

# THE EASTERN COMPANY

P.O. Box 460, Naugatuck, CT 06770-0460

## 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.eischina.com](http://www.eischina.com)

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

## SECURITY PRODUCTS GROUP

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

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

**World Lock Co. Ltd.**  
**World Security Industries Co. Ltd.**  
Taipei, Taiwan; China

## METAL PRODUCTS GROUP

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

Phone: (203) 729-2255 Fax: (203) 723-8653

E-mail: [ir@easterncompany.com](mailto:ir@easterncompany.com) Homepage: [www.easterncompany.com](http://www.easterncompany.com)

# THE EASTERN COMPANY

*Security Products*

*Industrial Hardware*

*Metal Products*

2003 ANNUAL REPORT



## Letter to our Shareholders

The U.S. economy began to show some signs of recovery in 2003, and toward the end of the year our businesses began to reflect the improvement. This was a welcome relief after the difficult economic conditions we operated in during the prior two years. The question still remains as to whether this apparent rebound in the economy will last, or whether, as happened in those previous two years, it will fizzle out. Nevertheless, our current backlogs of business are somewhat stronger than they were a year ago, and we are optimistic about 2004.

Sales in 2003 increased 9% to \$88.3 million from \$81.3 million in 2002. Industrial Hardware sales increased by 21% while sales in the Security Products segment were up by 8%. Our Metal Products segment experienced a decrease of 13% in sales. Net income for the year grew by 2% to \$3.4 million from \$3.3 million in 2002.

The sales increase in the Industrial Hardware segment totaled \$6.2 million. While sales grew in all of the segment's business units, a significant proportion of the increase (\$4.9 million) was due

to the inclusion of a full year of sales from Canadian Commercial Vehicles Corporation (CCV). We acquired this subsidiary, which is located in Kelowna, British Columbia, in the latter part of 2002.

The acquisition of CCV has brought our Industrial Hardware segment into a new but related market. CCV produces the "sleeper boxes" used to provide sleeping accommodations on Class 8 trailer trucks, the vehicles that travel extensively on overnight trips. We anticipate that the production of that class of trucks will grow significantly in the next few years based on the trucking industry's current projections.

CCV manufactures sleeper boxes using a lightweight composite material which results in a beneficial weight reduction of the truck. The reduced weight allows for greater cargo volume and/or fuel economies. We are actively exploring potential opportunities in other markets where the use of such lightweight composite material might be feasible.

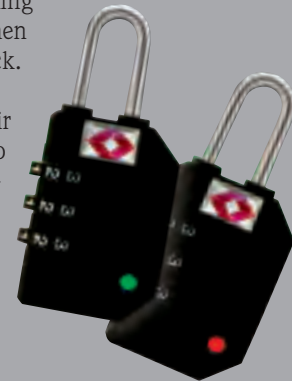
During 2003, the business units in the Industrial Hardware segment received ISO (International Organization for Standardization) certification, which represents the

achievement of standards recognized by the international manufacturing community. This certification of our manufacturing quality has brought further business opportunities to the group. Also in 2003, we invested in a rapid prototype machine which will provide the tools needed to create more new and innovative products in a much-shortened design cycle. We have already begun to introduce some of these products into the recreational vehicle, utility truck, marine and military markets.

In our Security Products segment, sales increased by \$2.9 million. The increase was due to greater penetration of the various niche markets we serve (such as computers, vending and gaming equipment, and vehicular security), as well as the introduction of innovative new products.

One such product, which we introduced in December 2003, came about as the result of a joint effort of the Transportation Security Administration (TSA), Travel Sentry (a standard-setting group affiliated with the TSA) and our Illinois Lock/CCL division. The TSA had asked travelers to refrain from putting locks on their checked luggage, but many of them ignored the request and continued to lock their bags. To inspect selected luggage, security personnel often had to destroy the locks. As a result, claims by passengers alleging theft from their bags increased to levels that became difficult for the TSA to manage. To address the problem, the TSA encouraged the creation of the privately funded Travel Sentry organization, whose objective would be the development of an acceptable system and products to enable airline passengers to lock their luggage.

The new system that Travel Sentry has developed is based on codes that are etched into luggage locks and that are accessible only to TSA screeners. The screeners are able to utilize the code, unlock the bag without breaking the lock, and then relock the lock. Manufacturers who want their luggage locks to be Travel Sentry-certified must meet the group's specifications. In light of the new system, the TSA



announced in December 2003 that the public would once again be allowed to lock their luggage.

Responding to the Travel Sentry initiative, our Illinois Lock/CCL division developed and introduced a new keyless lock called "SearchAlert"™. This product enables travelers to lock their luggage without being concerned that the lock will be destroyed by inspectors. "SearchAlert" has the distinctive feature of a green and red color code to indicate if the lock had been opened. We expect this product to benefit our sales in 2004 and beyond.

Our Illinois Lock/CCL division is well known for its high-security mechanical and switch locks with weather-resistant qualities (if required). In addition to the "SearchAlert" lock, our R&D efforts have led to the introduction of a modular lock for tonneau covers which can be configured for a variety of uses. We are currently moving ahead with the development of several additional security products.

At our Greenwald division, we continue to search for new applications of our "smart cards" beyond the commercial laundry market. Markets such as parking lots and tanning salons are particularly attractive. With further development, our smart card products will be an important complement to our well-known traditional coin acceptance products. This division will be celebrating its 50<sup>th</sup> anniversary in 2004.

Sales in our Metal Products Group declined by \$2.1 million in 2003. The reason was that we decided in the latter part of 2002 to reduce our low-margin contract casting business and to put a greater emphasis on our proprietary products for mine roof safety. Sales of mine roof supports were essentially unchanged from 2002. We intend to continue focusing on mine roof products for both the domestic and foreign mining industry.

During 2003, the Company made an additional investment to produce castings made from ductile iron. Superior to malleable iron castings and cheaper to produce (and therefore providing higher margins), ductile iron products are one of the more significant growth areas in the markets for cast metals.



We now must operate in a global economy, and this circumstance is going to have a very important impact on our future as a manufacturing company. For one thing, it will require an even greater presence in Asia, specifically China, than we now have. Therefore, during 2003 we established Eastern Industrial Ltd. in Shanghai, China, as a subsidiary of World Security Industries Co. Ltd. World Security, located in Hong Kong, is a subsidiary of The Eastern Company.

Eastern Industrial Ltd. will not only increase our manufacturing presence in China but will also allow us to introduce the current and future products of The Eastern Company into the Chinese market. Under Chinese governmental regulations, our preexisting Asian operations were allowed only to export product from China. Eastern Industrial Ltd. will also serve as a source of parts and assemblies to support the marketing needs of our U.S. divisions; in that capacity, the new unit will provide those divisions with competitive pricing advantages domestically.

Such advantages will be welcome. One of the difficulties we had to combat in the past few years were severe pricing pressures arising from both domestic and foreign sources. These pressures, which lowered our gross margins, sprang from the impact of the sluggish U.S. economy on our customers, who responded by seeking out low-cost imports.

In 2003, we also had to deal with significant increases in the cost of health

care (up 20%) and property and liability insurance (up 22%). Further affecting our net earnings were pension charges, which jumped 198% because of the stock market decline and the resulting reduction in the value of our pension fund assets. We were not able to recover many of these costs and still remain competitive in the current economic environment.

While the numbers for 2003 are not what we would have liked to see, the progress we made last year has left the Company well positioned to take advantage of stronger economic times. We continued to diligently monitor and control our operating and financial fundamentals. As always, our highest priorities were to develop new products that will strengthen our market position; build productivity; and advance our sales and marketing programs. We met these objectives while keeping our financial condition strong.

We have a very dedicated and solid management team which is, and will continue to be, focused on growing the Company and adding to shareholder value. I am very proud of and thankful for all their efforts.

Leonard F. Leganza  
President and Chief Executive Officer

## Summarized Financial Data

### Statements of Earnings

	2003	2002	2001
Net sales	\$ 88,306,581	\$ 81,337,207	\$ 82,825,353
Cost of products sold	66,718,641	60,637,151	60,782,769
Other expenses	16,197,450	15,965,748	15,957,229
	<u>82,916,091</u>	<u>76,602,899</u>	<u>76,739,998</u>
Income before income taxes	5,390,490	4,734,308	6,085,355
Income taxes	2,028,868	1,442,408	2,172,436
NET INCOME	<u>\$ 3,361,622</u>	<u>\$ 3,291,900</u>	<u>\$ 3,912,919</u>
Net Income per share:			
Basic	\$ 0.93	\$ 0.91	\$ 1.08
Diluted	\$ 0.92	\$ 0.89	\$ 1.07

### Balance Sheets

#### ASSETS

Current assets	\$ 34,965,337	\$ 36,006,517	\$ 37,041,018
Property, plant and equipment, net	24,930,425	25,049,969	26,485,645
Prepaid pension cost	1,192,281	1,338,010	5,321,110
Other assets, net	13,529,373	13,738,041	13,048,281
TOTAL ASSETS	<u>\$ 74,617,416</u>	<u>\$ 76,132,537</u>	<u>\$ 81,896,054</u>

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	\$ 10,071,232	\$ 10,406,518	\$ 9,909,811
Deferred income taxes	1,243,264	737,987	3,126,500
Long-term debt, less current portion	15,814,669	18,920,747	25,013,906
Accrued postretirement benefits	2,384,770	2,578,156	2,735,910
Interest rate swap obligation	580,055	1,138,086	1,054,420
Accrued pension obligation	4,015,858	4,448,197	-
Shareholders' equity	40,507,568	37,902,846	40,055,507
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 74,617,416</u>	<u>\$ 76,132,537</u>	<u>\$ 81,896,054</u>

#### CASH FLOWS

CASH FLOWS FROM OPERATIONS			
Net income	\$ 3,361,622	\$ 3,291,900	\$ 3,912,919
Depreciation and amortization	3,619,328	3,565,460	4,460,704
Other, net	(610,733)	4,510,363	(1,412,586)
Net cash provided by operating activities	6,370,217	11,367,723	6,961,037
INVESTING ACTIVITIES:			
Purchases of equipment	(2,763,130)	(1,559,863)	(1,894,723)
Acquisitions	-	(303,746)	-
Other	915,133	-	-
Net cash used by investing activities	(1,847,997)	(1,863,609)	(1,894,723)
FINANCING ACTIVITIES:			
Payments on debt	(3,732,726)	(6,853,694)	(3,028,830)
Sales of Common Stock	-	-	23,437
Treasury Stock purchases	(317,726)	(55,855)	(23,432)
Dividends paid	(1,593,118)	(1,597,864)	(1,598,809)
Net cash used by financing activities	(5,643,570)	(8,507,413)	(4,627,634)
Effect of exchange rate changes on cash	78,934	(12,489)	(25,366)
Net increase (decrease) in cash	(1,042,416)	984,212	413,314
Cash at beginning of year	5,939,232	4,955,020	4,541,706
Cash at end of year	<u>\$ 4,896,816</u>	<u>\$ 5,939,232</u>	<u>\$ 4,955,020</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.



### Greenwald Industries Division

The Greenwald Industries Division has been a leading supplier of coin acceptors, metering and security products for the self-service laundry market throughout the world for over 50 years. Greenwald is also a leading developer of Smart Card technology applications. Smart Cards contain embedded microchip(s) and are more secure and durable than magnetic strip cards. They contain secure "purses" of electronic stored value or data to accommodate multiple applications.



### The Illinois Lock Company/ CCL Security Products Division World Lock Co. Ltd. World Security Industries Co. Ltd.

The Illinois Lock Company/CCL Security Products Division produces custom-engineered locks for a variety of original equipment manufacturers and is a leading producer of keyless locks sold under well-known brand names such as Sesamee, Presto and Huski. With our Asian operations, World Lock and World Security, the Company can offer competitive pricing, service and delivery in a global economy.



**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 the automotive and truck accessory toolboxes and tonneau covers. Eberhard also provides many other enclosure devices such as locking gear for over the road tractor trailers, door controls for school and commercial buses as well as many access door devices for electrical, electronic and specialty metal enclosures.



**Eberhard Hardware Manufacturing Division**

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.



**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 transport, construction, and industrial applications.



**Eastern Industrial Limited**

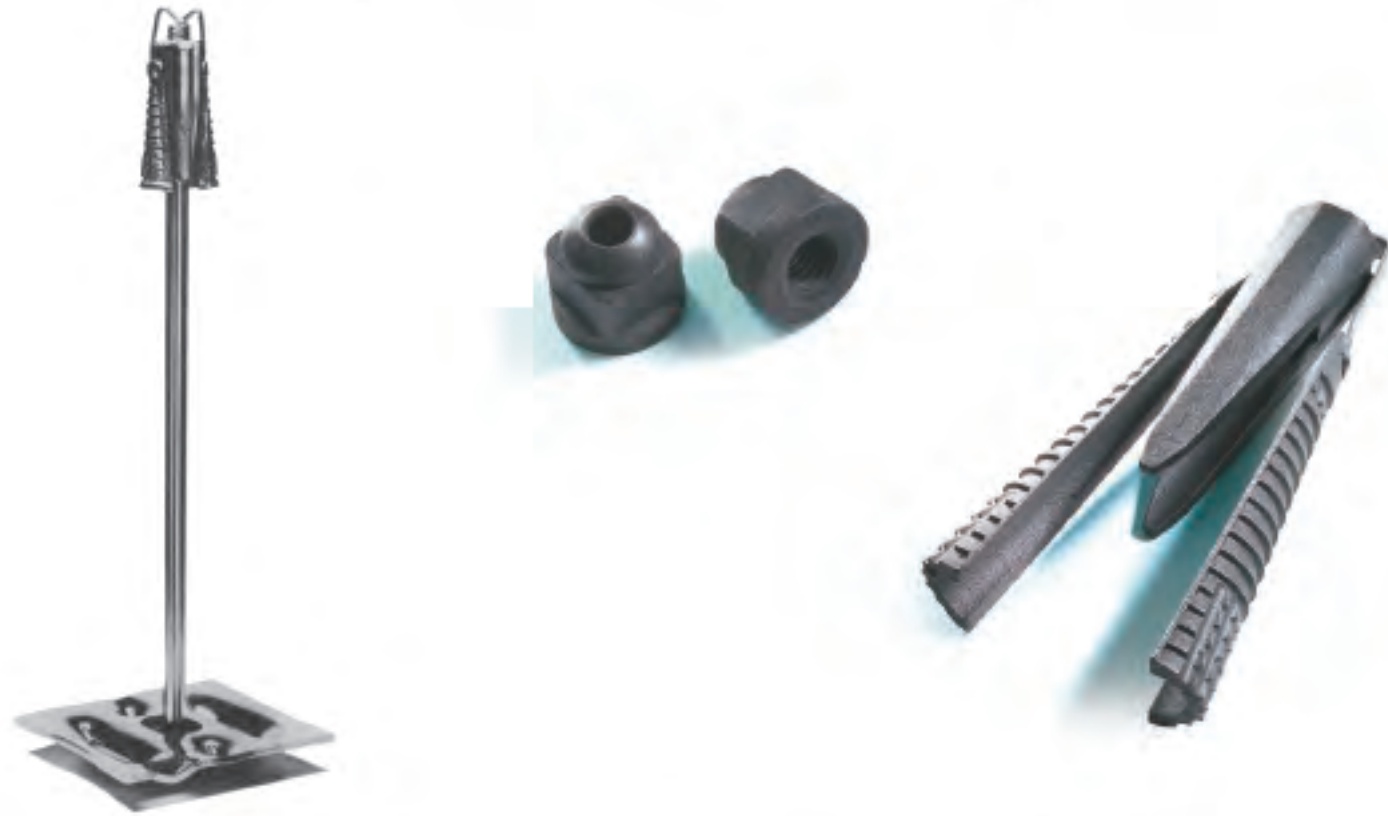
Eastern Industrial, Ltd., Shanghai offers comprehensive capabilities for Asian sourcing, machine tool design, engineering, rapid prototyping, extensive manufacturing including metal stampings and plastic injection molding to final assembly.



**Sesamee Mexicana, S.A. de C.V.**

Sesamee Mexicana is a distribution center for the Eberhard Manufacturing Division as well as other North American based 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 complementary components.

## 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 tooling, industrial hardware, pipefitting and construction industries.

### Financial Highlights (in thousands)

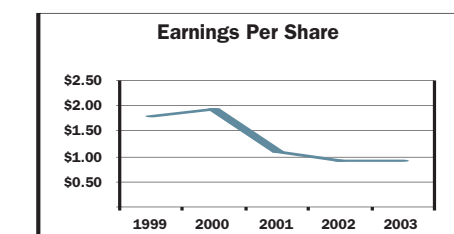
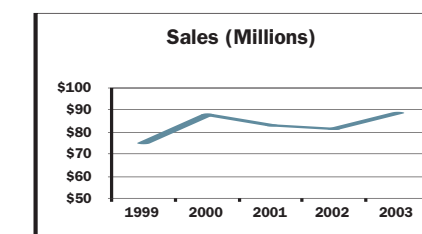
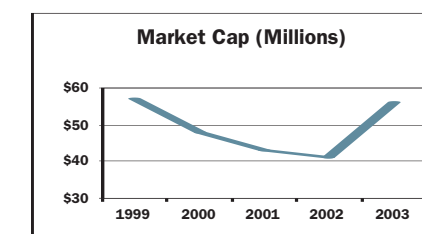
	2003	2002	2001	2000	1999
Net Sales	\$88,307	\$81,337	\$82,825	\$88,192	\$74,678
Net Income	3,362	3,292	3,913	7,055	6,538
Income Taxes	2,028	1,442	2,172	3,602	3,356
Income Before Taxes	5,390	4,734	6,085	10,657	9,894
Interest Expense	1,303	1,716	2,259	1,786	646
Depreciation and Amortization	3,619	3,565	4,461	3,639	2,723
Capital Expenditures	2,763	1,560	1,895	5,065	3,690
Dividends Paid	1,593	1,598	1,599	1,601	1,573

### PER SHARE DATA

Net Income (Basic)	\$0.93	\$0.91	\$1.08	\$1.95	\$1.80
Net Book Value	11.19	10.44	11.06	10.64	9.21
Tangible Net Worth	7.45	6.65	7.45	6.73	8.77
Net Working Capital	6.88	7.05	7.49	7.26	6.82
Dividends	0.44	0.44	0.44	0.44	0.43
Average Shares					
Outstanding (Basic)	3,620,593	3,631,278	3,623,291	3,621,449	3,626,001

### FINANCIAL RATIOS

Return on Investment	9%	8%	10%	21%	23%
Net Income as a % of Sales	4%	4%	5%	8%	9%
Gross Profit Margin	24%	25%	27%	29%	30%
Sales per Employee (in thousands)	\$161	\$151	\$139	\$139	\$142
Net Income Per Employee (in thousands)	\$6	\$6	\$7	\$11	\$12
Current Ratio	3.5	3.5	3.7	3.2	4.4



## Board of Directors

### John W. Everets

Chairman of H.P.S.C. Inc.  
Boston, Massachusetts

### Charles W. Henry

Partner of Kernan & Henry  
Waterbury, Connecticut

### Leonard F. Leganza

President and Chief Executive Officer  
of the Company

### David C. Robinson

President of the Robinson Co.  
Waterbury, Connecticut

### Donald S. Tuttle, III

Vice President and Account Executive  
UBS PaineWebber  
Middlebury, Connecticut

### Russell G. McMillen

Director Emeritus

## Officers & Executives

### Leonard F. Leganza

President and  
Chief Executive Officer

### John L. Sullivan III

Vice President,  
Secretary and Treasurer

### Gene A. Finelli

Assistant Treasurer

### Theresa P. Dews

Assistant Secretary

### Brian H. Kay

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

### Leonard V. Samela

Vice President  
Greenwald Industries Division

### Raymond L. Wright

Vice President  
Frazer & Jones Division

### Robert G. Alexander

Managing Director  
Eberhard Hardware Manufacturing, Ltd.

### Roger Chang

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

### Richard E. Luehr

Managing Director  
Canadian Commercial Vehicles Corporation

### Thomas D. Melkus

Managing Director  
Illinois Lock Company/  
CCL Security Products Division

### Steven Zhang

U.S. Managing Director  
Of Asian Operations  
Eastern Industrial, Ltd.

## Notes

### Annual Meeting

The annual meeting of shareholders of The Eastern Company will be held on Wednesday, April 28, 2004 at 11:00 a.m., local time, at the office of the Company, 112 Bridge Street, Naugatuck, Connecticut 06770

### Independent Auditors

Ernst & Young LLP, Hartford, Connecticut

### Transfer Agent and Registrar

American Stock Transfer & Trust Co.  
40 Wall Street, New York, NY 10005  
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 Eastern Company stock. To receive a brochure and application form for this plan, contact The Eastern Company directly at (203) 729-2255, ext. 110, 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.

## Common Stock Market Prices and Dividends Paid

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

Quarter	2003			Quarter	2002		
	Sales Price High	Sales Price Low	Cash Dividends Declared		Sales Price High	Sales Price Low	Cash Dividends Declared
First	\$12.34	\$11.02	\$.11	First	\$16.25	\$11.75	\$.11
Second	15.70	12.14	.11	Second	16.10	14.36	.11
Third	15.70	14.00	.11	Third	14.60	12.00	.11
Fourth	15.64	14.24	.11	Fourth	12.35	11.00	.11