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 January 3, 2004

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]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2.) Yes [ ] No [X]

As of June 28, 2003, the last day of registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant was $42,127,812 (based on the closing sales price of the registrant's common stock on the last trading date prior to that date). Shares of the registrant's common stock held by each officer and director and shares held in trust by the pension plans of the Company have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 20, 2004 3,616,039 shares of the registrant's common stock, no par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual proxy statement dated March 22, 2004 are incorporated by reference into Part III.

Form 10-K

FOR THE FISCAL YEAR ENDED JANUARY 3, 2004

TABLE OF CONTENTS

		Page
	Table of Contents	2.
	Safe Harbor Statement	3.
PART I		
Item 1.	Business	4.
Item 2.	Properties	7.
Item 3.	Legal Proceedings	8.
Item 4.	Submission of Matters to a Vote of Security Holders	8.
PART II		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	8.
Item 6.	Selected Financial Data	10.
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10.
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	19.
Item 8.	Financial Statements and Supplementary Data	20.
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	43.
Item 9A.	Controls and Procedures	43.
PART III		
Item 10.	Directors and Executive Officers of the Registrant	43.
Item 11.	Executive Compensation	43.
Item 12.	Security Ownership of Certain Beneficial Owners and Management	43.
Item 13.	Certain Relationships and Related Transactions	44.
Item 14.	Principal Accounting Fees and Services	44.
PART IV		
Item 15.	Exhibits, Financial Statement Schedule and Reports on Form 8-K	44.
	Signatures	47.
	Exhibit Index	48.

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

Available Information

We make available, free of charge through our Internet web site at http://www.easterncompany.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

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 four U.S. operations and six wholly-owned foreign subsidiaries. The Company maintains nine physical locations.

RECENT DEVELOPMENTS

The Company established Eastern Industrial Ltd. in Shanghai, China in 2003. This new facility was set-up to gain entry into the Chinese marketplace as well as to be a supplier to other divisions and subsidiaries of the Company. Eastern Industrial has capabilities that include stamping, tool and die making, plastic injection molding and assembly.

Effective October 1, 2002 the Company acquired all of the issued and outstanding common stock of Canadian Commercial Vehicles Corporation (CCV) for cash of approximately $70,000 and the assumption of approximately $130,000 of debt, which the Company paid upon closing. CCV was established as a Canadian subsidiary of The Eastern Company, located in Kelowna, British Columbia, Canada. CCV manufactures lightweight sleeper boxes used on Class 8 trailer trucks.

Effective March 1, 2002 the Company acquired certain assets of the Big Tag Division of Dolan Enterprises, Inc. for cash of approximately $260,000. Big Tag was combined into the Illinois Lock/CCL division of the Company located in Wheeling, Illinois. Big Tag provides high-visibility, custom luggage tags, which the Company will market in conjunction with its custom logo luggage locks to the travel, and premium incentive markets.

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. The effects of these acquisitions on the Company's consolidated financial position and operations are not material.

(b) Financial Information about Industry Segments

Financial information about industry 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., Canadian Commercial Vehicles Corporation, Eastern Industrial Ltd. and Sesamee Mexicana, S.A. de C.V. The units design, manufacture and market a diverse product line of industrial and vehicular hardware throughout North America. The segment's locks, latches, hinges, handles and related hardware can be found on tractor-trailer trucks, moving vans, off-road construction and farming equipment, school buses, military vehicles and recreational boats. They are also used on 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. Eastern Industrial expands the range of offerings of this segment to include plastic injection molding.

Typical products include passenger restraint locks, slam and draw latches, dead bolt latches, compression latches, cam-type vehicular locks, hinges, tool box locks, light-weight sleeper boxes and school bus door closure hardware. The products are sold to original equipment manufacturers and distributors through a distribution channel consisting of in-house salesmen and outside sales representatives. Sales and customer service 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 such as the truck, bus and automotive industries as well as 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 or improved product designs and the 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 also supplies its products to the luggage, furniture, laboratory equipment and commercial laundry industries. Greenwald manufactures and markets coin acceptors and other coin security products used primarily in the commercial laundry markets. In addition, the segment provides a new level of security for the access control, municipal parking and vending markets through the use of "smart card" technology.

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 Company/CCL Security Products sales include cabinet locks, cam locks, electric switch locks, tubular key locks and combination padlocks. Many of the products are sold under the names SEARCHALERT™, PRESTOSEAL™, DUO, X-STATIC®, EXCALIBUR™, WARLOCK™, LITE LOCK™, SESAMEE®, BIG TAG®, PRESTOLOCK® and HUSKI™. These products are sold to original equipment manufacturers, distributors, route operators, and locksmiths via in-house salesmen and outside sales representatives. Sales efforts are concentrated by national and regional 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 for their security 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 malleable and ductile iron 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 countries has adversely affected our ability to compete effectively in the contract castings market. As a result, the Company began to phase out of its low-margin contract castings business and concentrate on its proprietary mine roof support systems. To offset declines in the production of malleable iron castings, the Company has invested in 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 2003 and are expected to be readily available in 2004 and the foreseeable future. The Company expects to experience increases in steel costs during 2004 due to a weaker U.S dollar, higher demand and lower steel inventories worldwide, which could have a direct impact on gross margin. The Company also obtains materials from Asian affiliated and nonaffiliated sources. The Company has not experienced any significant problems obtaining material from its Asian sources in 2003 and does not expect any such problems in 2004.

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

None of the Company's business segments are seasonal.

The Company, across all its business segments, has increased its emphasis on sales and 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 sales for the year ended January 3, 2004.

The dollar amount of the level of orders in the Company is believed to be firm as of fiscal year ended January 3, 2004 at $11,635,000, as compared to $9,672,000 at December 28, 2002.

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 and Latin America with weak currency exchange rates have created additional competitive pressures. The Company established Eastern Industrial Ltd. in 2003 to help combat the offshore competition.

Research and development expenditures in 2003 were $1,115,000 and represented approximately 1% of gross revenues. In 2002 and 2001 they were $1,041,000 and $1,006,000, respectively. The research costs are 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 the SearchAlert™ travel lock and various transportation and industrial hardware products.

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 2003 was 547.

(d) Financial Information about Geographic Areas

The Company includes four separate operating divisions located within the United States, two wholly-owned Canadian subsidiaries, one located in Tillsonburg, Ontario, Canada, and one in Kelowna, British Columbia, Canada, a wholly-owned Taiwanese subsidiary located in Taipei, Taiwan, a wholly-owned subsidiary in Hong Kong, a wholly-owned subsidiary in Shanghai, China and a wholly-owned subsidiary in Mexico.

Individually, the Canadian, Taiwanese, Hong Kong, Chinese 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 Canadian Commercial Vehicles Corporation, a wholly-owned subsidiary in Kelowna, British Columbia, leases 32,500 square feet of building space located in an industrial park. The building is made from brick and concrete, contains approximately 2,400 square feet of office space and houses a modern paint booth for finishing our products. The building is protected by a F1 rated fire suppression system and alarmed for fire and security. The current lease is renewable for another 3 years.

The Eastern Industrial Ltd., a wholly-owned subsidiary in Shanghai, China leases a brick and concrete building containing 30,000 square feet, located in an industrial area. A five-year lease was signed in 2003, which expires on September 8, 2008 and is renewable.

The Sesamee Mexicana subsidiary is currently 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 terminated the lease of the 5,000 square foot facility in Boynton Beach, Florida in November 2003 and consolidated operations into the Chester facility.

The Illinois Lock Company/CCL Security Products Division leases land and a building containing 44,000 square feet in Wheeling, Illinois. The building is brick and located in an industrial park. A five-year lease was signed in 2001, which expires on May 31, 2006 and is renewable**.**

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, which 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

The Company is currently a party to a patent infringement suit. Although management has determined this suit is without merit, the Company incurred approximately $115,000 of legal expenses in 2003 and expects to incur additional expenses in 2004 to defend itself.

There are no other 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 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 January 3, 2004 was 674.

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

2003			
	Market Price		
Quarter	High	Low	Dividend
First	$12.34	$11.02	$.11
Second	15.70	12.14	.11
Third	15.70	14.00	.11
Fourth	15.64	14.24	.11

2002			
	Market Price		
Quarter	High	Low	Dividend
First	$16.25	$11.75	$.11
Second	16.10	14.36	.11
Third	14.60	12.00	.11
Fourth	12.35	11.00	.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 dependent on future earnings, capital requirements, and financial conditions. The payment of dividends is subject to the restrictions of the Company's loan agreement if such payment would result in an event of default.

The following table sets forth information regarding securities authorized for issuance under the Company's equity compensation plans as of January 3, 2004, including the Company's 1989, 1995, 1997 and 2000 plans.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	405,000[1]	$13.99	292,142[2]
Equity compensation plans not approved by security holders	249,000[3]	12.49	52,500[4]
Total	654,000	$13.42	344,642

[1] Includes options outstanding under the 1989, 1995 and 2000 plans.
[2] Includes shares available for future issuance under the 1989, 1995 and 2000 plans.
[3] Includes options outstanding under the 1997 plan.
[4] Includes shares available for future issuance under the 1997 plan.

On September 17, 1997 the Compensation Committee of the Board of Directors of the Company adopted The Eastern Company 1997 Directors Stock Option Plan (the "1997 Plan") which by its terms will expire either on September 16, 2007 or upon any earlier termination date established by the Board of Directors. The 1997 Plan authorizes the grant of non-qualified stock options to the non-employee directors of the Company to purchase shares of common stock. The exercise price of any options granted under the 1997 Plan is set by the Compensation Committee. However, all options granted to date under the 1997 Plan have required an exercise price equal to 100% of the fair market value of the shares of common stock of the Company on the date of grant. On December 15, 1999, the Board of Directors approved an increase in the total number of shares of common stock which may be issued under options granted under the 1997 Plan from 225,000 shares to 325,000 shares.

Each director who is not an employee of the Company ("Outside Director") is paid a director's fee for his services at the rate of $10,000 as well as $1,000 for each directors' meeting and $700 for each committee meeting attended. All annual retainer fees and meeting fees paid to non-employee members of the Board of Directors of the Company are paid in Common Shares of the Company or cash, in accordance with the Directors Fee Program adopted by the shareholders on March 26, 1997 and amended on January 5, 2004. The directors make an annual election, within a reasonable time before their first quarterly payment, to receive their fees in the form of cash, stock or a combination thereof. The election remains in force for one year.

ITEM 6 SELECTED FINANCIAL DATA

	2003	2002	2001	2000	1999
INCOME STATEMENT ITEMS (in thousands)					
Net sales	$ 88,307	$ 81,337	$ 82,825	$ 88,192	$ 74,678
Cost of products sold	66,719	60,637	60,783	62,192	52,460
Depreciation and amortization	3,619	3,565	4,461	3,639	2,723
Interest expense	1,303	1,716	2,259	1,786	646
Income before income taxes	5,390	4,734	6,085	10,657	9,894
Income taxes	2,028	1,442	2,172	3,602	3,356
Net income	3,362	3,292	3,913	7,055	6,538
Dividends	1,593	1,598	1,599	1,601	1,573
BALANCE SHEET ITEMS (in thousands)					
Inventories	$ 16,927	$ 16,345	$ 18,591	$ 17,103	$ 14,040
Working capital	24,894	25,600	27,131	26,298	24,734
Property, plant and equipment, net	24,930	25,050	26,486	27,328	16,365
Total assets	74,617	76,133	81,896	84,857	54,894
Shareholders' equity	40,508	37,903	40,056	38,538	33,400
Capital expenditures	2,763	1,560	1,895	5,065	3,690
Long-term obligations, less current portion	15,815	18,921	25,014	28,540	8,565
PER SHARE DATA					
Net income per share					
Basic	$ .93	$ .91	$ 1.08	$ 1.95	$ 1.80
Diluted	.92	.89	1.07	1.93	1.75
Dividends	.44	.44	.44	.44	.43
Shareholders' equity	11.19	10.44	11.06	10.64	9.21
Average shares outstanding (Basic)	3,620,593	3,631,278	3,623,291	3,621,449	3,626,001

The per share data 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

Summary

While net sales for 2003 increased from 2002, net income did not show a proportionate gain because of additional costs the Company incurred during the year. The Company expects some of these costs to start showing a payback during 2004.

Net sales for 2003 increased 9% to $88.3 million from $81.3 million for 2002. Net income grew 2% to $3.4 million, or $.92 per diluted share, from $3.3 million, or $.89 per diluted share. Net income for 2003 grew more slowly than sales due to several factors. One factor was a $1.8 million increase in expenses for health insurance, liability and property insurance, legal fees associated with a patent infringement suit, expenses incurred to launch the SearchAlert™ product into the Travel Sentry program and pensions. During the fourth quarter of 2003, the Company consolidated its health insurance coverage for three of its U.S. operations to a single carrier to gain control over increasing health insurance costs. The Company continually seeks competitive quotes within the property and liability insurance markets. Pension costs have increased dramatically due to the cumulative effects of depressed investment returns over the last few years, which reduced the value of fund assets. However, in 2003 the market began to rebound, and the Company's pension assets realized a 22.6% return for the year. If the Company can continue to achieve returns in excess of its 8.5% target over the next few years, this cost should begin to decline.

During 2003, the Company decided it would be more cost-effective to close its Florida software development office and consolidate it into its Greenwald office in Chester, Connecticut. As a result, the Company incurred a cost of $125,000; however, it expects to recoup this expense in 2004 through greater efficiency and shortened software development time.

In early 2003, the Company began its research on establishing a manufacturing facility in Shanghai, China. This process generated expenses of $250,000. The new factory, which the Company opened in late December, should be ready for full-scale production in the second quarter of 2004.

Net sales in the fourth quarter of 2003 increased 18% to $23.3 million from $19.7 million a year earlier. Net income declined 55% to $529,000 (or $.14 per diluted share) from $1.2 million (or $.32 per diluted share) in the 2002 fourth quarter. The decline was due to selling price reductions of $120,000; cost increases totaling $785,000 for health care, pensions, and property and liability insurance; and additional expenses totaling $336,000 for closing the Company's Florida location, charges associated with the start-up of the Company's Shanghai operation, non-capital cost associated with the modernization of our Industrial Hardware Group's information systems, legal fees associated with a patent infringement suit and expenses incurred to launch the SearchAlert™ product into the Travel Sentry program.

The gross margin for the fourth quarter of 2003 was 23.8% of net sales as compared to 26.4% for the fourth quarter of 2002. Product mix and the higher costs and charges discussed above accounted for the reduction in the gross margin percentage.

Selling and administrative expenses in the fourth quarter of 2003 totaled $4.2 million, an increase of 25% from the 2002 level. This increase was mainly due to increased wages and the associated payroll charges, advertising expenses, legal costs associated with the defense of a patent lawsuit, group insurance charges and non-capital costs associated with the updating of information technology equipment.

In 2004, the Company anticipates significant cost increases in raw materials, primarily in steel, with prices increasing between 10% to 40%. The dollar impact could be in the range of $750,000 to $1 million, which the Company will pass along through increased pricing or surcharges where possible.

The Company incurred $115,000 in 2003 to defend against a patent infringement suit. The Company expects to incur additional expenses in the first quarter of 2004 of approximately $100,000 to $150,000.

The Company anticipates increased costs related to the required compliance with Section 404 of the Sarbanes-Oxley Act in 2004. In addition, compliance will require a significant amount of time from Company employees.

In 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN No. 46"), which addresses when a company should consolidate an entity based on the variable interest model of FIN No. 46. It defines a variable interest entity ("VIEs") as those entities in which equity investors do not have the characteristics of a controlling financial interest or in which equity investors do not bear the residual economic risks. For all VIEs formed after February 1, 2003, FIN No. 46 is effective for fiscal years or interim periods beginning after June 15, 2003. For all other VIEs, FIN No. 46 is effective for periods ending after March 15, 2004. FIN No. 46 did not have any impact on the Company's financial position and results of operations in fiscal 2003.

The Company has identified an entity, formed before February 1, 2003, that may be a VIE. The potential VIE is a vendor of the Company, located in China, formed solely for the benefit of the Company. The Company does not have any ownership interest in the potential VIE but does provide all of the financial support to the potential VIE to facilitate the production of various materials used within the Company's production and owns the equipment used by the potential VIE to manufacture the products. Because the Company does not have an ownership interest in the potential VIE, the Company has been unable to obtain reliable financial information to determine whether the entity is a VIE, determine whether the Company is the VIE's primary beneficiary or perform the accounting required to consolidate the VIE. Therefore, the Company is unable at this time to estimate the potential impact the consolidation of the potential VIE may have on its financial position or results of operations.

Critical Accounting Policies and Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Areas of uncertainty that require judgments, estimates and assumptions include the accounting for derivatives, environmental matters, the testing of goodwill and other intangible assets for impairment, proceeds on assets to be sold, pensions and other postretirement benefits, and tax matters. Management uses historical experience and all available information to make its estimates and assumptions, but actual results will inevitably differ from the estimates and assumptions that are used to prepare the Company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related footnotes provide a meaningful and fair presentation of the Company.

Management believes that the application of these estimates and assumptions on a consistent basis enables the Company to provide the users of the financial statements with useful and reliable information about the Company's operating results and financial condition.

Allowance for Doubtful Accounts

We continuously monitor payments from our customers and maintain allowances for doubtful accounts, that is, for estimated losses resulting from the inability of our customers to make required payments. When we evaluate the adequacy of our allowances for doubtful accounts, we take into account various factors including our accounts receivable aging, customer creditworthiness, historical bad debts and geographic risk. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Inventory Reserve

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method at the Company's U.S. facilities. Accordingly, a LIFO valuation reserve is calculated using the dollar value link chain method. We review the net realizable value of inventory in detail on an ongoing basis, giving consideration to deterioration, obsolescence and other factors. Based on these assessments, we provide for an inventory reserve in the period in which an impairment is identified. The reserve fluctuates with market conditions, design cycles and other economic factors.

Goodwill and Other Intangible Assets

Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited. Goodwill and other intangible assets with indefinite useful lives are not amortized. (Prior to 2002, goodwill and other indefinite-lived intangible assets were amortized over periods ranging from 5 to 17 years.) Each year during the second quarter, the carrying value of goodwill and other intangible assets with indefinite useful lives is tested for impairment. During 2003, the Company used the discounted cash flow method to calculate the fair value of goodwill associated with its reporting units; no impairments of goodwill were deemed to exist. The determination of discounted cash flows is based on the businesses' strategic plans and long-range planning forecasts. The revenue growth rates included in the plans are management's best estimates based on current and forecasted market conditions; profit margin assumptions are projected by each business based on the current cost structures and anticipated cost reductions. There can be no assurance that operations will achieve the future cash flows reflected in the projections. If different assumptions were used in these plans, the related discounted cash flows used in measuring impairment could be different and an impairment of assets might need to be recorded.

Pension and Other Postretirement Benefits

The amounts recognized in the consolidated financial statements related to pension and other postretirement benefits are determined from actuarial valuations. Inherent in these valuations are assumptions about such factors as expected return on plan assets, discount rates at which liabilities could be settled, rate of increase in future compensation levels, mortality rates and trends in health insurance costs. These assumptions are reviewed annually and updated as required. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect the expense recognized and obligations recorded in future periods.

The expected long-term rate of return on assets is developed with input from the Company's actuarial firms. Also considered is the Company's historical experience with pension fund asset performance in comparison with expected returns. The long-term rate-of-return assumption used for determining net periodic pension expense for 2003 was 8.5%. The Company reviews the long-term rate of return each year. Future actual pension income and expense will depend on future investment performance, changes in future discount rates and various other factors related to the population of participants in the Company's pension plans.

The declines in recent years in the equity markets and interest rates have had a negative impact on the Company's pension plan liability and the fair value of its plan assets. As a result, the accumulated benefit obligation exceeded the fair value of plan assets at the end of 2002 for two of the Company's plans, which resulted in a $4.1 million charge to shareholders' equity in the fourth quarter of that year.

The Company expects to make cash contributions to its pension plans of approximately $1.2 million for 2004, $500,000 of which was paid in December 2003.

RESULTS OF OPERATIONS

The following table shows, for 2001-2003, each line item from the consolidated statements of income as a percentage of net sales.

	2003	2002	2001
Net sales	100.0%	100.0%	100.0%
Cost of products sold	75.6%	74.6%	73.4%
Gross margin	24.4%	25.4%	26.6%
Selling and administrative expense	17.1%	17.6%	17.6%
Interest expense	1.4%	2.1%	2.7%
Other income	0.2%	0.1%	1.0%
Income before income taxes	6.1%	5.8%	7.3%
Income taxes	2.3%	1.8%	2.6%
Net income	3.8%	4.0%	4.7%

Fiscal 2003 Compared to Fiscal 2002

Net sales for 2003 increased 9% ($7.0 million) to $88.3 million from $81.3 million for 2002. Volume of existing products increased sales by 1%, while new product introductions increased sales by 8%.

The Industrial Hardware segment experienced a 21% increase in sales. Volume of existing products increased sales by 4%, internally developed new products (for the utility truck and vehicular accessory markets) increased sales by 6%, and sales of sleeper boxes for the Class 8 trailer truck market, resulting from the Canadian Commercial Vehicles acquisition, increased sales by 11%.

Sales of heavy hardware to the tractor-trailer industry increased 15% from 2002 levels. Sales to this market had been down since the latter half of 2000. This market is expected to grow throughout 2004 and into 2005 as the economy continues to expand. The rebound in the tractor-trailer market utilizing heavy hardware could be adversely affected by higher steel prices and diminishing allocation of raw materials.

Sales of industrial hardware (such as rotary locks, locking recessed handles, multi-point paddle handles and slam latches) to original equipment manufacturers increased 5% in 2003. This increase was due to orders from new customers and higher demand for truck service bodies. However, sales to distributors were down 3% from 2002, primarily because of continued softness in this sector of our business. Sales of school bus door closures increased 10% in 2003, reflecting a greater volume of business with our primary bus hardware customer. Sales of automotive accessories (toolbox locks, push-button locks and rotary latches) declined 2% as a result of domestic and offshore competition in this market. Sales at the Company's Mexican operation decreased 27% from 2002 primarily due to a lack of economic growth in Mexico.

Despite the sluggishness of the economy, the Company continued to invest in new products and search for business acquisitions that complement its existing operations or provide opportunities to enter new markets.

In the Security Products segment, sales were 8% higher than in 2002. Volume of existing products increased sales by 6%, while new product introductions increased them by 2%. Sales of locks to the computer industry declined slightly in 2003. Sales of high-security locks for coin-operated vending and gaming equipment were up 50% in 2003. That increase was primarily the result of our gaining market share from our competition in an otherwise flat market. Sales of locks to distributors servicing lower-volume accounts decreased slightly, while sales to the industrial controls and accessories market decreased 8%. Sales of locks for access doors, furniture, electronics equipment and vehicular applications were up 24% from 2002 levels, mainly through taking market share from our competition.

Sales of luggage locks for the travel industry declined 58%. Sales to this market had been hard-hit in the wake of the September 11, 2001, terrorist attacks, and they continued to be impacted by a Transportation Security Administration (TSA) declaration that passengers should not lock their checked baggage on commercial airline flights. Responding to the TSA declaration, the CCL Security Products Division in late 2003, introduced the SearchAlert™, a new lock which meets all the requirements established by Travel Sentry™, the standard setting group created to work closely with the TSA and the luggage lock manufacturers. SearchAlert™ allows the TSA to unlock and inspect airline passengers' bags without destroying the lock and lets the bags' owner know if the bag has been opened via an access indicator. The Company expects this lock to have a significant effect on luggage lock sales in 2004.

Sales of security products to the commercial laundry industry increased 8% from 2002. Sales of "smart card" products increased 10% in 2003, partially offsetting declines that occurred in sales of two of the Company's mature products for the laundry sector. The growth in smart card product sales continues to be driven by greater acceptance of the technology among both existing and new customers.

In the Metal Products segment, sales were down 13% from the previous year. Volume of existing products decreased sales by 17%, while price increases and new product introductions raised them by 3% and 1%, respectively. Sales of contract castings were down 29% from 2002; the decrease was mainly due to the Company's decision to focus more intensively on its proprietary mine roof anchor systems in light of increased competition from China and Mexico on contract castings. Because of lower labor and operating costs in these countries or favorable currency exchange rates, the price of imported castings is often below that of U.S.-produced castings. However, the Company will continue to offer contract castings to customers when profit margins are acceptable. In order to maintain utilization rates in its factory, the Company has been developing capabilities for producing castings from ductile iron (previously, it used only malleable iron in its castings business). While the Company has filled several small orders, the Company is still refining and perfecting its ductile iron capabilities. Although the new capabilities will enable the Company to supply additional products and services to its customers, further capital investments may be required to make the casting of larger quantities possible.

Sales of mine roof support anchors decreased slightly from 2002, reflecting lower demand for these products as a result of fairly stable weather conditions. Demand for mine roof support anchors supplied to the coal mining industry is dependent on demand for power, which increases during abnormally warm summers or abnormally cold winters. The demand for power, in turn, affects coal supplies.

The new Energy Information Administration (EIA) projects that coal will increase its share of U.S. electricity generation from 50% in 2002 to 52% by 2025. The National Energy Policy legislation currently before Congress aims at providing affordable coal-based electricity to business and consumers and at providing additional incentives for the deployment of clean coal technologies. The EIA's *Annual Energy Outlook 2004* increased its projection by 5% to 112 gigawatts of new coal-fired generating capacity plants will be deployed over the next 20 years.

Management continues to believe that coal will remain the backbone of the U.S. energy supply. Total coal production in 2004 is projected to increase 3.5% from 2003. Although the demand for coal is influenced by the weather, the rising price of natural gas, advances in hydrogen technology and the growing need for fuel diversity have positioned coal usage for growth.

The total Company gross margin percentage for 2003 was 1 percentage point below the 2002 level—24.4% versus 25.4%. The decrease was the result of increased costs for group health insurance, property and liability insurance and pensions.

Total selling and administrative expenses increased 5.5%, or $786,000, from 2002. The increase was due to increased wage expense and associated payroll charges; higher legal costs associated with the defense of a patent lawsuit (which the Company has determined is without merit); costs associated with the establishment of the Shanghai facility and non-capital costs associated with the updating of information technology equipment.

Interest expense decreased 24%, or $413,000, from 2002 due to lower outstanding debt balances.

Corporate expenses rose 30%, or $517,000, in 2003 due to higher post-retirement benefit costs, pension expenses and start-up costs associated with the Shanghai facility.

Earnings before income taxes in 2003 increased 14%, or $656,000, from 2002. Pretax earnings for the Industrial Hardware segment decreased by 3%, or $111,000. This decrease was due to increased costs for health, property and liability insurance; non-capital costs arising from the modernization of information technology systems; and pricing pressures from offshore competition. The Security Products segment achieved an increase of 18%, or $719,000, in pretax earnings. This increase was mainly due to improved sales volume. In the Metal Products segment, pretax earnings rose 199%, or $152,000, due to elimination of lower-margin contract casting products and cost reductions.

The effective tax rate in 2003 was 38%, up from 31% in 2002. The increase in the effective income tax rate in the current year is primarily due to a change in the mix of taxable earnings in foreign jurisdictions with higher effective tax rates and the imposition of higher state tax rates.

Fiscal 2002 Compared to Fiscal 2001

Net sales for 2002 decreased 2% ($1.5 million) to $81.3 million from $82.8 million for 2001. Volume of existing products reduced sales by 6%, while new product introductions raised sales by 4%.

The Industrial Hardware segment experienced a 4% increase in sales. Volume of existing products decreased sales by 4%, while internally developed new products (for the utility truck and vehicular accessory markets) increased sales by 8%. Sales of heavy hardware to the tractor-trailer industry decreased 4% from 2001 levels. Sales to this market have been down since the latter half of 2000. In the second quarter of 2002, the trailer industry began to see signs of recovery when trailer orders rose to their highest level in nine quarters. Despite the overall improvement in the trailer industry, several of our customers saw their trailer sales decline from the previous year. However, with the continued slow economy and record-high fuel costs, the trailer industry's recovery could be weakened.

Sales of industrial hardware (such as rotary locks, locking recessed handles, multi-point paddle handles and slam latches) to original equipment manufacturers and distributors were down 5% from 2001. Sales of school bus door closures increased 27% in 2002 as customers came back to our standard door control after moving in 2001 to the linear door control design used by a competitor; the competitor's products subsequently resulted in numerous user complaints. Sales of automotive accessories (toolbox locks, push-button locks and rotary latches) rose 52%; the improved demand for our hardware was due to an increase in sales of light trucks that resulted from auto industry promotions. Sales at the Company's Mexican operation decreased 3% from 2001 primarily due to economic conditions in Mexico.

Canadian Commercial Vehicles currently does not have a material effect on the Company's consolidated financial position and results of operations. However, the product it produces lends itself to the industrial, transportation and marine industries, markets to which we presently provide locking, latching and other hardware devices. This acquisition will open opportunities for both Eberhard Manufacturing and Canadian Commercial Vehicles to sell complete systems such as doors

or hatches with the hardware pre-installed. The Company intends to invest in the resources necessary to expand Canadian Commercial Vehicles' current operations and focus it on additional market areas such as the automotive, recreational vehicle and marine industries. In addition, this acquisition gives the Company an opportunity to introduce its automotive accessory hardware into the Class 8 truck market, an area where it has had little presence previously.

In the Security Products segment, sales were 2% higher than in 2001. Volume of existing products decreased sales by 1% while new product introductions increased sales by 2% and price increases raised sales by 1%. Sales of locks to the computer industry grew 50% in 2002. The increase was primarily caused by the introduction of new computer products requiring locks, which resulted in a gain in market share from competitors. Sales of high-security locks for coin-operated vending and gaming equipment were up 8% in 2002. That increase was primarily the result of our gaining market share from our competition in an otherwise flat or down market. Sales of locks to distributors servicing lower-volume accounts increased 14%, while sales to the industrial controls and accessories market decreased slightly. Sales of locks for access doors, furniture, electronics equipment and vehicular applications were down 11% from 2001 levels, mainly because of the overall softness in the general economy. Sales of luggage locks for the travel industry declined 27%; sales to this market were hard-hit in the wake of the September 11 terrorist attacks, and they were further impacted by the Transportation Security Administration (TSA) declaration that passengers should not lock their checked baggage on commercial airline flights. As a result, the CCL Security Products Division has introduced Prestoseal™, a device which allows the TSA access to checked luggage and lets the owner of the bag know when someone has opened it.

In March 2002, the Company acquired certain assets of the Big Tag Division of Dolan Enterprises, Inc. Among these assets was a high-visibility luggage tag (The Big Tag®) which the Company is marketing with its PRESTOLOCK® to the travel and premium markets.

Sales of security products to the commercial laundry industry increased 5% from 2001. Sales of Smart Card products continued to grow, offsetting any declines that occurred in sales of the Company's mature products for the laundry sector. The growth in Smart Card product sales was driven by greater acceptance of Smart Card technology among both existing and new customers. The successful introduction of our new coin acceptor product also contributed to the higher sales to the laundry industry. During the year, the Company completed its move of the CCL Security Products Division from New Britain, Connecticut, to Wheeling, Illinois, where it was combined with the Company's Illinois Lock Company Division.

In the Metal Products segment, sales were down 18% from the previous year. Volume accounted for the reduction in sales. Sales of contract castings were down 20% from 2001. This decrease was mainly due to the loss of customers who decided to source their contract casting work from China and Mexico. Because of lower labor and operating costs in these countries coupled with favorable currency exchange rates, the price of imported castings is often below that of U.S.-produced castings. Beginning in the third quarter of 2002, the Company began to phase out its low-margin contract casting business and concentrate instead on its proprietary mine roof anchor systems. However, the Company will continue to offer contract castings to customers when profit margins are acceptable. In addition, to maintain utilization rates in its factory, the Company has developed capabilities for producing castings from ductile iron (previously, it used only malleable iron for its castings business). The new capabilities will enable the Company to supply additional products and services to its customers.

Sales of mine roof support anchors decreased 16% from 2001. During 2002, demand for these products declined as a result of an unusually warm 2001-2002 winter, which caused the demand for electric power to drop for the first time in 10 years. Faced with a lower demand for power, utility companies reduced their use of coal.

Total gross margin for 2002 decreased 6%, or $1.3 million, from 2001. The decrease resulted from the combination of lower sales and increased costs for workers compensation, insurance and pensions. The gross margin percentage for 2002 was approximately 1 percentage point below the 2001 level—25.4% versus 26.6%.

Total selling and administrative expenses were down 2%, or $247,000, from 2001. The decrease was due to the elimination of the goodwill amortization expense in 2002 as a result of the Company's adoption of Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets." The elimination of this expense item was offset somewhat by increased compensation expenses in 2002.

Interest expense decreased 24%, or $543,000, from 2001 due to lower interest rates and lower outstanding balances resulting from payments on debt.

Earnings before income taxes in 2002 decreased 22%, or $1.4 million, from 2001. Pretax earnings for the Industrial Hardware segment rose by 24%, or $810,000. This increase was due to higher sales volume, increased utilization of production facilities and sales of new products with higher margins. The Security Products segment experienced an increase of 29%, or $904,000, in pretax earnings. This increase was mainly due to an upturn in sales volume and increased efficiency resulting from the consolidation of CCL Security Products into the Company's Illinois Lock Company. In the Metal Products segment, pretax earnings were down 103%, or $2.5 million, due to an 18% reduction in sales volume, an underutilization of productive capacity, personnel costs associated with the downsizing of operations, and a significant increase in workers costs. The growth in workers compensation costs stemmed from both the current-year premium and additional expenses associated with claims under prior year policies. The Company reached the additional maximum expense (approximately $200,000) in 2003. Corporate expenses were 184%, or $1.1 million, more than they were in 2001. The increase was due to higher personnel expenses in 2002, and the fact that 2001 corporate expense included a one-time pre-tax gain of $748,000 associated with the issuance of stock by Prudential Financial Inc. during its demutualization and changeover to a public company.

The effective tax rate in 2002 was 31%, down from 36% in 2001. The lower rate for 2002 was due to the Company's deriving a higher percentage of its earnings from countries with a lower tax rate.

Liquidity and Sources of Capital

The Company's financial position remained strong throughout 2003. The primary source of the Company's cash is earnings from operating activities adjusted for cash generated from or used in net working capital. The most significant recurring non-cash items included in income are depreciation and amortization expense. Changes in working capital fluctuate with the changes in operating activities. As sales increase there generally is an increased requirement for working capital. Since increases in working capital reduce the Company's cash, management attempts to keep the Company's investment in net working capital at a reasonable level by closely monitoring inventory levels and matching production to expected market demand, keeping tight control over collection of receivables and optimizing payment terms on its trade and other payables.

The Company is dependent on the continued demand for our products and subsequent collection of accounts receivable from our customers. The Company serves a broad base of customers and industries with a variety of products. As a result, any fluctuations in a particular industry or customer will not have a material impact on the Company's sales and collection of receivables. Management expects that the Company's foreseeable cash needs for operations, capital expenditures, debt service and dividend payments will continue to be provided by the Company's operating cash flows and existing credit facility.

	2003	2002	2001
Current ratio	3.5	3.5	3.7
Average days' sales in accounts receivable	48	50	52
Inventory turnover	4.1	3.7	3.3
Ratio of working capital to sales	28.2%	31.5%	33.4%
Total debt to market capitalization	31.7%	52.4%	65.8%
Total debt to shareholders' equity	44.0%	56.9%	70.9%

At January 3, 2004, December 28, 2002, and December 29, 2001, the Company had cash and cash equivalents of $4.9 million, $5.9 million and $5.0 million respectively, and working capital of $24.9 million, $25.6 million and $27.1 million, respectively.

Net cash provided by operating activities was $6.4 million in 2003 compared to $11.4 million in 2002 and $7.0 million in 2001. The $5.0 million decrease from 2002 to 2003 and the $4.4 million increase from 2001 to 2002 related primarily to changes in the components of working capital. Excluding such changes, the amount of cash provided from operations was $7.5 million, $7.5 million and $8.2 million in 2003, 2002 and 2001, respectively. During 2003, working capital components used cash totaling $1.1 million; substantially all of this amount was due to changes in accounts receivable, inventories, prepaid expenses and accounts payable. The increases were a result of higher sales volume in the fourth quarter of 2003. In 2002, working capital components provided $3.9 million in cash resulting from a general decrease in inventories across all segments of the business. In 2001, working capital components used $1.2 million of cash. This use was the result of the net changes in working capital; a decrease in accounts receivable and accounts payable as a result of lower sales volume; an increase in inventories resulting from the planned move of CCL Security Products from New Britain, Connecticut, to Wheeling, Illinois; and lower-than-expected compensation expenses.

During 2003, the Company used $1.8 million in investing activities. Approximately $2.8 million related to the purchase of fixed assets, offset by the sale of common stock held for investment. In 2002, the Company used $1.9 million in investing activities - $1.6 million for the purchase of fixed assets and $300,000 for the acquisition of Canadian Commercial Vehicles Corporation and certain assets of the Big Tag Division of Dolan Enterprises, Inc. In 2001, the Company used $1.9 million in investing activities, all for the purchase of fixed assets. The Company continuously upgrades and replaces existing equipment to expand capacity, improve efficiency and satisfy safety and environmental requirements. The Company expects capital expenditures for 2004 to be approximately $2 million to $3 million.

Net cash used by financing activities totaled $5.6 million, $8.5 million and $4.6 million in 2003, 2002 and 2001, respectively. Of those amounts, $3.2 million, $3.4 million and $3.0 million related to the principal payments of long-term debt in 2003, 2002 and 2001 respectively. In addition, the Company elected to pay down $500,000 and $3.5 million on its revolving credit line in 2003 and 2002, respectively. The first $600,000 scheduled long-term debt payment for calendar 2004 was included in fiscal 2003.

The Company leases certain equipment and buildings under cancelable and noncancelable operating leases expiring at various dates up to 10 years. Rent expense amounted to approximately $383,000, $306,000 and $304,000 in 2003, 2002 and 2001, respectively.

On December 27, 2002, the Company amended its unsecured loan agreement (the Loan Agreement) with its lender. Under the amended agreement, the term portion of the Loan Agreement ($18.6 million at the end of 2002) was paid in quarterly installments of $600,000 during 2003, with payments increasing annually after 2004 until maturity on January 1, 2009. During fiscal 2004, the Company made its regular quarterly payments and also made its first scheduled payment of $600,000 for calendar 2004. As a result, the remaining term portion of the Loan Agreement at year-end 2003 was $15.6 million. As required, the Company maintains an interest rate swap contract with the lender with an original amount of $15.0 million; this amount is reduced on a quarterly basis in accordance with the principal repayment schedule of the term portion of the Loan Agreement ($8.4 million on January 4, 2004, and $11.2 million on December 28, 2002). 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 $7.5 million through July 1, 2005, and must pay a quarterly commitment fee of 0.25% on the unused portion. As of January 3, 2004, $1.0 million was outstanding under the revolver portion of the Loan Agreement. The Company's loan covenants restrict it from incurring any indebtedness from any person other than the lender in excess of the aggregate sum of $1.5 million or any single transaction in excess of $1.0 million without express consent of the lender or until the full payment of the current obligation has been made.

Tabular Disclosure of Contractual Obligations

The Company's known contractual obligations as of January 3, 2004, are shown below:

	Payment due by period				
Contractual Obligations (in thousands)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt obligations	$ 16,632	$ 1,807	$ 7,000	$ 7,200	$ 625
Capital lease obligations	1,189	200	430	475	84
Operating lease obligations	1,409	466	741	202	–
Total	$ 19,230	$ 2,473	$ 8,171	$ 7,877	$ 709

The Company does not have any noncancelable open purchase orders.

The Company maintains a letter of credit in the amount of $900,000 related to its capital lease which reserves that amount from the Company's revolving credit agreement under terms of the capital lease agreement.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's foreign manufacturing facilities account for approximately 19% of total sales and 18% of total assets. Its U.S. operations buy from and sell to these foreign affiliates, and also make limited sales (less than 9% of total sales) to nonaffiliated 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, Chinese RMB and Hong Kong dollar. Because of the Company's limited exposure to any single foreign market, any currency exchange gains or losses have not been material and are not expected to be material.

The Company is exposed to interest rate risk with respect to its unsecured 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 a portion of the term loan under the Loan Agreement. The interest rate on the swap contract is 9.095% and the swap contract expires on July 1, 2005. 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 $8.4 million as of January 3, 2004.

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 an $82,250 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

	January 3 2004	December 28 2002
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 4,896,816**	$ 5,939,232
Investment in common stock	**-**	807,438
Accounts receivable, less allowances of $302,000 in 2003 and $304,000 in 2002	**11,036,760**	10,824,807
Inventories:		
Raw materials and component parts	**8,687,003**	7,658,722
Work in process	**4,112,625**	4,226,858
Finished goods	**4,126,920**	4,459,614
	16,926,548	16,345,194
Prepaid expenses and other assets	**1,642,513**	1,525,846
Deferred income taxes	**462,700**	564,000
Total Current Assets	**34,965,337**	36,006,517
Property, Plant and Equipment		
Land	**701,923**	701,016
Buildings	**11,468,122**	11,351,043
Machinery and equipment	**30,649,120**	28,390,569
Accumulated depreciation	**(17,888,740)**	(15,392,659)
	24,930,425	25,049,969
Other Assets		
Goodwill and trademarks	**10,687,373**	10,514,047
Patents, technology, and licenses, less accumulated amortization of $1,513,029 in 2003 and $2,382,037 in 2002	**1,877,408**	2,111,865
Intangible pension asset	**964,592**	1,112,129
Prepaid pension cost	**1,192,281**	1,338,010
	14,721,654	15,076,051
	$ 74,617,416	$ 76,132,537

Consolidated Balance Sheets

	January 3 2004	December 28 2002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 4,246,633**	$ 3,838,412
Accrued compensation	**1,782,408**	1,923,463
Other accrued expenses	**2,034,918**	2,015,979
Current portion of long-term debt	**2,007,273**	2,628,664
Total Current Liabilities	**10,071,232**	10,406,518
Deferred income taxes	**1,243,264**	737,987
Long-term debt, less current portion	**15,814,669**	18,920,747
Accrued post-retirement benefits	**2,384,770**	2,578,156
Interest rate swap obligation	**580,055**	1,138,086
Accrued pension cost	**4,015,858**	4,448,197
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: 3,616,039 shares in 2003 and 3,631,869 shares in 2002; excluding shares held in treasury of 1,680,342 in 2003 and 1,657,320 in 2002	**664,949**	883,695
Retained earnings	**44,406,855**	42,638,351
Accumulated other comprehensive income (loss):		
Foreign currency translation	**(166,295)**	(898,137)
Additional minimum pension liability, net of taxes	**(4,049,886)**	(4,073,870)
Derivative financial instruments, net of taxes	**(348,055)**	(683,086)
Unrealized holding gain on investment in common stock, net of taxes	**-**	35,893
	(4,564,236)	(5,619,200)
Total Shareholders' Equity	**40,507,568**	37,902,846
	$ 74,617,416	$ 76,132,537

See accompanying notes.

Consolidated Statements of Income

	Year ended		
	January 3 2004	**December 28 2002**	**December 29 2001**
Net sales	**$ 88,306,581**	$ 81,337,207	$ 82,825,353
Cost of products sold	**(66,718,641)**	(60,637,151)	(60,782,769)
	21,587,940	20,700,056	22,042,584
Selling and administrative expenses	**(15,103,624)**	(14,317,256)	(14,563,913)
Interest expense	**(1,302,830)**	(1,716,056)	(2,259,347)
Other income	**209,004**	67,564	866,031
Income before income taxes	**5,390,490**	4,734,308	6,085,355
Income taxes	**2,028,868**	1,442,408	2,172,436
Net income	**$ 3,361,622**	$ 3,291,900	$ 3,912,919
Earnings per Share			
Basic	**$0.93**	$0.91	$1.08
Diluted	**$0.92**	$0.89	$1.07

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Year ended		
	January 3 2004	**December 28 2002**	**December 29 2001**
Net income	**$ 3,361,622**	$ 3,291,900	$ 3,912,919
Other comprehensive income/(loss) -			
Change in foreign currency translation	**731,842**	258,378	(349,897)
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 (benefit) of ($223,000), $33,000 and $157,000 in 2003, 2002 and 2001, respectively	**335,031**	(50,666)	(231,664)
Change in unrealized holding gain on investment in common stock, net of income taxes (benefit) of $23,900, $17,500 and ($40,700) in 2003, 2002 and 2001, respectively	**(35,893)**	(25,079)	60,972
Change in additional minimum pension liability net of income taxes (benefit) of ($15,992) in 2003 and $2,715,913 in 2002	**23,984**	(4,073,870)	-
	1,054,964	(3,891,237)	(921,345)
Comprehensive income/(loss)	**$ 4,416,586**	$ (599,337)	$ 2,991,574

See accompanying notes.

Consolidated Statements of Shareholders' Equity

	Common Stock	Retained Earnings	Unearned Compensation
Balances at January 1, 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	-
Net income		3,291,900	
Cash dividends declared, $.44 per share		(1,597,864)	
Purchase of 5,000 shares of Common Stock for treasury	(55,855)		
Issuance of 7,684 shares of Common Stock for director fees	100,395		
Balances at December 28, 2002	883,695	42,638,351	-
Net income		**3,361,622**	
Cash dividends declared, $.44 per share		**(1,593,118)**	
Purchase of 23,022 shares of Common Stock for treasury	**(317,726)**		
Issuance of 7,192 shares of Common Stock for director fees	**98,980**		
Balances at January 3, 2004	**$ 664,949**	**$ 44,406,855**	**$ -**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended		
	January 3 2004	**December 28 2002**	**December 29 2001**
Operating Activities			
Net income	**$ 3,361,622**	$ 3,291,900	$ 3,912,919
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**3,619,328**	3,565,460	4,460,704
Common stock received	**-**	-	(748,345)
Loss on sales of equipment and other assets	**-**	-	258
Provision for doubtful accounts	**214,345**	91,296	(4,002)
Deferred income taxes	**390,788**	454,200	461,200
Gain on sale of investment	**(166,788)**	-	-
Issuance of Common Stock for directors' fees	**98,980**	100,395	125,189
Changes in operating assets and liabilities:			
Accounts receivable	**(316,345)**	259,870	2,673,430
Inventories	**(270,871)**	2,191,677	(1,485,460)
Prepaid expenses and other	**(326,025)**	(137,673)	212,848
Prepaid pension cost	**(99,100)**	349,385	(27,237)
Other assets	**(113,840)**	47,536	(211,999)
Accounts payable	**364,306**	170,023	(1,097,265)
Accrued compensation	**(181,908)**	1,002,865	(1,281,060)
Other accrued expenses	**(204,275)**	(19,211)	(30,143)
Net cash provided by operating activities	**6,370,217**	11,367,723	6,961,037
Investing Activities			
Purchases of property, plant and equipment	**(2,763,130)**	(1,559,863)	(1,894,723)
Business acquisitions, net of cash acquired	**-**	(303,746)	-
Proceeds from sale of investment	**915,133**	-	-
Net cash used by investing activities	**(1,847,997)**	(1,863,609)	(1,894,723)
Financing Activities			
Principal payments on long-term debt	**(3,732,726)**	(6,853,694)	(3,028,830)
Proceeds from sales of Common Stock	**-**	-	23,437
Purchases of Common Stock for treasury	**(317,726)**	(55,855)	(23,432)
Dividends paid	**(1,593,118)**	(1,597,864)	(1,598,809)
Net cash used by financing activities	**(5,643,570)**	(8,507,413)	(4,627,634)
Effect of exchange rate changes on cash	**78,934**	(12,489)	(25,366)
Net change in cash and cash equivalents	**(1,042,416)**	984,212	413,314
Cash and cash equivalents at beginning of year	**5,939,232**	4,955,020	4,541,706
Cash and cash equivalents at end of year	**$ 4,896,816**	$ 5,939,232	$ 4,955,020

See accompanying notes.

1. Operations

The operations of The Eastern Company (the Company) consist of three business segments: industrial hardware, security products, 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 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 produces anchoring devices used in supporting the roofs of underground coal mines and specialty products, which serve the construction, automotive and electrical industries.

Sales are made to customers primarily in North America.

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.

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. The Company has historically consolidated its subsidiaries located in Asia and Mexico as of November 30. No events have occurred between November 30, 2003 and January 1, 2004 to materially affect the reported amounts for the Company's Asian and Mexican subsidiaries.

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 transaction 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.

2. Accounting Policies *(continued)*

Shipping Costs

The Company records all shipping costs within cost of products sold.

Recognition of Revenue and Accounts Receivable

Revenue and accounts receivable are recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred, and there is a reasonable assurance of collections of the sales proceeds. The Company obtains written purchase authorizations from our customers for a specified amount of product at a specified price and delivery occurs at the time of shipment. Credit is extended based on an evaluation of each customers' financial condition; collateral is not required. Accounts receivable are recorded net of applicable allowances.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company reviews the collectibility of its receivables on an ongoing basis taking into account a combination of factors. The Company reviews potential problems, such as past due accounts, a bankruptcy filing or deterioration in the customer's financial condition, to ensure the Company is adequately accrued for potential loss. Accounts are considered past due based on when payment was originally due. If a customer's situation changes, such as a bankruptcy or creditworthiness, or there is a change in the current economic climate, the Company may modify its estimate of the allowance for doubtful accounts. The Company will write off accounts receivable after reasonable collection efforts have been made and the accounts are deemed uncollectible.

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 during 2001 in connection with the "demutualization" of the issuer. This investment was classified as "available-for-sale" and, as such, was measured and reported at fair value in the consolidated balance sheet. The cost of this investment was $748,345 based on the fair value of the shares at the time of receipt and was reported in "Other income". The subsequent related unrealized holding gain of $59,093, less deferred income taxes of $23,200 to December 28, 2002 was reported as a separate component of stockholder's equity. On July 22, 2003 the Company sold all shares of the common stock for $915,133 with the gain on sale of stock of $166,788 recorded within "Other income".

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method in the U.S. ($12,382,559 for U.S. inventories at January 3, 2004) and by the first-in, first-out (FIFO) method for inventories outside the U.S. ($4,543,989 for inventories outside the U.S. at January 3, 2004). Current cost exceeded the LIFO carrying value by approximately $3,677,000 at January 3, 2004 and $3,368,000 at December 28, 2002. There was no material LIFO quantity liquidation in 2003 or 2002.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment (including equipment under capital lease) are stated at cost. Depreciation ($3,118,885 in 2003, $3,006,994 in 2002 and $3,173,277 in 2001) is computed generally using the straight-line method based on the following estimated useful lives of the assets: Building 10 to 39.5 years; Machinery and equipment 3 to 10 years.

2. Accounting Policies *(continued)*

Goodwill, Intangibles and Impairment of Long-Lived Assets

Patents are recorded at cost and are amortized using the straight-line method over the lives of the patents. Technology and licenses are recorded at cost and are generally amortized on a straight-line basis over periods ranging from 5 to 17 years. Prior to December 30, 2001, Goodwill was being amortized over periods ranging from 5 to 15 years. Amortization expense in 2003, 2002 and 2001 was $500,443, $558,466 and $1,287,427 respectively. Total amortization expense for each of the next five years is estimated to be as follows: 2004 - $345,147; 2005 - $271,814; 2006 - $265,147; 2007 - $256,561; 2008 - $255,000.

In the event that facts and circumstances indicate that the carrying value of long-lived assets, including definite life 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.

Effective December 30, 2001, the Company adopted Financial Accounting Standards Board Statement No. 142*, Goodwill and Other Intangible Assets*. Under the new standards, goodwill and trademarks are no longer amortized but are subject to annual impairment tests; other intangible assets continue to be amortized over their useful lives. The Company performs the required annual impairment test of its goodwill and trademarks during the second quarter of each year. Trademarks are not amortized as their lives are deemed to be indefinite.

If the provisions of Statement No. 142 were applied effective December 31, 2000, the net income for the Company would have been $4,421,000 or $1.21 per share for 2001.

The following is a roll-forward of goodwill for 2003 and 2002:

	2003	**2002**
Beginning balance	**$ 10,364,140**	$ 10,603,638
Additions	**-**	50,734
Adjustment to Greenwald purchase price	**-**	(300,000)
Foreign exchange	**155,626**	9,768
Ending balance	**$ 10,519,766**	$ 10,364,140

Product Development Costs

Product development costs, charged to expense as incurred, were $1,115,329 in 2003, $1,040,661 in 2002 and $1,005,555 in 2001.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $449,304 in 2003, $495,889 in 2002 and $678,479 in 2001.

2. Accounting Policies *(continued)*

Earnings Per Share

The denominators used in the earnings per share computations follow:

	2003	2002	2001
Basic:			
Weighted average shares outstanding	**3,620,593**	3,631,278	3,623,291
Denominator for basic earnings per share	**3,620,593**	3,631,278	3,623,291
Diluted:			
Weighted average shares outstanding	**3,620,593**	3,631,278	3,623,291
Dilutive stock options	**38,372**	49,806	43,888
Denominator for diluted earnings per share	**3,658,965**	3,681,084	3,667,179

The Company has excluded the effect of 177,500, 547,500 and 477,500 shares in 2003, 2002 and 2001 respectively, from the above dilutive stock options, as their inclusion would be anti-dilutive.

Derivatives

The Company entered into an interest rate swap agreement to modify the interest characteristics of a portion of its outstanding debt. The agreement involves the exchange of amounts based on the London Interbank Offered Rate ("LIBOR") for amounts based on a fixed interest rate over the life of the agreement, without an exchange of the notional amount upon which the payments are based.

The Company's interest rate swap agreement is considered 'effective' through use of the short-cut method, as defined under Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* , and, as a result, changes in fair value of the derivative are recorded in current assets or liabilities with the offset amount recorded to accumulated other comprehensive income (loss) in stockholders' equity. The adoption of Statement No. 133 resulted in a charge to other comprehensive income in 2001 for the cumulative effect of an accounting change of $400,756, net of taxes.

Stock Based Compensation

The Company accounts for stock options in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. As such, it does not recognize compensation expense for stock options granted under its stock option plans if the exercise price is at least equal to the fair market value of the Company's common stock on the date granted. Since no options were granted below fair market value in 2003, 2002 or 2001, no compensation expense has been recorded.

The fair value of the stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2003, 2002, and 2001:

	2003	2002	2001
Risk free interest rate	**3.18%**	3.89%	4.84%
Expected volatility	**0.287**	0.309	0.302
Expected option life	**5 years**	5 years	5 years
Weighted-average dividend yield	**2.9%**	3.1%	3.1%

2. Accounting Policies *(continued)*

The weighted average fair market value of the shares granted under options was $15.30 in 2003, $14.19 in 2002, and $14.40 in 2001. The weighted average fair value of options, estimated using the Black-Scholes option pricing model based on the assumptions in the above table, was $3.37 in 2003, $3.42 in 2002, and $3.63 in 2001.

Pro forma information regarding net income and earnings per share, as required by Statement No. 123 "Accounting for Stock-Based Compensation", has been determined as if the Company had accounted for its employee stock options under the fair value method.

(in thousands, except per share amounts)	**2003**	**2002**	**2001**
Net income, as reported	**$3,362**	$3,292	$3,913
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards granted since July 19, 2000, net of related tax effects	**85**	138	200
Pro forma net income	**$3,277**	$3,154	$3,7
Earnings per share:			
Basic as reported	**$0.93**	$0.91	$1.08
Basic pro-forma	**$0.91**	$0.87	$1.03
Diluted as reported	**$0.92**	$0.89	$1.07
Diluted pro forma	**$0.90**	$0.86	$1.01

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the stock options' vesting period ranging from 1 to 5 years. The pro forma effect on net income and related earnings per share may not be representative of future years' impact since the terms and conditions of new grants may vary from the current terms.

Reclassification

Certain prior year amounts have been reclassified to conform to the 2003 presentation.

3. Business Acquisitions

Effective October 1, 2002 the Company acquired all of the issued and outstanding stock of Canadian Commercial Vehicles Corporation (CCV) for cash of approximately $70,000 and the assumption of approximately $130,000 of debt, which the Company paid upon closing. CCV was established as a Canadian Subsidiary of The Eastern Company, located in Kelowna, British Columbia, Canada. CCV manufactures lightweight sleeper boxes used in Class 8 trailer trucks.

Effective March 1, 2002 the Company acquired certain assets of the Big Tag Division of Dolan Enterprises, Inc. for cash of approximately $260,000. Big Tag was merged into the CCL division of the Company located in Wheeling, Illinois. Big Tag provides high-visibility, custom luggage tags, which the Company markets in conjunction with its custom logo luggage locks to the travel, incentive and premium markets.

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. The effects of these acquisitions on the Company's consolidated financial position and operation results are not material.

4. Contingencies

The Company is party to various legal proceedings and claims related to its normal business operations. In the opinion of management, the Company has substantial and meritorious defenses for these claims and proceedings in which it is a defendant, and believes these matters will be ultimately resolved without a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company. The aggregate provision for losses related to 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 January 3, 2004 and December 28, 2002.

5. Debt

The Company has an unsecured loan agreement (Loan Agreement), which includes a term portion and a revolving credit portion. The term portion of the Loan Agreement is payable in quarterly principal payments of $600,000 in 2004 and increases annually through maturity on January 1, 2009. The first payment of calendar 2004 was made in fiscal 2003. The Company may borrow up to $7,500,000 through July 1, 2005 under the revolving credit portion of the Loan Agreement with a quarterly commitment fee of 0.25% on the unused portion.

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. On January 3, 2004 the interest rate on the term and revolver portions of the Loan Agreement was 2.87% and 2.64%, respectively.

The Company maintains an interest rate swap contract, as required, with the lender, for an original notional amount of $15,000,000, (notional amount $8,400,000 on January 3, 2004 and $11,175,000 on December 28, 2002), which is 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 bears interest at a fixed rate of 9.095% and expires July 1, 2005.

5. DEBT *(continued)*

Debt consists of:

	2003	**2002**
Term loan	**$ 15,625,000**	$ 18,625,000
Revolving credit loan	**1,000,000**	1,500,000
Capital lease obligation with interest at 4.99% and payable in monthly installments of $21,203 through April 2009	**1,189,290**	1,379,212
Other	**7,652**	45,199
	17,821,942	21,549,411
Less current portion	**2,007,273**	2,628,664
	$ 15,814,669	$ 18,920,747

The Company paid interest of $1,402,631 in 2003, $1,741,511 in 2002 and $2,752,643 in 2001.

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.

As of January 3, 2004, scheduled annual principal maturities of long-term debt, including capital lease obligations, for each of the next five years follow:

2004	$ 2,007,271
2005	4,009,811
2006	3,420,523
2007	3,831,782
2008	3,843,617
Thereafter	708,938
	$ 17,821,942

At January 3, 2004 and December 28, 2002, building improvements and equipment with a cost of approximately $2,000,000 was recorded under capital leases with accumulated depreciation of approximately $443,080 and $332,310, respectively. The capital lease is secured by the equipment under the lease and a $900,000 letter of credit.

6. Stock Rights

The Company has a stock rights plan. At January 3, 2004 there were 3,616,039 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

Stock Options

The Company has incentive stock option plans for officers, other key employees, and non-employee directors: the 1989, 1995, 1997 and 2000 plans. Options granted under the 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 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 2003, 2002, and 2001 were granted at prices equal to the fair market value of the stock on the dates granted. No restricted stock was granted in 2003, 2002 or 2001.

As of January 3, 2004, there were 344,642 shares available for future grant under the above noted plans: 2000 – 240,891 shares, 1997 – 52,500, 1995 – 51,251 and 1989 – no shares available for grants. As of January 3, 2004, there were 998,642 shares reserved under all option plans for future issuance.

Information with respect to the Company's stock option plans is summarized below:

	Shares	Weighted Average Exercise Price
Outstanding at December 30, 2000	657,391	$13.322
Granted	44,109	14.400
Cancelled	(18,750)	11.280
Exercised	(3,750)	6.250
Outstanding at December 29, 2001	679,000	13.477
Granted	35,000	14.190
Cancelled	(25,000)	14.251
Outstanding at December 28, 2002	689,000	13.475
Granted	10,000	15.300
Cancelled	(45,000)	14.539
Outstanding at January 3, 2004	**654,000**	**$13.417**

7. Stock Options and Awards *(continued)*

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding as of January 3, 2004	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of January 3, 2004	Weighted Average Exercise Price
$ 9.92 – $11.92	194,000	3.8	$10.461	194,000	$10.461
$14.00 – $1 5.30	447,500	6.1	14.556	430,009	14.556
$18.50	12,500	5.6	18.500	12,500	18.500
	654,000	5.4	$13.417	636,509	$13.392

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:

	2003	2002	2001
Property, plant and equipment	**$ 3,445,288**	$ 3,057,400	$ 2,801,500
Pensions	**-**	-	2,027,400
Investment in common stock	**-**	307,500	325,800
Other	**221,160**	164,400	196,500
Total deferred income tax liabilities	**3,666,448**	3,529,300	5,351,200
Other postretirement benefits	**(886,371)**	(979,700)	(1,042,400)
Inventories	**(338,737)**	(316,300)	(598,800)
Allowance for doubtful accounts	**(97,674)**	(82,900)	(119,200)
Accrued compensation	**(187,393)**	(198,200)	(257,900)
Interest rate swap obligation	**(232,005)**	(455,000)	(422,000)
Pensions	**(809,954)**	(826,713)	-
Other	**(333,750)**	(496,500)	(424,600)
Total deferred income tax assets	**(2,885,884)**	(3,355,313)	(2,864,900)
Net deferred income tax liabilities	**$ 780,564**	$ 173,987	$ 2,486,300

Income before income taxes consists of:

	2003	2002	2001
Domestic	**$ 1,778,405**	$ 2,736,969	$ 4,819,818
Foreign	**3,612,085**	1,997,339	1,265,537
	$ 5,390,490	$ 4,734,308	$ 6,085,355

8. Income Taxes *(continued)*

Income taxes follow:

	2003	2002	2001
Current:			
Federal	**$ 703,890**	$ 458,302	$ 1,122,932
Foreign	**749,390**	437,506	435,304
State	**184,800**	92,400	153,000
Deferred	**390,788**	454,200	461,200
	$ 2,028,868	$ 1,442,408	$ 2,172,436

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

	2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes using U.. federal statutory rate	**$ 1,832,665**	**34%**	$ 1,609,700	34%	$ 2,069,000	34%
tate income taxes, net of federal benefit	**199,062**	**4**	73,500	2	127,000	2
Impact of foreign subsidia ries on effective tax rate	**1,232**	**-**	(291,000)	(6)	(147,500)	(2)
Other – net	**(4,091)**	**-**	50,208	1	123,936	2
	$ 2,028,868	**38%**	$ 1,442,408	31%	$ 2,172,436	36%

Total income taxes paid were $1,162,688 in 2003, $1,239,668 in 2002 and $1,035,531 in 2001.

The Company's future effective tax rates could be adversely affected by earnings being higher than anticipated in countries where statutory rates are higher.

United States income taxes have been provided on the undistributed earnings of foreign subsidiaries ($5,950,457 at January 3, 2004) only where necessary 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 non-cancelable operating leases with initial or remaining terms in excess of one year during each of the next five years follow, this table only includes leases that have been committed to and does not recognize costs associated with anticipated renewals:

2004	$ 465,986
2005	450,939
2006	290,423
2007	111,805
2008	89,902
	$ 1,409,055

9. Leases *(continued)*

Rent expense for all operating leases was $383,098 in 2003, $306,293 in 2002 and $303,784 in 2001.

10. Retirement Benefit Plans

The Company has non-contributory 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. The measurement date for the obligations disclosed below is September 30 of each year.

The Company also provides health care and life insurance for retired salaried employees in the United States who meet specific eligibility requirements.

Significant disclosures relating to these benefit plans follow:

	Pension Benefits		Postretirement Benefits	
	2003	**2002**	**2003**	**2002**
Change in Projected Benefit Obligation				
Benefit obligation at beginning of year	**$ 33,737,224**	$ 32,254,888	**$ 1,997,724**	$ 2,391,435
Change due to availability of final actual assets and census data	**132,099**	136,351	**75,758**	(383,853)
Plan amendment (a)	**145,612**	358,640	**-**	-
Service cost	**1,131,435**	1,073,638	**70,321**	73,311
Interest cost	**2,274,329**	2,198,127	**137,124**	132,966
Actuarial loss/(gain)	**1,659,027**	(240,287)	**78,130**	-
Benefits paid	**(2,163,871)**	(2,044,133)	**(229,148)**	(216,135)
Benefit obligation at end of year	**$ 36,915,855**	$ 33,737,224	**$ 2,129,909**	$ 1,997,724
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$ 28,816,677**	$ 32,853,847	**$ 796,507**	$ 574,749
Change due to availability of final actual assets and census data	**(1,251)**	14,574	**7,855**	166,614
Actual return on plan assets	**3,900,350**	(1,995,676)	**69,174**	66,224
Employer contributions	**1,519,683**	25,527	**-**	-
Benefits paid	**(2,163,871)**	(2,081,595)	**18,892**	(11,080)
Fair value of plan assets at end of year	**$ 32,071,588**	$ 28,816,677	**$ 892,428**	$ 796,507

10. RETIREMENT BENEFIT PLANS (*continued*)

	Pension Benefits		Postretirement Benefits	
	2003	**2002**	**2003**	**2002**
Under-funded status	**$ (4,844,267)**	$ (4,920,547)	**$ (1,237,481)**	$ (1,201,217)
Unrecognized prior service cost	**1,126,515**	1,137,165	**(80,144)**	(101,233)
Unrecognized net actuarial loss (gain)	**9,032,632**	9,203,552	**(1,067,145)**	(1,275,706)
Unrecognized net asset at transition	**(424,055)**	(628,445)	**-**	-
Net amount recognized in the balance sheet	**$ 4,890,825**	$ 4,791,725	**$ (2,384,770)**	$ (2,578,156)

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

	Pension Benefits		Postretirement Benefits	
	2003	**2002**	**2003**	**2002**
Prepaid benefit cost	**$ 1,192,281**	$ 1,338,010	**$ -**	$ -
Accrued benefit liability	**(4,015,858)**	(4,448,197)	**(2,384,770)**	(2,578,156)
Intangible asset	**964,592**	1,112,129	**-**	-
Accumulated other comprehensive loss	**6,749,810**	6,789,783	**-**	-
Net amount recognized in the balance sheet	**$ 4,890,825**	$ 4,791,725	**$ (2,384,770)**	$ (2,578,156)

In 2003 and 2002, the accumulated benefit obligation for all qualified and nonqualified defined benefit pension plans was $35,372,932 and $32,547,911 respectively.

Information for two of the under-funded pension plans with a projected benefit obligation and an accumulated benefit obligation in excess of plan assets.

	2003	**2002**
Projected benefit obligation	**$ 30,005,029**	$ 27,377,767
Accumulated benefit obligation		26,658,206
Fair value of plan assets		22,599,696

The percentage of each asset category of the total assets held by the plans follows:

	Allca aa		
Equity securities	– %	%	53%
Fixed income	– %		41
Cash and cash equivalents	– %		6
Total		%	100%

The Company utilizes a diversified, strategic allocation to generate investment returns that will meet the objectives set forth in the Company's investment policy, while keeping periods of negative returns to a minimum. Studies of assets and liabilities that incorporate specific plan objectives as well as assumptions regarding long-term capital market returns and volatilities generate the specific asset allocations for the trusts. The long-term nature of the trusts make them well-suited

10. Retirement Benefit Plans (*continued*)

to bear the risk of added volatility associated with equity securities, and, accordingly, the asset allocations of the trust reflect a higher allocation to equities as compared to fixed-income securities. Non-U.S. securities are used to diversify some of the volatility of the U.S. equity market while providing comparable long-term returns. The investment guidelines set forth in the Company's investment policy limit or prohibit exposure to investments in more volatile sectors.

In selecting the expected rate of return on plan assets, the Company considers historical returns for the types of investments that its plans hold.

The plans' assets include 430,874 shares of the Common Stock of the Company having a market value of $6,700,091 and $4,881,802 at January 3, 2004 and December 28, 2002, respectively. Dividends received during 2003 and 2002 on the Common Stock of the Company were $189,585 for each year.

	Pension Benefits		
	2003	**2002**	**2001**
Assumptions			
Discount rate	**6.5%**	7%	7%
Expected return on plan assets	**8.5%**	9%	9%
Rate of compensation increase	**4.25%**	4.25%	4.25%
Components of Net Periodic Benefit Cost			
Service cost	**$ 1,131,435**	$ 1,073,638	$ 1,040,857
Interest cost	**2,274,329**	2,198,127	2,131,339
Expected return on plan assets	**(2,755,927)**	(1,577,856)	(1,858,990)
Net amortization and deferral	**770,747**	(1,146,850)	(1,314,916)
Net periodic benefit cost	**$ 1,420,584**	$ 547,059	$ (1,710)

	Postretirement Benefits		
	2003	**2002**	**2001**
Assumptions			
Discount rate	**6.5%**	7%	7%
Expected return on plan assets	**8.5%**	9%	9%
Components of Net Periodic Benefit Cost			
Service cost	**$ 70,321**	$ 73,311	$ 71,617
Interest cost	**137,124**	132,966	158,638
Expected return on plan assets	**(69,174)**	(66,224)	(55,285)
Net amortization and deferral	**(83,617)**	(92,752)	(77,066)
Net periodic benefit cost	**$ 54,654**	$ 47,301	$ 97,904

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 is expected to remain at 4.5% for participants after the year 2000.

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	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 29,416	$ (13,676)
Effect on postretirement benefit obligation	$ 255,030	$ (130,405)

U.S. salaried employees and most employees of the Company's Canadian subsidiary are covered by defined contribution plans.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. As of January 3, 2004, in accordance with FASB Staff Position No. FAS 106-1 any measures of the Accumulated Postretirement Benefit Obligation (APBO) or net periodic postretirement benefit cost in the financial statements do not reflect the effects of the Act on the plan. More specific authoritative guidance on the accounting of the federal subsidy is pending and, when issued, could require the Company to change previously reported information.

The Company has a contributory savings plan under Section 401(k) of the Internal Revenue Code covering substantially all U.S. non-union employees. The plan allows participants to make voluntary contributions of up to 100% of their annual compensation on a pretax basis, subject to IRS limitations. The plan provides for contributions by the Company at its discretion. The Company made contributions of $141,903 in 2003, $139,598 in 2002 and $149,586 in 2001.

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 January 3, 2004 and December 28, 2002 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 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.

	2003	2002	2001
Revenue:			
Sales to unaffiliated customers:			
Industrial Hardware	**$ 35,422,702**	$ 29,271,624	$ 28,213,054
Security Products	**39,281,707**	36,388,970	35,556,863
Metal Products	**13,602,172**	15,676,613	19,055,436
	$ 88,306,581	$ 81,337,207	$ 82,825,353
Intersegment Revenue:			
Industrial Hardware	**$ 60,598**	$ 44,669	$ 65,026
Security Products	**1,697,607**	1,286,004	737,619
	$ 1,758,205	$ 1,330,673	$ 802,645
Income Before Income Taxes:			
Industrial Hardware	**$ 4,078,257**	$ 4,188,944	$ 3,378,933
Security Products	**4,756,132**	4,037,505	3,133,873
Metal Products	**75,538**	(76,586)	2,429,306
Operating Profit	**8,909,927**	8,149,863	8,942,112
General corporate expenses	**(2,425,611)**	(1,767,062)	(1,463,441)
Interest expense	**(1,302,830)**	(1,716,057)	(2,259,347)
Other income	**209,004**	67,564	866,031
	$ 5,390,490	$ 4,734,308	$ 6,085,355
Geographic Information:			
Net Sales:			
United States	**$ 71,204,620**	$ 70,279,299	$ 72,768,061
Foreign	**17,101,961**	11,057,908	10,057,292
	$ 88,306,581	$ 81,337,207	$ 82,825,353

Foreign Sales are primarily to North America.

12. Reportable Segments (*continued*)

	2003	2002	2001
Identifiable Assets:			
United States	**$ 61,353,242**	$ 66,135,214	$ 72,607,182
Foreign	**13,264,174**	9,997,323	9,288,872
	$ 74,617,416	$ 76,132,537	$ 81,896,054
Industrial Hardware	**$ 24,159,290**	$ 22,457,174	$ 22,630,057
Security Products	**32,811,830**	31,932,295	32,428,409
Metal Products	**11,969,126**	13,879,715	15,652,026
	68,940,246	68,269,184	70,710,492
General corporate	**5,677,170**	7,863,353	11,185,562
	$ 74,617,416	$ 76,132,537	$ 81,896,054
Depreciation and Amortization			
Industrial Hardware	**$ 1,216,015**	$ 1,135,449	$ 1,176,490
Security Products	**858,792**	829,561	1,561,542
Metal Products	**1,473,089**	1,540,606	1,675,980
	3,547,896	3,505,616	4,414,012
General corporate	**71,432**	59,844	46,692
	$ 3,619,328	$ 3,565,460	$ 4,460,704
Capital Expenditures			
Industrial Hardware	**$ 1,866,426**	$ 519,101	$ 451,099
Security Products	**627,311**	404,355	527,034
Metal Products	**267,978**	596,388	717,951
	2,761,715	1,519,844	1,696,084
Currency translation adjustment	**(10,156)**	(679)	(40)
General corporate	**11,571**	40,698	198,679
	$ 2,763,130	$ 1,559,863	$ 1,894,723

13. Recent Accounting Pronouncements

In 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN No. 46"), which addresses when a company should consolidate an entity based on the variable interest model of FIN No. 46. It defines a variable interest entity ("VIEs") as those entities in which equity investors do not have the characteristics of a controlling financial interest or in which equity investors do not bear the residual economic risks. For all VIEs formed after February 1, 2003, FIN No. 46 is effective for fiscal years or interim periods beginning after June 15, 2003. For all other VIEs, FIN No. 46 is effective for periods ending after March 15, 2004. FIN No. 46 did not have any impact on the Company's financial position and results of operations in fiscal 2003.

The Company has identified an entity, formed before February 1, 2003, that may be a VIE. The potential VIE is a vendor of the Company, located in China, formed solely for the benefit of the Company. The Company does not have any ownership interest in the potential VIE but does provide all of the financial support to the potential VIE to facilitate the production of various materials used within the Company's production and owns the equipment used by the potential VIE to manufacture the products. Because the Company does not have an ownership interest in the potential VIE, the Company has been unable to obtain reliable financial information to determine whether the entity is a VIE, determine

13. Recent Accounting Pronouncements (*continued*)

whether the Company is the VIE's primary beneficiary or perform the accounting required to consolidate the VIE. Therefore, the Company is unable at this time to estimate the potential impact the consolidation of the potential VIE may have on its financial position or results of operations.

During 2003, 2002 and 2001, the Company purchased $4,908,689, $3,804,033 and $3,288,223 of product from the vendor.

14. Selected Quarterly Financial Information (Unaudited)

Selected quarterly financial information (unaudited) follows:

	2003				
	First	**Second**	**Third**	**Fourth**	**Year**
Net sales	$21,590,714	$21,591,111	$21,864,105	$23,260,651	$88,306,581
Gross profit	5,499,535	5,272,665	5,287,464	5,528,276	21,587,940
Selling and administrative expenses	3,819,453	3,473,743	3,631,127	4,179,301	15,103,624
Net income	953,377	936,688	942,759	528,798	3,361,622
Net income per share:					
Basic	$.26	$.26	$.26	$.15	$.93
Diluted	$.26	$.26	$.26	$.14	$.92

	2002				
	First	**Second**	**Third**	**Fourth**	**Year**
Net sales	$20,320,517	$21,291,745	$20,040,682	$19,684,263	$81,337,207
Gross profit	5,109,559	4,813,198	5,576,655	5,200,644	20,700,056
Selling and administrative expenses	3,641,780	3,269,684	4,054,823	3,350,969	14,317,256
Net income	677,107	758,518	678,043	1,178,232	3,291,900
Net income per share:					
Basic	$.19	$.21	$.19	$.32	$.91
Diluted	$.18	$.20	$.19	$.32	$.89

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 January 3, 2004 and December 28, 2002, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended January 3, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(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 January 3, 2004 and December 28, 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 3, 2004, 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.

As discussed in Note 2 to the Consolidated Financial Statements, effective December 30, 2001, the Company adopted Statement of Financial Standards No. 142, "Goodwill and Other Intangible Assets".

/s/ Ernst & Young LLP

Hartford, Connecticut
February 4, 2004

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

None.

ITEM 9A CONTROLS AND PROCEDURES

As of the end of the fiscal year ended January 3, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 240.13a-15. Based upon that evaluation, the CEO and CFO concluded that the Company's current disclosure controls and procedures are effective in timely alerting them to material information relating to the Company and its subsidiaries required to be included in the Company's periodic SEC filings. There were no significant changes in the Company's internal control over financial reporting during the period covered by this report that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the CEO and CFO have concluded that these controls and procedures are effective at the "reasonable assurance" level.

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 11 and 12 of said proxy statement, being the portion captioned "Executive Compensation", the information appearing on page 10 of said proxy statement, being the portions captioned "Audit Committee Financial Expert" and "Report of Audit Committee", and the information appearing on page 8 of said proxy statement, being the portion captioned "Section 16(a) Beneficial Ownership Reporting Compliance" and "Committees of the Board of Directors", and the information appearing on page 22 of said proxy statement, being the portion captioned "Exhibit B – The Eastern Company Code of Business Conduct and Ethics." 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 11 through 16 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, 6 and 7, and 11 and 15 of said proxy statement.

(c) Changes in Control

None.

(d) The information relating to the securities authorized for issuance under the Registrant's equity compensation plans is set forth in Part II, Item 5 of this Form 10-K Annual Report.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) None.

(b) None.

(c) None.

(d) None.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by Item 14 is incorporated by reference to the sections titled "Appointment of Independent Auditors" located on page 5 of the Proxy Statement.

PART IV

ITEM 15 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 — January 3, 2004 and December 28, 2002..........................20.

Consolidated Statements of Income — Fiscal years ended January 3, 2004, December 28, 2002 and December 29, 2001..........................22.

Consolidated Statements of Comprehensive Income — Fiscal years ended January 3, 2004, December 28, 2002, and December 29, 2001..........................22.

Consolidated Statements of Shareholders' Equity — Fiscal years ended January 3, 2004, December 28, 2002 and December 29, 2001..........................23.

Consolidated Statements of Cash Flows — Fiscal years ended January 3, 2004, December 28, 2002, and December 29, 2001..........................24.

Notes to Consolidated Financial Statements..........................25.

Report of Ernst & Young LLP, Independent Auditors..........................42.

(2) Financial Statement Schedule

Schedule II — Valuation and qualifying accounts..........................46.

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

Exhibits are as set forth in the "Exhibit Index" which appears on pages 48 through 49.

(b) Reports on Form 8-K

Form 8-K filed on April 25, 2003 setting forth the press release reporting the Company's earnings for the quarter ended March 29, 2003.

Form 8-K filed on July 30, 2003 setting forth the press release reporting the Company's earnings for the quarter ended June 28, 2003.

Form 8-K filed on October 29, 2003 setting forth the press release reporting the Company's earnings for the quarter ended September 27, 2003.

Form 8-K filed on February 4, 2004 setting forth the press release reporting the Company's earnings for the quarter and fiscal year ended January 3, 2004.

The Eastern Company and Subsidiaries

Schedule II – Valuation and Qualifying accounts

COL. A	COL. B	COL. C		COL. D	COL. E
Description		ADDITIONS			
		(1)	(2)		
	Balance at Beginning of Period	ha rged to osts and Expenses	harged to Other Accounts-Describe	Deductions – Describe	Balance at End of Period
Fiscal year ended January 3, 2004:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$304,000	$224,987		$226,987 (a)	$302,000
Fiscal year ended December 28, 2002:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$344,000	$91,563		$131,563 (a)	$304,000
Fiscal year ended December 29, 2001:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$362,000	($5,126)		$12,874 (a)	$344,000

(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 22, 2004

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
Leonard F. Leganza
Director, President
and Chief Executive Officer

March 22, 2004

/s/ John W. Everets
John W. Everets
Director

March 22, 2004

/s/ Charles W. Henry
Charles W. Henry
Director

March 22, 2004

/s/ David C. Robinson
David C. Robinson
Director

March 22, 2004

/s/ Donald S. Tuttle, III
Donald S. Tuttle III
Director

March 22, 2004

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. A copy of Amendment No. 3 to the Directors Fee Program, adopted on January 5, 2004, is attached hereto.
(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 Registrant's 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.
(14)	The Eastern Company Code of Business Conduct and Ethics incorporated by reference to Exhibit B of the Registrant's proxy statement filed with the Commission pursuant to Regulation 14A for the annual meeting to be held on April 28, 2004.

(21) List of subsidiaries as follows:

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

Canadian Commercial Vehicles Corporation, a private corporation organized under the laws of the Province of British Columbia, Canada.

Eastern Industrial Ltd., a private corporation organized under the laws of the Peoples Republic of China.

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 *.

(31) Certifications required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32) Certifications pursuant to Rule 13a-14(b) and 18 USC 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(99) Letter to our shareholders from the Annual Report 2003 is attached on page *.

* Exhibits to the Form 10-K listed but not included herein will be provided upon written request sent to the Company's executive offices.

EXHIBIT 10(c)

AMENDMENT NO. 3 TO
THE EASTERN COMPANY DIRECTORS FEE PROGRAM

The Eastern Company Directors Fee Program (the "Program") is hereby amended as follows:

(1) Effective as of January 5, 2004, Section 1 of the Program is amended to read as follows:

1. Purpose. The purpose of this Program is to promote the interests of The Eastern Company and its shareholders by providing a method whereby the non-employee directors of the Company may become owners of the Company's common stock through the payment of all or a portion of their quarterly retainer fees and meeting fees in shares of Company common stock. The Program will increase the proprietary interest of the non-employee directors in the Company's business and in its continued success and progress, and will encourage qualified individuals to become members of the Board of Directors of the Company.

(2) Effective as of January 5, 2004, Section 5 of the Program is amended to read as follows:

5. Issuance of Shares of Eastern Common Stock.

(a) Prior to the first scheduled payment of Directors' Fees during a calendar year, each Non-employee Director may elect to receive all or a portion of his or her Directors' Fees in shares of Eastern Common Stock rather than in cash. The election shall specify the percentage of the Directors' Fees to be paid in shares of Eastern Common Stock, with the remainder of the Directors' Fees to be paid in cash. Any such election shall be irrevocable with respect to Directors' Fees payable during the calendar year, and will continue to apply to Directors' Fees payable during each subsequent calendar year unless a new election is made prior to the first scheduled payment of Directors' Fees in such subsequent calendar year.

(b) On or about the last day of each calendar year quarter, the Company shall issue shares of Eastern Common Stock to each Non-employee Director who elected to receive all or a portion of his or her Directors' Fees in shares of Eastern Common Stock rather than in cash. The number of shares of Eastern Common Stock to be issued to the Non-employee Director will equal: (i) the percentage of his or her Directors' Fees which the Non-employee Director elected to be paid in shares of Eastern Common Stock; multiplied by (ii) the total dollar amount of the Directors' Fees payable to the Non-employee Director for services performed on or after the first day of the calendar year quarter (or, if later, the date of the last previous issuance of shares of Eastern Common Stock under Section 5(c)) and prior to the fifteenth (15th) day of the last month of the calendar year quarter; divided by (iii) the Fair Market Value of Eastern Common Stock as of the fifteenth (15th) day of the last month of the calendar year quarter.

In addition, in the event a Non-employee Director becomes entitled to Directors' Fees for services performed on or after the fifteenth (15th) day of the last month of a calendar year quarter and on or prior to the last day of such calendar year quarter, the number of shares of Eastern Common Stock issuable to the Non-employee Director as a result of such services shall be calculated on the basis of the Fair Market Value of Eastern Common Stock as of the fifteenth (15th) day of the last month of such calendar year quarter, but such shares shall be issued on or about the last day of the following calendar year quarter.

(c) Notwithstanding the provisions of Section 5(b) of the Program, the Board of Directors (or a committee of two or more non-employee directors of the Company) may, in its sole discretion, elect to issue shares of Eastern Common Stock as of the date of any meeting of the Board of Directors (or any committee meeting of the Board of Directors). In such an event, the Company shall issue to each Non-employee Director a number of shares of Eastern Common Stock equal to: (i) the percentage of his or her Directors' Fees which the Non-employee Director elected to be paid in shares of Eastern Common Stock; multiplied by (ii) the total dollar amount of the Directors' Fees payable to the Non-employee Director for

services performed on or after the first day of the calendar year quarter (or, if later, the date of the last previous issuance of shares of Eastern Common Stock under Section 5(c)) and on or before the date of such meeting; divided by (iii) the Fair Market Value of Eastern Common Stock as of the date of such meeting. For purposes of this Section 5(c), a committee of two or more non-employee directors shall mean a committee which is appointed by the Board of Directors and which consists of two or more directors who satisfy the requirements of Rule 16b-3(b)(3) issued by the Securities and Exchange Commission (the "SEC"), as such rule may hereafter be amended.

(d) Fractional shares of Eastern Common Stock shall not be issued to a Non-employee Director under the Program. In lieu of the issuance of a fractional share of Eastern Common Stock, such fractional share will be carried over and will be valued based on the Fair Market Value of Eastern Common Stock as of the next succeeding date as of which shares of Eastern Common Stock are valued under the Program. The value of such fractional share, as so determined, will then be added to the Directors' Fees otherwise payable on the basis of such Fair Market Value, and will be paid in cash or in shares of Eastern Common Stock in accordance with the provisions of this Section 5.

(e) Shares of Eastern Common Stock issued under the Program shall be fully vested and shall not be subject to any restrictions upon their sale, assignment, transfer or other disposition (other than any restrictions on transferability which are imposed by the securities laws of the United States or any state).

(f) The Company shall issue to each Non-employee Director a certificate or certificates representing the shares of Eastern Common Stock issued under the Program. Upon issuance of such certificate or certificates, the Non-employee Director shall thereupon be deemed to be a shareholder of the Company with respect to all of the shares of Eastern Common Stock represented by such certificate or certificates. The Non-employee Director shall thereafter have, with respect to such shares of Eastern Common Stock, all of the rights of a shareholder of the Company (including the right to vote the shares of Eastern Common Stock and the right to receive any cash or stock dividends on such shares of Eastern Common Stock).

(3) All section numbers and cross references thereto are appropriately amended to effectuate the intention of the foregoing amendments.

Dated at Naugatuck, Connecticut this 18th day of March, 2004.

ATTEST:	THE EASTERN COMPANY
/s/ Theresa P. Dews	By: /s/ John L. Sullivan III
Its Assistant Secretary	Its Vice President, Secretary and Treasurer

EXHIBIT 31

CERTIFICATIONS

I, Leonard F. Leganza, certify that:

1. I have reviewed this annual report on Form 10-K of The Eastern Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 22, 2004

/s/ Leonard F. Leganza
Leonard F. Leganza
CEO

EXHIBIT 31

CERTIFICATIONS

I, John L. Sullivan III, certify that:

1. I have reviewed this annual report on Form 10-K of The Eastern Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 22, 2004

/s/ John L. Sullivan III
John L. Sullivan III
CFO

EXHIBIT 32

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Pursuant to 18 United States Code § 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Leonard F. Leganza, the Chief Executive Officer of The Eastern Company (the "Company") and John L. Sullivan III, the Chief Financial Officer of the Company, hereby certify that, to the best of their knowledge:

1) The Company's Annual Report on Form 10-K for the Period ended January 3, 2004, and to which this certification is attached as Exhibit 32 (the "Periodic Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 22nd day of March, 2004.

/s/ Leonard F. Leganza
Leonard F. Leganza
CEO

/s/ John L. Sullivan III
John L. Sullivan III
CFO

A signed original of this written statement required by Section 906 has been provided to The Eastern Company and will be retained by The Eastern Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification "accompanies" the Form 10-K to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K, irrespective of any general incorporation language contained in such filing.)

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK