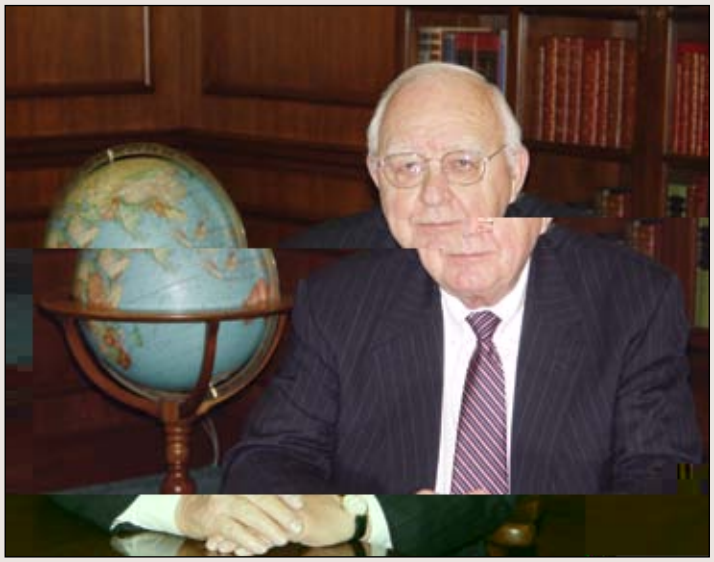
THE EASTERN COMPANY

METAL PRODUCTS • SECURITY PRODUCTS • INDUSTRIAL HARDWARE

2011 ANNUAL REPORT

LETTER TO OUR SHAREHOLDERS



For the cover of this year's report, we highlight the public message that appeared on NASDAQ's Times Square ticker on December 15, 2011—the day our common stock began trading on the NASDAQ exchange for the first time. Previously, our stock had been listed on the NYSE Amex exchange. We believe this change in our stock listing will provide the Company with improved visibility and give a clearer sense of the Company's business. Both of these benefits should help our efforts to improve shareholder value.

Overall, our businesses performed well during 2011. Sales increased 10% to $142.9 million from $130.1 million in 2010, with gains occurring in all three of our business segments. This was the second year in a row that sales improved, and while it is still not entirely clear whether the recession has ended, the economy shows some very positive signs.

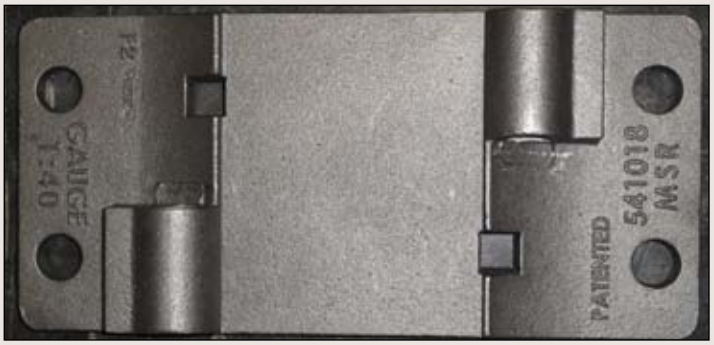
Net earnings for the year of $5.5 million ($0.89 per diluted share) were about level with 2010's earnings. However, in 2011 earnings were impacted negatively by a few factors. These included lower-than-expected sales to our military markets as a result of reduced government defense spending; start-up costs to establish our new composite-panel manufacturing facility in Ontario, Canada; and slower-than-anticipated sales of new products for the commercial laundry industry. Cost increases for raw materials also put pressure on our profit margins. Considering all of these factors, we are generally pleased with our 2011 results.

We have always emphasized the goal of maintaining a strong financial position, as illustrated by our balance sheet. Since 2008 and the start of recessionary economic conditions, we have given greater priority to that goal, and we will continue to do so. It has enabled us to continue our product development projects, improve productivity in our facilities and continue our dividend policy. Indeed, we have even been able to increase our dividend. At its February 8, 2012 meeting, our Board of Directors raised the quarterly dividend 11% to $0.10 per share, based on our solid cash position and confidence in the Company's future.

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. With demand for our roof anchors remaining strong in 2011, sales increased 8% to $28.8 million from $26.7 million in 2010. We anticipate further progress in 2012 as coal continues to play an important role in meeting the world's energy needs.

As in 2010, we continued last year to invest in upgrading our equipment and facilities. These investments resulted in improved productivity and product quality to support the increased demand



New casting for rail industry

for our mine roof products. The gains in productivity and quality also enabled us to increase our marketing efforts for our contract casting services. We believe we will be able to achieve significant future sales to the contract casting markets of products made from both malleable and ductile iron as evidenced by our receiving an order from a Canadian rail industry customer for the largest casting we have ever produced.

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. This group had sales of $66.1 million in 2011 as compared to $57.5 million in the previous year. This represents a 15% increase over 2010.

New product development for both the commercial and military hardware markets has continued during the last three years, notwithstanding the effects of recessionary conditions in the trucking industry and reduced defense spending. A new vent

New vent for Class 8 truck market

product that is pictured above, has been very well accepted by the leading manufacturers of Class 8 trucks.

Current projections for truck manufacturing are positive, indicating that 2012 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.

Our Canadian Commercial Vehicles unit manufactures panels made of a proprietary lightweight composite material for use in its main product—sleeper cabs for the Class 8 truck market (which includes tractor trailers). During 2011, Canadian Commercial Vehicles continued to provide sleeper cabs for both the commercial and military versions of Class 8 vehicles. In addition, the unit again experienced good acceptance of its proprietary composite material for use in 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 $48.0 million from $45.9 million in 2010, a 5% increase. Contributing to the increase were improved conditions in the travel, computer and electronic enclosure markets, which are among the many industry sectors served by the segment. For 2012, we expect to see improved conditions in the laundry sector and greater acceptance of our new offerings for that market.

CORPORATE GOVERNANCE

As you may recall, last year the SEC's final rules on "say on pay" required us to present two non-binding resolutions to our shareholders in our 2010 proxy statement. The first resolution required shareholder approval of the compensation of our Named Executive Officers, while the second resolution concerned the frequency with which the compensation resolution should be presented to our shareholders in the future. In last year's voting, a majority of shares were voted in favor of approving the Named Executive Officers' compensation and a plurality of shares were voted in favor of presenting the compensation resolution to shareholders every three years.

In accordance with existing proxy rules, our proxy statement for 2011 comprehensively reviews, 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 section 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 mandate, I think it important that all shareholders read the relevant pages of our proxy.

Our 10-K report included herein contains 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. The report also includes more extensive information about the Company's operations and financial data. I urge you all to read it.

OUTLOOK

So far in 2012, the economic environment has appeared to be more positive, and we believe that this will continue to be the case. Some uncertainties seem to have abated, and our backlogs have begun to show some improvements. In several ways during the last three years, we have put the Company in position to take advantage of any economic recovery that occurs. Our staffing is lean and productive; our manufacturing processes have been updated and their efficiencies improved; and we have continued our product development projects. We remain very positive about our future.

As always, I would like to thank our shareholders and Board of Directors for their confidence and support. Also, I thank all of our employees for their dedication and loyalty during these recent challenging times.

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

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

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. Sesamee is also manufacturing truck body kits made from our lightweight composite material.

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.

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.

METAL PRODUCTS GROUP

FRAZIER & 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.

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.

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.

FINANCIAL HIGHLIGHTS

	2011	2010	2009	2008	2007
SELECTED FINANCIAL DATA					
Net Sales	**$142,856**	$130,130	$112,665	$135,878	$156,281
Net Income	**5,505**	5,543	1,036	4,505	10,081
Income Taxes	**3,002**	2,705	865	1,538	4,765
Income Before Taxes	**8,507**	8,248	1,902	6,043	14,845
Interest Expense	**231**	266	1,728	1,064	1,289
Depreciation and Amortization	**3,707**	3,943	4,103	4,128	4,370
Capital Expenditures	**3,395**	4,733	2,226	2,331	2,868
Dividends Paid	**2,224**	3,182	2,155	1,938	1,802
PER SHARE DATA					
Net Income (Diluted)	**$0.89**	$0.90	$0.17	$0.73	$1.68
Net Book Value	**11.13**	11.31	10.67	10.14	11.82
Tangible Net Worth	**8.58**	8.67	7.98	7.34	8.81
Net Working Capital	**7.92**	7.79	7.09	7.91	7.85
Dividends	**0.36**	0.52	0.36	0.33	0.32
Average Shares Outstanding (Diluted)	**6,216,193**	6,192,019	6,241,780	6,159,563	5,989,754
FINANCIAL RATIOS					
Return on Investment	**8%**	8%	2%	6%	19%
Net Income as a % of Sales	**4%**	4%	1%	3%	6%
Gross Profit Margin	**19%**	20%	18%	19%	23%
Sales per Employee (in thousands)	**$208**	$206	$189	$195	$211
Net Income Per Employee (in thousands)	**$8**	$9	$2	$6	$14
Current Ratio	**4.0**	4.9	3.9	4.8	3.9

2011

Quarter	Sales Price High	Sales Price Low	Cash Dividends Declared
First	$ 20.01	$ 17.02	$.09
Second	19.90	15.75	.09
Third	19.75	16.05	.09

2010

Quarter	Sales Price High	Sales Price Low	Cash Dividends Declared
First	$ 14.02	$ 10.90	$.09
Second	16.57	12.08	.09
Third	17.75	13.09	.09

SUMMARIZED FINANCIAL DATA

	2011	2010	2009
Statements of Earnings			
Net sales	$ 142,856,049	$ 130,130,360	$ 112,665,464
Cost of products sold	115,504,443	103,458,137	92,031,078
Other expenses	18,844,677	18,423,805	18,732,857
	134,349,120	121,881,942	110,763,935
Income before income taxes	8,506,929	8,248,418	1,901,529
Income taxes	3,001,999	2,705,413	865,122
NET INCOME	$ 5,504,930	$ 5,543,005	$ 1,036,407
Net income per share:			
Basic	$ 0.89	$ 0.91	$ 0.17
Diluted	$ 0.89	$ 0.90	$ 0.17
Balance Sheets			
ASSETS			
Current assets	$ 65,416,730	$ 60,633,425	$ 59,761,021
Property, plant and equipment, net	24,634,096	24,464,036	22,973,633
Prepaid pension cost	-	-	36,838
Deferred income taxes	821,485	912,043	1,283,323
Other assets, net	15,827,663	16,343,976	16,817,044
TOTAL ASSETS	$ 106,699,974	$ 102,353,480	$ 100,871,859
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	$ 16,186,152	$ 12,371,895	$ 15,480,771
Other long-term liabilities	655,001	713,202	1,077,247
Long-term debt, less current portion	3,035,714	3,750,000	4,285,713
Accrued postretirement benefits	1,853,157	1,461,371	1,341,498
Accrued pension cost	15,811,622	14,013,269	12,089,326
Shareholders' equity	69,158,328	70,043,743	66,597,304
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 106,699,974	$ 102,353,480	$ 100,871,859
Cash Flows			
Cash flows from operations	$ 1,446,456	$ 9,501,272	$ 13,343,558
Investing activities	(3,390,726)	(4,732,969)	(2,226,025)
Financing activities	819,388	(9,419,933)	(3,405,870)
Effect of exchange rate changes on cash	47,571	129,565	67,385
Net increase (decrease) in cash and cash equivalents	(1,077,311)	(4,522,065)	7,779,048
Cash and cash equivalents at beginning of year	12,224,608	16,746,673	8,967,625
Cash and cash equivalents at end of year	$ 11,147,297	$ 12,224,608	$ 16,746,673

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.
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
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 25, 2012 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 (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 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

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www.eberhard.com

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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.
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World Security Industries Co. Ltd.
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METAL PRODUCTS GROUP

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