

THE EASTERN

COMPANY

SECURITY PRODUCTS

INDUSTRIAL HARDWARE

METAL PRODUCTS

2012
ANNUAL REPORT

LETTER TO OUR SHAREHOLDERS

Our businesses performed well during 2012, delivering more than the increases in sales and earnings that we had planned. Sales grew 10% to \$157.5 million from \$142.9 million in 2011, while net earnings grew 57% to \$8.6 million from \$5.5 million. Earnings per basic share rose to \$1.39 from \$0.89. The much greater growth in earnings than in sales reflects the cost control efforts we have made in response to the economic difficulty and uncertainty of the last several years. So far, it's not clear if similar economic conditions will persist during 2013 or if we will begin to enjoy a more robust economy. We are prepared to face either scenario, however.

In either case, we intend to continue pursuing our primary goal, which is to earn a profit for our shareholders and do whatever is necessary to maximize shareholder value. We will also continue to work toward our operational goals of increasing sales and earnings, producing consistent cash flows, and growing our business through a combination of capital expenditures and acquisitions. A balanced strategy of capital allocation will enable us to return cash to our shareholders through dividends.

In December of 2012, we were able to distribute an extra, one-time dividend payment of \$0.10 per share in addition to the regular quarterly payment of \$0.10 per share. We are very proud of our record of 289 consecutive dividend payments and intend to continue building on it.

Our shareholders should be as proud as I am of our senior team of operating executives. Their accomplishments during the last few turbulent years in particular have been outstanding, and I attribute this success to their dedication and strong shareholder orientation. During good times and bad times alike, they have run our businesses as if they were their own. It is important for shareholders to know that such a team is on deck.

All three of our operating segments contributed to the success we enjoyed in 2012. At our Metal Products segment (which consists of the Frazer & Jones division), the demand for our proprietary mine roof anchors continued to be strong, despite all that has been written about the "war on coal." In addition, because of our metal casting capabilities, we were able to provide markets other than mining with contract design and casting of products made from either malleable or ductile iron.

Our Industrial Hardware segment—which is anchored by our Eberhard businesses and includes the Canadian Commercial Vehicles unit—continued making progress in designing and developing highly engineered products



for a diverse range of vehicle markets. The segment manufactures latches and other products for Class 8 trucks (including tractor trailers), service vehicles, school buses and military vehicles. It also manufactures panels made of our lightweight composite material for use in transportation and various other markets.

Besides producing locks for diverse industries, the Security Products segment makes products for the commercial laundry market. While some of the Lock segment's markets were negatively impacted by last year's difficult economic

circumstances, new product introductions in that segment helped to offset some of those negative effects.

Further information about the segments' products and markets appears on the following pages of this report. While those products and markets are diverse, the businesses fit together well. What they have in common is that they are manufacturing companies; the things we make go into products that impact peoples' lives every day in many ways.

The remainder of this publication consists of financial summaries and our Annual Report on Form 10-K to the Securities and Exchange Commission. The 10-K provides detailed information about the Company, its finances and its operations for the last three years. It also includes certifications by me and John L. Sullivan III, our Chief Financial Officer, attesting to the strength of our internal controls.

During the rest of this year, we will continue to focus on optimizing our daily operations. Additionally, we plan to consider strategic options for the Company and to review the longer range strategies and financial goals of each of our businesses, including both internal and external factors that will impact the businesses' performance and future.

I thank the members of our Board of Directors for their confidence in our management and for their ongoing advice directed toward the goal of maximizing the shareholder value of the Company. We take corporate governance very seriously.

A handwritten signature in black ink, reading "Leonard F. Leganza".

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

FINANCIAL HIGHLIGHTS

SELECTED FINANCIAL DATA

	2012	2011	2010	2009	2008
Net Sales	\$157,509	\$142,856	\$130,130	\$112,665	\$135,878
Net Income	8,626	5,505	5,543	1,036	4,505
Income Taxes	4,599	3,002	2,705	865	1,538
Income Before Taxes	13,225	8,507	8,248	1,902	6,043
Interest Expense	369	231	266	1,728	1,064
Depreciation and Amortization	3,440	3,707	3,943	4,103	4,128
Capital Expenditures	4,217	3,395	4,733	2,226	2,331
Dividends Paid	3,109	2,224	3,182	2,155	1,938

PER SHARE DATA

Net Income (Diluted)	\$1.38	\$0.89	\$0.90	\$0.17	\$0.73
Net Book Value	11.48	11.13	11.31	10.67	10.14
Tangible Net Worth	8.96	8.58	8.67	7.98	7.34
Net Working Capital	9.13	7.83	7.79	7.09	7.91
Dividends	0.50 *	0.36	0.52 *	0.36	0.33
Average Shares Outstanding (Diluted)	6,233,375	6,216,193	6,192,019	6,241,780	6,159,563

FINANCIAL RATIOS

Return on Investment	12%	8%	8%	2%	6%
Net Income as a % of Sales	5%	4%	4%	1%	3%
Gross Profit Margin	21%	19%	20%	18%	19%
Sales per Employee (in thousands)	\$216	\$208	\$206	\$189	\$195
Net Income Per Employee (in thousands)	\$12	\$8	\$9	\$2	\$6
Current Ratio	4.8	4.0	4.9	3.9	4.8

* The Company paid an additional one-time extra dividend of \$0.10 in the fourth quarter of 2012 and an additional one-time extra dividend of \$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:

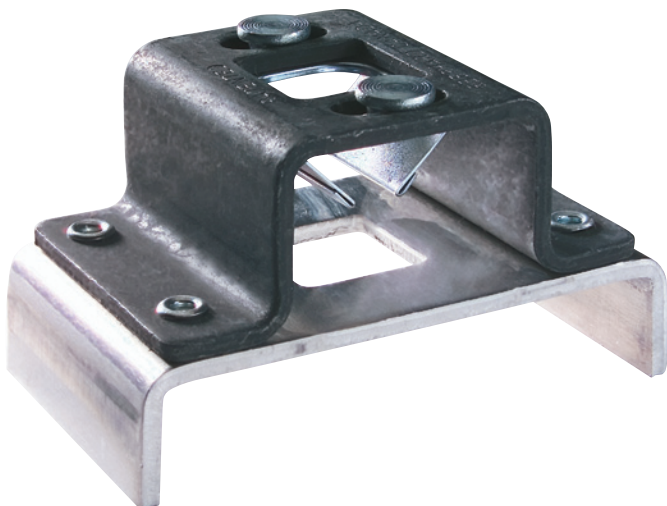
2012				2011			
Quarter	Sales Price		Cash Dividends Declared	Quarter	Sales Price		Cash Dividends Declared
	High	Low			High	Low	
First	\$ 20.70	\$ 18.45	\$.10	First	\$ 20.01	\$ 17.02	\$.09
Second	26.49	15.17	.10	Second	19.90	15.75	.09
Third	20.25	16.21	.10	Third	19.75	16.05	.09
Fourth	18.85	13.38	.20 **	Fourth	24.00	17.67	.09

** The Company paid an additional one-time extra dividend of \$0.10 in the fourth quarter of 2012.

INDUSTRIAL HARDWARE GROUP

EBERHARD MANUFACTURING DIVISION

The Eberhard Manufacturing Division in Cleveland, Ohio is a leading designer and manufacturer of industrial latching systems servicing various Original Equipment Manufacturers ("OEM") throughout North America. The extensive selection of products Eberhard provides includes external and internal handles and rotary latches for military, fire and rescue, service body, and other specialty and commercial vehicles; push button 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.



EBERHARD HARDWARE MANUFACTURING, LIMITED

Eberhard Hardware Manufacturing, Limited of Ontario, Canada provides the wide line of traditional Eberhard 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.

INDUSTRIAL HARDWARE GROUP



CANADIAN COMMERCIAL VEHICLES CORPORATION

Canadian Commercial Vehicles Corporation ("CCV") is a full service custom manufacturer of fabricated products and assemblies utilizing its state-of-the art lightweight honeycomb structures. These products have typically been used for transportation, construction, industrial and technology applications. In addition, CCV has begun exploring the oil and gas energy markets. A local energy company has asked CCV to construct a large reusable above ground frac tank system. The system includes some of the largest insulated lightweight panels that CCV has ever built all mounted on a fifty foot trailer skid. CCV composite panels are an essential component of this fracing system.

EASTERN INDUSTRIAL, LIMITED

Eastern Industrial, Ltd., Shanghai 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 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.



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.



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

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

Richard E. Luehr

Managing Director
Eberhard Hardware Manufacturing, Ltd.
Canadian Commercial Vehicles Corporation

Roger Chang

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

SUMMARIZED FINANCIAL DATA

Statements of Earnings

	2012	2011	2010
Net sales	\$ 157,509,185	\$ 142,856,049	\$ 130,130,360
Cost of products sold	124,156,707	115,504,443	103,458,137
Other expenses	20,127,960	18,844,677	18,423,805
	<u>144,284,667</u>	<u>134,349,120</u>	<u>121,881,942</u>
Income before income taxes	13,224,518	8,506,929	8,248,418
Income taxes	4,598,718	3,001,999	2,705,413
NET INCOME	<u>\$ 8,625,800</u>	<u>\$ 5,504,930</u>	<u>\$ 5,543,005</u>
Net income per share:			
Basic	\$ 1.39	\$ 0.89	\$ 0.91
Diluted	\$ 1.38	\$ 0.89	\$ 0.90

Balance Sheets

ASSETS

Current assets	\$ 71,824,436	\$ 64,867,618	\$ 60,633,425
Property, plant and equipment, net	25,660,743	24,634,096	24,464,036
Deferred income taxes	2,610,903	1,370,597	912,043
Other assets, net	15,758,068	15,827,663	16,343,976
TOTAL ASSETS	<u>\$ 115,854,150</u>	<u>\$ 106,699,974</u>	<u>\$ 102,353,480</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	\$ 14,904,073	\$ 16,186,152	\$ 12,371,895
Other long-term liabilities	607,463	655,001	713,202
Long-term debt, less current portion	6,071,428	3,035,714	3,750,000
Accrued postretirement benefits	2,507,726	1,853,157	1,461,371
Accrued pension cost	20,181,361	15,811,622	14,013,269
Shareholders' equity	71,582,099	69,158,328	70,043,743
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 115,854,150</u>	<u>\$ 106,699,974</u>	<u>\$ 102,353,480</u>

Cash Flows

Cash flows from operations	\$ 13,645,832	\$ 1,446,456	\$ 9,501,272
Investing activities	(4,172,786)	(3,390,726)	(4,732,969)
Financing activities	(2,297,467)	819,388	(9,419,933)
Effect of exchange rate changes on cash	159,268	47,571	129,565
Net increase (decrease) in cash and cash equivalents	7,334,847	(1,077,311)	(4,522,065)
Cash and cash equivalents at beginning of year	11,147,297	12,224,608	16,746,673
Cash and cash equivalents at end of year	<u>\$ 18,482,144</u>	<u>\$ 11,147,297</u>	<u>\$ 12,224,608</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.

NOTES

ANNUAL MEETING

The annual meeting of shareholders of The Eastern Company will be held on Wednesday, April 24, 2013 at 11:00a.m., local time, at the office of the Company, 112 Bridge Street, Naugatuck, Connecticut.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Fiondella, Milone & LaSaracina 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 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.

THE EASTERN COMPANY

INDUSTRIAL HARDWARE GROUP

Eberhard Manufacturing Division
Cleveland, Ohio
www.eberhard.com

Eberhard Hardware Manufacturing, Ltd.
Tilsonburg, Ontario, Canada
www.eberhardcanada.com

Canadian Commercial Vehicles Corporation
Kelowna, British Columbia, Canada

Composite Panel Technologies
Tilsonburg, Ontario, Canada
www.ccvbc.com

Eastern Industrial, Ltd.
Shanghai, China
www.eischina.com

Sesamee Mexicana, S.A. de C.V.
Composite Panel Technologies, S.A de C.V.
Lerma, Mexico
www.sesamee.com.mx • www.cptech.com.mx

SECURITY PRODUCTS GROUP

Greenwald Industries Division
Chester, Connecticut
www.greenwaldindustries.com

The Illinois Lock Company/
CCL Security Products/ Royal Lock Division
Wheeling, Illinois
www.illinoislock.com • www.cclsecurity.com • www.royallock.com

World Lock Co. Ltd.
World Security Industries Co. Ltd.
Taipei, Taiwan; China
www.worldlock.com.tw

METAL PRODUCTS GROUP

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