Letter To Our Shareholders

Again in 2007, the Company achieved record results in both sales and earnings. Sales reached $156.3 million, a 13% increase from $138.5 million in 2006. Net income of $10.1 million was a 4% increase over the $9.7 million reported for 2006.

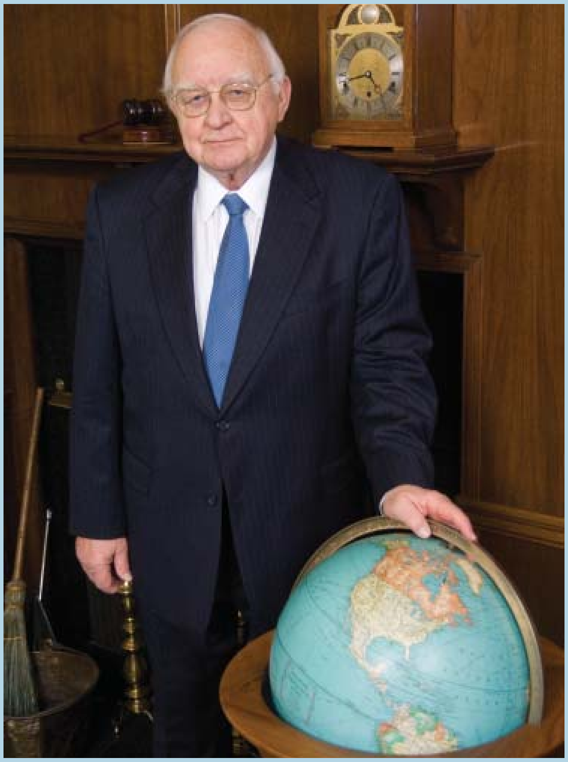
Operating results for both 2007 and 2006 reflect the positive impact of a one-time contract we received from the military. Under the contract, which began in September 2006 and ended in April 2007, we provided latching systems for a program to retrofit military Humvees with improved armor. The contract contributed $20.5 million in sales in 2007 and $18.5 million in 2006.

But even apart from the revenue spike caused by the contract, we achieved solid growth last year. Sales excluding the contract increased by 13%, growing to $135.8 million from $119.9 million in 2006. That result itself would have been a record had there been no military contract. The increase was driven partly by the sales of our Royal Lock and Summit Manufacturing operations, which we acquired in 2006.

While our net income did improve from 2006, it fell short of our goals and expectations. Factors both internal and external exerted some downward pressure:

- As in prior years, we again faced increased costs for raw materials, energy and healthcare, which impacted our operating margins. Controlling and managing the rising costs of those inputs seems to be a never-ending challenge, and will continue to require our close attention in 2008. Such cost increases are difficult to offset in a highly competitive global marketplace like ours.
- The costs of compliance with Section 404 of the Sarbanes-Oxley Act were somewhat greater than anticipated in our plans. While these costs have been burdensome, we believe they are justified by the results.
- Our Canadian Commercial Vehicles subsidiary faced a reduction in the demand for "sleeper cabs" in the second half of 2007. This was caused by trucking companies' "pre-buying" vehicles to avoid expected increases in their purchase price. Prices were set to rise due to a requirement that in 2008, newly manufactured Class 8 trucks would have to meet stricter government-mandated emission rules. We anticipate that market demand will return to normal early in 2008.
- While we continued to make changes and improvements in the metal casting operations, the net results remained negative. In addition, in 2007 we encountered engineering and manufacturing difficulties on some projects that turned out to be costly for us. We also continued to spend money on efficiency programs to improve the production of ductile iron. We are optimistic about the future of the metal casting operations, particularly because improved exchange rates between the U.S. dollar and the euro and between the dollar and the Chinese yuan currently put us in a better competitive position. Our sales forecasts for 2008 have been increased to support this view.

We were extremely successful last year in strengthening our balance sheet. Working capital grew to $47.0 million from $35.5 million at the end of 2006; and we reduced our debt-to-equity ratio to just under 25%, from 38% a year earlier. The 2007 ratio was a ten-year low.



Leonard F. Leganza

The enclosed Form 10-K report contains the detailed and audited financial reports of the Company for 2007. I urge you all to read it. As we had previously reported, for 2007 we were subject to full compliance with Section 404 of the Sarbanes-Oxley Act. Section 404 requires publicly traded companies to document, test and assess their internal financial controls. You should note that the Form 10-K included in this report incorporates the mandated disclosures, including management's evaluation of internal controls over financial reporting and our independent public accounting firm's report on those controls.

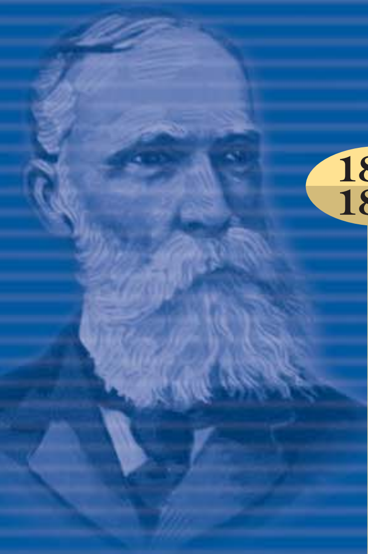
Historically, 2008 is a very significant year for the Company, as it marks our 150th year in business. Our progress during those years is chronicled in the subsequent pages of this report. From its beginnings as a producer of simple agricultural implements to its current role as a diversified manufacturer, The Eastern Company has seen a lot of history. We were here when the country was agriculturally oriented; we operated through the Industrial Revolution, the expansion of the railroads and eight wars; and we experienced many, many economic ups and downs, including the Depression.

Our objective in 2008 and beyond will be to continue improving our margins and growth both internally and by acquisition. Our financial condition is strong and adequate to pursue our growth plans and other strategic initiatives. As always, in developing our goals we will focus on what we believe is in the very best interest of our shareholders.

I thank our shareholders for their support and confidence, our employees for their continuing dedication and hard work, and our directors for their wise counsel.

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

The Eastern Company



1858

In the middle of the 19th century, the economy of the United States was based on agriculture. The industrial revolution was just beginning.

1858-1868

Tuttle & Whittemore (the original name of the Eastern Company as founded by Bronson B. Tuttle and John H. Whittemore) had its roots producing farm equipment using malleable iron. When they opened their doors in 1858 there were only seven foundries in the country producing malleable iron products. The new Company quickly saw demand for malleable iron coming from the fast growing railroad and transportation industries. With the onset of the Civil War, the demand for malleable iron products to support the war effort grew at a tremendous rate, as did the profitability of the Company

1868-1878

The Company incorporates under the name of Tuttle and Whittemore. In its first 20 years, the Company was extremely successful, and as was the custom of the time, began to capitalize on its success by building more production facilities. All of these facilities would be located in the proximity of the original foundry in Naugatuck, Connecticut.

1878-1888

The product mix of the Company changed with the rapidly growing economy of the United States. The Company began producing greater quantities of products for the railroad industry as that industry began to absorb the bulk of the nation's freight load. And railroads required more malleable iron than wagons.

1888-1898

The Company changed its name to The Naugatuck Malleable Iron Company. During this period our founders were widely regarded as two of the country's leading industrialists.

1898-1908

The Company had grown to 5 very successful foundries located in Naugatuck, Bridgeport, and New Britain, Connecticut; Troy, New York, and Wilmington, Delaware. But with size and a maturing economy now fully into the industrial revolution, management of the organization became more complex. Rather than operating as sister companies all working toward the same goals, each plant location operated with their own agendas, even competing against each other for new business.

1908-1918

The Company again changes its name to Eastern Malleable Iron Company. With the start of World War I, demand for malleable iron again jumps dramatically. It was such a lucrative business that several Eastern employees left the Company to start their own businesses. Contributing to the newfound demand was the introduction of the automobile.

1918-1928

As a result of the end of the war and the start of the depression, Eastern Malleable Iron was forced to greatly cut back its production of malleable iron products. While this was difficult for this very successful organization, it was far better than many of its competitors who were forced to close their doors from lack of business.

150 Years of Excellence

1928-1938

As a result of the depression years, the Company makes the decision to diversify. Four of the six foundries are closed. A major acquisition also occurred in this period. Eberhard Manufacturing Company was purchased in 1936. Eberhard was a distressed business at the time, mainly due to its late entry into the automotive industry. Eastern quickly closed the high volume/no profit portion of the business, deciding to concentrate on Eberhard's strength in specialty transportation hardware.

1938-1948

At the start of World War II, the Company is down to 3 plants, Naugatuck, Connecticut, Wilmington, Delaware, and Cleveland, Ohio. However, these locations provide a great deal of product to support the war effort. Near the end of this period, the Company makes another major acquisition. Frazer & Jones in Syracuse, New York is a leading supplier of mine roof anchors for the coal mining industry. This product quickly becomes a major source of revenue and profits for the Company.

1948-1958

Management took another hard look at the Company. Eastern Malleable Iron Company was in the casting business, and while each of the plants had their own specialty, it was still the casting business, and likely to be highly cyclical. A concerted effort was started to diversify into new products and many acquisitions were to be made in the next few decades, the first of which was Pattin Manufacturing Company, one of Frazer & Jones' biggest customers. While this and some of the other acquisitions are no longer part of the Company, they each contributed to our success along the way.

1958-1968

Continuing its diversification strategy, the Company closed the Wilmington, Delaware foundry and the foundry at Eberhard, choosing to concentrate on its metal fabrication business, which had been consistently profitable. And the acquisitions continued during the period with Danforth and Thompson Materials coming on board. While these two would later be sold, the acquisition of The Illinois Lock Company was an important one and was a major supplier of locks used at Eberhard, and thus a good fit for the organization.

1968-1978

During this period, the Company established its first foreign subsidiary. Eber-East Products (now Eberhard Hardware) opened in Tillsonburg, Ontario, Canada in order to service the growing Canadian demand for Eberhard products.

1978-1988

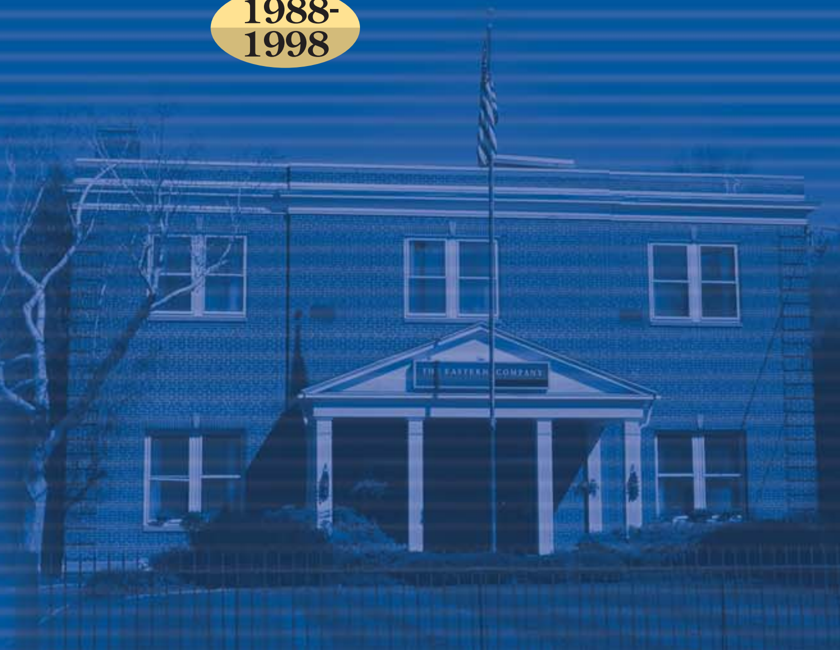
In an effort to broaden the product line, Corbin Cabinet Lock ("CCL") a lock company located in New Britain, Connecticut is acquired. This product line operated as a separate entity until 2002, when it was integrated into Illinois Lock.

1988-1998

World Lock and World Security are founded in the Far East as suppliers of low cost locks. This decision was made in order to remain competitive in the industries served by Illinois Lock. Also during this period, the Company closed the foundry business in Naugatuck.

1998-2008

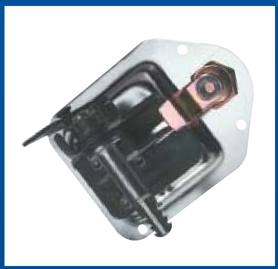
The last 10 years have been very active on the acquisition front. The Company acquired Greenwald Industries, a leading supplier of coin acceptors for the self-serve laundry industry as well as a leading developer of Smart Card technology applications. In addition, the Company acquired Canadian Commercial Vehicles ("CCV"), a leading supplier of sleeper cabs to the trucking industry, as well as a supplier of lightweight honeycomb structures, fabricated metal products and assemblies for transport, construction and industrial applications. The Company founded Eastern Industrial Ltd. in Shanghai, China as a source for U.S. companies who are looking to reduce their product costs. And finally, in 2006 the Company acquired Royal Lock, a supplier of cam locks, switch locks, padlocks, latches, handles and specialty hardware parts, and Summitt Manufacturing, a designer and manufacturer of appliance hardware and accessories.



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, operating devices for school and commercial busses 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 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.

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

Sesamee Mexicana 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 complementary components.

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.

Security Products Group

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 durable and secure than magnetic strip cards. And with Greenwald's acquisition of Summit manufacturing, Greenwald has entered the consumer appliance market.

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

The Illinois Lock Company/CCL Security Products/Royal Lock 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.

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 and construction industries.

Board of Directors

John W. Everets
Chairman
Yorkshire Capital
Boston, Massachusetts

Charles W. Henry
Partner of Kernan & Henry
Southbury, Connecticut

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

David C. Robinson
Consultant

Donald S. Tuttle, III
Vice President Investments
UBS Financial Services, Inc.
Middlebury, Connecticut

Russell G. McMillen
Director Emeritus

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.
Sesamee Mexicana, S.A. de C.V.
Canadian Commercial Vehicles Corporation

Leonard V. Samela
Vice President
Greenwald Industries Division
Illinois Lock Company/
CCL Security Products/
Royal Lock Division

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

Richard E. Luehr
Managing Director
Canadian Commercial Vehicles Corporation

Mark F. Novakowski
Managing Director
Frazer & Jones Division

Summarized Financial Data

	2007	2006	2005
Statement of Earnings			
Net sales	**$ 156,281,083**	$ 138,465,411	$ 109,107,290
Cost of products sold	**120,343,196**	103,881,660	84,374,501
Other expenses	**21,092,424**	19,737,703	17,712,482
	141,435,620	123,619,363	102,086,983
Income before income taxes	**14,845,463**	14,846,048	7,020,307
Income taxes	**4,764,770**	5,187,300	2,653,120
NET INCOME	**$ 10,080,693**	$ 9,658,748	$ 4,367,187
Net income per share:			
Basic	**$ 1.79**	$ 1.76	$ 0.80
Diluted	**$ 1.68**	$ 1.67	$ 0.75
Balance Sheets			
ASSETS			
Current assets	**$ 63,252,611**	$ 59,326,242	$ 45,045,156
Property, plant and equipment, net	**25,234,214**	25,815,717	22,396,686
Prepaid pension cost	**1,792,657**	266,358	723,826
Interest rate swap asset	**-**	-	32,081
Other assets, net	**18,072,419**	18,076,627	13,424,086
TOTAL ASSETS	**$ 108,351,901**	$ 103,484,944	$ 81,621,835
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	**$ 16,224,211**	$ 23,780,282	$ 13,822,582
Deferred federal income taxes	**2,390,882**	1,123,537	895,019
Other long-term liabilities	**1,620,311**	-	-
Long-term debt, less current portion	**14,383,060**	17,506,802	12,384,338
Accrued postretirement benefits	**1,111,234**	1,221,156	2,078,056
Accrued pension cost	**1,226,994**	5,323,550	6,270,075
Interest rate swap obligation	**577,941**	138,412	-
Shareholders' equity	**70,817,268**	54,391,205	46,171,765
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 108,351,901**	$ 103,484,944	$ 81,621,835
Cash Flows			
CASH FLOWS FROM OPERATIONS:			
Net income	**$ 10,080,693**	$ 9,658,748	$ 4,367,187
Depreciation and amortization	**4,369,998**	3,745,693	3,459,747
Other, net	**(5,690,613)**	(5,541,487)	(2,628,529)
Net cash provided by operating activities	**8,760,078**	7,862,954	5,198,405
INVESTING ACTIVITIES:			
Purchases of plant, property and equipment	**(2,867,829)**	(6,721,581)	(1,750,252)
Other	**25,120**	19,374	750
Business acquisitions	**-**	(7,536,916)	-
Net cash used by investing activities	**(2,842,709)**	(14,239,123)	(1,749,502)
FINANCING ACTIVITIES:			
Payments on debt	**(3,111,907)**	(15,255,099)	(3,009,811)
Proceeds from term loan	**-**	20,000,000	-
Proceeds from revolving credit loan	**-**	-	3,000,000
Tax benefit from stock options	**1,575,500**	-	6,403
Proceeds from sales of Common Stock	**2,562,997**	203,700	-
Purchases of Common Stock for treasury	**(312,521)**	-	-
Dividends paid	**(1,801,570)**	(1,715,035)	(1,600,100)
Other	**(20)**	(1,633)	-
Net cash (used in) provided by financing activities	**(1,087,521)**	3,231,933	(1,603,508)
Effect of exchange rate changes on cash	**278,416**	(100,253)	80,046
Net change in cash and cash equivalents	**5,108,264**	(3,244,489)	1,925,441
Cash and cash equivalents at beginning of year	**3,101,458**	6,345,947	4,420,506
Cash and cash equivalents at end of year	**$ 8,209,722**	$ 3,101,458	$ 6,345,947

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.