehicles Corporation ("CCV") is a full-service custom manufacturer of fabricated products and assemblies utilizing its state-of-the-art lightweight honeycomb polypropylene structures made to meet the demand of many different market segments. In addition to the main facility in Kelowna, British Columbia, we have opened two additional facilities for the production of this product. The first, CPT – Canada, is located in Tillsonburg, Ontario as part of our Eberhard Hardware subsidiary. In 2015, we will begin manufacturing products in a new facility in Salisbury, North Carolina.



CCV/CPT has built a solid reputation in the custom manufacturing industry building class 8 custom sleeper truck boxes for Western Star Trucks, effectively reducing overall vehicle weight by approximately 800 pounds while maintaining the highest standards

of strength and durability. This resulted in significant fuel savings and increased unit payload capacity, an innovation that helped Western Star Trucks maintain its post as an industry leader.

By custom manufacturing lightweight structures and durable and recyclable components for the transportation industry, CCV/CPT is supporting its customers to meet environmental initiatives – both in waste reduction and in reduced energy consumption.



## EASTERN INDUSTRIAL, LTD.

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

## SESAMEE MEXICANA, S.A. de C.V.

Sesamee has historically been a distribution center for the Eberhard Manufacturing Division as well as other manufacturers of industrial and vehicular components. More recently, Sesamee has begun manufacturing truck body kits made from our lightweight composite material that is then mounted on a truck frame. These vehicles are used in a variety of industries where small trucks are a necessity, including food and snack distribution.



# SECURITY PRODUCTS GROUP

## **THE ILLINOIS LOCK/CCL SECURITY PRODUCTS DIVISION** **DONGUAN REEWORLD SECURITY PRODUCTS LTD.** **WORLD LOCK CO. LTD.**

The Illinois Lock Company/CCL Security Products Division designs and manufactures custom-engineered locks for a variety of household name OEMs and is a leading supplier of keyless locks sold under the well-known brand names Sesamee®, Prestolock® and SearchAlert™. The combination of our U.S. 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.





# SECURITY PRODUCTS GROUP

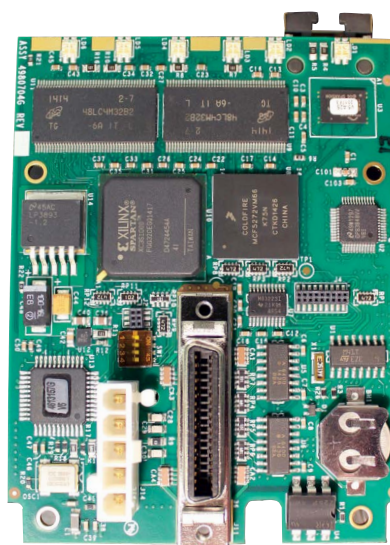
## GREENWALD INDUSTRIES DIVISION

Founded in 1954, Greenwald is a major 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 Cloud based management software.



## ARGO TRANSDATA DIVISION

Acquired in December 2014, Argo is a contract manufacturer of printed circuit board assemblies. Argo was established in 1969 as a manufacturer of chip-on-board and bare die attached PCB Assemblies. Argo has the ability to manufacture surface mount, through hole and wire bond assemblies or any combination of the three technologies, from very basic to extremely complex. Production lines can accommodate "kitted" or "turn-key" assemblies and Argo offers "quick turn" and prototype builds as well as support and production quantities with KANBAN releases. Our customers represent leaders in industries such as measurement systems, industrial controls, medical and military.



# 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, construction and railroad industries.





# 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.  
Portland, Maine

### **Charles W. Henry**

Partner of Henry & Federer, LLP  
Woodbury, 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  
Composite Panel Technologies Division  
Eberhard Hardware Manufacturing, Ltd.  
Canadian Commercial Vehicles Corporation  
CPT – Canada  
Sesamee Mexicana, S.A. de C.V.

### **Leonard V. Samela**

Vice President  
Greenwald Industries Division  
Argo Transdata Division  
The Illinois Lock Company/  
CCL Security Products Division

### **Angelo M. Labbadia**

Vice President  
Frazer & Jones Division

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### **Richard E. Luehr**

Managing Director  
Canadian Commercial Vehicles Corporation  
CPT – Canada  
Eberhard Hardware Manufacturing, Ltd.  
Composite Panel Technologies Division

### **Roger Chang**

Managing Director  
World Lock Co. Ltd.  
Dongguan Reeworld Security Products Ltd.

# SUMMARIZED FINANCIAL DATA

## Statements of Earnings

	2014	2013	2012
Net sales	\$ 140,825,360	\$ 142,458,279	\$ 157,509,185
Cost of products sold	108,338,956	112,310,759	124,156,707
Other expenses	20,957,641	20,033,625	20,127,960
	<u>129,296,597</u>	<u>132,344,384</u>	<u>144,284,667</u>
Income before income taxes	11,528,763	10,113,895	13,224,518
Income taxes	3,867,287	3,211,974	4,598,718
NET INCOME	<u>\$ 7,661,476</u>	<u>\$ 6,901,921</u>	<u>\$ 8,625,800</u>
Net income per share:			
Basic	\$ 1.23	\$ 1.11	\$ 1.39
Diluted	\$ 1.23	\$ 1.11	\$ 1.38

## Balance Sheets

### ASSETS

Current assets	\$ 71,290,647	\$ 70,993,924	\$ 71,824,436
Property, plant and equipment, net	28,051,430	27,391,758	25,660,743
Deferred income taxes	4,294,893	-	2,610,903
Other assets, net	17,633,586	15,472,727	15,758,068
TOTAL ASSETS	<u>\$ 121,270,556</u>	<u>\$ 113,858,409</u>	<u>\$ 115,854,150</u>

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	\$ 13,445,975	\$ 13,614,589	\$ 14,904,073
Deferred income taxes	-	1,111,755	-
Other long-term liabilities	564,669	248,417	607,463
Long-term debt, less current portion	3,214,285	4,285,714	6,071,428
Accrued postretirement benefits	2,905,908	2,232,872	2,507,726
Accrued pension cost	26,164,812	10,860,211	20,181,361
Shareholders' equity	74,974,907	81,504,851	71,582,099
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 121,270,556</u>	<u>\$ 113,858,409</u>	<u>\$ 115,854,150</u>

## Cash Flows

Cash flows from operations	\$ 9,347,184	\$ 11,317,036	\$ 13,645,832
Investing activities	(8,644,954)	(5,520,903)	(4,172,786)
Financing activities	(4,492,712)	(4,027,830)	(2,297,467)
Effect of exchange rate changes on cash	(363,435)	(262,086)	159,268
Net increase (decrease) in cash and cash equivalents	(4,153,917)	1,506,217	7,334,847
Cash and cash equivalents at beginning of year	19,988,361	18,482,144	11,147,297
Cash and cash equivalents at end of year	<u>\$ 15,834,444</u>	<u>\$ 19,988,361</u>	<u>\$ 18,482,144</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.



## **Annual Meeting**

The 2015 Annual Meeting of Shareholders of The Eastern Company will be held on the date and time, and at the place, specified in the definitive proxy statement for the 2015 Annual Meeting of Shareholders to be filed with the U.S. Securities and Exchange Commission and mailed to shareholders.

## **Important Additional Information**

The Eastern Company (the "Company"), its directors and certain of its executive officers may be deemed to be participants in the solicitation of proxies from the Company's shareholders in connection with the Company's 2015 Annual Meeting of Shareholders. Information regarding the names of the Company's directors and executive officers is set forth in the Company's proxy statement for the 2015 Annual Meeting of Shareholders filed (or to be filed) with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2015, filed with the SEC on March 13, 2015. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, are contained in the proxy statement and other related materials for the Company's 2015 Annual Meeting of Shareholders filed with the SEC.

The Company has filed (or will file) a definitive proxy statement, BLUE proxy card and other related materials with the SEC in connection with the solicitation of proxies for the Company's 2015 Annual Meeting of Shareholders. **COMPANY SHAREHOLDERS AND OTHER INVESTORS ARE STRONGLY ENCOURAGED TO READ THE PROXY STATEMENT (INCLUDING ANY AMENDMENTS AND SUPPLEMENTS), BLUE PROXY CARD AND OTHER RELATED MATERIALS AS THEY WILL CONTAIN IMPORTANT INFORMATION.**

These documents, including any proxy statement (and amendments or supplements thereto) and other related materials filed by the Company with the SEC, are available for no charge at the SEC's website at [www.sec.gov](http://www.sec.gov) and at the Company's website at [www.easterncompany.com](http://www.easterncompany.com). Copies may also be obtained by contacting The Eastern Company Investor Relations by mail at 112 Bridge Street, P.O. Box 460, Naugatuck, CT 06770 or by telephone at 203-729-2255.

## **Independent Registered Public Accounting Firm**

Fiondella, Milone & LaSarcina LLP, Glastonbury, Connecticut

## **Transfer Agent and Registrar**

American Stock Transfer & Trust Co.  
Operations Center, 6201 15th Avenue, Brooklyn, NY 11219  
1-800-937-5449

## **Dividend Reinvestment & Stock Purchase Plan**

The Eastern Company offers a Dividend Reinvestment Plan 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.

## **Safe Harbor for Forward-Looking Statements**

Statements in this document regarding the 2015 annual meeting of shareholders and any other statements about the Company's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "estimates" and similar expressions) should also be considered to be forward-looking statements. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including those set forth in the Company's reports and filings with the U.S. Securities and Exchange Commission. The Company is not obligated to update or revise any forward-looking statements as a result of developments occurring after the date of this document.



THE EASTERN

COMPANY

## INDUSTRIAL HARDWARE GROUP

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

Composite Panel Technologies  
Salisbury, North Carolina  
[www.cptpanels.com](http://www.cptpanels.com)

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

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

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

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

## SECURITY PRODUCTS GROUP

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

Argo Transdata Division  
Clinton, Connecticut  
[www.argotransdata.com](http://www.argotransdata.com)

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

World Lock Co. Ltd.  
Taipei, Taiwan; China  
Dongguan Reeworld Security Products Limited  
Dongguan City, China  
[www.worldlock.com.tw](http://www.worldlock.com.tw)

## METAL PRODUCTS GROUP

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Frazer & Jones Division  
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