

**THE EASTERN**

**COMPANY**

**SECURITY PRODUCTS**

**INDUSTRIAL HARDWARE**

**METAL PRODUCTS**

**2013  
ANNUAL REPORT**

# LETTER TO OUR SHAREHOLDERS



Neither the general economy nor the manufacturing sector showed the stronger growth in 2013 that many economists had expected. For the year, the economy grew just 1.9% compared with 2.8% in 2012. Reflecting this sluggishness, almost all of our operating units experienced shortfalls in their sales compared to 2012 in the diverse markets they serve. Companywide, sales totaled \$142.5 million, 10% less than the \$157.5 million we achieved in 2012. Net income of \$6.9 million (\$1.11 per basic common share) was 20% less than the \$8.6 million (\$1.39 per basic share) we recorded in 2012. The lower earnings reflected the shortfalls in sales volume (and resulting lower facility utilization) as well as increases in costs. The one exception was our Frazer & Jones division, which, while also reporting lower sales, improved profitability as a result of recent capital improvements and implementation of cost reduction programs.

While we did not achieve the sales and earnings growth we had planned on, we did continue to invest in the development of new products to expand our business with current customers and make inroads into new market sectors. Additionally, we made further investments to improve the productivity and efficiency of our facilities in the U.S. and China, so we'll be ready to benefit when economic activity picks up.

In the meantime, we will continue pursuing our primary goal of maximizing shareholder value. One way will be by focusing on daily operations to earn an exceptional profit

for our shareholders and to produce consistent cash flows that will fund our product development activities, facility improvements and dividend policies.

Another way will be by seeking acquisitions that fit into our market segments or that increase our product diversification. To advance diversification in our Frazer & Jones unit, we will continue publicizing its metal casting abilities to markets other than mining. And in our Eberhard division, we will concentrate on growing our business with the producers of Class 8 trucks and bolstering our strong position in other vehicle segments. In addition to these approaches, we will consider any other options that we believe will benefit our shareholders.

The following pages of this report briefly describe the Company's three business segments, whose products give a clear indication of our diversification.

Also included in this publication is our Annual 10-K report which we submit to the Securities and Exchange Commission. I encourage you all to read the more detailed information that the 10-K provides about the Company's operations and finances for the last three years. In addition, the 10-K includes our certifications regarding the strength of our internal financial and operating controls.

I thank the members of our Board of Directors for their efforts and serious attention to corporate governance. I also thank our team of senior operating executives for their hard work. Both the Board and I are extremely proud of what they have been able to accomplish during the last few difficult years.

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

# FINANCIAL HIGHLIGHTS

	2013	2012	2011	2010	2009
<b>Selected Financial Data</b>					
Net Sales	\$142,458	\$157,509	\$142,856	\$130,130	\$112,665
Net Income	6,902	8,626	5,505	5,543	1,036
Income Taxes	3,212	4,599	3,002	2,705	865
Income Before Taxes	10,114	13,225	8,507	8,248	1,902
Interest Expense	323	369	231	266	1,728
Depreciation and Amortization	3,825	3,440	3,707	3,943	4,103
Capital Expenditures	5,524	4,217	3,395	4,733	2,226
Dividends Paid	2,613	3,109	2,224	3,182	2,155
<b>Per Share Data</b>					
Net Income (Diluted)	\$1.11	\$1.38	\$0.89	\$0.90	\$0.17
Net Book Value	13.07	11.48	11.13	11.31	10.67
Tangible Net Worth	10.59	8.96	8.58	8.67	7.98
Net Working Capital	9.20	9.13	7.83	7.79	7.09
Dividends	0.42	0.50*	0.36	0.52*	0.36
Average Shares Outstanding (Diluted)	6,237,758	6,233,375	6,216,193	6,192,019	6,241,780
<b>Financial Ratios</b>					
Return on Investment	10%	12%	8%	8%	2%
Net Income as a % of Sales	5%	5%	4%	4%	1%
Gross Profit Margin	21%	21%	19%	20%	18%
Sales per Employee (in thousands)	\$193	\$216	\$208	\$206	\$189
Net Income Per Employee (in thousands)	\$9	\$12	\$8	\$9	\$2
Current Ratio	5.2	4.8	4.0	4.9	3.9

\* 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:

2013				2012			
Quarter	Sales Price		Cash Dividends	Quarter	Sales Price		Cash Dividends
	High	Low	Declared		High	Low	Declared
First	\$ 20.00	\$ 14.91	\$ .10	First	\$ 20.70	\$ 18.45	\$ .10
Second	18.25	14.58	.10	Second	26.49	15.17	.10
Third	17.75	15.27	.11	Third	20.25	16.21	.10
Fourth	17.99	15.39	.11	Fourth	18.85	13.38	.20 **

\*\* 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 Strongsville, 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 has recently begun furnishing vent products for use on Class 8 trucks. 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, LTD.

Eberhard Hardware Manufacturing, Ltd. 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, assemblies for the appliance and electrical OEM markets, and most recently, composite panels made of our lightweight honeycomb structures.





## 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.

## 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 COMPANY/CCL SECURITY PRODUCTS/ROYAL LOCK DIVISION  
WORLD LOCK CO. LTD./WORLD SECURITY INDUSTRIES CO. LTD.  
DONGGUAN REEWORLD SECURITY PRODUCTS 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.







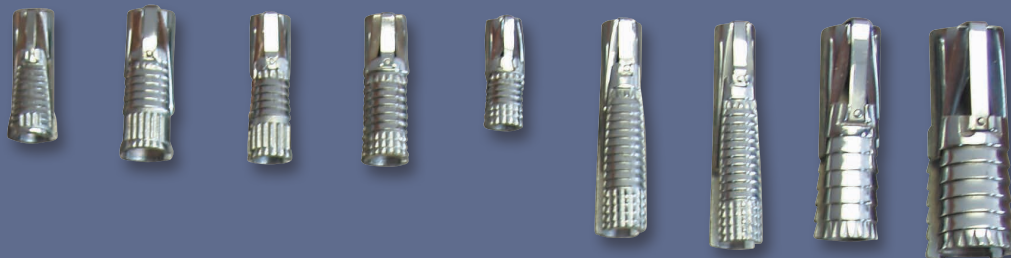
## GREENWALD INDUSTRIES DIVISION

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.



## 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  
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.  
Dongguan Reeworld Security Products Ltd.

# SUMMARIZED FINANCIAL DATA

## Statements of Earnings

	2013	2012	2011
Net sales	\$ 142,458,279	\$ 157,509,185	\$ 142,856,049
Cost of products sold	112,310,759	124,156,707	115,504,443
Other expenses	20,033,625	20,127,960	18,844,677
	<u>132,344,384</u>	<u>144,284,667</u>	<u>134,349,120</u>
Income before income taxes	10,113,895	13,224,518	8,506,929
Income taxes	3,211,974	4,598,718	3,001,999
NET INCOME	<u>\$ 6,901,921</u>	<u>\$ 8,625,800</u>	<u>\$ 5,504,930</u>
Net income per share:			
Basic	\$ 1.11	\$ 1.39	\$ 0.89
Diluted	\$ 1.11	\$ 1.38	\$ 0.89

## Balance Sheets

### ASSETS

Current assets	\$ 70,993,924	\$ 71,824,436	\$ 64,867,618
Property, plant and equipment, net	27,391,758	25,660,743	24,634,096
Deferred income taxes	-	2,610,903	1,370,597
Other assets, net	15,472,727	15,758,068	15,827,663
TOTAL ASSETS	<u>\$ 113,858,409</u>	<u>\$ 115,854,150</u>	<u>\$ 106,699,974</u>

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	\$ 13,614,589	\$ 14,904,073	\$ 16,186,152
Deferred income taxes	1,111,755	-	-
Other long-term liabilities	248,417	607,463	655,001
Long-term debt, less current portion	4,285,714	6,071,428	3,035,714
Accrued postretirement benefits	2,232,872	2,507,726	1,853,157
Accrued pension cost	10,860,211	20,181,361	15,811,622
Shareholders' equity	81,504,851	71,582,099	69,158,328
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 113,858,409</u>	<u>\$ 115,854,150</u>	<u>\$ 106,699,974</u>

## Cash Flows

Cash flows from operations	\$ 11,317,036	\$ 13,645,832	\$ 1,446,456
Investing activities	(5,520,903)	(4,172,786)	(3,390,726)
Financing activities	(4,027,830)	(2,297,467)	819,388
Effect of exchange rate changes on cash	<u>(262,086)</u>	<u>159,268</u>	<u>47,571</u>
Net increase (decrease) in cash and cash equivalents	1,506,217	7,334,847	(1,077,311)
Cash and cash equivalents at beginning of year	18,482,144	11,147,297	12,224,608
Cash and cash equivalents at end of year	<u>\$ 19,988,361</u>	<u>\$ 18,482,144</u>	<u>\$ 11,147,297</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 annual meeting of shareholders of The Eastern Company will be held on Wednesday, April 23, 2014 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](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.



**THE EASTERN**

**COMPANY**

## **INDUSTRIAL HARDWARE GROUP**

**Eberhard Manufacturing Division**

Strongsville, Ohio  
[www.eberhard.com](http://www.eberhard.com)

**Eastern Industrial, Ltd.**

Shanghai, China  
[www.eischina.com](http://www.eischina.com)

**Eberhard Hardware Manufacturing, Ltd.**

Tilsonburg, Ontario, Canada  
[www.eberhardcanada.com](http://www.eberhardcanada.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)

**Canadian Commercial Vehicles Corporation**

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

## **SECURITY PRODUCTS GROUP**

**Greenwald Industries Division**

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

**World Lock Co. Ltd.  
World Security Industries Co. Ltd.**

Taipei, Taiwan; China

**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)

**Dongguan Reeworld  
Security Products Ltd.**  
Dongguan City, China  
[www.worldlock.com.tw](http://www.worldlock.com.tw)

## **METAL PRODUCTS GROUP**

**Frazer & Jones Division**

Solvay, New York  
[www.frazerandjones.com](http://www.frazerandjones.com)

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