UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 29, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to ______________

Commission File Number 0-599

THE EASTERN COMPANY
(Exact name of registrant as specified in its charter)

Connecticut	06-0330020
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

112 Bridge Street, Naugatuck, Connecticut	06770
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (203) 729-2255

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock No Par Value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [__]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 22, 2002.

Common Stock, No Par Value - $49,719,835

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 22, 2002
Common Stock, No Par Value	3,629,185

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the annual proxy statement dated March 18, 2002 are incorporated by reference into Part III.

Form 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 29, 2001

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K 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.

PART I

ITEM 1 BUSINESS

(a) General Development of Business

The Eastern Company (the Company) was incorporated under the laws of the State of Connecticut in October, 1912, succeeding a co-partnership established in October, 1858.

The business of the Company is the manufacture and sale of industrial hardware, security products and metal products from five U.S. operations and four wholly-owned foreign subsidiaries. The Company maintains nine physical locations.

RECENT DEVELOPMENTS

Effective February 1, 2000, the Company acquired all the issued and outstanding Common Stock of Ashtabula Industrial Hardware Co. (Ashtabula), which was integrated into the Company's Industrial Hardware Group. Ashtabula produces proprietary hardware for school and courtesy bus doors.

Effective April 6, 2000, the Company acquired two product lines from Hansen International Inc. (Hansen). These proprietary locks are used to secure the lids of tool boxes that are installed in the beds of pickup trucks and other service vehicles. This acquisition represents a natural adjunct to Industrial Hardware Group's core line of vehicular hardware. It was integrated into our Canadian manufacturing facilities in Tillsonburg, Ontario.

The cost of the above acquisitions was approximately $4,070,000 and has been accounted for using the purchase method. The acquired businesses are included in the consolidated operating results of the Company from their date of acquisition. Neither the actual results nor the pro forma effects of the acquisitions of Ashtabula or Hansen are material to the Company's financial statements.

Effective June 29, 2000, the Company acquired the assets and businesses and assumed certain liabilities of Greenwald Industries, Inc. and Greenwald Intellicard, Inc. (the Greenwald businesses). The Greenwald businesses design, manufacture and market coin acceptance systems and provide smart cards, smart card readers, value transfer stations, card management software and interface boards primarily for the commercial laundry industry. The cost of the acquisition of the Greenwald businesses was approximately $24,285,000, including the assumption of approximately $749,000 of current liabilities. Proforma information for this acquisition is presented in Note 3 to the Company's financial statements included at Item 8 of this Annual Report on Form 10-K.

(b) Business Segment Information

Financial information about business segments is included in Note 12 to the Company's financial statements, included at Item 8 of this Annual Report on Form 10-K.

(c) Narrative Description of Business

The Company operates in three business segments: Industrial Hardware, Security Products and Metal Products.

Industrial Hardware

The Industrial Hardware segment consists of Eberhard Manufacturing, Eberhard Hardware Manufacturing Ltd. and Sesamee Mexicana, S.A. de C.V., and designs, manufactures and markets a diverse product line of industrial and vehicular hardware throughout North America. The segment's locks, hinges, handles and related hardware can be found in tractor-trailer trucks, moving vans, off-road construction and farming equipment, school buses, military vehicles and recreational boats. They are also used in pickup trucks, sport utility vehicles and fire and rescue vehicles. In addition, the segment manufactures a wide selection of fasteners and other closure devices used to secure access doors on various types of industrial equipment such as metal cabinets, machinery housings and electronic instruments.

Typical products include passenger restraint locks, slam and draw latches, dead bolt latches, compression latches, cam-type vehicular locks, hinges, tool box locks and school bus door closure hardware. The products are sold to original equipment manufacturers or distributors through a distribution channel consisting of in-house salesmen, outside sales representatives and distributors. Sales efforts are concentrated through in-house sales personnel where greater representation of our diverse product lines can be promoted across a variety of markets.

The Industrial Hardware segment sells its products to a diverse array of markets from the truck, bus and automotive industries to the industrial equipment, military and marine sectors. Although service, quality and price are major criteria for servicing these markets, the continued introduction of new and improved product designs and acquisition of synergistic product lines is vital for maintaining and increasing market share.

Security Products

The Security Products segment, made up of Greenwald Industries, Illinois Lock Company, CCL Security Products, World Lock Company Ltd. and World Security Industries Ltd.--is a leading manufacturer of security products. This segment manufactures electronic and mechanical locking devices, both keyed and keyless, for the computer, electronics, vending and gaming industries. The segment supplies the firearms, luggage, furniture, laboratory equipment and commercial laundry industries. With the acquisition of Greenwald the segment manufactures and markets coin acceptors and other coin security products used primarily in the commercial laundry markets. In addition, through the use of "smart card" technology, the segment provides a new level of security for the access control, municipal parking and vending markets.

Greenwald's product sales include timers, drop meters, coin chutes, money boxes, meter cases, smart cards, value transfer stations, smart card readers, card management software and access control units. Illinois Lock and CCL Security Products sales include cabinet locks, cam locks, electric switch locks, tubular key locks and combination padlocks. Many of the locks are sold under the names DUO, X-STATIC(R), EXCALIBUR(TM), WARLOCK(TM), LITE LOCK(TM), SESAMEE(R), PRESTOLOCK(R), HUSKI(TM), GUN BLOK(R), TRIGGER BLOK(TM) and CABLELOCK(TM). These products are sold to original equipment manufacturers, distributors, route operators, and locksmiths through a distribution channel consisting of in-house salesmen, outside sales representatives and distributors. Sales efforts are concentrated through in-house sales personnel where greater representation of our diverse product lines can be promoted across a variety of markets.

The Security Products segment continuously seeks new markets where it can offer competitive pricing and provide customers with engineered solutions to their security application needs.

Metal Products

The Metal Products segment, based at the Company's Frazer & Jones facility, is the largest and most efficient producer of expansion shells for use in supporting the roofs of underground mines. This segment also manufactures specialty castings, which serve the construction and electrical industries.

Typical products include mine roof support anchors, couplers for braking systems, adjustable clamps for construction and fittings for electrical installations. Mine roof support anchors are sold to distributors and directly to mines, while specialty castings are sold to original equipment manufacturers.

Although there continues to be a need for the highly engineered proprietary mine roof support products produced by this segment of the Company, changes in mining technology continue to decrease demand for mechanical anchoring systems. Intense competition from foreign foundries has adversely affected demand in the contract castings market. To offset declines in the production of malleable iron castings, the Company has invested in the necessary equipment for the production of ductile iron castings.

Raw materials and outside services were readily available from domestic sources for all of the Company's segments during 2001 and are expected to be readily available in 2002 and the foreseeable future. The Company also obtains materials from Asian affiliated and nonaffiliated sources. The Company has not experienced any problems obtaining material from its Asian sources in 2001 and does not expect any problems in 2002.

Patent protection for the various product lines within the Company is limited, but is sufficient to enhance competitive positions. Foreign sales and license agreements are not significant.

None of the Company's business segments is seasonal.

The Company, across all its business segments, has increased its emphasis on customer service by fulfilling the rapid delivery requirements of our customers. As a result, investments in additional inventories are made on a selective basis.

Customer lists for all business segments are broad-based geographically and by markets and sales are not highly concentrated by customer. No customer accounted for 10% or more of the Company's consolidated revenue for the year ended December 29, 2001.

The dollar amount of the level of orders in the Company is believed to be firm as of fiscal year ended December 29, 2001 at $7,760,000, as compared to $11,504,000 at December 30, 2000.

The Company encounters competition in all of its business segments. The Company has been successful in dealing with this competition by offering high quality diversified products with the flexibility of meeting customer needs on a timely basis. This is accomplished by effectively using internal engineering resources, cost effective manufacturing capabilities, expanding product lines through product development and acquisitions and maintaining sufficient inventory for fast turnaround of customer orders. However, imports from Asia, Latin America and Europe with weak currency exchange rates have created additional competitive pressures.

Research and development expenditures in 2001 were $1,006,000 and represented approximately 1% of gross revenues. In 2000 and 1999 they were $176,000 and $72,000, respectively. The increase in research costs is primarily attributable to the Greenwald division, where ongoing research in both the mechanical and smart card product lines is necessary in order to remain competitive and to continue to provide technologically advanced smart card systems. Other research projects include the development of new mine roof fasteners, ductile iron processes, transportation and industrial hardware products, pushbutton locks and luggage locks, and a new remote keyless entry system for tonneau covers, truck toolboxes and utility truck bodies.

The Company does not anticipate that compliance with federal, state or local environmental laws or regulations will have a material effect on the Company's capital expenditures, earnings or competitive position.

The average number of employees in 2001 was 596.

(d) Financial Information about Foreign and Domestic Operations and Export Sales

The Company includes five separate operating divisions located within the United States, a wholly-owned Canadian subsidiary located in Tillsonburg, Ontario, Canada, a wholly-owned Taiwanese subsidiary located in Taipei, Taiwan, a wholly-owned subsidiary in Hong Kong and a wholly-owned subsidiary in Mexico.

The Canadian, Taiwanese, Hong Kong and Mexican subsidiaries' revenue and assets are not significant. Substantially all other revenues are derived from customers located in the United States.

Financial information about foreign and domestic operations' net sales and identifiable assets is included in Note 12 to the Company's financial statements, included at Item 8 of this Annual Report on Form 10-K.

ITEM 2 PROPERTIES

The corporate office of the Company is located in Naugatuck, Connecticut in a two-story 8,000 square foot administrative building on 3.2 acres of land.

All of the Company's properties are owned or leased and are adequate to satisfy current requirements. All of the Registrant's properties have the necessary flexibility to cover any long-term expansion requirements.

The Industrial Hardware Group includes the following:

The Eberhard Manufacturing Division in Strongsville, Ohio owns 9.6 acres of land and a building containing 138,000 square feet, located in an industrial park. The building is steel frame, one-story, having curtain walls of brick, glass and insulated steel panel. The building has two high bays, one of which houses two units of automated warehousing.

The Eberhard Hardware Manufacturing, Ltd., a wholly-owned Canadian subsidiary in Tillsonburg, Ontario, owns 4.4 acres of land and a building containing 31,000 square feet in an industrial park. The building is steel frame, one-story, having curtain walls of brick, glass and insulated steel panel. It is particularly suited for light fabrication, assembly and warehousing and is adequate for long-term expansion requirements.

The Sesamee Mexicana subsidiary is leasing 1,950 square feet of a block building located in an industrial park in Lerma, Mexico on an open-end basis.

The Security Products Group includes the following:

The Greenwald Industries Division in Chester, Connecticut owns 26 acres of land and a building containing 120,000 square feet. The building is steel frame, one story, having brick over concrete blocks. The Company also leases a 5,000 square foot facility in Boynton Beach, Florida. The building is of concrete block construction. A monthly lease is in place.

The Illinois Lock Division leases land and a building containing 44,000 square feet in Wheeling, Illinois. During 2001 the CCL Security Product's manufacturing facility was moved to this site utilizing approximately 13,500 square feet of this facility. The building is brick and located in an industrial park. A five-year lease was signed in 2001, which expires on May 31, 2006.

The CCL Security Products Division' sales office is located in New Britain, Connecticut where 5,000 square feet of a building is leased. The four storied building is of brick and stone construction. A monthly lease is in place.

The World Lock Co. Ltd. subsidiary leases a brick and concrete building containing 7,870 square feet and is located in Taipei, Taiwan.

The Metal Products Group consists of:

The Frazer and Jones Division in Solvay, New York, owns 17.9 acres of land and buildings containing 205,000 square feet constructed for foundry use. These facilities are well adapted to handle the division's current and future casting requirements.

All owned properties are free and clear of any encumbrances.

ITEM 3 LEGAL PROCEEDINGS

There are no legal proceedings, other than ordinary routine litigation incidental to the Company's business, or to which either the Company or any of its subsidiaries is a party or to which any of their property is the subject.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the American Stock Exchange (ticker symbol EML). The approximate number of record holders of the Company common stock on December 29, 2001 was 726.

High and low stock prices and dividends for the last two years were:

2001				2000			
	Sales Price				Sales Price		
Quarter	High	Low	Dividend	Quarter	High	Low	Dividend
First	$17.05	$13.00	$.11	First	$16.44	$13.63	$.11
Second	15.60	14.15	.11	Second	14.63	12.75	.11
Third	15.31	12.50	.11	Third	14.75	11.25	.11
Fourth	13.45	11.65	.11	Fourth	16.00	11.75	.11

The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependant on future earnings, capital requirements, and financial conditions. In addition, the payment of dividends is subject to the restrictions of the Company's loan agreement, with a financial institution, if such payment would result in an event of default.

ITEM 6 SELECTED FINANCIAL DATA

	2001	2000	1999	1998	1997
INCOME STATEMENT ITEMS (in thousands)					
Net sales	$ 82,825	$ 88,192	$ 74,678	$ 70,750	$ 67,331
Cost of products sold	60,783	62,192	52,460	49,470	48,780
Depreciation and amortization	4,461	3,639	2,723	2,912	2,978
Interest expense	2,259	1,786	646	549	297
Income before income taxes	6,085	10,657	9,894	8,723	5,808
Income taxes	2,172	3,602	3,356	3,280	2,085
Net income	3,913	7,055	6,538	5,443	3,723
Dividends	1,599	1,601	1,573	1,429	1,268

BALANCE SHEET ITEMS (in thousands)					
Inventories	$ 18,591	$ 17,103	$ 14,040	$ 12,778	$ 12,415
Working capital	27,631	26,298	24,734	21,121	14,859
Property, plant and equipment, net	25,986	27,328	16,365	15,033	13,437
Total assets	81,896	84,857	54,894	50,072	45,798
Shareholders' equity	40,056	38,538	33,400	28,486	29,243
Capital expenditures	1,895	5,065	3,690	4,397	2,230
Long-term obligations, less current portion	25,014	28,540	8,565	8,552	60
PER SHARE DATA					
Net income per share					
Basic	$ 1.08	$ 1.95	$ 1.80	$ 1.49	$ 0.93
Diluted	1.07	1.93	1.75	1.43	0.92
Dividends	0.44	0.44	0.43	0.39	0.32
Shareholders' equity	11.06	10.64	9.21	7.81	7.33
Average shares outstanding (Basic)	3,623,291	3,621,449	3,626,001	3,645,360	3,987,272

The information in the table above reflects a 3-for-2 stock split effective May 1999.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net income for 2001 totaled $3.9 million, or $1.08 per basic share, on sales of $82.8 million. These results represent a 45% decrease in net income from 2000 and a 6% decrease in sales. Net income for 2000 totaled $7.1 million, or $1.95 per basic share, on sales of $88.2 million. With Greenwald sales excluded, earnings and sales for 2001 would have decreased 57% and 16%, respectively. The reason earnings declined more sharply than sales was that the Company incurred additional overhead through its building expansion programs and acquisition initiatives in 1999 and 2000. The Company had expected these higher overhead costs to be absorbed by the significantly greater sales volume it anticipated for 2001, but such volume failed to materialize as the manufacturing sector of the U.S. economy fell into a recession. The Company ended 2001 with a backlog level 33% below that at year-end 2000, but still totaling $7.8 million.

Net income for the 2001 fourth quarter totaled $1.7 million, or $.46 per basic share, on sales of $18.9 million. These figures represent a 9% decline in net income and an 18% decline in sales from 2000. Net income for the 2000 fourth quarter totaled $1.8 million, or $.51 per basic share, on sales of $23.0 million. The decrease in 2001 sales and earnings was the result of the significant slowdown in the manufacturing sector of the economy. The negative impact on earnings, however, was partly offset by two positive developments: lower-than-anticipated utility and compensation expenses; and the receipt of about 26,000 shares of common stock from Prudential Financial Inc. following Prudential's conversion from a mutual insurance company to a stockholder-owned company. The lower expenses contributed approximately $410,000, or $.11 per basic share, to net income, while the Prudential stock contributed about

$450,000, or $.12 per basic share. Without these favorable items, fourth quarter net income would have been approximately $820,000, or $.23 per basic share, a decrease of 55% from the fourth quarter of 2000.

The gross margin for the fourth quarter of 2001 was 31% of net sales as compared to 32% for the fourth quarter of 2000. Product mix in the fourth quarter accounted for the reduction in the gross margin percentage.

Selling and administrative expenses in the 2001 fourth quarter totaled $3.6 million, a 10% decrease from the 2000 level. This decrease was due to lower legal and professional expenses, lower compensation and personnel-related expenses.

RESULTS OF OPERATIONS

The following table shows, for 1999-2001, each line item from the consolidated statements of income as a percentage of net sales.

	2001	2000	1999
Net sales	100.0%	100.0%	100.0%
Cost of products sold	73.4%	70.5%	70.2%
Gross margin	26.6%	29.5%	29.8%
Selling and administrative expense	17.6%	15.6%	16.0%
Other income	1.0%	0.2%	0.4%
Interest expense	2.7%	2.0%	0.9%
Income before income taxes	7.3%	12.1%	13.3%
Income taxes	2.6%	4.1%	4.5%
Net income	4.7%	8.0%	8.8%

Fiscal 2001 Compared to Fiscal 2000

Net sales for 2001 decreased 6% ($5.4 million) to $82.8 million from $88.2 million for 2000. Volume reduced sales by 10%, while new product introductions raised sales by 3% and price increases raised them by 1%.

The Industrial Hardware segment experienced an 18% decline in sales. Volume decreased sales by 26%, while internally developed new products (for the utility truck and vehicular accessory markets) increased sales by 6% and price increases raised them 2%. Sales of heavy hardware to the tractor-trailer market decreased 39% from 2000 levels. Sales to this market began to decline in the latter half of 2000, when truck and trailer manufacturers with excessive inventories started to reduce their purchases. This market is expected to show a moderate improvement in the second half of 2002 as manufacturers begin to replenish their inventories.

Sales of industrial hardware (such as rotary locks, locking recessed handles, multi-point paddle handles and slam latches) to original equipment manufactures and distributors were off 15% from 2000. This was primarily due to the downturn in the manufacturing sector of the economy. Sales of school bus door closures decreased 13%; and sales of automotive accessories (toolbox locks, push-button locks and rotary latches) declined 8%. Sales at the Company's Mexican operations decreased 4% from 2000. Despite the slowdown in the economy, the Company continued to invest in new products, including a recently developed electronic bus door control device. This device is currently undergoing field-testing by several school bus manufacturers. Once testing is completed and the product is approved, the Company expects to begin receiving orders in the second half of 2002.

In the Security Products segment, sales were 12% higher than in 2000. Price increases raised sales by 1%, and volume increases raised them 11%. The volume increases were primarily due to the acquisition of the Greenwald businesses, which were added to the Security Products segment in the third quarter of 2000. With Greenwald sales excluded from the security segment, sales would have been down 16% in 2001.

Sales of locks to the computer industry decreased 30% in 2001. The decrease resulted partly from the downturn in the computer industry, and partly from a recent decision by one of our major customers to offer locking mechanisms as an option on new business servers and computers. Sales of high-security locks for coin-operated vending, gaming and amusement equipment were off 17% in 2001. This decline was the direct result of a slowdown in the expansion of casinos and game rooms, and a slowing of commercial development requiring new coin-operated vending equipment. Sales of locks to distributors servicing lower-volume accounts decreased 4% in 2001. Also down 4% were sales of locks for access door, furniture, electronics and vehicular applications. Sales of luggage locks for the travel industry declined 15%; fourth-quarter sales to this market were especially hard-hit. However, there have been some signs in 2002 that the luggage lock business is picking up. Sales to locksmiths were off 10% in 2001.

Sales of security products to the commercial laundry industry were also affected by the slowdown in the economy. Sales to original equipment manufacturers such as Whirlpool, GE, Maytag and Alliance were off by 8% for the year. Sales to distributors in the commercial laundry industry were comparable to prior-year levels, while sales to the route operators in that industry were off 4%. Sales of Smart Card products, however, grew by 24% from the prior year due to greater acceptance of Smart Card technology and an increase in our customer base.

Despite the decline in business during 2001, the Company continued to invest in research and development in order to introduce new products and technology in the mechanical and Smart Card product lines. During 2001, the Company introduced a high-security push-button lock for medical cabinetry applications, and also introduced a new drawer slide product line. These new products have been met with a positive response from our local sales representatives, current customers and trade show attendees, and should have a positive effect on the markets we serve. Although sales of our security products have gotten off to a slow start for the first two months of 2002, the Company is optimistic that business will pick up as the economy begins to recover from the recession.

In the Metal Products segment, sales were down 14% from the previous year. Volume reduced sales 15%, while price increases raised them 1%. Sales of contract castings were down 37% from 2000. This decrease was mainly due to the loss in 2001 of orders we had received from another foundry in 2000 when that foundry was temporarily shut down by a fire. Without this temporary contract casting business included in 2000, sales would have been down 13% in 2001. The contract casting business continues to be adversely affected by the importation of castings from China, Germany and Mexico. Because of lower labor costs in these countries and favorable currency exchange rates, the imports are creating pricing pressures in the casting markets.

Sales of mine roof support anchors increased 16% from 2000. The energy crisis in California and the surge in natural gas prices in 2000 and early 2001 led to a heightened demand for coal, which in turn led to the reopening of several underground coal mines that used the Company's proprietary mine roof anchor support systems. Coal remains the cornerstone of the U.S. energy supply. Approximately 1.1 billion tons of coal are mined from 1,400 mines in the United States each year, and about 92% of that volume is consumed by power companies. Although the demand for coal is influenced by the weather and the price of natural gas and oil, coal is still the least costly and most price-stable energy source available today. At the same time, mining technology has evolved over the years; with fewer underground mines in operation, there is now less call for mine roof support systems than there was in the past. To remain competitive as mining techniques have changed, the Company has been looking at new manufacturing methods and at alternative products. The Company has invested in the equipment and developed the technical knowledge necessary to begin the production of ductile iron. Ductile iron is superior to malleable iron, and is lower in cost to produce. We expect that the market for ductile iron will grow as this metal is substituted for malleable iron. Also, the Company is developing new mine roof anchor systems to more effectively compete with resin bolt systems.

Total gross margin for 2001 decreased 15%, or $4.0 million, from 2000. The decrease resulted from the combination of lower sales and under-absorbed overhead. The gross margin percentage for 2001 was approximately 3 percentage points below the 2000 level--26.6% versus 29.5%.

Total selling and administrative expenses were up 6%, or $779,000, from 2000. Most of the increase was due to the inclusion of Greenwald for the full 12 months of 2001. Other items that increased included goodwill amortization expenses (associated with the acquisitions made in 2000), payroll expenses and advertising expenses.

Interest expense increased 27%, or $473,000, from 2000. This was due to the additional borrowings (principally for the Greenwald acquisition in 2000) that were on the books for the 12 months of 2001.

Earnings before income taxes in 2001 decreased 43%, or $4.6 million, from 2000. Pretax earnings for the Industrial Hardware segment sank by 49%, or $3.2 million. This decrease was due to lower sales volume and under-utilized production facilities. The Security Products segment experienced a decrease of 21%, or $835,000, in pretax earnings. This decrease was partially offset by results from the Greenwald acquisition; with Greenwald excluded, the negative impact would have been greater. In the Metal Products segment, pretax earnings were down 16%, or $466,000, due to a reduction in contract casting business. Corporate expenses were down 41%, or $411,000, as the result of lower compensation expenses and the income received from the Prudential demutualization.

The effective tax rate in 2001 was 36%, up from 34% in 2000. The higher rate for 2001 was due to higher foreign taxes associated with the repatriation of foreign earnings through a dividend distribution.

Fiscal 2000 Compared to Fiscal 1999

Total net sales for 2000 increased 18% ($13.5 million) to $88.2 million from $74.7 million for 1999. New product introductions raised sales by 13%; price increases, by 1%; and volume increases, by 4%.

The Industrial Hardware segment experienced a 22% increase in sales from 1999. Volume increased sales by 1%, while internally developed new products increased sales 11%. Products acquired during 2000 increased sales by another 10%. (Internally developed products were items for the electronics cabinetry and truck accessory markets. Acquired products consisted of door closure hardware for school buses and new toolbox locks for the truck accessory market.) Sales of heavy hardware to the tractor-trailer market decreased 30% from 1999 levels. Sales of industrial hardware (such as rotary locks, locking recessed handles, multi-point paddle handles and slam latches) to original equipment manufacturers and distributors more than offset the decline in the tractor-trailer market. Due to demand for the industrial hardware products in 1999 and expected growth in the school bus market, the Company expanded its Cleveland manufacturing facility by 40,000 square feet. At the Company's Mexican operation, sales grew 58% as demand increased for high-quality industrial and vehicular products.

In June of 2000, the Company acquired Greenwald Industries and incorporated it into the Security Products segment (formerly the Custom Locks segment). Greenwald manufactures coin acceptors and other coin security products used primarily in the commercial laundry industry. Greenwald also produces cashless payment systems that use advanced Smart Card technology. In the Security Products segment, sales increased 38% from 1999. Volume increased sales by 37% and prices increased them by 1%. The volume increase was attributable to the addition of Greenwald sales for the last half of 2000.

In other areas of the Security Products segment, sales of locks were down slightly from 1999. Lock sales to the computer industry were down 17% primarily because of delays in the introduction of new business computers and servers. Sales to the gaming machine market were also off from 1999 levels due to minimal new casino construction and few expansions of existing casinos. A 21% increase in sales from our Asian operations helped offset the declines in sales to the computer and gaming industries. Sales of PrestoLock(R) padlocks for soft-sided luggage increased 6% from 1999 levels. Sales of Sesamee(R) keyless padlocks increased 16%. Although sales of Sesamees were generally up across all markets served, the advance was greatest in the telecommunications market, where sales were fueled by increased construction of cell phone towers. Sesamee padlocks are used to secure gates and sheds around the towers.

In the Metal Products segment, sales were down 6% from the previous year. Volume brought sales down 25%, while price increases raised sales 3% and new products increased them 16%. The sales of new products were the result of

orders received from a foundry that had temporarily shut down due to a fire but subsequently reopened. Without the infusion of new business from this foundry, our contract casting business would have been down 27% from the previous year. The segment was affected by an overall decline in domestic production of malleable iron castings and a parallel increase in the importation of foreign castings. Castings imported from countries in Asia, Latin America and Europe with weak currency exchange rates created pricing pressure and eroded our contract casting business. This business was further weakened by declines in the market for residential gas fittings and residential and commercial electrical fittings, and by the phaseout of certain automotive products.

Metal Products was also affected by a 13% drop in sales of mine roof support products. Although coal remains one of the country's largest energy resources, the sales decrease was due to a continued reduction in the prevalence of underground mining.

Total gross margin for 2000 increased 17%, or $3.8 million, from 1999. The increase resulted from higher sales. The gross margin percentage for 2000 was comparable to 1999's--29.5% versus 29.8%--since the Company was able to integrate the Greenwald acquisition with little disruption of current operations and without incurring any additional charges which would have affected margins.

Total selling and administrative expenses were up 15%, or $1.9 million, from 1999. Most of the increase was due to the inclusion of Greenwald. Other items that increased included goodwill amortization expenses (associated with the acquisitions made in 2000), payroll expenses and advertising expenses.

Interest expense jumped 177%, or $1.1 million, from 1999. This was due to additional borrowings, principally for the acquisition of Greenwald in 2000.

Earnings before income taxes in 2000 increased 8%, or $763,000, from 1999. Pretax earnings for the Industrial Hardware segment rose by 29%, or $1.5 million. This increase was due to greater sales volume, full use of production facilities and sales of new products with higher profit margins. The Security Products segment experienced a gain of 4%, or $152,000, in pretax earnings. This increase resulted from the Greenwald acquisition; otherwise, pretax income would have been negatively affected by lower earnings from existing lock operations. In the Metal Products segment, earnings were down 5%, or $137,000, due to a reduction in mine roof anchor sales and increased foreign competition in the contract casting market. Corporate expenses were down 30%, or $422,000, as the result of lower compensation expenses and lower group insurance costs.

The effective tax rate in 2000 was 34%, the same as in 1999.

Liquidity and Sources of Capital

	2001	2000	1999
Current ratio	3.8	3.2	4.4
Average days' sales in accounts receivable	52	55	48
Inventory turnover	3.3	3.6	3.7
Ratio of working capital to sales	33.4%	29.8%	33.1%
Total debt to market capitalization	65.8%	66.5%	15.5%
Total debt to equity	70.9%	81.6%	26.5%

In 2000, the Company entered into an unsecured loan agreement (the Loan Agreement) with a financial institution. The proceeds under the Loan Agreement were used to finance the Greenwald acquisition and to increase our line of credit for future working capital needs. Under the term portion of the Loan Agreement, the Company borrowed $25.0 million, which is payable in quarterly principal payments of $625,000 during the first year. The quarterly principal payments increase annually up to $1.0 million. A final principal payment of $9.0 million is due at maturity, on July 1, 2005. The Loan Agreement requires the Company to maintain an interest rate swap contract with the lender for $15.0 million. This sum is to be reduced each quarter in accordance with the principal repayment schedule for the term portion of the Loan Agreement. The interest rate on the swap contract is fixed at 9.095%. Under the revolving credit portion of

the Loan Agreement, the Company may borrow up to $20.0 million until July 2, 2003. A quarterly commitment fee of 0.25% is to be paid on the unused portion. As of December 29, 2001, $5.0 million was outstanding under the revolving credit portion of the Loan Agreement; the Company does not expect to make any repayments before July 3, 2003.

The interest rates on the term and the revolving credit portions of the Loan Agreement may vary. For the term portion, the interest rate is based on LIBOR plus additional interest of 1.5% to 2.0%. For the revolving credit portion, the rate is based on LIBOR plus 1.25% to 1.75%. The additional interest percentages are based on operating results calculated on a rolling-four-quarter basis.

In 1999, the Company borrowed $2.0 million to finance specific building improvements and equipment acquisitions. The borrowing was structured in the form of a lease classified as a capital lease obligation. The lease obligation is collateralized by a security interest in the aforementioned equipment and a $900,000 letter of credit.

The ratio of working capital to sales was 33.4% in 2001, 29.8% in 2000 and 33.1% in 1999. The higher ratio in 2001 was due to planned increases in inventory levels and an investment in common stock received as compensation from Prudential Financial in connection with Prudential's demutualization in the fourth quarter of 2001. The higher ratio in 1999 was due to a higher cash balance to finance the purchase of two small product lines (school bus door closure hardware and toolbox locks) in 2000. These acquisitions were not material to the Company's financial position or operating results.

Accounts receivable decreased 20%, or $2.7 million, from the 2000 level. This decrease was the direct result of lower sales volume. The average days' sales in accounts receivable equaled 52 in 2001 compared with 55 days in 2000 and 48 days in 1999. The increase in collection days from 1999 to 2000 was due to a higher number of foreign trade accounts, which often pay more slowly than do domestic trade accounts. The Company continues to monitor and press for current collections of accounts receivable.

Inventories increased in 2001 by 9%, or $1.5 million, from 2000. The increase was due to the stocking of additional inventory for CCL's move from New Britain, CT, to Wheeling, IL, and for a planned three-week shutdown at Frazer & Jones in January 2002 for machine maintenance and test pouring of ductile iron. Inventory turnover remained substantially unchanged at 3.3 times in 2001 versus 3.6 times in 2000 and 3.7 times in 1999. Inventories are slightly higher than required, and the Company continues working to reduce levels in order to free up working capital.

Capital expenditures in 2001, 2000 and 1999 were $1.9 million, $5.1 million and $3.7 million, respectively. The Company continuously upgrades and replaces existing equipment to expand capacity, improve efficiency and satisfy safety and environmental requirements. The Company expects that capital expenditures for 2002 will be lower than projected depreciation expense of $3.0 million.

The present financial strength of the Company's balance sheet--demonstrated by a current ratio of 3.8 to 1, positive cash flow from operating activities and availability of a $15.0 million credit line --will enable the Company to meet its current obligations and continue to grow in 2002.

Impact of Inflation and Changing Prices

The impact of inflation on the Company's operations has not been significant, as the Company has generally been able to adjust its prices to reflect higher manufacturing costs, or has been able to improve its manufacturing processes to achieve increased productivity.

Historical data as presented in the financial statements reasonably relate current costs, except for depreciation, to revenues generated in the period. Depreciation expense based on the current replacement cost of plant and equipment would be higher than depreciation expense reported in historical financial statements.

The Company uses the last-in, first-out (LIFO) method of accounting for its domestic inventories and the first-in, first-out (FIFO) method for all other inventories. Under the LIFO method, the cost of products sold reported in the

financial statements approximates current cost and thus provides a closer matching of revenue and expenses in periods of increasing costs.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's foreign manufacturing facilities account for approximately 12% of total sales and 11% of total assets. Its U.S. operations buy from and sell to these foreign affiliates, and also make limited sales (less than 10% of total sales) to non-affiliated foreign customers. This trade activity could be affected by fluctuations in foreign currency exchange or by weak economic conditions. The Company's currency exposure is concentrated in the Canadian dollar, Mexican peso, New Taiwan dollar and Hong Kong dollar. Because of the Company's limited exposure to foreign markets, any currency exchange gains or losses are not material.

The Company is exposed to interest rate risk with respect to its unsecured $45 million Loan Agreement, which provides for interest based on LIBOR plus a spread of up to 2%. The spread is determined by a comparison of the Company's operating performance with agreed-upon financial targets. Since the Company's performance depends to a large extent on the overall economy, the interest rate paid by the Company under its Loan Agreement is closely linked to the trend in the U.S. economy. The current interest rate spread is 1.75% on the term loan portion and 1.50% on the revolving credit line portion of the Loan Agreement. Changes in LIBOR rates will also affect the Company's interest expense. To hedge against future LIBOR rate increases, the Company has a swap contract on part of the term loan portion of the Loan Agreement. The interest rate on the contract is 9.095%. The notional amount of the swap contract is reduced on a quarterly basis in accordance with the principal repayment schedule for the term portion of the Loan Agreement. The notional amount of the swap contract was $12.5 million as of December 29, 2001.

The remainder of the term debt is subject to the volatility of short-term interest rates, where a 1% change in interest rates would cause a $142,600 increase or decrease in the Company's annual interest cost. While the Company could enter into an additional swap agreement to fix the rate, it does not expect to do so.

Item 8. Financial Statements and Supplementary Data

The Eastern Company

Consolidated Balance Sheets

	December 29 2001	December 30 2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,955,020	$ 4,541,706
Investment in common stock	850,017	-
Accounts receivable, less allowances of $344,000 in 2001 and $362,000 in 2000	10,814,017	13,506,033
Inventories:		
Raw materials and component parts	8,228,364	8,707,240
Work in process	4,390,818	4,375,425
Finished goods	5,971,665	4,019,970
	18,590,847	17,102,635
Prepaid expenses and other	1,690,917	1,974,044
Deferred income taxes	640,200	944,300
Total Current Assets	37,541,018	38,068,718
Property, Plant and Equipment		
Land	700,960	701,173
Buildings	11,447,209	11,501,635
Machinery and equipment	28,175,455	28,095,050
Accumulated depreciation	(14,337,979)	(12,970,152)
	25,985,645	27,327,706
Other Assets		
Goodwill, less accumulated amortization of $1,256,477 in 2001 and $476,658 in 2000	10,603,638	11,435,086
Patents, technology, licenses and trademarks, less accumulated amortization of $1,988,233 in 2001 and $1,983,163 in 2000	2,444,643	2,731,687
Prepaid pension cost	5,321,110	5,293,873
	18,369,391	19,460,646
	$ 81,896,054	$ 84,857,070

Consolidated Balance Sheets

	December 29 2001	December 30 2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 3,471,951	$ 4,624,749
Accrued compensation	982,464	2,275,582
Other accrued expenses	2,066,734	1,966,902
Current portion of long-term debt	3,388,662	2,903,542
Total Current Liabilities	9,909,811	11,770,775
Deferred income taxes	3,126,500	3,350,700
Long-term debt, less current portion	25,013,906	28,539,515
Accrued postretirement benefits	2,735,910	2,658,532
Interest rate swap obligation	1,054,420	-
Shareholders' Equity		
Voting Preferred Stock, no par value:		
Authorized and unissued: 1,000,000 shares	-	-
Nonvoting Preferred Stock, no par value:		
Authorized and unissued: 1,000,000 shares	-	-
Common Stock, no par value:		
Authorized: 25,000,000 shares		
Issued:3,629,185 shares in 2001 and 3,636,757 shares in 2000; excluding shares held in treasury of 1,652,320 in 2001 and 1,650,726 in 2000	839,155	878,024
Retained earnings	40,944,315	38,630,205
Unearned compensation	-	(164,063)
Accumulated other comprehensive income (loss)		
Foreign currency translation	(1,156,515)	(806,618)
Derivative financial instruments	(632,420)	-
Unrealized holding gain on investment in common stock	60,972	-
	(1,727,963)	(806,618)
Total Shareholders' Equity	40,055,507	38,537,548
	$ 81,896,054	$ 84,857,070

See accompanying notes.

Consolidated Statements of Income

	Year ended		
	December 29 2001	December 30 2000	January 1 2000
Net sales	$ 82,825,353	$ 88,192,294	$ 74,678,420
Other income	866,031	227,305	296,985
	83,691,384	88,419,599	74,975,405
Costs and expenses			
Cost of products sold	60,782,769	62,191,769	52,459,895
Selling and administrative	14,563,913	13,784,638	11,975,508
Interest	2,259,347	1,786,325	645,991
	77,606,029	77,762,732	65,081,394
Income before income taxes	6,085,355	10,656,867	9,894,011
Income taxes	2,172,436	3,601,378	3,356,079
Net income	$ 3,912,919	$ 7,055,489	$ 6,537,932
Earnings per Share			
Basic	$ 1.08	$ 1.95	$ 1.80
Diluted	$ 1.07	$ 1.93	$ 1.75

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Year ended		
	December 29 2001	December 30 2000	January 1 2000
Net income	$ 3,912,919	$ 7,055,489	$ 6,537,932
Other comprehensive income/(loss) -			
Currency translation	(349,897)	(88,463)	112,112
Cumulative effect of accounting change for derivative financial instruments, net of income taxes of $265,000	(400,756)	-	-
Change in fair value of derivative financial instruments, net of income taxes of $157,000	(231,664)	-	-
Unrealized holding gain on investment in common stock, net of income taxes	60,972	-	-
	(921,345)	(88,463)	112,112
Comprehensive income	$ 2,991,574	$ 6,967,026	$ 6,650,044

See accompanying notes.

Consolidated Statements of Shareholders' Equity

	Common Stock	Retained Earnings	Unearned Compensation
Balances at January 2, 1999	$ 1,465,360	$ 28,210,340	$ (359,531)
Net income		6,537,932	
Cash dividends declared, $.43 per share		(1,573,045)	
Purchase of 48,857 shares of Common Stock for treasury	(783,260)		
Issuance of 69,825 shares of Common Stock upon the exercise of stock options	538,705		
Issuance of 5,561 shares of Common Stock for director fees	81,467		
11,250 shares of Common Stock cancelled under restricted stock award program	(148,125)		148,125
Balances at January 1, 2000	1,154,147	33,175,227	(211,406)
Net income		7,055,489	
Cash dividends declared, $.44 per share		(1,600,511)	
Purchase of 29,154 shares of Common Stock for treasury	(416,438)		
Issuance of 11,875 shares of Common Stock upon the exercise of stock options	104,671		
Issuance of 6,094 shares of Common Stock for director fees	82,987		
Change in fair value of restricted stock awards	(47,343)		47,343
Balances at December 30, 2000	878,024	38,630,205	(164,063)
Net income		3,912,919	
Cash dividends declared, $.44 per share		(1,598,809)	
Purchase of 1,594 shares of Common Stock for treasury	(23,432)		
Issuance of 3,750 shares of Common Stock upon the exercise of stock options	23,437		
Issuance of 9,022 shares of Common Stock for director fees	125,189		
18,750 shares of Common Stock cancelled under restricted stock award program	(164,063)		164,063
Balances at December 29, 2001	$ 839,155	$ 40,944,315	$ -

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended		
	December 29 2001	December 30 2000	January 1 2000
Operating Activities			
Net income	$ 3,912,919	$ 7,055,489	$ 6,537,932
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,460,704	3,639,384	2,722,885
Common stock received	(748,345)	-	-
Loss on sales of equipment and other assets	258	6,054	1,129
Provision for doubtful accounts	(4,002)	(92,581)	87,808
Deferred income taxes	461,200	659,300	383,200
Issuance of Common Stock for directors' fees	125,189	82,987	81,467
Changes in operating assets and liabilities:			
Accounts receivable	2,673,430	(910,198)	(782,864)
Inventories	(1,485,460)	69,855	(1,153,634)
Prepaid expenses and other	212,848	(523,288)	(47,657)
Prepaid pension cost	(27,237)	(313,184)	(413,407)
Other assets	(211,999)	(243,561)	(200,028)
Accounts payable	(1,097,265)	526,086	415,737
Accrued compensation	(1,281,060)	381,824	(162,928)
Other accrued expenses	(30,143)	71,519	(1,064,785)
Net cash provided by operating activities	6,961,037	10,409,686	6,404,855
Investing Activities			
Purchases of property, plant and equipment	(1,894,723)	(5,065,275)	(3,690,157)
Business acquisitions, net of cash acquired	-	(27,547,304)	-
Proceeds from sales of equipment and other assets	-	98,872	7,538
Net cash used by investing activities	(1,894,723)	(32,513,707)	(3,682,619)
Financing Activities			
Proceeds from issuance of long-term debt	-	30,009,694	2,471,870
Principal payments on long-term debt	(3,028,830)	(7,396,103)	(2,265,721)
Proceeds from sales of Common Stock	23,437	104,671	538,705
Purchases of Common Stock for treasury	(23,432)	(416,438)	(783,260)
Dividends paid	(1,598,809)	(1,600,511)	(1,573,045)
Net cash provided (used) by financing activities	(4,627,634)	20,701,313	(1,611,451)
Effect of exchange rate changes on cash	$ (25,366)	$ 4,224	$ 39,504
Net change in cash and cash equivalents	413,314	(1,398,484)	1,150,289
Cash and cash equivalents at beginning of year	4,541,706	5,940,190	4,789,901
Cash and cash equivalents at end of year	$ 4,955,020	$ 4,541,706	$ 5,940,190

See accompanying notes.

1. OPERATIONS

The operations of The Eastern Company (the Company) consist of three business segments: industrial hardware, security products (formerly custom locks), and metal products. The industrial hardware segment produces latching devices for use on industrial equipment and instrumentation as well as a broad line of proprietary hardware designed for truck bodies and other vehicular type equipment. The security products segment manufactures and markets a broad range of locks for traditional general purpose security applications as well as specialized locks for firearms, soft luggage, coin-operated vending and gaming equipment, and electric and computer peripheral components. This segment also manufactures and markets coin acceptors and metering systems to secure cash used in the commercial laundry industry and produces cashless payment systems utilizing advanced smart card technology. The metal products segment consists of a foundry, which produces anchoring devices used in supporting the roofs of underground coal mines. This segment also manufactures specialty products, which serve the construction, automotive and electrical industries.

Sales are made to customers primarily in North America. Revenue from sales transactions is recognized at the point of shipment. Ongoing credit evaluations are made of customers for which collateral is generally not required. Allowances for credit losses are provided; such losses have been within management's expectations.

2. ACCOUNTING POLICIES

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

The Company's year ends on the Saturday nearest to December 31. The year 1999 ended January 1, 2000.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions are eliminated.

2. ACCOUNTING POLICIES (continued)

Foreign Currency Translation

For foreign operations, balance sheet accounts are translated at the current year-end exchange rate; income statement accounts are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of shareholders' equity--"Accumulated other comprehensive loss - foreign currency translation". Foreign currency exchange gains and losses are not material in any year.

Cash Equivalents

Highly liquid investments purchased with a maturity of three months or less are considered cash equivalents.

Investment in Common Stock

The investment in common stock consists solely of shares of common stock of a single issuer. Such shares were received as compensation in connection with the "demutualization" of the issuer. This investment is classified as "available-for-sale" and, as such, is measured and reported at fair value in the consolidated balance sheet. The cost of this investment is $748,345 based on the fair value of the shares at the time of receipt and is reported in "Other income, net". The subsequent related unrealized holding gain of $101,672, less deferred income taxes of $40,700 to December 29, 2001 and any future holding gains or losses, net of deferred income taxes are reported as a separate component of stockholder's equity. To date, no shares received have been sold and no dividends have been received.

Inventories

Inventories are valued at the lower of cost or market, generally determined by the last-in, first-out (LIFO) method. Current cost exceeded the LIFO carrying value by approximately $3,080,000 at December 29, 2001 and $2,971,000 at December 30, 2000.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment (including equipment under a capital lease) are stated on the basis of cost. Depreciation ($3,173,277 in 2001, $2,730,392 in 2000 and $2,387,077 in 1999) is computed generally using the straight-line method based on the estimated useful lives of the assets.

Intangibles and Impairment of Long-Lived Assets

Patents are amortized using the straight-line method over the lives of the patents. Technology and licenses are generally amortized on a straight-line basis over periods ranging from five to 17 years. Goodwill is being amortized over periods ranging from five to 15 years.

In the event that facts and circumstances indicate that the carrying value of long-lived assets, including goodwill and other intangible assets, may be impaired, an evaluation is performed to determine if a write-down is required. No events or changes in circumstances have occurred that indicate that the carrying amount of such long-lived assets held and used may not be recovered.

2. ACCOUNTING POLICIES (continued)

Effective December 30, 2001, the Company will adopt Financial Accounting Standards Board Statement No. 142, Goodwill and Other Intangible Assets. Under the new standards, goodwill will no longer be amortized but will be subject to annual impairment tests; other intangible assets will continue to be amortized over their useful lives. If the provisions of Statement No. 142 were applied effective December 31, 2000, the net income for the Company would have been $4,388,000 or $1.21 per share for 2001.

Product Development Costs

Product development costs, charged to expense as incurred, were $1,005,555 in 2001, $176,498 in 2000 and $71,867 in 1999.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $678,479 in 2001, $630,889 in 2000 and $491,008 in 1999.

Earnings Per Share

The denominators used in the earnings per share computations follow:

Basic:	2001	2000	1999
Weighted average shares outstanding	3,623,291	3,640,199	3,644,751
Contingent shares outstanding	-	(18,750)	(18,750)
Denominator for basic earnings per share	3,623,291	3,621,449	3,626,001
Diluted:			
Weighted average shares outstanding	3,623,291	3,640,199	3,644,751
Contingent shares outstanding	-	(18,750)	(18,750)
Dilutive stock options	43,888	39,474	112,898
Denominator for diluted earnings per share	3,667,179	3,660,923	3,738,899

Derivatives

Effective December 31, 2000, the Company adopted Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. In connection therewith, the Company recognizes all derivatives in its consolidated balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value through operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value are either offset against the change in fair value of assets, liabilities, or firm commitments through operations or recognized in other comprehensive income until the hedged item is recognized in operations. The adoption of Statement No. 133 resulted in a charge for the cumulative effect of an accounting change of $400,756 and a current year charge of $231,664 recorded as other comprehensive loss in the consolidated statements of comprehensive income.

3. BUSINESS ACQUISITIONS

Effective June 29, 2000, the Company acquired the assets and businesses and assumed certain liabilities of Greenwald Industries, Inc. and Greenwald Intellicard, Inc. (the Greenwald businesses). The Greenwald businesses design, manufacture and market coin acceptance systems and provide smart cards, smart card readers, value transfer stations, card management software and interface boards primarily for the commercial laundry industry. The cost of the acquisition of the Greenwald businesses was approximately $24,285,000, including the assumption of approximately $749,000 of current liabilities.

Effective February 1, 2000 and April 6, 2000 the Company also acquired all the issued and outstanding Common Stock of Ashtabula Industrial Hardware Co. (Ashtabula) and two product lines from Hansen International Inc. (Hansen), respectively. Ashtabula produces proprietary hardware for school and courtesy bus doors. The Hansen product lines produce proprietary locks to secure the lids of toolboxes that are installed in the beds of pickup trucks and other vehicles. The cost of these two acquisitions was approximately $4,070,000.

The above acquisitions have been accounted for using the purchase method. The acquired businesses are included in the consolidated operating results of the Company from their date of acquisition. The excess of the cost of the acquired businesses over the fair market value of the net assets acquired has been allocated to goodwill that is being amortized using the straight-line method over 15 years.

Neither the actual results nor the pro forma effects of the acquisitions of Ashtabula or Hansen are material to the Company's financial statements. Unaudited pro forma results assuming the Greenwald businesses were acquired January 2, 1999, follow:

	2000	1999
Net sales	$ 96,985,297	$ 92,107,420
Net income	6,841,451	6,251,932
Per share:		
Basic	$1.89	$1.72
Diluted	$1.87	$1.67

4. CONTINGENCIES

In 1999, all litigation relating to environmental matters was settled without any material impact on financial condition, operating results or cash flows. The aggregate provision for losses related to these and other contingencies arising in the ordinary course of business was not material to operating results for any year presented. There is a nominal aggregate liability for all contingencies as of December 29, 2001 and December 30, 2000.

5. DEBT

In 2000, the Company entered into an unsecured loan agreement (the Loan Agreement) with a financial institution. Under the term portion of the Loan Agreement the Company borrowed $25,000,000 which is payable in quarterly principal payments of $625,000. The quarterly principal payments increase annually up to $1,000,000 with a final principal payment due at maturity on July 1, 2005 of $9,000,000. The Company maintains an interest rate swap contract as required, with the lender, for $15,000,000 reduced on a quarterly basis in accordance with the principal repayment schedule of the term portion of the Loan Agreement. The interest rate on the swap contract is fixed at 9.095%. The Company may borrow up to $20,000,000 to July 2, 2003 under the revolving credit portion of the Loan Agreement with a quarterly commitment fee of 1/4% on the unused portion. As of December 29, 2001, $5,009,694 was outstanding under the revolving credit portion of the Loan Agreement; the Company does not anticipate any repayments thereof prior to July 3, 2003.

The interest rates on the term and the revolving credit portions of the Loan Agreement may vary. The interest rates may vary based on LIBOR rate plus a margin spread of 1.5% to 2.0% for the term portion and 1.25% to 1.75% for the revolving credit portion. The margin rate spread is based on operating results calculated on a rolling-four-quarter basis.

In 1999, the Company borrowed $2,000,000 to finance specific building improvements and equipment acquisitions. The borrowing was structured in the form of a lease classified as a capital lease obligation. The lease obligation is collateralized by a security interest in the equipment referred to above and a $900,000 letter of credit.

Debt consists of:

	2001	2000
Term loan	$ 21,750,000	$ 24,375,000
Revolving credit loan	5,009,694	5,009,694
Capital lease obligation with interest at 4.99% and payable in monthly installments of $21,203 through April 2009	1,559,908	1,731,827
Other	82,966	326,536
	28,402,568	31,443,057
Less current portion	3,388,662	2,903,542
	$ 25,013,906	$ 28,539,515

The Company paid interest of $2,752,643 in 2001, $1,308,108 in 2000 and $642,330 in 1999.

5. DEBT (continued)

Collectively, under the covenants of the Loan Agreement and capital lease obligation, the Company is required to maintain specified financial ratios and amounts. In addition, the Company is restricted to, among other things, capital leases, purchases or redemptions of its capital stock, mergers and divestitures, and new borrowing.

The Company obtained a waiver for the required maximum leverage ratio under the Loan Agreement for 2001. In addition, the required amount was modified for 2002 to one with which the Company expects to comply.

As of December 29, 2001 scheduled annual principal maturities of long-term debt, including capital lease obligations, for each of the next five years follow: 2002 - $3,388,662; 2003 - $9,824,616; 2004 - $4,199,618; 2005 - $10,209,811; and 2006 - $220,523.

6. STOCK RIGHTS

The Company has a stock rights plan. At December 29, 2001 there were 3,623,291 stock rights outstanding under the plan. Each right may be exercised to purchase one share of the Company's Common Stock at an exercise price of $80, subject to adjustment to prevent dilution.

The rights generally become exercisable ten days after an individual or group acquires 10% of the Company's outstanding common shares or after commencement or announcement of an offer for 10% or more of the Company's Common Stock. The stock rights, which do not have voting privileges, expire on July 22, 2008, and may be redeemed by the Company at a price of $.0067 per right at any time prior to their expiration. In the event that the Company were acquired in a merger or other business combination transaction, provision shall be made so that each holder of a right shall have the right to receive, upon exercise thereof at the then current exercise price, that number of shares of common stock of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the right.

7. STOCK OPTIONS AND AWARDS

The Company has five incentive stock option plans for officers, other key employees, and nonemployee directors: 1983, 1989, 1995, 1997 and 2000. The 2000 Plan was approved by the Company's shareholders in 2001. Options granted under the 1983 and 1989 plans and incentive stock options granted under the 1995 and 2000 plans must have exercise prices that are not less than 100% of the fair market value of the stock on the dates the options are granted. Restricted stock awards may also be granted to participants under the 1995 and 2000 plans with restrictions determined by the Incentive Compensation Committee of the Company's Board of Directors. Under the 1995, 1997 and 2000 plans, nonqualified stock options granted to participants will have exercise prices determined by the Compensation Committee of the Company's Board of Directors. All options granted in 1999, 2000, and 2001 were granted at prices equal to the fair market value of the stock on the dates granted.

7. STOCK OPTIONS AND AWARDS (continued)

At December 29, 2001, no shares of the Company's unissued Common Stock were reserved for options under its 1983 Incentive Stock Option Plan. Changes in stock options under this plan follow:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,750	$6.25	3,750	$6.25	18,750	$6.25
Exercised	(3,750)	$6.25	-	-	(15,000)	$6.25
Outstanding, end of year	-	-	3,750	$6.25	3,750	$6.25
Exercisable, end of year:						
At $6.25	-		3,750		3,750	

At December 29, 2001, 59,642 of the Company's unissued Common Stock were reserved for options under its 1989 Incentive Stock Option Plan. Changes in stock options under this plan follow:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	59,642	$11.16	70,517	$10.62	125,342	$8.63
Exercised	-	-	(10,875)	$7.64	(54,825)	$6.08
Outstanding, end of year	59,642	$11.16	59,642	$11.16	70,517	$10.62
Exercisable, end of year:						
At $6.25	-		-		3,000	
At $8.17	-		-		7,875	
At $9.92	30,000		30,000		30,000	
At $11.92	22,500		22,500		22,500	
At $14.00	7,142		7,142		7,142	

7. STOCK OPTIONS AND AWARDS (continued)

At December 29, 2001, 326,249 shares of the Company's unissued Common Stock were reserved for options and awards under its 1995 Incentive Stock Option Plan. Changes in stock options and restricted stock awards under this plan follow:

	Stock Options					
	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	326,249	$14.55	207,858	$14.62	75,358	$12.96
Granted	-	-	118,391	$14.25	132,500	$15.56
Outstanding, end of year	326,249	$14.53	326,249	$14.55	207,858	$14.62
Exercisable, end of year:						
At $11.92	37,500		37,500		37,500	
At $14.00	37,858		37,858		37,858	
At $14.25	61,135		25,274		-	
At $15.25	120,000		120,000		120,000	
At $18.50	12,500		10,800		10,800	

	Stock Awards					
	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	18,750	$11.28	18,750	$11.28	30,000	$11.99
Cancelled	(18,750)	$11.28	-	-	(11,250)	$13.17
Outstanding, end of year	-	-	18,750	$11.28	18,750	$11.28

7. STOCK OPTIONS AND AWARDS (continued)

At December 29, 2001, 249,000 shares of the Company's unissued Common Stock were reserved for options under its 1997 plan. Changes in stock options under this plan follow:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	249,000	$12.49	250,000	$12.48	187,500	$11.55
Granted	-	-	-	-	62,500	$15.25
Exercised	-	-	(1,000)	$9.92	-	-
Outstanding, end of year	249,000	$12.49	249,000	$12.49	250,000	$12.48
Exercisable, end of year:						
At $9.92	111,500		111,500		112,500	
At $14.00	75,000		75,000		75,000	
At $15.25	62,500		62,500		62,500	

At December 29, 2001, 44,109 shares of the Company's unissued Common Stock were reserved for options under its 2000 plan. Changes in stock options under this plan follow:

	2001	
	Options	Weighted Average Exercise Price
Granted	44,109	$14.40
Outstanding, end of year	44,109	$14.40
Exercisable, end of year:		
At $14.40	24,109	

Compensation expense for stock options is recognized under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. As such, no expense is recognized if, at the date of grant, the exercise price of the option is at least equal to the fair market value of the Company's Common Stock. Compensation expense for restricted stock awards granted is recognized when earned based on the achievement of targeted annual operating results through December 30, 2000.

7. STOCK OPTIONS AND AWARDS (continued)

If stock options were accounted for using the fair value method under FASB Statement No. 123, Accounting for Stock Based Compensation, net income, basic earnings per share and diluted earnings per share would have been $3,713,279, $1.03, and $1.01, respectively in 2001, $6,753,124, $1.86, and $1.84, respectively in 2000 and $5,857,372, $1.62, and $1.60, respectively in 1999. In connection therewith, fair value was estimated using the "Black Scholes" method referred to in FASB Statement No. 123 with the following weighted-average assumptions:

	2001	2000	1999
Risk free interest rate	4.84%	5.70%	6.50%
Expected volatility	0.302	0.310	0.322
Expected option life	5 years	5 years	5 years
Weighted-average dividend yield	3.1%	3.1%	2.6%

8. INCOME TAXES

Deferred income taxes are provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax reporting purposes. Deferred income tax liabilities (assets) relate to:

	2001	2000	1999
Property, plant and equipment	$ 2,801,500	$ 2,430,800	$ 2,239,000
Pension accruals	2,027,400	2,027,500	1,942,400
Investment in common stock	325,800	-	-
Other	196,500	171,100	125,600
Total deferred income tax liabilities	5,351,200	4,629,400	4,307,000
Other postretirement benefits	(1,042,400)	(1,018,200)	(1,087,900)
Inventories	(598,800)	(555,600)	(516,300)
Allowance for doubtful accounts	(119,200)	(119,700)	(189,900)
Accrued compensation	(257,900)	(231,300)	(340,900)
Interest rate swap obligation	(422,000)	-	-
Accrual for contingencies	-	-	(39,000)
Other	(424,600)	(298,200)	(385,900)
Total deferred income tax assets	(2,864,900)	(2,223,000)	(2,559,900)
Net deferred income tax liabilities	$ 2,486,300	$ 2,406,400	$ 1,747,100

8. INCOME TAXES (continued)

Income before income taxes consists of:

	2001	2000	1999
Domestic	$ 4,819,818	$ 8,732,558	$ 8,646,360
Foreign	1,265,537	1,924,309	1,247,651
	$ 6,085,355	$10,656,867	$ 9,894,011

Income taxes follow:

	2001	2000	1999
Current:			
Federal	$ 1,122,932	$ 2,240,200	$ 2,392,200
Foreign	435,304	303,978	220,879
State	153,000	397,900	359,800
Deferred	461,200	659,300	383,200
	$ 2,172,436	$ 3,601,378	$ 3,356,079

A reconciliation of income taxes computed using the U.S. federal statutory rate to those reflected in operations follows:

	2001		2000		1999	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes using U.S. federal statutory rate	$ 2,069,000	34%	$ 3,623,300	34%	$ 3,364,000	34%
State income taxes, net of federal benefit	127,000	2	293,400	3	271,400	3
Impact of foreign subsidiaries on effective tax rate	(147,500)	(2)	(350,300)	(3)	(203,300)	(2)
Other--net	123,936	2	34,978	-	(76,021)	(1)
	$ 2,172,436	36%	$ 3,601,378	34%	$ 3,356,079	34%

Total income taxes paid were $1,035,531 in 2001, $2,520,234 in 2000 and $3,560,889 in 1999.

United States income taxes have not been provided on the undistributed earnings of foreign subsidiaries ($5,469,894 at December 29, 2001) because such earnings are intended to be reinvested abroad indefinitely or repatriated only when substantially free of such taxes.

9. LEASES

The Company leases certain equipment and buildings under operating lease arrangements. Certain leases contain renewal options for periods ranging from one to ten years.

Future minimum payments under operating leases with initial or remaining terms in excess of one year during each of the next five years follow:

2002	$ 253,597
2003	257,115
2004	259,875
2005	265,899
2006	176,808
	$ 1,213,294

Rent expense for all operating leases was $303,784 in 2001, $406,631 in 2000 and $301,330 in 1999.

10. RETIREMENT BENEFIT PLANS

The Company has noncontributory defined benefit pension plans covering most U.S. employees. Plan benefits are generally based upon age at retirement, years of service and, for its salaried plan, the level of compensation. The Company also sponsors unfunded nonqualified supplemental retirement plans that provide certain current and former officers with benefits in excess of limits imposed by federal tax law. U.S. salaried employees and most employees of the Company's Canadian subsidiary are covered by defined contribution plans.

The Company also provides health care and life insurance for substantially all retired salaried employees in the United States.

10. RETIREMENT BENEFIT PLANS (continued)

Significant disclosures relating to these benefit plans follow:

	Pension Benefits		Postretirement Benefits	
	2001	2000	2001	2000
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ (31,608,192)	$ (30,882,054)	$ (2,481,466)	$ (2,762,631)
Change due to availability of final actual assets and census data	6,541	(168,031)	110,131	335,524
Plan amendment (a)	-	(288,272)	-	-
Service cost	(1,040,857)	(745,299)	(71,617)	(70,474)
Interest cost	(2,131,340)	(2,111,917)	(158,638)	(163,608)
Actuarial gain	436,776	647,714	-	-
Benefits paid	2,082,184	1,939,667	210,155	179,723
Benefit obligation at end of year	$ (32,254,888)	$ (31,608,192)	$ (2,391,435)	$ (2,481,466)
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 36,036,545	$ 35,711,003	$ 934,873	$ 863,442
Change due to availability of final actual assets and census data	(31,058)	(25,672)	(225,780)	(11,975)
Actual return on plan assets	(1,095,651)	2,198,637	55,285	76,924
Employer contributions	-	92,244	-	6,482
Benefits paid	(2,082,184)	(1,939,667)	(189,629)	-
Fair value of plan assets at end of year	$ 32,827,652	$ 36,036,545	$ 574,749	$ 934,873
Funded status- over (under)	$ 572,764	$ 4,428,353	$ (1,816,686)	$ (1,546,593)
Unrecognized prior service cost	1,006,234	1,177,138	(122,322)	(143,411)
Unrecognized net actuarial loss (gain)	4,607,993	810,272	(796,902)	(968,528)
Unrecognized net asset at transition	(865,881)	(1,121,890)	-	-
Prepaid (accrued) benefit costs	$ 5,321,110	$ 5,293,873	$ (2,735,910)	$ (2,658,532)

(a) A plan was amended to increase benefits for specified retired participants.

10. RETIREMENT BENEFIT PLANS (continued)

All of the plans' assets at December 29, 2001 and December 30, 2000 are invested in listed stocks and bonds and pooled investment funds, including 430,874 shares of the Common Stock of the Company having a market value of $5,127,401 and $5,655,221 at those dates, respectively. Dividends received during 2001 and 2000 on the Common Stock of the Company were $189,585 for each year.

	Pension Benefits		
	2001	2000	1999
Assumptions			
Discount rate	7.0%	7.0%	7.0%
Expected return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase	4.25%	4.25%	4.25%
Components of Net Benefit Income			
Service cost	$ 1,040,857	$ 745,299	$ 785,095
Interest cost	2,131,339	2,111,917	1,993,294
Actual return on plan assets	(1,858,990)	(2,678,131)	(3,387,907)
Net amortization and deferral	(1,314,916)	(474,594)	306,030
Defined contribution plans expense	149,586	120,038	129,771
Net benefit expense (income)	$ 147,876	$ (175,471)	$ (173,717)

	Postretirement Benefits		
	2001	2000	1999
Assumptions			
Discount rate	7%	7%	7%
Expected return on plan assets	9%	9%	9%
Components of Net Benefit Cost			
Service cost	$ 71,617	$ 70,474	$ 70,970
Interest cost	158,638	163,608	182,370
Actual return on plan assets	(55,285)	(76,924)	(71,467)
Net amortization and deferral	(77,066)	(101,735)	(78,026)
Net benefit cost	$ 97,904	$ 55,423	$ 103,847

For measurement purposes relating to the postretirement benefit plan, the life insurance cost trend rate is 1%. The health care cost trend rate for participants retiring after January 1, 1991 is nil; no increase in that rate is expected because of caps placed on benefits. The health care cost trend rate for participants who retired prior to January 1, 1991 is also nil; that rate is expected to remain at 4.5% for the year 2000 and thereafter.

10. RETIREMENT BENEFIT PLANS (continued)

A one-percentage-point change in assumed health care cost trend rates would have the following effects on the postretirement benefit plan:

	1-Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 31,142	$ (14,872)
Effect on postretirement benefit obligation	$ 274,306	$ (143,727)

11. FINANCIAL INSTRUMENTS

The carrying values of financial instruments (cash and cash equivalents, accounts receivable, accounts payable, an interest rate swap obligation, and debt) as of December 29, 2001 and December 30, 2000 approximate fair value. Fair value was based on expected cash flows and current market conditions.

12. REPORTABLE SEGMENTS

The accounting policies of the segments are substantially the same as those described in Note 2. Operating profit is total revenue less operating expenses, excluding interest and general corporate expenses. Intersegment revenue, which is eliminated, is recorded on the same basis as sales to unaffiliated customers. Identifiable assets by reportable segment consist of those directly identified with the segment's operations. Corporate assets consist primarily of cash and cash equivalents, notes and other investments.

	2001	2000	1999
Revenue:			
Sales to unaffiliated customers:			
Industrial Hardware	$ 28,213,054	$ 34,434,876	$ 28,272,937
Security Products	35,556,863	31,643,219	22,892,284
Metal Products	19,055,436	22,114,199	23,513,199
	82,825,353	88,192,294	74,678,420
General corporate	866,031	227,305	296,985
	$ 83,691,384	$ 88,419,599	$ 74,975,405

12. REPORTABLE SEGMENTS (continued)

	2001	2000	1999
Intersegment Revenue:			
Industrial Hardware	$ 65,026	$ 94,172	$ 98,523
Security Products	737,619	726,730	378,931
	$ 802,645	$ 820,902	$ 477,454
Income Before Income Taxes:			
Industrial Hardware	$ 3,378,933	$ 6,587,954	$ 5,122,149
Security Products	3,133,873	3,968,999	3,816,595
Metal Products	2,429,306	2,894,827	3,032,282
Operating Profit	8,942,112	13,451,780	11,971,026
General corporate expenses	(597,410)	(1,008,588)	(1,431,024)
Interest expense	(2,259,347)	(1,786,325)	(645,991)
	$ 6,085,355	$10,656,867	$ 9,894,011
Geographic Information:			
Net Sales:			
United States	$72,768,061	$76,298,084	$66,124,407
Foreign	10,057,292	11,894,210	8,554,013
	$82,825,353	$88,192,294	$74,678,420
Identifiable Assets:			
United States	$72,607,182	$75,933,931	$48,512,143
Foreign	9,288,872	8,923,139	6,382,249
	$81,896,054	$84,857,070	$54,894,392
Industrial Hardware	$22,630,057	$23,202,232	$14,415,840
Security Products	32,428,409	33,991,827	9,437,909
Metal Products	15,652,026	16,597,956	20,546,949
	70,710,492	73,792,015	44,400,698
General corporate	11,185,562	11,065,055	10,493,694
	$81,896,054	$84,857,070	$54,894,392
Depreciation and Amortization			
Industrial Hardware	$ 1,176,490	$ 866,778	$ 550,275
Security Products	1,561,542	909,427	341,568
Metal Products	1,675,980	1,830,038	1,812,449
	4,414,012	3,606,243	2,704,292
General corporate	46,692	33,141	18,593
	$ 4,460,704	$ 3,639,384	$ 2,722,885

12. REPORTABLE SEGMENTS (continued)

	2001	2000	1999
Capital Expenditures			
Industrial Hardware	$ 451,099	$ 3,962,555	$ 1,374,651
Security Products	527,034	545,906	261,370
Metal Products	717,951	493,535	1,999,929
	1,696,084	5,001,996	3,635,950
Currency translation adjustment	(40)	6,424	(5,225)
General corporate	198,679	56,855	59,432
	$ 1,894,723	$ 5,065,275	$ 3,690,157

13. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly financial information (unaudited) follows:

	2001				
	First	Second	Third	Fourth (a)	Year
Net sales	$ 22,676,922	$ 20,690,102	$ 20,551,161	$ 18,907,168	$ 82,825,353
Gross profit	6,185,077	5,333,546	4,600,870	5,923,091	22,042,584
Selling and administrative expenses	3,840,321	3,799,810	3,346,905	3,576,877	14,563,913
Net income	1,151,872	550,215	529,272	1,681,560	3,912,919
Net income per share:					
Basic	$ .32	$ .15	$ .15	$ .46	$ 1.08
Diluted	$ .31	$ .15	$ .15	$ .46	$ 1.07

(a) Changes in estimates in the quarter for prior period accruals for utility and compensation expenses increased net income by $410,000 or $.11 per share. Also, shares of common stock were received from an issuer in connection with that company's demutualization. The fair value of the shares received increased net income by $450,000 or $.12 per share.

	2000				
	First	Second	Third	Fourth	Year
Net sales	$ 20,214,419	$ 20,324,617	$ 24,695,211	$ 22,958,047	$ 88,192,294
Gross profit	5,705,665	5,690,126	7,157,986	7,446,748	26,000,525
Selling and administrative expenses	3,315,844	3,018,095	3,463,028	3,987,671	13,784,638
Net income	1,508,462	1,695,468	2,011,555	1,840,004	7,055,489
Net income per share:					
Basic	$ .42	$ .47	$ .56	$ .51	$ 1.95
Diluted	$ .41	$ .46	$ .56	$ .50	$ 1.93

Report of Ernst & Young LLP, Independent Auditors

THE Board of Directors
The Eastern Company

We have audited the accompanying consolidated balance sheets of The Eastern Company as of December 29, 2001 and December 30, 2000, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 29, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Eastern Company at December 29, 2001 and December 30, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Hartford, Connecticut
January 25, 2002

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There are incorporated herein by reference the portions of the Registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A since the close of its fiscal year, which involve the election of Directors, the information appearing on pages 3 and 4 of said proxy statement, being the portion captioned "Item No. 1. Election of Directors", the information appearing on page 6 and 7 of said proxy statement, being the portion captioned "Security Ownership of Certain Beneficial Shareholders", and the information appearing on page 8 of said proxy statement, being the portion captioned "Section 16(a) Beneficial Ownership reporting compliance." The Registrant's only Executive Officers are Leonard F. Leganza, President and Chief Executive Officer and John L. Sullivan III, Vice President, Secretary and Treasurer.

ITEM 11 EXECUTIVE COMPENSATION

There are incorporated herein by reference the portions of the Registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A since the close of its fiscal year, which involve executive compensation, the information appearing on pages 10 through 14 of said proxy statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) There are incorporated herein by reference the portions of the Registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A since the close of its fiscal year, which involve the security ownership of certain beneficial shareholders, the information appearing on pages 6 and 7 of said proxy statement.

(b) There are incorporated herein by reference the portions of the Registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A since the close of its fiscal year, which involve the security ownership of management, the information appearing on pages 3 and 4, and 6 and 7 and 10 and 11 of said proxy statement.

(c) Changes in Control

Not Applicable.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) Not applicable

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

(1) Financial statements — Page

Consolidated Balance Sheets - December 29, 2001 and December 30, 2000.............17.

Consolidated Statements of Income-- Fiscal years ended December 29, 2001, December 30, 2000 and January 1, 2000...19.

Consolidated Statements of Comprehensive Income -- Fiscal years ended December 29, 2001, December 30, 2000, and January 1, 2000.........................19.

Consolidated Statements of Shareholders' Equity -- Fiscal years ended December 29, 2001, December 30, 2000 and January 1, 2000..........................20.

Consolidated Statements of Cash Flows--Fiscal years ended December 29, 2001, December 30, 2000, and January 1, 2000...21.

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(2) Financial Statement Schedule

Schedule II-- Valuation and qualifying accounts..................................43.

Schedules other than that listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(3) Exhibits

See the index to exhibits at page 45 of this Form 10-K Annual Report

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the last quarter of the fiscal year ended December 29, 2001.

The Eastern Company and Subsidiaries

Schedule II - Valuation and Qualifying accounts

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
Description	Balance at Beginning Of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts-Describe	Deductions - Describe	Balance at End of Period
Fiscal year ended December 29, 2001:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$362,000	($ 5,126)		$12,874 (a)	$344,000
Fiscal year ended December 30, 2000:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$526,000	($92,581)		$71,419 (a)	$362,000
Fiscal year ended January 1, 2000:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$439,000	$87,808		$ 808 (a)	$526,000

(a) Uncollectible accounts written off, net of recoveries

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated March 18, 2002 THE EASTERN COMPANY

By /s/ John L. Sullivan III

John L. Sullivan III
Vice President, Secretary and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Leonard F. Leganza March 18, 2002

Leonard F. Leganza
Director, President
and Chief Executive Officer

/s/ John W. Everets March 18, 2002

John W. Everets
Director

/s/ Charles W. Henry March 18, 2002

Charles W. Henry
Director

/s/ David C. Robinson March 18, 2002

David C. Robinson
Director

/s/ Donald S. Tuttle, III March 18, 2002

Donald S. Tuttle III
Director

EXHIBIT INDEX

(3) Restated Certificate of Incorporation dated August 14, 1991 is incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 1991 and the Registrant's Form 8-K filed on February 13, 1991. Amended and restated bylaws dated July 29, 1996 is incorporated by reference to the Registrant's Form 8-K filed on July 29, 1996.

(4) Rights Agreement entered into between the Registrant and BankBoston N.A. dated as of August 6, 1998 and Letter to all shareholders of the Registrant, dated July 22, 1998 together with Press Release dated July 22, 1998 describing the Registrant's redemption of shareholders Purchase Rights dated September 16, 1991 and the issuance of a new Purchase Rights dividend distribution are incorporated by reference to the Registrant's Form 8-K filed on August 6, 1998.

(10)(a) Amendment to the Deferred Compensation Agreement with Russell G. McMillen dated May 1, 1988 is incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988. The Deferred Compensation Agreement with Russell G. McMillen dated October 28, 1980 and amended on March 27, 1986 is incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 3, 1987.

(b) The Eastern Company 1995 Executive Stock Incentive Plan effective as of April 26, 1995 incorporated by reference to the Registrant's Form S-8 filed on February 7, 1997.

(c) The Eastern Company Directors Fee Program effective as of October 1, 1996 incorporated by reference to the Registrant's Form S-8 filed on February 7, 1997, as amended by Amendment No.1 and Amendment No. 2 are incorporated by reference to the Registrant's Form 10-K filed on March 29, 2000.

(d) The Eastern Company 1997 Directors Stock Option Plan effective as of September 17, 1997 incorporated by reference to the Registrant's Form S-8 filed on January 30, 1998, and Post-Effective Amendment No. 1 to the Registrants Form S-8 filed on March 2, 2000.

(e) Supplemental Retirement Plan dated September 9, 1998 with Leonard F. Leganza is incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1999.

(f) Severance Agreement dated February 21, 2001 with Leonard F. Leganza is incorporated by reference to the Registrant's Annual Report on Form 10-K for fiscal year ended December 30, 2000.

(g) The Eastern Company 2000 Executive Stock Incentive Plan effective July 2000 is incorporated by reference to the Registrant's Annual Report on Form 10-K for fiscal year ended December 30, 2000.

(21) List of subsidiaries as follows:

Eberhard Hardware Mfg. Ltd., a private corporation organized under the laws of the Province of Ontario, Canada.

World Lock Co. Ltd., a private corporation organized under the laws of Taiwan (The Republic of China).

Sesamee Mexicana, Subsidiary, a private corporation organized under the laws of Mexico.

World Security Industries Co. Ltd., a private corporation organized under the laws of Hong Kong.

(23) Consent of independent auditors attached hereto on page 47.

(99) Letter to our shareholders from the Annual Report 2001 is attached on page 48.

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-29452) pertaining to The Eastern Company 1983 Stock Option Plan, the Registration Statement (Form S-8 No. 2-86285) pertaining to The Eastern Company 1989 Stock Option Plan, the Registration Statement (Form S-8 No. 333-21349) pertaining to The Eastern Company 1995 Executive Stock Incentive Plan, the Registration Statement (Form S-8 No. 333-21351) pertaining to The Eastern Company Directors Fee Program, the Registration Statement (Form S-8 No. 333-45315) pertaining to The Eastern Company 1997 Directors Stock Option Plan, and the Registration Statement (Form S-8 No. 333-62196) pertaining to The Eastern Company 2000 Executive Stock Incentive Plan of our report dated January 25, 2001, with respect to the consolidated financial statements and schedule of The Eastern Company included in this Annual Report (Form 10-K) for the year ended December 29, 2001.

/s/ Ernst & Young LLP

Hartford, Connecticut
March 18, 2002

Exhibit 99

Letter to our Shareholders

The Company and its employees faced unexpected challenges in 2001, both economic and emotional. Before I discuss them, I would like to reassure our shareholders, in the wake of the many reports about corporate accounting irregularities and inadequate disclosures, that our annual report to you contains more than adequate disclosure of our business activities and the financial results of those activities. In the back pocket is a copy of the Company's Form 10-K, which contains extensive descriptions of our business, complete financial statements and related footnotes, and the opinion of our independent auditors, Ernst & Young, LLP. I invite all of you to read the 10-K. Further, you should know that the Company does not engage its independent auditors to perform any consulting services outside the realm of accounting and tax matters.

As for last year, it began with a sluggish business environment that only worsened as the months went by. With the weak conditions came an ongoing debate as to whether the economy had slipped into recession. This debate led to additional business uncertainties, and in some cases business retrenchments, that had a very negative impact on all the markets we serve. Then the catastrophic events of September 11 cast a further pall over many business and personal activities, causing a greater erosion of the business marketplace and postponement of any appearance of a more robust economy.

The manufacturing sector of the economy, in which our business units primarily operate, reacted as it normally would in anticipation of recessionary conditions--it curtailed purchases. Consequently, our sales volume for the year--$82.8 million--was significantly lower than what we had expected when the year began. It was also 6% lower than the $88.2 million we achieved in 2000. Net income for 2001 declined by 45%, to $3.9 million from $7.1 million in 2000. Earnings declined more sharply than sales because of the additional fixed overhead charges we incurred in connection with our building expansion programs and acquisition initiatives in 1999 and 2000. This increase in overhead required higher sales levels, which had been anticipated but did not materialize as the manufacturing sector of the economy fell into a recession.

Throughout the year, we took steps to respond to the changing economic conditions. We made reductions in personnel, lowered capital expenditures and cut expenses. However, we implemented those measures as cautiously as we could so we would not jeopardize achievement of our longer-range goals.

As previously reported, our primary goals are to keep our finances strong, sustain internal product growth and operating efficiencies, and seek out acquisitions or other strategic growth opportunities. We believe that these objectives continue to be in the best long-term interest of our shareholders. While our progress toward these goals was slowed down somewhat by the economic and other events of 2001, we have not abandoned them and indeed will pursue them vigorously in the months ahead.

The economic downturn notwithstanding, there was a positive development in 2001 that benefited the operations of our Frazer & Jones Division in the Metal Products Group. This division is the premier producer of mine roof anchors used in underground mining. The positive development was the unexpected strength of

the marketplace for coal and the consequent need for our product, sales of which grew 16% in 2001. During 2000, higher prices for natural gas had led to increased demand for coal. As coal stockpiles dwindled in 2001, mines--including the many underground mines that use our roof anchors--operated at peak levels to replenish supplies and keep up with the increased market demand. The demand for coal has remained strong thus far in 2002. While underground mining activity may not continue at these higher levels, it is still expected that coal will remain the cornerstone of our country's energy supply.

Total shipments of malleable iron castings from Frazer & Jones declined throughout 2001, but we expect to see a rebound around mid-2002 as overall casting demand rises. However, despite such increases in overall demand, we also expect that imports from around the world will continue to affect shipments of malleable iron castings from all domestic foundries. In response, the Company has invested in the necessary equipment and developed the technical knowledge necessary to begin the production of ductile iron. Ductile iron is a superior metal when compared to malleable iron, and it is lower in cost to produce. We also expect that the market for ductile iron will grow as it is substituted for malleable iron.

The markets for our Industrial Hardware Group began weakening in the latter part of 2000, and that trend continued throughout 2001. The principal area of decline was in the heavy hardware we sell to the tractor-trailer industry. As the economy contracted, the need to move goods lessened and there was less demand for tractor-trailer equipment. We expect that the transportation industry will recover as the economy rebounds.

New product development in the Industrial Hardware Group focused on the other markets we serve, such as specialty trucks and emergency and service vehicles. One new product we introduced was an electronic door control device for school and courtesy bus doors. Several school bus manufacturers are currently testing this product, and once it is approved, we anticipate orders in the second quarter of 2002. Overall, sales of new products were not nearly enough to offset the decline in the heavy hardware portion of our business.

Building the security segment of our business has been, and will continue to be, one of the strategic objectives of our company. The events of September 11 have made "safety" and "security" an even more important part of our daily vocabularies. We believe this heightened concern will provide us with many future business opportunities, including the further development of access control devices that utilize Smart Card technologies.

At the Greenwald Division of our Security Products Group, for example, our Smart Card products have been widely accepted for use in commercial laundry, access control and parking applications. We are now exploring the addition of biometric sensors that read fingerprints to our Smart Cards to provide even greater security in access control applications. During 2001, however, sales of both the Smart Card products and the division's basic product line--coin acceptors, coin chutes, money boxes and meter cases--were negatively affected by the downturn in the economy.

Our lock manufacturing units also saw reduced sales as a result of the significant events of 2001. Our Illinois Lock Division is an important supplier to the computer industry, which suffered a downturn along with many other high-technology businesses. Our CCL Security Products Division, which supplies products to the luggage industry, was affected by the sharp reduction in travel caused by the events of September 11. In addition, other CCL markets related to travel and entertainment, such as gaming and vending, were also depressed as a result of the reduction in travel.

During the year, we successfully consolidated our CCL manufacturing operations (previously located in New Britain, Connecticut) with those of Illinois Lock in Wheeling, Illinois. The move should result in greater productivity and future cost savings.

In the months ahead, we will continue to focus on the development of new products and new markets in order to improve our operating efficiencies and effectively compete with low-wage countries like China and Mexico. We also will continue to seek growth through acquisitions which complement our product lines and enhance our market position.

Though far less than we had anticipated at the beginning of the year, the financial results we achieved in 2001 demanded the dedication and hard work of all our employees in the face of a very difficult economy. I thank them all for their great efforts.

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