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

FORM 10-K

(Mark One)

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

For the Fiscal Year ended December 31, 2005

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 No.)
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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 (§229.405 of this chapter) 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 or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of July 2, 2005, 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 $73,209,204 (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 21, 2006 3,639,691 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 20, 2006 are incorporated by reference into Part III.

The Eastern Company
Form 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect the Company's current expectations regarding its products, its markets and its future financial and operating performance. These statements, however, are subject to risks and uncertainties that may cause the Company's actual results in future periods to differ materially from those expected. Such risks and uncertainties include, but are not limited to, unanticipated slowdowns in the Company's major markets, changing customer preferences, lack of success of new products, loss of customers, competition, increased raw material prices, problems associated with foreign sourcing of parts and products, worldwide conditions and foreign currency fluctuations that may affect results of operations, and other factors discussed from time to time in the Company's filings with the Securities and Exchange Commission. The Company is not obligated to update or revise the aforementioned statements for those new developments.

PART I

ITEM 1 BUSINESS

(a) General Development of Business

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

The business of the Company is the manufacture and sale of industrial hardware, security products and metal products from 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 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, die-casting and assembly.

(b) Financial Information about Industry Segments

Financial information about industry segments is included in Note 11 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, lightweight honeycomb composite structures 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 for Class 8 trucks and school bus door closure hardware. The products are sold directly to original equipment manufacturers and to 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 are 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 products 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.

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.

General

Raw materials and outside services were readily available from domestic sources for all of the Company's segments during 2005 and are expected to be readily available in 2006 and the foreseeable future. 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 2005 and does not expect any such problems in 2006. The Company did experience price increases for zinc and brass used mainly in the Security Products segment in the latter part of 2005. These higher prices could negatively impact gross margin in 2006 if prices do not stabilize.

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 December 31, 2005.

The dollar amount of the level of orders in the Company is believed to be firm as of fiscal year ended December 31, 2005 at $17,219,000, as compared to $14,561,000 at January 1, 2005.

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 favorable currency exchange rates and low cost labor have created additional competitive pressures. The Company established Eastern Industrial Ltd. in 2003 to help combat the offshore competition.

Research and development expenditures in 2005 were $1,150,000 and represented approximately 1% of gross revenues. In 2004 and 2003 they were $1,167,000 and $1,115,000, 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 various locks and 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 2005 was 642.

(d) <u>Financial Information about Geographic Areas</u>

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' revenues and identifiable assets is included in Note 11 to the Company's financial statements, included at Item 8 of this Annual Report on Form 10-K. Information about risks attendant to the Company's foreign operations is set forth at Item 1A of this Annual Report on Form 10-K.

(e) <u>Available Information</u>

We make available, free of charge through our Internet website 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. The Company's reports filed with, or furnished to, the SEC are also available on the SEC's website at www.sec.gov.

ITEM 1A RISK FACTORS

In addition to the other information contained in this Form 10-K and the exhibits hereto and the Company's other filings with the SEC, the following risk factors should be considered carefully in evaluating the Company's business. The Company's business, financial condition or results of operation could be materially adversely affected by any of these risks or additional risks not presently known to the Company or that the Company currently deems immaterial may also adversely affect its business, financial condition, or results of operations such as: changes in the economy, including changes in inflation, tax rates and interest rates, risk associated with possible disruption in the Company's operations due to terrorism and other manmade or natural disasters, future regulatory actions, legal issues or environmental matters, loss of, or changes in, executive management and changes in accounting standards which are adverse to the Company. Also, there can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting our business or that the publicly available or other information with respect to these matters is complete and correct.

Our business is subject to risks associated with conducting business overseas.

International operations could be adversely affected by changes in political and economic conditions, trade protection measures, restrictions on repatriation of earnings, differing intellectual property rights and changes in regulatory requirements that restrict the sales of products or increase costs. Changes in exchange rates between the U.S. dollar and other currencies could result in increases or decreases in earnings and may adversely affect the value of the Company's assets outside the United States. Our operations are also subject to the effects of international trade agreements and regulations. Although generally these trade agreements have positive effects, they can also impose requirements that adversely affect our business, such as setting quotas on product that may be imported from a particular country into our key markets in North America.

Our ability to import products in a timely and cost-effective manner may also be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes, severe weather or increased homeland security requirements in the United States or other countries. These issues could delay importation of products or require us to locate alternative ports or warehousing providers to avoid disruption to our customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on our business, financial conditions or results of operations.

See also "ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" of this Form 10-K.

In addition, the Company's growth strategy involves expanding sales of its products into foreign markets. There is no guarantee that our products will be accepted by foreign customers or how long it may take to develop sales of our products in these foreign markets.

Increases in the price or reduced availability of raw materials.

Raw materials needed to manufacture products are obtained from numerous suppliers. Under normal market conditions, these raw materials are readily available on the open market from a variety of producers. However, from time to time the prices and availability of these raw materials fluctuate, which could impair the Company's ability to procure the required raw materials for our operations or increase the cost of manufacturing our products. If the price of raw materials increases, the Company may be unable to pass these increases on to its customers and could experience reduction to its profit margins. Also, any decrease of availability of raw materials could impair our ability to meet production requirements in a timely manner.

Increased competition in the markets the Company services could impact revenues and earnings.

Any change in competition may result in lost market share or reduced prices, which could result in reduced profit margins. This may impair the ability to grow or even maintain current levels of revenues and earnings. While the Company has an extensive customer base, loss of certain customers could adversely affect the Company's business, financial condition or

results of operations until such business is replaced, and no assurances can be made that the Company would be able to regain or replace any lost customers.

The Company will be required to evaluate its internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002.

We are currently a "non-accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended. Under current reporting requirements, the Company will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 beginning with our Annual Report on Form 10-K for fiscal year end 2006 or 2007, depending on the value of our public float as of the end of the second quarter in 2006. Section 404 will require the Company to include in its report management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal period for which the Company is filing its 10-K. This report must also include disclosure of any material weaknesses in internal control over financial reporting that the Company has identified. Additionally, the Company's independent registered accounting firm will be required to issue a report on management's assessment of its internal control over financial reporting and their evaluation of the operating effectiveness of our internal control over financial reporting. The Company's assessment requires it to make subjective judgments and the independent registered public accounting firm may not agree with the Company's assessment. If the Company or its independent registered public accounting firm were unable to complete the assessments within the period prescribed by Section 404 and thus be unable to conclude that the internal control over financial reporting is effective, investors could lose confidence in our reported financial information, which could have an adverse effect on the market price of the Company's common stock or impact the Company's borrowing ability.

The inability to identify or complete acquisitions could limit future growth.

As part of its growth strategy, the Company continues to pursue acquisitions of complementary products or businesses. The ability to grow through acquisitions depends upon the Company's ability to identify, negotiate, complete and integrate suitable acquisitions. The Company makes certain assumptions based on the information provided by potential acquisition candidates and also conducts due diligence to ensure the information provided is accurate and based on reasonable assumptions, but the Company may be unable to realize the anticipated benefits from an acquisition or predict accurately how an acquisition will ultimately affect the business, financial condition or results of operations.

Demand for new products and the inability to develop and introduce new competitive products at favorable profit margins could adversely affect the Company's performance and prospects for future growth and the Company would not be positioned to maintain current levels of revenues and earnings.

The uncertainties associated with developing and introducing new products, such as market demand and costs of development and production, may impede the successful development and introduction of new products on a successful basis. Acceptance of the new products may not meet sales expectations due to several factors, such as the Company's failure to accurately predict market demand or its inability to resolve technical issues in a timely and cost-effective manner. Additionally, the inability to develop new products on a timely basis could result in loss of business to competitors.

The Company could be subject to litigation which could have a material impact on the Company's business, financial condition or results of operations.

From time to time, the Company's operations are parties to or targets of lawsuits, claims, investigations and proceedings, including product liability, personal injury, patent and intellectual property, commercial, contract, environmental and employment matters, which are defended and settled in the ordinary course of business. While the Company is unable to predict the outcome of any of these matters, it does not believe, based upon currently available information, that the resolution of any pending matter will have a material adverse effect on its business, financial condition or results of operations. See "ITEM 3 – LEGAL PROCEEDINGS" in this Form 10-K for a discussion of current litigation.

The Company could be subject to additional tax liabilities.

The Company is subject to income tax laws in the United States, its states and municipalities and those of other foreign jurisdictions in which the Company has business operations. These laws are complex and subject to interpretations by the taxpayer and the relevant governmental taxing authorities. Significant judgment and interpretation is required in determining the Company's worldwide provision for income taxes. In the ordinary course of business, transactions arise where the ultimate tax determination is uncertain. Although we believe the Company's tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different from that which is reflected in historical income tax provisions and accruals. Based on the status of a given tax audit or related litigation, a material effect on our income tax provision or net income may result during the period or periods from the initial recognition of a particular matter in our reported financial results to the final closure of that tax audit or settlement of related litigation when the ultimate tax and related cash flow is known with certainty.

The Company's goodwill or indefinite-lived intangible assets may become impaired which could require a significant charge to earnings to be recognized.

Under accounting principles generally accepted in the United States, goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment at least annually. Numerous assumptions are used in the evaluation of impairment and there is no guarantee that the Company's independent registered public accounting firm would reach the same conclusion as the Company or an independent valuation firm, which could result in a disagreement between management and the independent registered public accounting firm. Future operating results used in the assumptions, such as sales or profit forecasts, may not materialize and the Company could be required to record a significant charge to earnings in the financial statements during the period in which any impairment is determined, resulting in an unfavorable impact on our results of operations.

The Company may need additional capital in the future, and it may not be available on acceptable terms, if at all.

From time-to-time, the Company has historically relied on outside financing to fund expanded operations, capital expenditure programs and acquisitions. The Company may require additional capital in the future to fund operations or strategic opportunities. The Company cannot be assured that additional financing will be available on favorable terms, or at all. In addition, the terms of available financing may place limits on the Company's financial and operating flexibility. If the Company is unable to obtain sufficient capital in the future, the Company may not be able to expand or acquire complementary businesses and may not be able to continue to develop new products or otherwise respond to changing business conditions or competitive pressures.

The Company's stock price is highly volatile due to low float, which is the number of shares of the Company's common stock that are outstanding and available for trading by the public.

The Company's stock price may change dramatically when buyers seeking to purchase shares of the Company's common stock exceed the shares available on the market or when there are no buyers to purchase shares of the Company's common stock when shareholders are trying to sell their shares.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

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, leased an additional 9,000 square feet in its current facility in 2005 and now leases 46,500 square feet of building space located in an industrial park. The building is made from brick and concrete, contains approximately 5,400 square feet of office space on two levels 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 annually on January 1st.

The Eastern Industrial Ltd., a wholly-owned subsidiary in Shanghai, China leases brick and concrete buildings containing approximately 45,600 square feet, located in both industrial and commercial areas. A five-year lease was signed in 2003, which expires on September 8, 2008 and is renewable.

The Sesamee Mexicana subsidiary is currently leasing 17,760 square feet of a block building located in an industrial park in Lerma, Mexico on an open-end basis. Sesamee Mexicana will be relocating to another leased facility during the first half of 2006.

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 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. In 2006, the Company renewed the lease through May 31, 2011.

The World Lock Co. Ltd. subsidiary leases 5,285 square feet located in Taipei, Taiwan. The building is made from brick and concrete and is protected by a fire alarm and sprinklers.

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 was a party to a patent infringement suit filed on December 23, 2002 in the U.S. District Court for the Eastern District of Texas, Marshall Division, Civil Action Number 2-03-CV005-TJW. Imonex Services, Inc. (the “Plaintiff”) alleged the Company infringed on two of its patents. The Plaintiff was seeking a permanent injunction against the Company’s direct and inducing infringement of its patents. The Plaintiff was also seeking an unspecified amount of damages, treble damages for willful infringement, interest on the damages, reimbursement of legal expenses and other such relief as the court deemed just and proper. Although management determined that the suit was without merit, the Company agreed to a mediated settlement of $400,000, which was recorded as a charge to earnings in the second quarter of 2004. In addition to the settlement, the Company incurred approximately $115,000 of legal expenses in 2003 and $398,000 of legal expenses in 2004 relating to this suit. The legal expenses combined with the settlement resulted in charges to earnings, net of taxes, of $484,000, or $0.13 per diluted share, in 2004.

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

No matters were submitted to a vote of security holders during the fourth quarter ended December 31, 2005.

PART II

ITEM 5 MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company’s common stock is traded on the American Stock Exchange (ticker symbol **EML**). The approximate number of record holders of the Company’s common stock on December 31, 2005 was 620.

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

2005			
	Market Price		
Quarter	High	Low	Dividend
First	$23.95	$19.30	$.11
Second	23.55	20.00	.11
Third	26.25	21.25	.11
Fourth	23.44	19.45	.11

2004			
	Market Price		
Quarter	High	Low	Dividend
First	$16.37	$14.50	$.11
Second	16.70	15.25	.11
Third	16.73	15.10	.11
Fourth	20.60	16.15	.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 December 31, 2005, 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	429,500[1]	$14.79	245,000[2]
Equity compensation plans not approved by security holders	249,000[3]	12.49	52,500[4]
Total	678,500	$13.95	297,500

[1] Includes options outstanding under the 1989, 1995 and 2000 plans.
[2] Includes shares available for future issuance under the 2000 plan.
[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 annual rate of $24,600. All annual fees paid to non-employee members of the Board of Directors of the Company are paid in common stock 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.

There were no issuer purchases of equity securities in 2005. The Company does not have any share repurchase plans or programs.

ITEM 6 SELECTED FINANCIAL DATA

	2005	2004	2003	2002	2001
INCOME STATEMENT ITEMS (in thousands)					
Net sales	$ 109,107	$ 100,130	$ 88,307	$ 81,337	$ 82,825
Cost of products sold	84,375	74,999	66,719	60,637	60,783
Depreciation and amortization	3,460	3,461	3,619	3,565	4,461
Interest expense	1,014	1,044	1,303	1,716	2,259
Income before income taxes	7,020	6,829	5,390	4,734	6,085
Income taxes	2,653	2,071	2,028	1,442	2,172
Net income	4,367	4,758	3,362	3,292	3,913
Dividends	1,600	1,596	1,593	1,598	1,599
BALANCE SHEET ITEMS (in thousands)					
Inventories	$ 20,768	$ 20,478	$ 16,927	$ 16,345	$ 18,591
Working capital	31,223	26,692	24,894	25,600	27,131
Property, plant and equipment, net	22,397	23,907	24,930	25,050	26,486
Total assets	81,622	78,072	74,617	76,133	81,896
Shareholders' equity	46,172	43,817	40,508	37,903	40,056
Capital expenditures	1,750	2,062	2,763	1,560	1,895
Long-term obligations, less current portion	12,384	11,805	15,815	18,921	25,014
PER SHARE DATA					
Net income per share					
Basic	$ 1.20	$ 1.31	$ .93	$ .91	$ 1.08
Diluted	1.12	1.27	.92	.89	1.07
Dividends	.44	.44	.44	.44	.44
Shareholders' equity (Basic)	12.70	12.08	11.19	10.44	11.06
Average shares outstanding: Basic	3,636,715	3,627,541	3,620,593	3,631,278	3,623,291
Diluted	3,885,891	3,745,701	3,658,965	3,681,084	3,667,179

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

Summary

Net sales for 2005 increased 9% to $109.1 million from $100.1 million for 2004. Net income decreased 8% to $4.4 million, or $1.12 per diluted share, from $4.8 million, or $1.27 per diluted share. Net income was negatively impacted by two longer term projects: the Company continued to increase its manufacturing capabilities at the Eastern Industrial Ltd. subsidiary in Shanghai, China; and re-focusing of our production capability in our metal castings operation to increase production of ductile iron products.

The following table shows, for the fourth quarter of 2005 and 2004, selected line items from the consolidated statements of income as a percentage of net sales, by segment.

	2005 Fourth Quarter			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	75.1%	72.6%	96.9%	76.2%
Gross margin	24.9%	27.4%	3.1%	23.8%
Selling and administrative expense	14.6%	17.6%	9.6%	15.3%
Operating profit	10.3%	9.8%	-6.5%	8.5%

	2004 Fourth Quarter			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	71.8%	74.3%	108.6%	76.7%
Gross margin	28.2%	25.7%	-8.6%	23.3%
Selling and administrative expense	17.1%	19.1%	7.9%	17.0%
Operating profit	11.1%	6.6%	-16.5%	6.3%

The following table shows the amount of change from the fourth quarter of 2004 to the fourth quarter of 2005 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

	Industrial Hardware	Security Products	Metal Products	Total
Net sales	$ 2,116	$ 1,139	$ 186	$ 3,441
Volume	-16.3%	8.6%	5.4%	-3.7%
Prices	3.1%	1.2%	1.5%	2.2%
New Products	31.1%	1.3%	0.2%	15.4%
	17.9%	11.1%	7.1%	13.9%
Cost of products sold	$ 1,978	$ 645	$ (124)	$ 2,499
	23.2%	8.4%	-4.4%	13.1%
Gross margin	$ 137	$ 494	$ 311	$ 942
	4.1%	18.7%	138.6%	16.4%
Selling and administrative expenses	$ 8	$ 54	$ 62	$ 124
	0.4%	2.7%	30.0%	3.0%
Operating profit	$ 129	$ 440	$ 249	$ 818
	9.8%	64.8%	57.7%	52.3%

Net sales in the fourth quarter of 2005 increased 14% to $28.2 million from $24.8 million a year earlier. Net income for the quarter decreased 8% to $1.3 million (or $.34 per diluted share) from $1.4 million (or $.37 per diluted share) a year earlier.

Gross margin for the fourth quarter of 2005 improved 16.4% from the fourth quarter of 2004. Higher sales volume, resulting in better utilization of production capacity in both the Industrial Hardware and Security Product Segments, more than offset increases in payroll and payroll related charges, utilities, and raw materials, resulting in the increase in gross margin.

Selling and administrative expenses for the fourth quarter of 2005 increased 3.0% compared to the prior year quarter due to higher payroll and payroll charges, deferred compensation costs, Sarbanes-Oxley compliance expenses, travel expenses and advertising expenses which were partially offset by reductions in expense for bad debt and amortization of patents and agreements.

In 2005, the Company experienced increased costs related to the required compliance with Section 404 of the Sarbanes-Oxley Act. The fees paid for assistance with the documentation required by Section 404 through 2005 were approximately $140,000, which does not include the cost of internal personnel. The Company expects to incur another $100,000 in documentation costs in 2006. Based on the Company's current public float and current regulations, the Company would be required to report on its internal controls in the 2007 Form 10-K, which will be filed in March 2008. Future attestation fees, for work to be completed by the independent registered public accounting firm, are projected to be in the range of 1.0 – 1.5 times the basic audit fee.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which was revised in December 2003 ("FIN No. 46-R"). This rule requires that companies consolidate a variable interest entity if the company is subject to a majority of the risk of loss from the variable interest entity's activities and/or is entitled to receive a majority of the entity's residual returns. The provisions of FIN No. 46-R were required to be applied as of the end of the first reporting period after March 15, 2004 for the variable interest entities in which a company holds a variable interest that it acquired on or before January 31, 2003. The adoption of FIN No. 46-R did not have any impact on the financial position or results of operations of the Company.

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The Company will adopt SFAS No. 151 in the first quarter of 2006. It is not believed that the adoption of SFAS No. 151 will have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) will require that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123, as originally issued in 1995, established as preferable a fair value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair value-based method been used. The Company will adopt SFAS No. 123(R) on January 1, 2006. The impact of the adoption of Statement No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement No. 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement No. 123 as described in the disclosure of pro forma net income (loss) and net income (loss) per share in the stock based compensation accounting policy note included in Note 2 to the consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20* (Accounting Changes) *and FASB Statement No. 3* (Reporting Accounting Changes in Interim Financial Statements). SFAS No. 154 provides guidance on accounting for and reporting of accounting changes and error corrections. It requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the specific period effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. It is not believed that the adoption of SFAS No. 154 will have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

Critical Accounting Policies and Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States ("U.S. 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 items such as 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

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.

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. Each year during the second quarter, the carrying value of goodwill and other intangible assets with indefinite useful lives is tested for impairment. The Company uses 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 U.S. 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 discount rate used is based on comparisons to the Moody's AA and AAA bond index, as well as a hypothetical yield curve that creates a reference portfolio of high quality corporate bonds whose payments mimic the plan's benefit payment stream. 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 2005 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 Company expects to make cash contributions to its pension plans of approximately $1.7 million for 2006.

RESULTS OF OPERATIONS

Fiscal 2005 Compared to Fiscal 2004

The following table shows, for 2005 and 2004, selected line items from the consolidated statements of income as a percentage of net sales, by segment.

	2005			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	75.6%	72.1%	107.2%	77.3%
Gross margin	24.4%	27.8%	-7.2%	22.7%
Selling and administrative expense	14.7%	17.5%	9.8%	15.4%
Operating profit	9.7%	10.3%	-17.0%	7.3%

	2004			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	72.5%	71.5%	96.7%	74.9%
Gross margin	27.5%	28.5%	3.3%	25.1%
Selling and administrative expense	16.8%	20.3%	8.0%	17.3%
Operating profit	10.7%	8.2%	-4.7%	7.8%

The following table shows the amount of change from 2004 to 2005 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

	Industrial Hardware	Security Products	Metal Products	Total
Net sales	$ 7,853	$ 1,901	$ (777)	$ 8,977
Volume	4.3%	1.8%	-6.4%	2.0%
Prices	3.2%	1.1%	-0.3%	1.9%
New Products	9.6%	1.6%	0.1%	5.1%
	17.1%	4.5%	-6.6%	9.0%
Cost of products sold	$ 7,352	$ 1,631	$ 392	$ 9,375
	22.1%	5.4%	3.5%	12.5%
Gross margin	$ 501	$ 270	$(1,169)	$ (398)
	4.0%	2.2%	-302.8%	-1.6%
Selling and administrative expenses	$ 204	$ (847)	$ 139	$ (504)
	2.6%	-9.8%	14.9%	-2.9%
Operating profit	$ 297	$ 1,117	$(1,308)	$ 106
	6.0%	32.2%	-238.7%	1.3%

Industrial Hardware Segment

Net sales in the Industrial Hardware segment were up 17.1% in 2005 from the 2004 level. New product introductions were responsible for over half of the increase in sales for this segment. All of the new products were internally developed and aimed at a variety of the markets we service including: military, utility truck, vehicular accessories and recreational vehicles. New products included a retro-fit kit for the military Humvee, a remote power lock kit for the utility truck bodies, a trailer ramp and pick-up truck camper for the recreational vehicle markets and an assortment of handles and latches used in many of the markets we sell to. Sales volume of existing products was up in all but two of the markets we service - truck accessories and van bodies. Sales volume increased 37% for “sleeper boxes” for the Class 8 trailer truck market, a product resulting from the Canadian Commercial Vehicles acquisition in 2002. Sales at the Company’s Mexican subsidiary increased 17% from 2004 primarily due to economic growth in Mexico. Price increases generally offset higher raw material and production costs and did not result in an increase in gross margins.

Cost of products sold for the Industrial Hardware segment increased 22.1% from 2004 to 2005. In addition to manufacturing costs associated with the higher volume of sales, higher costs were experienced in utilities, raw materials, and expediting the introduction of new products, all of which contributed to the increase.

Gross margin as a percentage of net sales decreased from 27.5% to 24.4% due to the higher manufacturing costs, price reductions in select product lines to remain competitive and a change in product mix.

Selling and administrative expenses increased 2.6% from 2004 levels due to increases in payroll and payroll related charges, advertising and travel expenses.

Security Products Segment

Net sales in the Security Products segment increased 4.5% from 2004 to 2005. Increased sales volume of existing products was primarily related to the commercial laundry industry. Volume increases occurred in traditional products such as drop meters and meter cases as well as the newer “smart card” systems. New products were mainly lock related, such as: a toolbox push button lock, car carrier clamp assembly, electric car lock set, and brackets used in the automotive accessories market as well as a variety of other items for various markets. Price increases generally offset higher raw material and production costs and did not result in an increase in gross margins.

Cost of products sold for the Security Products segment increased 5.4% from 2004 to 2005. Most of the increase in cost of products sold was directly proportionate to the increase in sales. Several items which outpaced the increased sales level included payroll, freight on sales due to higher fuel costs and utilities, which contributed to the increase in cost of products sold.

Gross margin decreased from 28.5% to 27.8% as a percentage of net sales for the Security Products segment resulting from the higher sales volume offset by higher manufacturing costs, price reductions in select product lines to remain competitive and a change in product mix.

Selling and administrative expenses decreased 9.8% from the same period a year ago due to fees and costs incurred in 2004 for defending against and settlement of a patent infringement suit.

Metal Products Segment

Net sales in the Metal Products segment were down 6.6% from 2004 to 2005. Sales of mine products were comparable for both years. Although sales of contract casting products declined 19% in 2005, shipments of ductile iron castings more than doubled from 324 tons in 2004 to 723 tons in 2005. In 2005, the Company added a salesman in Canada to focus on the Canadian mining business which we expect to result in increased business in 2006. We are also expanding our marketing efforts for our mine roof anchor products into Australia and China. Late in the second quarter of 2005, we completed our testing at a technology and authentication meeting in Changzhi, China which was sponsored by the China University of Mining and Technology. The China mining association approved our products for use in the China mining industry; stating that our products represented superior technology. The Company will continue to market the mine roof support anchors in the China mining industry.

Cost of products sold increased as a percentage of net sales mainly due to the fixed costs associated with the Metal Products segment. While costs related to volume declined, such as payroll and payroll related charges, supplies and tools and maintenance and repairs, increases were experienced in insurance costs and utilities. Rates for both natural gas and electricity increased 47% and 14%, respectively. The division also was negatively impacted by the higher labor cost of manually pouring ductile iron. As part of the Company’s longer term strategy of reducing the dependence on only pouring malleable iron, the Company has determined that it can also produce quality ductile iron castings. In order to improve the efficiency of producing ductile iron castings, the Company will be installing a new automatic pouring system designed specifically for ductile iron during the first half of 2006.

Gross margin in the Metal Products segment decreased as a percentage of net sales mainly due to lower sales volume, producing ductile iron castings and a change in product mix.

Selling and administrative expenses in the Metal Products segment increased 14.9% from 2004 to 2005, primarily due to the addition of sales personnel in Canada and increased travel expenses associated with testing and marketing mine roof anchors in China.

Other Items

The following table shows the amount of change from 2004 to 2005 in other items (dollars in thousands):

	Total
Interest expense	$ (30)
	-2.9%
Other income	$ 55
	240.8%
Income taxes	$ 582
	28.1%

Interest expense decreased from 2004 to 2005 primarily due to the new interest rate swap contract associated with the amended Loan Agreement, which is discussed in Note 4 in Item 8 of this Form 10-K. The new swap contract fixed the rate at 4.61% compared to the old swap contract rate of 9.095%.

Other income increased from 2004 to 2005 due to higher cash balances in the Company cash management program which resulted in higher interest income.

Income taxes increased from 2004 to 2005 due to a higher effective tax rate, 38% in 2005 versus 30% in 2004, resulting primarily from 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 2004 Compared to Fiscal 2003

The following table shows, for 2004 and 2003, selected line items from the consolidated statements of income as a percentage of net sales, by segment.

	2004			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	72.5%	71.5%	96.7%	74.9%
Gross margin	27.5%	28.5%	3.3%	25.1%
Selling and administrative expense	16.8%	20.3%	8.0%	17.3%
Operating profit	10.7%	8.2%	-4.7%	7.8%

	2003			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	73.8%	71.5%	91.8%	75.6%
Gross margin	26.2%	28.5%	8.2%	24.4%
Selling and administrative expense	17.1%	19.3%	10.9%	17.1%
Operating profit	9.1%	9.2%	-2.7%	7.3%

The following table shows the amount of change from 2003 to 2004 in selected results, by segment (dollars in thousands):

	Industrial Hardware	Security Products	Metal Products	Total
Sales	$ 10,571	$ 3,141	$ (1,888)	$ 11,824
Volume	25.7%	3.8%	-13.9%	9.9%
Prices	1.6%	0.0%	0.0%	0.6%
New Products	2.5%	4.2%	0.0%	2.9%
	29.8%	8.0%	-13.9%	13.4%
Gross margin	$ 3,392	$ 886	$ (735)	$ 3,543
	36.6%	7.9%	-65.6%	16.4%
Operating profit	$ 1,694	$ (149)	$ (179)	$ 1,366
	52.3%	-4.1%	48.3%	21.1%

Net sales for 2004 increased 13% ($11.8 million) to $100.1 million from $88.3 million for 2003. Volume of existing products increased sales by 10%, while new product introductions increased sales by 3%.

The Industrial Hardware segment experienced a 30% increase in sales. The increase in volume of existing products occurred in almost every market we service, most notably -- sales of industrial hardware (such as rotary locks, locking recessed handles, multi-point paddle handles and slam latches) to original equipment manufacturers up 40% and sales to distributors up 35%. These markets experienced rapid growth throughout 2004 as the economy improved.

Sales of automotive accessories (toolbox locks, push-button locks and rotary latches) declined 9% as a result of domestic and offshore competition in this market. Sales at the Company's Mexican operation increased 23% from 2003 primarily due to improved economic growth in Mexico. Sales of "sleeper boxes" for the Class 8 trailer truck market, a product resulting from the Canadian Commercial Vehicles acquisition, increased by 41%.

New product introductions increased total segment sales by 3%. All of the new products were internally developed, and were aimed at the utility truck and vehicular accessory markets. Among the new products were Power Up™, a remote power locking system, as well as various handles and latching systems.

The Company continued to invest in new products and its new Shanghai facility, and to search for business acquisitions that complement its existing operations or provide opportunities to enter new markets.

Gross margin for the Industrial Hardware segment was 27.5% of sales for 2004 as compared to 26.2% for 2003. The improvement in the gross margin percentage resulted from the sale of higher-margin products. Gross profit increased $3.4 million, or 37%, from 2003 due to higher sales volume and higher gross margin percentage.

In the Security Products segment, sales were 8% higher than in 2003. The increase in volume of existing products was the result of sales of high-security locks for access doors, electronics equipment and vehicular applications, which were up 23% from 2003 levels, mainly through taking market share from our competition. However, some of the sales increases were offset by slight declines in the sales of locks to the furniture, coin-operated vending and gaming equipment markets and to lock distributors servicing lower-volume accounts. Sales to the industrial controls and accessories market decreased 14%.

Sales of luggage locks for the travel industry increased 232% in 2004, following the introduction of our SearchAlert™ travel lock in late 2003. Sales to this market had been hard-hit in the wake of the September 11, 2001, terrorist attacks. Sales were additionally 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 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 an airline passenger's bags without destroying the lock. The product also lets the bags' owner know, via an access indicator, if the bag has been opened.

Sales of security products to the commercial laundry industry decreased 6% from 2003. Sales to this industry were down in most of our product lines and in all of the markets we service. We continued our R&D efforts and our search for "smart card" applications beyond the commercial laundry market. We believe that the security characteristics of "smart cards" present us with several potential opportunities in new markets.

New product introductions increased total segment sales by 4%. The new products included the SearchAlert™, a snap-in lock and a toolbox push-button lock.

The Security Products segment gross margin was 28.5% for both 2004 and 2003. Gross profit increased $886,000, or 8%, from 2003, primarily due to the 8% increase in sales.

In the Metal Products segment, sales were down 14% from the previous year. Sales of contract castings were down 15% from 2003. The primary cause of the decrease in contract castings was the decision of two large accounts to move their remaining casting business to lower-cost, offshore sources.

Sales of mine roof support anchors decreased 13% from 2003, mainly because one account chose to place some key business with a lower-cost, offshore supplier. The bulk of the reduction in sales involved the proprietary product that we had produced under contract for that customer until mid-2003. The loss of this business was partially offset by a 25% increase in sales to our second largest U.S. mining account. With rising oil prices, coal has been growing in importance as an energy source worldwide. The growth in coal consumption should provide new opportunities for mine roof anchor sales both in North America and Asia.

To expand our markets and counter the lower demand in the U.S. for mine roof fasteners, resulting from changes in mining methods utilizing fewer roof anchors per ton of coal produced, during 2004 we entered into a technical agreement with the China University of Mining and Technology for the field-testing and eventual marketing of the Company's mechanical anchor systems, which are used to secure the roofs in underground mines. These tests have been substantially and successfully completed.

In addition, to offset reduced demand for malleable iron castings, we have continued to develop our ductile iron casting capability. Shipments of ductile iron castings grew to 324 tons in 2004.

Gross margin for the Metal Products segment was 3.3% for 2004 as compared to 8.2% for 2003. Gross profit for 2004 decreased $735,000, or 66%, from 2003, primarily due to lower sales volume and the fixed costs associated with the business.

The Company-wide gross margin percentage for 2004 was 0.7 points higher than in 2003 — 25.1% versus 24.4%. Gross profit increased $3.5 million, or 16%, from 2003. The increase was due to more efficient utilization of manufacturing facilities resulting from higher sales volume; increased sales of higher-margin products; and lower group health insurance premiums resulting from the consolidation of several health plans in early 2004.

Total selling and administrative expenses increased 14%, or $2.2 million, from 2003. The increase was due to higher wage expense and associated payroll charges; higher legal costs and the cost of a mediated settlement associated with the defense of a patent lawsuit (which the Company determined to be without merit); and costs associated with the establishment of the Shanghai facility.

Operating profit for the Industrial Hardware segment was 10.7% of sales for 2004 as compared to 9.1% for 2003. Operating income grew $1.7 million, or 52%, from 2003 due to higher overall sales volume and increased sales of higher-margin products.

In the Security Products segment, operating profit was 8.2% for 2004 as compared to 9.2% for 2003. Operating income decreased $150,000, or 4% from 2003. The decrease was primarily due to higher legal and settlement costs associated with

the aforementioned patent lawsuit, and higher raw material costs. These higher costs were partially offset by increased sales volume in 2004 and by one-time charges in 2003 relating to the closing of the Company's Florida location and the launch of the SearchAlert™ product.

The Metal Products segment recorded a 2004 operating loss of $548,000, or 4.7% of sales, as compared to a loss of $370,000, or 2.7%, in 2003. The erosion in operating profit was primarily the result of fixed costs relating to the operation of the foundry and the reduction in sales.

Interest expense for the Company decreased 20%, or $258,000, from 2003 due to lower outstanding debt balances.

Other income decreased 89%, or $186,000, from 2003. The decrease primarily reflected a gain in 2003 on the sale of common stock, and a drop in the interest income the Company received during 2004. The gain in 2003 totaled $167,000 and was from the sale of common stock received during 2001 from a single issuer in connection with the issuer's demutualization. The decrease in 2004 interest income of $19,000 was due to lower cash balances in the Company cash management program.

The effective tax rate in 2004 was 30%, down from 38% in 2003. The decrease was primarily due to a change in the mix of taxable earnings in foreign jurisdictions with lower effective tax rates.

Liquidity and Sources of Capital

The Company's financial position remained strong throughout 2005. 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 (by matching production to expected market demand), keeping tight control over the collection of receivables, and optimizing payment terms on its trade and other payables.

The Company is dependent on the continued demand for its products and subsequent collection of accounts receivable from its customers. The Company serves a broad base of customers and industries with a variety of products. As a result, any fluctuations in demand or payment from 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 met by the Company's operating cash flows and existing credit facility.

	2005	**2004**	**2003**
Current ratio	3.3	2.9	3.5
Average days' sales in accounts receivable	48	47	48
Inventory turnover	4.1	3.7	4.1
Ratio of working capital to sales	28.6%	26.7%	28.2%
Total debt to shareholders' equity	34.2%	36.1%	44.0%

At December 31, 2005, January 1, 2005, and January 3, 2004, the Company had cash and cash equivalents of $6.3 million, $4.4 million and $4.9 million, respectively, and working capital of $31.2 million, $26.7 million and $24.9 million, respectively.

Net cash provided by operating activities was $5.2 million in 2005 compared to $4.9 million in 2004 and $6.4 million in 2003. The $0.3 million increase from 2004 to 2005 and the $1.5 million decrease from 2003 to 2004 related primarily to changes in the components of working capital. During 2005, working capital used $2.7 million in cash as a result of increased sales activity. Accounts receivable accounted for most of the increase, climbing $2.2 million. In 2004, working capital used approximately $3.6 million in cash as a result of increased sales activity. Included in this amount were a $3.3

million increase in inventories and a $1.6 million increase in accounts receivable, offset by a $500,000 increase in accounts payable and an $800,000 increase in accrued compensation. In 2003, working capital components used cash totaling $1.1 million; substantially this entire 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.

During 2005 and 2004, the Company used $1.7 and $2.0 million of cash in investing activities, virtually all related to the purchase of fixed assets. In 2003, the Company used $1.8 million in investing activities – approximately $2.8 million related to the purchase of fixed assets, offset by the proceeds from the sale of common stock held for investment. The Company expects capital expenditures for 2006 to be approximately $2 million to $3 million.

Net cash used by financing activities totaled $1.6 million, $3.4 million and $5.6 million in 2005, 2004 and 2003, respectively. During 2005, the Company borrowed an additional $3.0 million on its revolving credit facility to cover short-term cash requirements. Principal payments of long-term debt amounted to $3.0 million, $2.0 million and $3.2 million in 2005, 2004 and 2003 respectively. The first $600,000 scheduled long-term debt payment for calendar 2004 was included in fiscal 2003. In addition, the Company elected to pay down $500,000 on its revolving credit line in 2003.

The Company leases certain equipment and buildings under cancelable and non-cancelable operating leases expiring at various dates up to 10 years. Rent expense amounted to approximately $826,000, $642,000 and $383,000 in 2005, 2004 and 2003, respectively.

On August 1, 2005, the Company amended its loan agreement with its lender. The amendment renewed and extended the maturity of the Revolving Credit Loan from July 1, 2005 to August 1, 2007 and restructured and increased the existing balance of the term loan into a new five (5) year loan. Quarterly payments under the amended term loan are $800,000 beginning in 2006, where they will remain through the middle of 2010. A final payment of $625,000 is due July 1, 2010. The additional $4 million proceeds from the term loan were used to pay down the balance on the revolving credit loan. On August 11, 2005, the Company entered into an interest rate swap contract with its lender with an original notional amount of $11,793,750 (notional amount $11,268,750 on December 31, 2005), which was equal to 75% of the outstanding balance of the Term Loan on that date. The notional amount decreases on a quarterly basis following the principal repayment schedule of the term portion of the Loan Agreement. The Company has a fixed interest rate of 4.61% on the swap contract and will pay the difference between the fixed rate and LIBOR when LIBOR is below 4.61% and will receive interest when the LIBOR rate exceeds 4.61%. Previously, the Company maintained an interest rate swap contract with the lender with an original amount of $15.0 million; this amount was reduced on a quarterly basis in accordance with the principal repayment schedule of the term portion of the Loan Agreement ($6.6 million on January 1, 2005, and $8.4 million on January 3, 2004). Under the revolving credit portion of the Loan Agreement, the Company may borrow up to $7.5 million through August 1, 2007, and must pay a quarterly commitment fee of 0.25% on the unused portion. As of December 31, 2005, there was no balance 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) that exceeds the aggregate sum of $1.5 million, or that exceeds $1.0 million in any single transaction, without the 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 December 31, 2005, are shown below:

Contractual Obligations (in thousands)	Total	Payment due by period Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	$ 15,025	$ 3,200	$ 6,400	$ 5,425	$ -
Estimated interest on long-term debt and capital lease obligations	2,326	886	1,136	304	-
Capital lease obligations	780	221	475	84	-
Operating lease obligations	1,924	649	709	483	83
Estimated contributions to pension plans	7,606	1,686	3,088	2,494	338
Estimated post-retirement benefits other than pensions	947	140	282	289	236
Total	$ 28,608	$ 6,782	$ 12,090	$ 9,079	$ 657

The amounts shown in the above table for estimated contributions to pension plans and estimated post-retirement benefits other than pensions are based on the assumptions in Note 9 to the consolidated financial statements as well as the assumption that participant counts will remain stable.

The Company does not have any non-cancelable open purchase orders.

The Company maintains a letter of credit in the amount of $900,000 related to its capital lease. The letter of credit 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 23% of total sales and 19% of total assets. Its U.S. operations buy from and sell to these foreign affiliates, and also make limited sales (approximately 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 exchange gains or losses have not been material and are not expected to be material in the future. Had the exchange rate as of December 31, 2005 for all of the listed currencies changed by 1%, the total change in reported earnings would have been less than $20,000. As a result, the Company does not attempt to mitigate its foreign currency exposure through the acquisition of any speculative or leveraged financial instruments. In 2005, a 10% increase/decrease in exchange rates would have resulted in a translation increase/decrease to sales of approximately $2.3 million, and to equity of approximately $1.3 million.

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 1.6% on the term loan portion and 1.35% 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 an interest rate swap contract on 75% of the term loan principal amount under the Loan Agreement. The interest rate on the swap contract is 4.61% and the swap contract expires on July 1, 2010. 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 $11.269 million as of December 31, 2005.

The remainder of the term debt is subject to the volatility of short-term interest rates, where a 1% change in interest rates would cause a $37,500 increase or decrease in the Company's annual interest cost. While the Company could enter into an additional swap agreement to fix the rate, it does not expect to do so.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Eastern Company

Consolidated Balance Sheets

	December 31 2005	January 1 2005
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 6,345,947**	$ 4,420,506
Accounts receivable, less allowances of $295,000 in 2005 and $332,000 in 2004	**14,825,014**	12,528,189
Inventories:		
Raw materials and component parts	**9,917,792**	11,279,981
Work in process	**4,681,623**	3,670,812
Finished goods	**6,168,334**	5,526,811
	20,767,749	20,477,604
Prepaid expenses and other assets	**2,391,125**	2,258,642
Deferred income taxes	**715,321**	739,500
Total Current Assets	**45,045,156**	40,424,441
Property, Plant and Equipment		
Land	**702,633**	702,416
Buildings	**11,802,519**	11,856,933
Machinery and equipment	**29,963,621**	29,471,908
Accumulated depreciation	**(20,072,087)**	(18,124,710)
	22,396,686	23,906,547
Other Assets		
Goodwill	**10,641,532**	10,604,286
Trademarks	**103,498**	174,527
Patents, technology, and licenses, less accumulated amortization of $1,260,242 in 2005 and $1,824,348 in 2004	**1,946,502**	1,743,266
Interest rate swap asset	**32,081**	-
Intangible pension asset	**732,554**	870,064
Prepaid pension cost	**723,826**	348,634
	14,179,993	13,740,777
	$ 81,621,835	$ 78,071,765

Consolidated Balance Sheets

	December 31 2005	**January 1 2005**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 5,599,260**	$ 5,010,271
Accrued compensation	**1,527,640**	2,472,944
Other accrued expenses	**3,275,159**	2,239,668
Current portion of long-term debt	**3,420,523**	4,009,811
Total Current Liabilities	**13,822,582**	13,732,694
Deferred income taxes	**895,019**	1,452,134
Long-term debt, less current portion	**12,384,338**	11,804,861
Accrued post-retirement benefits	**2,078,056**	2,219,821
Accrued pension cost	**6,270,075**	4,885,160
Interest rate swap obligation	**-**	160,417
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: 5,328,417 shares in 2005 and 5,323,593 shares in 2004	**17,694,851**	17,583,561
Treasury Stock: 1,688,726 shares in 2005 and 2004	**(16,655,041)**	(16,655,041)
Retained earnings	**50,335,658**	47,568,571
Accumulated other comprehensive income (loss):		
Foreign currency translation	**818,566**	463,804
Additional minimum pension liability, net of taxes	**(6,042,553)**	(5,047,800)
Derivative financial instruments, net of taxes	**20,284**	(96,417)
	(5,203,703)	(4,680,413)
Total Shareholders' Equity	**46,171,765**	43,816,678
	$ 81,621,835	$ 78,071,765

See accompanying notes.

Consolidated Statements of Income

	Year ended		
	December 31 2005	**January 1 2005**	**January 3 2004**
Net sales	**$ 109,107,290**	$ 100,130,158	$ 88,306,581
Cost of products sold	**(84,374,501)**	(74,999,119)	(66,718,641)
Gross margin	**24,732,789**	25,131,039	21,587,940
Selling and administrative expenses	**(16,776,253)**	(17,280,348)	(15,103,624)
Operating profit	**7,956,536**	7,850,691	6,484,316
Interest expense	**(1,014,052)**	(1,044,490)	(1,302,830)
Other income	**77,823**	22,838	209,004
Income before income taxes	**7,020,307**	6,829,039	5,390,490
Income taxes	**2,653,120**	2,071,338	2,028,868
Net income	**$ 4,367,187**	$ 4,757,701	$ 3,361,622
Earnings per Share:			
Basic	**$ 1.20**	$ 1.31	$ .93
Diluted	**$ 1.12**	$ 1.27	$ .92

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Year ended		
	December 31 2005	**January 1 2005**	**January 3 2004**
Net income	**$ 4,367,187**	$ 4,757,701	$ 3,361,622
Other comprehensive income/(loss) -			
Change in foreign currency translation	**354,762**	630,099	731,842
Change in fair value of derivative financial instruments, net of income taxes of $75,797, $168,000 and $223,000 in 2005, 2004 and 2003, respectively	**116,701**	251,638	335,031
Unrealized gain on investment in common stock:			
Unrealized holding gains, net of income taxes of $42,900 in 2003	-	-	64,795
Less reclassification adjustment for realized gains included in net income, net of income tax benefit of $66,100 in 2003	-	-	(100,688)
Change in additional minimum pension liability net of income taxes (benefit) of ($584,440) in 2005, ($227,839) in 2004 and $15,992 in 2003	**(994,753)**	(997,914)	23,984
	(523,290)	(116,177)	1,054,964
Comprehensive income	**$ 3,843,897**	$ 4,641,524	$ 4,416,586

See accompanying notes.

Consolidated Statements of Shareholders' Equity

	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Retained Earnings
Balances at December 28, 2002	5,289,189	$ 17,078,817	(1,657,320)	$ (16,195,122)	$ 42,638,351
Net income					3,361,622
Cash dividends declared, $.44 per share					(1,593,118)
Purchase Common Stock for treasury			(23,022)	(317,726)	
Issuance of Common Stock for directors' fees	7,192	98,980			
Balances at January 3, 2004	5,296,381	17,177,797	(1,680,342)	(16,512,848)	44,406,855
Net income					4,757,701
Cash dividends declared, $.44 per share					(1,595,985)
Purchase of Common Stock for treasury			(8,384)	(142,193)	
Issuance of Common Stock upon the exercise of stock options	22,500	324,800			
Issuance of Common Stock for directors' fees	4,712	80,964			
Balances at January 1, 2005	5,323,593	17,583,561	(1,688,726)	(16,655,041)	47,568,571
Net income					**4,367,187**
Cash dividends declared, $.44 per share					**(1,600,100)**
Tax benefit from disqualifying disposition of incentive stock options		**6,403**			
Issuance of Common Stock for directors' fees	**4,824**	**104,887**			
Balances at December 31, 2005	**5,328,417**	**$ 17,694,851**	**(1,688,726)**	**$ (16,655,041)**	**$ 50,335,658**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended		
	December 31 2005	**January 1 2005**	**January 3 2004**
Operating Activities			
Net income	**$ 4,367,187**	$ 4,757,701	$ 3,361,622
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**3,459,747**	3,461,411	3,619,328
Loss on sale of equipment and other assets	**3,314**	67,620	-
Provision for doubtful accounts	**6,433**	112,222	220,902
Deferred income taxes	**(27,293)**	(8,092)	390,788
Gain on sale of investment	-	-	(166,788)
Issuance of Common Stock for directors' fees	**104,887**	80,964	98,980
Changes in operating assets and liabilities:			
Accounts receivable	**(2,155,923)**	(1,639,624)	(322,902)
Inventories	**(88,147)**	(3,299,948)	(270,871)
Prepaid expenses and other	**(147,867)**	(634,445)	(326,025)
Prepaid pension cost	**(428,959)**	581,724	(99,100)
Other assets	**(218,801)**	(105,674)	(113,840)
Accounts payable	**524,078**	495,218	364,306
Accrued compensation	**(800,582)**	790,492	(181,908)
Other accrued expenses	**600,331**	194,244	(204,275)
Net cash provided by operating activities	**5,198,405**	4,853,813	6,370,217
Investing Activities			
Purchases of property, plant and equipment	**(1,750,252)**	(2,062,313)	(2,763,130)
Proceeds from sale of equipment and other assets	**750**	13,367	-
Proceeds from sale of investment	-	-	915,133
Net cash used in investing activities	**(1,749,502)**	(2,048,946)	(1,847,997)
Financing Activities			
Principal payments on long-term debt	**(3,009,811)**	(2,007,357)	(3,732,726)
Proceeds from revolving credit loan	**3,000,000**	-	-
Proceeds from sales of Common Stock	-	324,800	-
Tax benefit from disqualifying disposition of incentive stock options	**6,403**	-	-
Purchases of Common Stock for treasury	-	(142,193)	(317,726)
Dividends paid	**(1,600,100)**	(1,595,985)	(1,593,118)
Net cash used in financing activities	**(1,603,508)**	(3,420,735)	(5,643,570)
Effect of exchange rate changes on cash	**80,046**	139,558	78,934
Net change in cash and cash equivalents	**1,925,441**	(476,310)	(1,042,416)
Cash and cash equivalents at beginning of year	**4,420,506**	4,896,816	5,939,232
Cash and cash equivalents at end of year	**$ 6,345,947**	$ 4,420,506	$ 4,896,816

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. Effective beginning in 2004, all locations, including subsidiaries in Asia and Mexico, are consolidated as of the Company's fiscal year end. The Company had historically consolidated its subsidiaries located in Asia and Mexico as of November 30, which resulted in a thirteenth period being included in the 2004 year end consolidation. The inclusion of the additional period increased revenue by less than 0.5% and increased net income approximately 3% for 2004.

Cash Equivalents

Highly liquid investments purchased with a maturity of three months or less are considered cash equivalents. The Company has deposits that exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000, but the Company does not consider this a significant concentration of credit risk based on the strength of the financial institution.

2. ACCOUNTING POLICIES *(continued)*

Foreign Currency Translation

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

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 collection of the sales proceeds. The Company obtains written purchase authorizations from its 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 customer's 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.

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. ($15,560,855 for U.S. inventories at December 31, 2005) and by the first-in, first-out (FIFO) method for inventories outside the U.S. ($5,206,894 for inventories outside the U.S. at December 31, 2005). Current cost exceeds the LIFO carrying value by approximately $4,033,000 at December 31, 2005 and $3,922,000 at January 1, 2005. There was no material LIFO quantity liquidation in 2005, 2004 or 2003.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment (including equipment under capital lease) are stated at cost. Depreciation ($3,322,891 in 2005, $3,131,483 in 2004 and $3,118,885 in 2003) is computed generally using the straight-line method based on the following estimated useful lives of the assets: Buildings 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. Amortization expense in 2005, 2004 and 2003 was $136,856, $329,927 and $500,443, respectively. Total amortization expense for each of the next five years is estimated to be as follows: 2006 - $186,000; 2007 - $168,000; 2008 - $165,000; 2009 - $152,000; and 2010 - $147,000. Trademarks are not amortized as their lives are deemed to be indefinite.

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 to indicate that the carrying amount of such long-lived assets held and used may not be recovered.

The Company performs an annual impairment test of its goodwill and trademarks during the second quarter of each year. Goodwill and trademarks were not impaired in 2005, 2004 or 2003.

The following is a roll-forward of goodwill for 2005 and 2004:

	2005	2004
Beginning balance	**$ 10,604,286**	$ 10,519,766
Foreign exchange	**37,246**	84,520
Ending balance	**$ 10,641,532**	$ 10,604,286

Cost of Products Sold

The Company includes the cost of inventory sold and related costs for the acquisition and distribution of its product in cost of products sold. These costs include inbound freight charges, receiving, inspection, purchasing and warehousing related costs.

Selling and Administrative Expenses

All advertising, selling, general consulting, executive salaries, regulatory compliance, audit, legal and professional fees are included in selling and administrative expenses.

Product Development Costs

Product development costs, charged to expense as incurred, were $1,150,378 in 2005, $1,166,747 in 2004 and $1,115,329 in 2003.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $606,330 in 2005, $447,778 in 2004 and $449,304 in 2003.

2. Accounting Policies *(continued)*

Income Taxes

The Company and its U.S. subsidiaries file a consolidated federal income tax return.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings Per Share

The denominators used in the earnings per share computations follow:

	2005	**2004**	**2003**
Basic:			
Weighted average shares outstanding	**3,636,715**	3,627,541	3,620,593
Diluted:			
Weighted average shares outstanding	**3,636,715**	3,627,541	3,620,593
Dilutive stock options	**249,176**	118,160	38,372
Denominator for diluted earnings per share	**3,885,891**	3,745,701	3,658,965

The Company has excluded the effect of 69,500 and 177,500 stock options in 2004 and 2003, respectively, from the above dilutive stock options, as their inclusion would be anti-dilutive. There were no anti-dilutive stock options in 2005.

Derivatives

The Company entered into an interest rate swap agreement to minimize the risk of fluctuations of interest rates on the Company's variable rate term 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, which is accounted for as a cashflow hedge, is considered "effective" through use of the short-cut method, as defined under Financial Accounting Standards Board ("FASB") Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and, as a result, changes in the fair value of the derivative are recorded as an asset or liability with the offset amount recorded to accumulated other comprehensive income (loss) in shareholders' equity.

2. Accounting Policies *(continued)*

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 2005, 2004 or 2003, no compensation expense has been recorded.

The fair value of stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2004 and 2003 (2005 are not applicable (N/A) because no options were granted during the year):

	2005	2004	2003
Risk free interest rate	**N/A**	3.48%	3.18%
Expected volatility	**N/A**	0.295	0.287
Expected option life	**N/A**	5 years	5 years
Weighted-average dividend yield	**N/A**	2.2%	2.9%

The weighted average fair market value of the shares granted under options was $20.37 in 2004 and $15.30 in 2003. The weighted average fair value of options, estimated using the Black-Scholes option pricing model based on the assumptions in the above table, was $5.15 in 2004 and $3.37 in 2003.

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)		
	2005	2004	2003
Net income, as reported	**$4,367**	$4,758	$3,362
Deduct: Total stock-based employee compensation expense determined under fair value-based method, net of related tax effects	**2**	311	85
Pro forma net income	**$4,365**	$4,447	$3,277
Earnings per share:			
Basic – as reported	**$1.20**	$1.31	$ .93
Basic – pro forma	**$1.20**	$1.23	$ .91
Diluted – as reported	**$1.12**	$1.27	$ .92
Diluted – pro forma	**$1.12**	$1.19	$ .90

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.

2. Accounting Policies *(continued)*

Reclassification

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

3. 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.

4. Debt

On August 1, 2005, the Company amended the unsecured loan agreement ("Loan Agreement"), which includes a term portion and a revolving credit portion, with its lender. The amendment renewed and extended the maturity of the Revolving Credit Loan from July 1, 2005 to August 1, 2007 and restructured and increased the existing balance of the Term Loan into a new five (5) year term loan. The additional $4,000,000 proceeds from the term loan were used to pay down the balance on the revolving credit agreement.

The term portion of the Loan Agreement is payable in quarterly principal payments of $800,000 from January 2006 through April 2010 and a final payment due July 1, 2010 of $625,000. The Company may borrow up to $7,500,000 through August 1, 2007 under the revolving credit portion of the Loan Agreement, with a quarterly commitment fee of 0.25% on the unused portion.

On August 11, 2005, the Company entered into an interest rate swap contract with the lender with an original notional amount of $11,793,750 (notional amount $11,268,750 on December 31, 2005), which was equal to 75% of the outstanding balance of the Term Loan on that date. The notional amount began to decrease on a quarterly basis beginning October 3, 2005 following the principal repayment schedule of the term portion of the Loan Agreement. The Company has a fixed interest rate of 4.61% on the swap contract and will pay the difference between the fixed rate and LIBOR when LIBOR is below 4.61% and will receive interest when the LIBOR rate exceeds 4.61%.

The interest rates on the term and the revolving credit portions of the Loan Agreement may vary. The interest rates may vary based on the 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 December 31, 2005, the interest rate on the term portion of the Loan Agreement was 5.65%.

Previously, the Company maintained an interest rate swap contract, as required, with the lender for an original notional amount of $15,000,000 (notional amount $6,600,000 on January 1, 2005), which was 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 was at a fixed rate of 9.095% and expired on July 1, 2005.

4. DEBT *(continued)*

Debt consists of:

	2005	**2004**
Term loan	**$ 15,025,000**	$ 13,825,000
Revolving credit loan	-	1,000,000
Capital lease obligation with interest at 4.99% and payable in monthly installments of $21,203 through April 2009	**779,861**	989,672
	15,804,861	15,814,672
Less current portion	**3,420,523**	4,009,811
	$ 12,384,338	$ 11,804,861

The Company paid interest of $929,756 in 2005, $1,002,955 in 2004 and $1,402,631 in 2003.

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 December 31, 2005, scheduled annual principal maturities of long-term debt, including capital lease obligations, for each of the next five years follow:

2006	$ 3,420,523
2007	3,431,782
2008	3,443,617
2009	3,283,939
2010	2,225,000
Thereafter	-
	$ 15,804,861

At December 31, 2005 and January 1, 2005, building improvements and equipment, with a cost of approximately $2,000,000, were recorded under a capital lease with accumulated amortization of approximately $640,000 and $533,000, respectively. The capital lease is secured by the equipment under the lease and a $900,000 letter of credit.

5. STOCK RIGHTS

The Company has a stock rights plan. At December 31, 2005, there were 3,639,691 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 stock 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.

6. 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 plan 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. No options were granted in 2005. All options granted in 2004 and 2003 were granted at prices equal to the fair market value of the stock on the dates granted. No restricted stock was granted in 2005, 2004 or 2003.

As of December 31, 2005, there were 297,500 shares available for future grant under the above noted plans: 2000 – 245,000 shares; 1997 – 52,500; 1995 and 1989 – no shares available for grant. As of December 31, 2005, there were 976,000 shares of common stock 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 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
Granted	57,000	20.370
Cancelled	(10,000)	14.812
Exercised	(22,500)	14.436
Outstanding at January 1, 2005	678,500	13.948
No Activity in 2005	-	-
Outstanding at December 31, 2005	**678,500**	**$13.948**

Options Outstanding and Exercisable			
Range of Exercise Prices	Outstanding as of December 31, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 9.92 – $11.92	191,500	1.8	$10.442
$14.00 – $15.30	417,500	4.1	14.541
$18.50 – $20.37	69,500	7.9	20.034
	678,500	3.8	$13.948

7. 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:

	2005	2004	2003
Property, plant and equipment	**$ 3,363,679**	$ 3,521,617	$ 3,445,288
Interest rate swap asset	**11,797**	-	-
Other	**195,034**	338,085	221,160
Total deferred income tax liabilities	**3,570,510**	3,859,702	3,666,448
Other postretirement benefits	**(764,143)**	(816,273)	(886,371)
Inventories	**(562,881)**	(721,309)	(338,737)
Allowance for doubtful accounts	**(89,668)**	(106,106)	(97,674)
Accrued compensation	**(236,776)**	(201,280)	(187,393)
Interest rate swap obligation	-	(58,949)	(232,005)
Pensions	**(1,156,476)**	(724,363)	(809,954)
Tax credits	**(362,143)**	(234,827)	-
Other	**(218,725)**	(283,961)	(333,750)
Total deferred income tax assets	**(3,390,812)**	(3,147,068)	(2,885,884)
Net deferred income tax liabilities	**$ 179,698**	$ 712,634	$ 780,564

Income before income taxes consists of:

	2005	2004	2003
Domestic	**$ 4,266,725**	$ 3,512,795	$ 1,778,405
Foreign	**2,753,582**	3,316,244	3,612,085
	$ 7,020,307	$ 6,829,039	$ 5,390,490

The provision for income taxes follows:

	2005	2004	2003
Current:			
Federal	**$ 1,505,934**	$ 905,843	$ 703,890
Foreign	**902,145**	1,025,183	749,390
State	**272,334**	148,404	184,800
Deferred:			
Federal	**(39,294)**	21,428	273,978
Foreign	-	-	-
State	**12,001**	(29,520)	116,810
	$ 2,653,120	$ 2,071,338	$ 2,028,868

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

	2005		2004		2003	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Income taxes using U.S. federal statutory rate	**$ 2,387,578**	**34%**	$ 2,321,873	34%	$ 1,832,665	34%
State income taxes, net of federal benefit	**187,661**	**3**	78,463	1	199,062	4
Impact of foreign subsidiaries on effective tax rate	**127,634**	**2**	(242,163)	(4)	1,232	-
Other—net	**(49,753)**	**(1)**	(86,835)	(1)	(4,091)	-
	$ 2,653,120	**38%**	$ 2,071,338	30%	$ 2,028,868	38%

7. Income Taxes *(continued)*

Total income taxes paid were $2,105,690 in 2005, $1,445,099 in 2004 and $1,162,688 in 2003.

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

The Company has foreign tax credit carryforwards of $362,144 which expire in varying amounts through 2015. Available and prudent tax planning strategies support this deferred tax asset at December 31, 2005.

United States income taxes have been provided on the undistributed earnings of foreign subsidiaries ($12,556,975 at December 31, 2005) only where necessary because such earnings are intended to be reinvested abroad indefinitely or repatriated only when substantially free of such taxes.

In December 2004, the FASB issued FSP No. FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* ("AJCA"). The AJCA provides a one-time 85% dividends received deduction for certain foreign earnings that are repatriated under a plan for reinvestment in the United States, provided certain criteria are met. FSP No. 109-2 provides accounting and disclosure guidance for the repatriation provision. The Company completed its evaluation of the repatriation provision during 2005. The Company did not repatriate earnings under the AJCA provisions, as such the repatriation provision has no impact on the consolidated financial statements for 2004 or 2005.

During 2005, a former employee sold shares of Company stock, which he had acquired through the exercise of stock options in late 2004, that resulted in the disqualification of those incentive stock options. As a result of the disqualification, the Company received a tax benefit of $6,403 in 2005.

8. Leases

The Company leases certain equipment and buildings under operating lease arrangements. Most leases are for a fixed term and for a fixed amount; additionally, the Company leases certain buildings under operating leases on a month-to-month basis. The Company is not a party to any leases that have step rent provisions, escalation clauses, capital improvement funding or payment increases based on any index or rate.

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:

Year	Amount
2006	$ 649,057
2007	370,349
2008	338,813
2009	284,797
2010	198,323
	$ 1,841,339

Rent expense for all operating leases was $826,396 in 2005, $642,000 in 2004 and $383,098 in 2003. The Company expects future rent expense, including non-cancelable operating leases, leases that are expected to be renewed and buildings leased on a month-to-month basis, for each of the next five years to be in the range of $750,000 to $850,000.

9. 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.

Components of the net periodic benefit cost of the Company's pension benefit plans were as follows:

	2005	2004	2003
Service cost	**$ 1,382,535**	$ 1,198,318	$ 1,131,435
Interest cost	**2,226,422**	2,299,608	2,274,329
Expected return on plan assets	**(3,127,392)**	(2,567,814)	(2,755,927)
Net amortization and deferral	**798,745**	305,795	770,747
Net periodic benefit cost	**$ 1,280,310**	$ 1,235,907	$ 1,420,584

Assumptions used to determine net periodic benefit cost for the Company's pension benefit plans for the fiscal year indicated were as follows:

	2005	2004	2003
Discount rate	**6.0%**	6.5%	7.0%
Expected return on plan assets	**8.5%**	8.5%	8.5%
Rate of compensation increase	**4.25%**	4.25%	4.25%

Components of the net periodic benefit cost of the Company's postretirement benefit plan were as follows:

	2005	2004	2003
Service cost	**$ 86,714**	$ 75,488	$ 70,321
Interest cost	**118,407**	123,456	137,124
Expected return on plan assets	**(79,188)**	(73,515)	(69,174)
Net amortization and deferral	**(77,599)**	(85,809)	(83,617)
Net periodic benefit cost	**$ 48,334**	$ 39,620	$ 54,654

Assumptions used to determine net periodic benefit cost for the Company's postretirement plan for the fiscal year indicated were as follows:

	2005	2004	2003
Discount rate	**6.0%**	6.5%	7.0%
Expected return on plan assets	**8.5%**	8.5%	8.5%

9. Retirement Benefit Plans *(continued)*

As of the measurement date, the status of the Company's pension benefit plans and postretirement benefit plan was as follows:

	Pension Benefit		Postretirement Benefit	
	2005	**2004**	**2005**	**2004**
Benefit obligation at beginning of year	**$ 38,585,446**	$ 36,915,855	**$ 2,061,628**	$ 2,129,909
Change due to availability of final actual assets and census data	-	(98,325)	-	(134,531)
Plan amendment	-	-	**(296,068)**	-
Service cost	**1,382,534**	1,198,318	**86,714**	75,488
Interest cost	**2,226,422**	2,299,608	**118,407**	123,456
Actuarial loss	**4,124,907**	534,203	**170,663**	59,421
Benefits paid	**(2,327,117)**	(2,264,213)	**(176,360)**	(192,115)
Benefit obligation at end of year	**$ 43,992,192**	$ 38,585,446	**$ 1,964,984**	$ 2,061,628

	Pension Benefit		Postretirement Benefit	
	2005	**2004**	**2005**	**2004**
Fair value of plan assets at beginning of year	**$ 32,785,580**	$ 32,071,588	**$ 944,623**	$ 892,428
Change due to availability of final actual assets and census data	-	(56,755)	**(19,871)**	(33,774)
Actual return on plan assets	**4,213,460**	2,365,233	**79,188**	73,515
Employer contributions	**1,714,280**	652,052	**190,099**	204,569
Benefits paid	**(2,327,117)**	(2,246,538)	**(176,360)**	(192,115)
Fair value of plan assets at end of year	**$ 36,386,203**	$ 32,785,580	**$ 1,017,679**	$ 944,623

	Pension Benefit		Postretirement Benefit	
Reconciliation of Funded Status	**2005**	**2004**	**2005**	**2004**
Under-funded status	**$ (7,605,989)**	$ (5,799,866)	**$ (947,305)**	$ (1,117,005)
Unrecognized prior service cost	**732,554**	929,535	**(554,550)**	(320,038)
Unrecognized net actuarial loss (gain)	**11,662,961**	9,406,330	**(576,201)**	(782,778)
Unrecognized net asset at transition	**(46,454)**	(226,898)	-	-
Net amount recognized in the balance sheet	**$ 4,743,072**	$ 4,309,101	**$ (2,078,056)**	$ (2,219,821)

9. Retirement Benefit Plans *(continued)*

	Pension Benefit		Postretirement Benefit	
	2005	**2004**	**2005**	**2004**
Prepaid benefit cost	**$ 723,826**	$ 348,634	$ -	$ -
Accrued benefit liability	**(6,270,075)**	(4,885,160)	**(2,078,056)**	(2,219,821)
Intangible asset	**732,554**	870,064	-	-
Accumulated other comprehensive loss	**9,556,767**	7,975,563	-	-
Net amount recognized in the balance sheet	**$ 4,743,072**	$ 4,309,101	**$ (2,078,056)**	$ (2,219,821)

Assumptions used to determine the projected benefit obligations for the Company's pension benefit plans and postretirement benefit plan for the fiscal year indicated were as follows:

	2005	2004
Discount rate	**5.5%**	6.0%
Expected return on plan assets	**8.5%**	8.5%
Rate of compensation increase	**4.25%**	4.25%

In 2005 and 2004, the accumulated benefit obligation for all qualified and nonqualified defined benefit pension plans was $42,047,559 and $37,038,422 respectively.

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

	2005	2004
Number of plans	**3**	3
Projected benefit obligation	**$ 37,796,839**	$ 36,507,181
Accumulated benefit obligation	**36,442,874**	35,565,225
Fair value of plan assets	**30,763,467**	31,189,244
Net amount recognized in accrued benefit liability	**(6,270,075)**	(4,885,160)

Estimated future benefit payments are $2.5 million in 2006, $2.5 million in 2007, $2.5 million in 2008, $2.5 million in 2009, $2.5 million in 2010 and a total of $12.5 million from 2011 through 2015.

The Company expects to make cash contributions to its pension plans of approximately $1.7 million in 2006.

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

	Allocation Parameters	2005	2004
Equity securities	**30 – 70%**	**58%**	63%
Fixed income	**30 – 60%**	**31**	31
Cash and cash equivalents	**0 – 10%**	**11**	6
Total		**100%**	100%

9. Retirement Benefit Plans *(continued)*

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 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 329,874 shares and 410,974 shares of the common stock of the Company having a market value of $6,439,140 and $8,219,480 at December 31, 2005 and January 1, 2005, respectively. The plans sold 81,100 and 19,900 shares of common stock of the Company during 2005 and 2004, respectively. Dividends received during 2005 and 2004 on the common stock of the Company were $153,065 and $189,585 respectively.

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.

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

	1-Percentage Point	
	Increase	**Decrease**
Effect on total of service and interest cost components	$ 30,667	$ (13,644)
Effect on postretirement benefit obligation	$ 280,861	$ (119,967)

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 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.

In the second quarter of 2004, a FASB Staff Position (FSP FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*) was issued providing guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. This FSP superseded FSP FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*. The FSP is effective for the first interim or annual period beginning after June 15, 2004. The guidance in this FSP applies only to the sponsor of a single-employer defined benefit postretirement health plan for which the employer has concluded that prescription drug benefits available under the plan are actuarially equivalent and, thus, qualify for the subsidy under the Act and the expected subsidy will offset or reduce the employer's share of the costs of postretirement prescription drug coverage by the plan.

9. Retirement Benefit Plans *(continued)*

The Company's actuary has estimated the impact of the Medicare Prescription Drug Improvement and Modernization Act of 2003, which resulted in a reduction in the December 31, 2004 accumulated postretirement benefit obligation ("APBO") by $52,668. This reduction has been reflected as an actuarial experience gain as of December 31, 2004, and the December 31, 2004 APBO has been reduced accordingly.

Effective January 1, 2006, the retirement health benefit plan was amended to exclude prescription drug coverage. This amendment resulted in a decrease in the benefit obligation as of December 31, 2005 of $296,068

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

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 $162,668 in 2005, $146,002 in 2004 and $141,903 in 2003.

10. Financial Instruments

The carrying amounts of financial instruments (cash and cash equivalents, accounts receivable, accounts payable, the interest rate swap agreement, and debt) as of December 31, 2005 and January 1, 2005, approximate fair value. Fair value was based on expected cash flows and current market conditions.

11. 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 miscellaneous non-operating income and 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.

	2005	2004	2003
Revenue:			
Sales to unaffiliated customers:			
Industrial Hardware	**$ 53,846,834**	$ 45,993,489	$ 35,422,702
Security Products	**44,323,782**	42,422,863	39,281,707
Metal Products	**10,936,674**	11,713,806	13,602,172
	$ 109,107,290	$ 100,130,158	$ 88,306,581
Intersegment Revenue:			
Industrial Hardware	**$ 403,081**	$ 210,445	$ 60,598
Security Products	**2,548,533**	2,619,746	1,697,607
Metal Products	**5,926**	-	-
	$ 2,957,540	$ 2,830,191	$ 1,758,205
Income Before Income Taxes:			
Industrial Hardware	**$ 5,230,136**	$ 4,933,313	$ 3,238,931
Security Products	**4,582,567**	3,465,408	3,614,913
Metal Products	**(1,856,167)**	(548,030)	(369,528)
Operating Profit	**7,956,536**	7,850,691	6,484,316
Interest expense	**(1,014,052)**	(1,044,490)	(1,302,830)
Other income	**77,823**	22,838	209,004
	$ 7,020,307	$ 6,829,039	$ 5,390,490
Geographic Information:			
Net Sales:			
United States	**$ 83,541,509**	$ 78,119,489	$ 71,204,620
Foreign	**25,565,781**	22,010,669	17,101,961
	$ 109,107,290	$ 100,130,158	$ 88,306,581

Foreign sales are primarily to customers in North America.

11. Reportable Segments *(continued)*

	2005	2004	2003
Identifiable Assets:			
United States	**$ 66,136,432**	$ 63,248,575	$ 61,353,242
Foreign	**15,485,403**	14,823,190	13,264,174
	$ 81,621,835	$ 78,071,765	$ 74,617,416
Industrial Hardware	**$ 29,728,833**	$ 28,573,163	$ 24,159,290
Security Products	**34,018,271**	32,664,197	32,811,830
Metal Products	**11,471,545**	11,703,155	11,969,126
	75,218,649	72,940,515	68,940,246
General corporate	**6,403,186**	5,131,250	5,677,170
	$ 81,621,835	$ 78,071,765	$ 74,617,416
Depreciation and Amortization			
Industrial Hardware	**$ 1,283,491**	$ 1,311,921	$ 1,244,666
Security Products	**1,087,645**	972,132	890,572
Metal Products	**1,088,611**	1,177,358	1,484,090
	$ 3,459,747	$ 3,461,411	$ 3,619,328
Capital Expenditures			
Industrial Hardware	**$ 1,015,368**	$ 1,037,417	$ 1,866,426
Security Products	**475,206**	782,360	627,311
Metal Products	**215,962**	206,443	267,978
	1,706,536	2,026,220	2,761,715
Currency translation adjustment	**2,646**	(13,098)	(10,156)
General corporate	**41,070**	49,191	11,571
	$ 1,750,252	$ 2,062,313	$ 2,763,130

12. Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which was revised in December 2003 ("FIN No. 46-R"). This new rule requires that companies consolidate a variable interest entity if the company is subject to a majority of the risk of loss from the variable interest entity's activities and/or is entitled to receive a majority of the entity's residual returns. The provisions of FIN No. 46-R were required to be applied as of the end of the first reporting period after March 15, 2004 for the variable interest entities in which a company holds a variable interest that it acquired on or before January 31, 2003. The adoption of FIN No. 46-R did not have any impact on the financial position or results of operations of the Company.

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. It is not believed that the adoption of SFAS No. 151 will have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

12. RECENT ACCOUNTING PRONOUNCEMENTS *(continued)*

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) will require that the compensation cost relating to share-based payment transactions to employees be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123, as originally issued in 1995, established as preferable a fair value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the notes to financial statements disclosed what net income would have been had the preferable fair value-based method been used. Public entities will be required to apply SFAS No. 123(R) as of their next fiscal year that begins after June 15, 2005. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1) A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.
2) A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amount previously recognized under SFAS No. 123 for purpose of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company will adopt SFAS No. 123(R) on January 1, 2006 using the modified prospective method. As all stock options outstanding at December 31, 2005 are fully vested, future expense upon the adoption will only relate to new share based payments. The impact of the adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and net income per share in the stock based compensation accounting policy note included in Note 2 to the consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20* (Accounting Changes) *and FASB Statement No. 3* (Reporting Accounting Changes in Interim Financial Statements). SFAS No. 154 provides guidance on accounting for and reporting of accounting changes and error corrections. It requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the specific period effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. It is not believed that the adoption of SFAS No. 154 will have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

13. Selected Quarterly Financial Information (Unaudited)

Selected quarterly financial information (unaudited) follows:

	2005				
	First	Second	Third	Fourth	Year
Net sales	$ 26,267,584	$ 27,421,294	$ 27,204,815	$ 28,213,597	$ 109,107,290
Gross margin	5,469,894	6,452,132	6,106,425	6,704,338	24,732,789
Selling and administrative expenses	4,053,994	4,493,691	3,906,529	4,322,039	16,776,253
Net income	730,582	1,083,389	1,256,367	1,296,849	4,367,187
Net income per share:					
Basic	$ .20	$ .30	$ .35	$ .36	$1.20
Diluted	$ .19	$ .28	$ .32	$ .34	$1.12
Weighted average shares outstanding:					
Basic	3,634,991	3,636,100	3,637,315	3,638,460	3,636,715
Diluted	3,867,413	3,885,059	3,928,207	3,862,891	3,885,891

	2004				
	First	Second	Third	Fourth	Year
Net sales	$ 24,565,208	$ 25,297,964	$ 25,494,490	$ 24,772,496	$ 100,130,158
Gross margin	6,135,146	6,049,901	7,184,047	5,761,945	25,131,039
Selling and administrative expenses	4,171,486	4,547,870	4,363,285	4,197,707	17,280,348
Net income	1,076,373	760,726	1,506,435	1,414,167	4,757,701
Net income per share:					
Basic	$ .30	$ .21	$ .41	$ .39	$1.31
Diluted	$ .29	$ .20	$ .40	$ .37	$1.27
Weighted average shares outstanding:					
Basic	3,617,034	3,628,818	3,631,028	3,633,316	3,627,541
Diluted	3,713,736	3,738,306	3,732,969	3,797,826	3,745,701

REPORT OF UHY LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
The Eastern Company

We have audited the accompanying consolidated balance sheet of The Eastern Company (the Company) as of December 31, 2005 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2). 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (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 audit provides 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 Company at December 31, 2005 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 material respects the information set forth therein.

/s/ UHY LLP

Hartford, Connecticut
March 7, 2006

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
The Eastern Company

We have audited the accompanying consolidated balance sheets of The Eastern Company as of January 1, 2005, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended January 1, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). 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 the standards of the Public Company Accounting Oversight Board (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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 1, 2005, and the consolidated results of its operations and its cash flows for each of the two years in the period ended January 1, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Hartford, Connecticut
February 8, 2005

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

For information regarding the change in the Company's independent registered public accounting firm, see the Form 8-K filed on July 18, 2005.

ITEM 9A CONTROLS AND PROCEDURES

As of the end of the fiscal year ended December 31, 2005, 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.

ITEM 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There are incorporated herein by reference the portions of the Registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A since the close of its fiscal year, which involve the election of Directors, the information appearing on pages 3 and 4 of said proxy statement, being the portion captioned "Item No. 1. Election of Directors", the information appearing on page 12 and 13 of said proxy statement, being the portion captioned "Executive Compensation", the information appearing on page 11 of said proxy statement, being the portions captioned "Audit Committee Financial Expert" and "Report of the Audit Committee", and the information appearing on page 9 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 23 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 director and executive compensation, the information appearing on page 10 and on pages 12 through 18 of said proxy statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(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 7 and 8 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, 7 and 8, and 12 and 17 of said proxy statement. See also the equity compensation plan information in Item 5 of this Annual Report on Form 10-K.

(c) Changes in Control

None.

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 section titled "Appointment of the Independent Registered Public Accounting Firm" located on page 5 of the Proxy Statement.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULE

(a) Documents filed as part of this report:

(1) Financial statements — Page

Consolidated Balance Sheets – December 31, 2005 and January 1, 2005 . . . . .26.

Consolidated Statements of Income — Fiscal years ended December 31, 2005, January 1, 2005 and January 3, 2004 . . . . .28.

Consolidated Statements of Comprehensive Income — Fiscal years ended December 31, 2005, January 1, 2005, and January 3, 2004 . . . . .28.

Consolidated Statements of Shareholders' Equity — Fiscal years ended December 31, 2005, January 1, 2005 and January 3, 2004 . . . . .29.

Consolidated Statements of Cash Flows—Fiscal years ended December 31, 2005, January 1, 2005, and January 3, 2004 . . . . .30.

Notes to Consolidated Financial Statements . . . . .31.

Report of UHY LLP, Independent Registered Public Accounting Firm .... 50.

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm .... 51.

(2) Financial Statement Schedule

Schedule II — Valuation and qualifying accounts .... 55.

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 57 through 58.

(b) Exhibits Required by Item 601 of Regulation S-K

Form 8-K filed on April 27, 2005 setting forth the press release reporting the Company's earnings for the quarter ended April 2, 2005.

From 8-K filed on July 18, 2005 setting forth the change in the Company's Independent Registered Public Accounting Firm.

Form 8-K filed on July 27, 2005 setting forth the press release reporting the Company's earnings for the quarter ended July 2, 2005.

Form 8-K filed on October 26, 2005 setting forth the press release reporting the Company's earnings for the quarter ended October 1, 2005.

Form 8-K filed on February 8, 2006 setting forth the press release reporting the Company's earnings for the quarter and fiscal year ended December 31, 2005.

Form 8-K filed on February 8, 2006 setting forth the 2006 Executive Incentive Program.

(c) None.

The Eastern Company and Subsidiaries

Schedule II – Valuation and Qualifying accounts

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
Description		(1)	(2)		
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts-Describe	Deductions – Describe	Balance at End of Period
Fiscal year ended December 31, 2005:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$332,000	$ 6,433		$ 43,433 (a)	$295,000
Fiscal year ended January 1, 2005:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$302,000	$112,222		$ 82,222 (a)	$332,000
Fiscal year ended January 3, 2004:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$304,000	$220,902		$222,902 (a)	$302,000

(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 20, 2006

THE EASTERN COMPANY

By /s/ John L. Sullivan III
John L. Sullivan III
Vice President, Secretary and Treasurer

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

/s/ Leonard F. Leganza — March 20, 2006
Leonard F. Leganza
Director, President
and Chief Executive Officer

/s/ John W. Everets — March 20, 2006
John W. Everets
Director

/s/ Charles W. Henry — March 20, 2006
Charles W. Henry
Director

/s/ David C. Robinson — March 20, 2006
David C. Robinson
Director

/s/ Donald S. Tuttle III — March 20, 2006
Donald S. Tuttle III
Director

EXHIBIT INDEX

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

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

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

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

(c) The Eastern Company Directors Fee Program effective as of October 1, 1996 incorporated by reference to the Registrant's Form S-8 filed on February 7, 1997, as amended by Amendment No.1 and Amendment No. 2 are incorporated by reference to the Registrant's Form 10-K filed on March 29, 2000 and Amendment No. 3 is incorporated by reference to the Registrant's Form 10-K filed on March 22, 2004.

(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 May 3, 2004.

(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) 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 the fiscal year ended December 30, 2000.

(g) Employment Agreement dated February 22, 2005 with Leonard F. Leganza is incorporated by reference to the Registrant's Current Report on Form 8-K dated February 22, 2005.

(h) The Eastern Company 2006 Executive Incentive Program is incorporated by reference to the Registrant's Current Report on Form 8-K dated February 8, 2006.

(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 26, 2006. The Eastern Company Code of Business Conduct and Ethics is also available free of charge on the Company's Internet website at http://www.easterncompany.com under the section labeled "Corporate Governance".

(16) Letter from Ernst & Young, LLP regarding Change in Certifying Accountant is incorporated by reference to Exhibit 16 to the Registrant's Current Report on Form 8-K dated July 18, 2005.

(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) Consents of independent registered public accounting firms 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 2005 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 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) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]

   c) 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

   d) 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 20, 2006

/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) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]

   c) 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

   d) 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 20, 2006

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

<u>**EXHIBIT 32**</u>

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 December 31, 2005, 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 20th day of March, 2006.

<u>/s/ Leonard F. Leganza</u>
Leonard F. Leganza
CEO

<u>/s/ John L. Sullivan III</u>
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.)

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