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

FORM 10-K

(Mark One)

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

For the Fiscal Year ended January 1, 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 Number)
112 Bridge Street, Naugatuck, Connecticut	06770
(address of principal executive offices)	(Zip Code)

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

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

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

Common Stock No Par Value
(Title of Class)

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

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

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

As of July 3, 2004, 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 $48,671,598 (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 18, 2005 3,634,867 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 23, 2005 are incorporated by reference into Part III.

The Eastern Company
Form 10-K

FOR THE FISCAL YEAR ENDED JANUARY 1, 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 new facility was set-up to gain entry into the Chinese marketplace as well as to be a supplier to other divisions and subsidiaries of the Company. Eastern Industrial has capabilities that include stamping, tool and die making, plastic injection molding and assembly.

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

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

The above acquisitions have been accounted for using the purchase method. The acquired businesses are included in the consolidated operating results of the Company from their date of acquisition. The excess of the cost of the acquired businesses over the fair market value of the net assets acquired has been allocated to goodwill. The effects of these acquisitions on the Company's consolidated financial position and operations are not material.

(b) Financial Information about Industry Segments

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

(c) Narrative Description of Business

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

Industrial Hardware

The Industrial Hardware segment consists of Eberhard Manufacturing, Eberhard Hardware Manufacturing Ltd., Canadian Commercial Vehicles Corporation, Eastern Industrial Ltd. and Sesamee Mexicana, S.A. de C.V. The units design, manufacture and market a diverse product line of industrial and vehicular hardware throughout North America. The segment's locks, latches, hinges, handles, 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 and school bus door closure hardware. The products are sold to original equipment manufacturers and distributors through a distribution channel consisting of in-house salesmen and outside sales representatives. Sales and customer service efforts are concentrated through in-house sales personnel where greater representation of our diverse product lines can be promoted across a variety of markets.

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

Security Products

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

Greenwald’s 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, which serve the construction and electrical industries.

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

Although there continues to be a need for the highly engineered proprietary mine roof support products produced by this segment of the Company, changes in mining technology continue to decrease demand for mechanical anchoring systems. Intense competition from foreign countries has adversely affected our ability to compete effectively in the contract castings market. As a result, the Company began to phase out of its low-margin contract castings business and concentrate on its proprietary mine roof support systems. To offset declines in the production of malleable iron castings, the Company has invested in equipment for the production of ductile iron castings.

Raw materials and outside services were readily available from domestic sources for all of the Company's segments during 2004 and are expected to be readily available in 2005 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 2004 and does not expect any such problems in 2005.

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

None of the Company's business segments are seasonal.

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

Customer lists for all business segments are broad-based geographically and by markets and sales are not highly concentrated by customer. No customer accounted for 10% or more of the Company's consolidated sales for the year ended January 1, 2005.

The dollar amount of the level of orders in the Company is believed to be firm as of fiscal year ended January 1, 2005 at $17,124,000, as compared to $11,635,000 at January 3, 2004.

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 2004 were $1,167,000 and represented approximately 1% of gross revenues. In 2003 and 2002 they were $1,115,000 and $1,041,000, 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 2004 was 589.

(d) Financial Information about Geographic Areas

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

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

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

(e) Available Information

We make available, free of charge through our Internet website at 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 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 5,000 square feet in its current facility in 2004 and now leases 37,500 square feet of building space located in an industrial park. The building is made from brick and concrete, contains approximately 4,800 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 for another 3 years.

The Eastern Industrial Ltd., a wholly-owned subsidiary in Shanghai, China leased an additional 15,600 square feet during 2004 and now 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 13,250 square feet of a block building located in an industrial park in Lerma, Mexico on an open-end basis.

The Security Products Group includes the following:

The Greenwald Industries Division in Chester, Connecticut owns 26 acres of land and a building containing 120,000 square feet. The building is steel frame, one story, having brick over concrete blocks. The Company terminated the lease of the 5,000 square foot facility in Boynton Beach, Florida in November 2003 and consolidated operations into the Chester facility.

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

The World Lock Co. Ltd. subsidiary leases 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

There were no matters submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter ended January 1, 2005.

PART II

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

The Company's common stock is traded on the American Stock Exchange (ticker symbol **EML**). The approximate number of record holders of the Company common stock on January 1, 2005 was 667.

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

	2004			2003		
	Market Price			Market Price		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$16.37	$14.50	$.11	$12.34	$11.02	$.11
Second	16.70	15.25	.11	15.70	12.14	.11
Third	16.73	15.10	.11	15.70	14.00	.11
Fourth	20.60	16.15	.11	15.64	14.24	.11

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

The following table sets forth information regarding securities authorized for issuance under the Company's equity compensation plans as of January 1, 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	245,142[2]
Equity compensation plans not approved by security holders	249,000[3]	12.49	52,500[4]
Total	678,500	$13.95	297,642

[1] Includes options outstanding under the 1989, 1995 and 2000 plans.

[2] Includes shares available for future issuance under the 1995 and 2000 plans.

[3] Includes options outstanding under the 1997 plan.

[4] Includes shares available for future issuance under the 1997 plan.

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

Each director who is not an employee of the Company ("Outside Director") is paid a director's fee for his services at the 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 Shares of the Company or cash, in accordance with the Directors Fee Program adopted by the shareholders on March 26, 1997 and amended on January 5, 2004. The directors make an annual election, within a reasonable time before their first quarterly payment, to receive their fees in the form of cash, stock or a combination thereof. The election remains in force for one year.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number that May Yet Be Purchased Under the Plans or Programs
October 3 – October 30, 2004	-	-	-	-
November 1 – November 27, 2004	8,384	16.96	-	-
November 28, 2004 – January 1, 2005	-	-	-	-
Total	8,384	16.96	-	-

The Company does not have any share repurchase plans or programs. The figures shown in the table above are for shares delivered to the Company to exercise stock options.

ITEM 6 SELECTED FINANCIAL DATA

	2004	2003	2002	2001	2000
INCOME STATEMENT ITEMS (in thousands)					
Net sales	$ 100,130	$ 88,307	$ 81,337	$ 82,825	$ 88,192
Cost of products sold	74,999	66,719	60,637	60,783	62,192
Depreciation and amortization	3,461	3,619	3,565	4,461	3,639
Interest expense	1,044	1,303	1,716	2,259	1,786
Income before income taxes	6,829	5,390	4,734	6,085	10,657
Income taxes	2,071	2,028	1,442	2,172	3,602
Net income	4,758	3,362	3,292	3,913	7,055
Dividends	1,596	1,593	1,598	1,599	1,601
BALANCE SHEET ITEMS (in thousands)					
Inventories	$ 20,478	$ 16,927	$ 16,345	$ 18,591	$ 17,103
Working capital	26,692	24,894	25,600	27,131	26,298
Property, plant and equipment, net	23,907	24,930	25,050	26,486	27,328
Total assets	78,072	74,617	76,133	81,896	84,857
Shareholders' equity	43,817	40,508	37,903	40,056	38,538
Capital expenditures	2,062	2,763	1,560	1,895	5,065
Long-term obligations, less current portion	11,805	15,815	18,921	25,014	28,540
PER SHARE DATA					
Net income per share					
Basic	$ 1.31	$ .93	$ .91	$ 1.08	$ 1.95
Diluted	1.27	.92	.89	1.07	1.93
Dividends	.44	.44	.44	.44	.44
Shareholders' equity (Basic)	12.08	11.19	10.44	11.06	10.64
Average shares outstanding: Basic	3,627,541	3,620,593	3,631,278	3,623,291	3,621,449
Diluted	3,745,701	3,658,965	3,681,084	3,667,179	3,660,923

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

Summary

Net sales for 2004 increased 13% to $100.1 million from $88.3 million for 2003. Net income grew 42% to $4.8 million, or $1.27 per diluted share, from $3.4 million, or $.92 per diluted share. Higher sales volume allowed for better utilization of our manufacturing facilities, which resulted in increased profitability. The improved profitability more than offset the start-up costs associated with our new facility in Shanghai, China; increased raw material prices; and the increased legal and settlement costs related to an alleged patent infringement suit.

Net sales in the fourth quarter of 2004 increased 6% to $24.8 million from $23.3 million a year earlier. Net income for the quarter increased 167% to $1.4 million (or $.37 per diluted share) from $529,000 (or $.14 per diluted share) a year earlier. The 2004 net income benefited not only from the increased sales volume but also from the absence of certain costs that had affected the 2003 fourth quarter results. Those costs included expenses related to the closing of the Company's Florida location, legal fees associated with the alleged patent infringement suit, and expenses incurred to launch the SearchAlert™ product.

Gross margin for the fourth quarter of 2004 was 23.3% of net sales as compared to 23.8% for the fourth quarter of 2003. Product mix plus start-up costs and charges associated with the Shanghai operation accounted for the decrease.

Selling and administrative expenses in the fourth quarter of 2004 totaled $4.2 million, comparable to the 2003 level. Increases resulting from the addition of the Shanghai facility were offset by reductions at other locations, and also by the absence of the legal costs incurred in 2003 as a result of the alleged patent infringement suit.

The Company's research into establishing a manufacturing facility in Shanghai began in early 2003. The new factory, Eastern Industrial, Ltd. ("EIS"), which the Company opened in late December 2003, began full-scale production in the second quarter of 2004.

The Company experienced cost increases in 2004 that affected the majority of material it uses in production such as steel, zinc and brass. Cost increases ranged from 20% to 50%. The impact of the higher costs amounted to $1.2 million, net of tax, or $0.31 per diluted share. The Company has passed these increases in costs on to its customers where possible. Currently, there is no indication that the Company will not be able to obtain all the materials it requires. Additionally, there are signs that prices for materials have leveled off or may actually decrease slightly in 2005.

The Company incurred legal expenses of $398,000 in 2004 to defend against a patent infringement suit that it had determined to be without merit. The Company incurred additional expense of $400,000 in the second quarter of 2004 as the result of a mediated settlement. 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.

For 2005 and future years, the Company anticipates increased costs related to the required compliance with Section 404 of the Sarbanes-Oxley Act. In addition, compliance will require a significant amount of time from Company employees and higher audit fees for attestation by our independent registered public accounting firm. For 2005, the fees associated with documentation required by Section 404 will exceed $200,000. Future attestation fees 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 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.

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. Public entities will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. 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.

Critical Accounting Policies and Estimates

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

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

Allowance for Doubtful Accounts

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 Intangibles

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 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 bond index 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 2004 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 $1.5 million for 2005.

RESULTS OF OPERATIONS

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 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, and they are expected to remain strong through 2005.

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. The Industrial Hardware segment is projected to continue growing through 2005.

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 are continuing 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, which we are actively exploring.

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. However, that decision itself resulted from our implementation of a new strategy – begun in 2003 and completed in 2004 – to focus on mine roof anchor systems.

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. The U.S. coal mining industry grew through 2004 and the rate of growth into 2005 is over 6%. 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. We will now begin our marketing strategy to penetrate the mining market in China.

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. While that accounts for only 6% of total sales in 2004, there is significant opportunity for growth in 2005.

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.

Fiscal 2003 Compared to Fiscal 2002

The following table shows, for 2002 and 2003, selected line items from the consolidated statements of income as a percentage of net sales by segment.

	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%

	2002			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	69.1%	71.7%	91.5%	74.6%
Gross margin	30.9%	28.3%	8.5%	25.4%
Selling and administrative expense	17.6%	20.1%	11.7%	17.6%
Operating profit	13.3%	8.2%	-3.2%	7.8%

The following table shows the amount of change in selected data by segment during fiscal 2003 as compared to fiscal 2002 (in thousands):

	Industrial Hardware	Security Products	Metal Products	Total
Sales	$ 6,151	$ 2,893	$ (2,074)	$ 6,970
Volume	4%	6%	-17%	1%
Prices	0%	0%	3%	0%
New Products	17%	2%	1%	8%
	21%	8%	-13%	9%
Gross margin	$ 206	$ 890	$ (208)	$ 888
	2%	9%	-16%	4%
Operating income	$ (666)	$ 643	$ 125	$ 102
	-17%	22%	-25%	2%

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

The Industrial Hardware segment experienced a 21% increase in sales. The increase in volume of existing products is the result of an increase in sales of heavy hardware sold to the tractor-trailer industry of 15% from 2002 levels. Sales to this market had been down since the latter half of 2000. This market is expected to grow throughout 2004 and into 2005 as the economy continues to expand. The rebound in the tractor-trailer market utilizing heavy hardware could be adversely affected by higher steel prices and diminishing allocation of raw materials.

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

New product sale increases were the result of internally developed new products (for the utility truck and vehicular accessory markets), which increased sales by 6%, while sales of sleeper boxes for the Class 8 trailer truck market, resulting from the Canadian Commercial Vehicles acquisition, increased sales by 11%.

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

The Industrial Hardware segment gross margin was 26.2% for 2003 as compared to 30.9% of sales for 2002. The decrease in the gross margin percentage is the result of a greater number of lower margin products being sold as the result of the inclusion of the Canadian Commercial Vehicle acquisition for the full year of 2003. This company sells sleeper boxes for the Class 8 truck market which are sold at a much lower profit margin than our traditional transportation and industrial products. In addition, higher material, labor and benefit costs further reduced margins since the Company was unable to pass price increases along to our customers.

In the Security Products segment, sales were 8% higher than in 2002. The increase in volume of existing products was the result of sales of high-security locks for coin-operated vending and gaming equipment being up 50% in 2003. That increase was primarily the result of our gaining market share from our competition in an otherwise flat market. Sales of locks for access doors, furniture, electronics equipment and vehicular applications were up 24% from 2002 levels, mainly through taking market share from our competition. However, some of the sales increases were offset by slight declines in sales of locks to the computer industry and to lock distributors servicing lower-volume accounts and sales to the industrial controls and accessories market decreased 8%.

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

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

New product introductions increased sales by 2% which included Presto Seals, Remote Keyless Entry systems and SearchAlert™.

The Security Products segment gross margin was 28.5% for 2003 as compared to 28.3% of sales for 2002. The gross profit increased $890,000, or 9%, from 2002 primarily due to the aforementioned increase in sales of 8%.

In the Metal Products segment, total sales were down 13% from the previous year. While the sale of the Company's proprietary mine roof anchor systems decreased slightly compared to 2002, sales of contract castings were down 29% from 2002. This decrease was caused mainly by the company's decision to focus its efforts more intensively on its mine roof anchor systems.

Because of lower labor and operating costs in countries such as China, Mexico and Germany, and in some cases favorable monetary exchange rates, the price of imported castings is often well below that of U.S. produced castings. However, the Company will continue to offer contract castings to customers when profit margins are acceptable.

The slight decrease in the sales of mine roof anchors reflected lower demand for these products partly as a result of fairly stable weather conditions which reduces the demand for power which in turn reduces the demand for coal. In addition, the increased use of mining techniques such as strip and long well mining require none or fewer roof anchor supports than underground mining.

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

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

In order to maintain utilization rates in its manufacturing plant, the Company has been developing capabilities for producing castings using ductile iron (previously, it used only malleable iron in its casting products). While the Company has filled several small orders, the Company is still refining and perfecting its ductile iron capabilities. Although the new capabilities will enable the Company to supply additional products and services to its customers, further capital investments may be required to make the casting of larger quantities possible.

The Metal Products Segment gross margin was 8.2% for 2003 as compared to 8.5% of sales for 2002. Gross profit decreased $208,000, or 15.7%, from 2002 primarily due to the aforementioned 13.2% decrease in sales from 2002.

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

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

The Industrial Hardware segment operating profit was 9.1% for 2003 as compared to 13.3% of sales for 2002. Operating profit decreased $666,000, or 17.1%, from 2002 due to increased wage expense and associated payroll charges, costs associated with the establishment of the Shanghai facility and non-capital costs associated with the updating of information technology equipment.

The Security Products segment operating profit was 9.2% for 2003 as compared to 8.2% of sales for 2002. Operating profit increased $643,000, or 22% from 2002 primarily due to selling and administrative expenses as a percent of sales despite higher legal costs associated with the aforementioned defense of a patent lawsuit.

The Metal Product segment operating loss was $370,000, or 2.7%, for 2003 as compared to a loss of $495,000, or 3.2%, of sales for 2002. The reduction in operating losses is primarily the result of lower commission expenses as the result of lower sales.

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

Other income increased 209%, or $141,000, from 2002 primarily due to a gain in the sale of common stock of a single issuer received during 2001 in connection with the demutualization of the issuer. The gain of $167,000 was offset by a reduction of $26,000 in interest income the Company received in its cash management program.

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

Liquidity and Sources of Capital

The Company's financial position remained strong throughout 2004. 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.

	2004	2003	2002
Current ratio	2.9	3.5	3.5
Average days' sales in accounts receivable	47	48	50
Inventory turnover	3.7	4.1	3.7
Ratio of working capital to sales	26.7%	28.2%	31.5%
Total debt to shareholders' equity	36.1%	44.0%	56.9%

At January 1, 2005, January 3, 2004, and December 28, 2002, the Company had cash and cash equivalents of $4.4 million, $4.9 million and $5.9 million, respectively, and working capital of $26.7 million, $24.9 million and $25.6 million, respectively.

Net cash provided by operating activities was $4.9 million in 2004 compared to $6.4 million in 2003 and $11.4 million in 2002. The $1.5 million decrease from 2003 to 2004 and the $5.0 million decrease from 2002 to 2003 related primarily to changes in the components of working capital. Excluding such changes, the net cash provided by operating activities would have been $8.4 million, $7.5 million and $7.5 million in 2004, 2003 and 2002, respectively. During 2004, working capital used approximately $3.6 million in cash as a result of increased sales activity. Included in this amount was 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 a $800,000 increase in accrued compensation. In 2003, working capital components used cash totaling $1.1 million; substantially all of this amount was due to changes in accounts receivable, inventories, prepaid expenses and accounts payable. The increases were a result of higher sales volume in the fourth quarter of 2003. In 2002, working capital components provided $3.9 million in cash; this was primarily the result of a general decrease in inventories across all segments of the business.

During 2004, the Company used $2.0 million of cash in investing activities, virtually all of them 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. During 2002, the Company used $1.9 million in investing activities - $1.6 million for the purchase of fixed assets, and $300,000 for the acquisition of Canadian Commercial Vehicles Corporation and certain assets of the Big Tag Division of Dolan Enterprises, Inc. The Company expects capital expenditures for 2005 to be approximately $2 million to $3 million.

Net cash used by financing activities totaled $3.4 million, $5.6 million and $8.5 million in 2004, 2003 and 2002, respectively. Of those amounts, $2.0 million, $3.2 million and $3.4 million related to the principal payments of long-term debt in 2004, 2003 and 2002 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 and $3.5 million on its revolving credit line in 2003 and 2002, respectively.

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 $642,000, $383,000 and $306,000 in 2004, 2003 and 2002, respectively.

On December 27, 2002, the Company amended its unsecured loan agreement (the Loan Agreement) with its lender. Under the amended agreement, the term portion of the Loan Agreement ($18.6 million at the end of 2002) was paid in quarterly installments of $600,000 during 2003, with payments increasing annually after 2004 until maturity on January 1, 2009. During fiscal 2003, the Company made its regular quarterly payments and also made its first scheduled payment of $600,000 for calendar 2004. As a result, the remaining term portion of the Loan Agreement at year-end 2003 was $15.6 million. As required, the Company maintains an interest rate swap contract with the lender with an original amount of $15.0 million; this amount is reduced on a quarterly basis in accordance with the principal repayment schedule of the term portion of the Loan Agreement ($6.6 million on January 1, 2005, and $8.4 million on January 3, 2004). The interest rate on the swap contract is fixed at 9.095%. Under the revolving credit portion of the Loan Agreement, the Company may borrow up to $7.5 million through July 1, 2005, and must pay a quarterly commitment fee of 0.25% on the unused portion. As of January 1, 2005, $1.0 million was outstanding under the revolver portion of the Loan Agreement. The Company's loan covenants restrict it from incurring any indebtedness (from any person other than the lender) 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.

During the first quarter of 2005, the Company plans to borrow an additional $3 million under its revolving credit facility to cover short-term cash requirements.

Tabular Disclosure of Contractual Obligations

The Company's known contractual obligations as of January 1, 2005, are shown below:

Contractual Obligations (in thousands)	Payment due by period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt obligations	$ 14,825	$ 3,800	$ 6,800	$ 4,225	$ -
Estimated interest on long-term debt and capital lease obligations	1,507	671	659	177	-
Capital lease obligations	990	210	452	328	-
Operating lease obligations	2,049	614	959	476	-
Estimated contributions to pension plans	5,800	1,506	3,767	527	-
Estimated post-retirement benefits other than pensions	1,117	152	317	316	332
Total	$ 26,288	$ 6,953	$ 12,954	$ 6,049	$ 332

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 10 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 22% 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 10% 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 January 1, 2005 for all of the listed currencies changed by 1%, the total change in reported earnings would have been less than $25,000. 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 2004, a 10% increase/decrease in exchange rates would have resulted in a translation increase/decrease to sales of approximately $2.0 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 1.75% on the term loan portion and 1.50% on the revolving credit line portion of the Loan Agreement. Changes in LIBOR rates will also affect the Company's interest expense. To hedge against future LIBOR rate increases, the Company has a swap contract on a portion of the term loan under the Loan Agreement. The interest rate on the swap contract is 9.095% and the swap contract expires on July 1, 2005. The notional amount of the swap contract is reduced on a quarterly basis in accordance with the principal repayment schedule for the term portion of the Loan Agreement. The notional amount of the swap contract was $6.6 million as of January 1, 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 an $82,250 increase or decrease in the Company's annual interest cost. While the Company could enter into an additional swap agreement to fix the rate, it does not expect to do so.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Eastern Company

Consolidated Balance Sheets

	January 1 2005	January 3 2004
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 4,420,506**	$ 4,896,816
Accounts receivable, less allowances of $332,000 in 2004 and $302,000 in 2003	**12,528,189**	11,036,760
Inventories:		
Raw materials and component parts	**11,279,981**	8,687,003
Work in process	**3,670,812**	4,112,625
Finished goods	**5,526,811**	4,126,920
	20,477,604	16,926,548
Prepaid expenses and other assets	**2,258,642**	1,642,513
Deferred income taxes	**739,500**	462,700
Total Current Assets	**40,424,441**	34,965,337
Property, Plant and Equipment		
Land	**702,416**	701,923
Buildings	**11,856,933**	11,468,122
Machinery and equipment	**29,471,908**	30,649,120
Accumulated depreciation	**(18,124,710)**	(17,888,740)
	23,906,547	24,930,425
Other Assets		
Goodwill	**10,604,286**	10,519,766
Trademarks	**174,527**	167,607
Patents, technology, and licenses, less accumulated amortization of $1,869,970 in 2004 and $1,513,029 in 2003	**1,743,266**	1,877,408
Intangible pension asset	**870,064**	964,592
Prepaid pension cost	**348,634**	1,192,281
	13,740,777	14,721,654
	$ 78,071,765	$ 74,617,416

Consolidated Balance Sheets

	January 1 2005	January 3 2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 5,010,271**	$ 4,246,633
Accrued compensation	**2,472,944**	1,782,408
Other accrued expenses	**2,239,668**	2,034,918
Current portion of long-term debt	**4,009,811**	2,007,273
Total Current Liabilities	**13,732,694**	10,071,232
Deferred income taxes	**1,452,134**	1,243,264
Long-term debt, less current portion	**11,804,861**	15,814,669
Accrued post-retirement benefits	**2,219,821**	2,384,770
Accrued pension cost	**4,885,160**	4,015,858
Interest rate swap obligation	**160,417**	580,055
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: 5,323,593 shares in 2004 and 5,296,381 shares in 2003	**17,583,561**	17,177,797
Treasury Stock: 1,688,726 shares in 2004 and 1,680,342 shares in 2003	**(16,655,041)**	(16,512,848)
Retained earnings	**47,568,571**	44,406,855
Accumulated other comprehensive income (loss):		
Foreign currency translation	**463,804**	(166,295)
Additional minimum pension liability, net of taxes	**(5,047,800)**	(4,049,886)
Derivative financial instruments, net of taxes	**(96,417)**	(348,055)
	(4,680,413)	(4,564,236)
Total Shareholders' Equity	**43,816,678**	40,507,568
	$ 78,071,765	$ 74,617,416

See accompanying notes.

Consolidated Statements of Income

	Year ended		
	January 1 2005	**January 3 2004**	**December 28 2002**
Net sales	**$ 100,130,158**	$ 88,306,581	$ 81,337,207
Cost of products sold	**(74,999,119)**	(66,718,641)	(60,637,151)
Gross margin	**25,131,039**	21,587,940	20,700,056
Selling and administrative expenses	**(17,280,348)**	(15,103,624)	(14,317,256)
Operating profit	**7,850,691**	6,484,316	6,382,800
Interest expense	**(1,044,490)**	(1,302,830)	(1,716,056)
Other income	**22,838**	209,004	67,564
Income before income taxes	**6,829,039**	5,390,490	4,734,308
Income taxes	**2,071,338**	2,028,868	1,442,408
Net income	**$ 4,757,701**	$ 3,361,622	$ 3,291,900
Earnings per Share:			
Basic	**$ 1.31**	$ .93	$ .91
Diluted	**$ 1.27**	$ .92	$ .89

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)

	Year ended		
	January 1 2005	**January 3 2004**	**December 28 2002**
Net income	**$ 4,757,701**	$ 3,361,622	$ 3,291,900
Other comprehensive income/(loss) -			
Change in foreign currency translation	**630,099**	731,842	258,378
Change in fair value of derivative financial instruments, net of income taxes (benefit) of $168,000, $223,000 and ($33,000) in 2004, 2003 and 2002, respectively	**251,638**	335,031	(50,666)
Unrealized gain on investment in common stock:			
Unrealized holding gains, net of income taxes (benefit) of $42,900 and ($17,500) in 2003 and 2002, respectively	**-**	64,795	(25,079)
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 ($227,839) in 2004, $15,992 in 2003 and ($2,715,913) in 2002	**(997,914)**	23,984	(4,073,870)
	(116,177)	1,054,964	(3,891,237)
Comprehensive income/(loss)	**$ 4,641,524**	$ 4,416,586	$ (599,337)

See accompanying notes.

Consolidated Statements of Shareholders' Equity

	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Retained Earnings
Balances at December 29, 2001	5,281,505	$ 16,978,422	(1,652,320)	$ (16,139,267)	$ 40,944,315
Net income					3,291,900
Cash dividends declared, $.44 per share					(1,597,864)
Purchase of Common Stock for treasury			(5,000)	(55,855)	
Issuance of Common Stock for directors' fees	7,684	100,395			
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 of 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**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended		
	January 1 2005	**January 3 2004**	**December 28 2002**
Operating Activities			
Net income	**$ 4,757,701**	$ 3,361,622	$ 3,291,900
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**3,461,411**	3,619,328	3,565,460
Loss on sale of equipment and other assets	**67,620**	-	-
Provision for doubtful accounts	**112,222**	220,902	91,296
Deferred income taxes	**(8,092)**	390,788	454,200
Gain on sale of investment	**-**	(166,788)	-
Issuance of Common Stock for directors' fees	**80,964**	98,980	100,395
Changes in operating assets and liabilities:			
Accounts receivable	**(1,639,624)**	(322,902)	259,870
Inventories	**(3,299,948)**	(270,871)	2,191,677
Prepaid expenses and other	**(634,445)**	(326,025)	(137,673)
Prepaid pension cost	**581,724**	(99,100)	349,385
Other assets	**(105,674)**	(113,840)	47,536
Accounts payable	**495,218**	364,306	170,023
Accrued compensation	**790,492**	(181,908)	1,002,865
Other accrued expenses	**194,244**	(204,275)	(19,211)
Net cash provided by operating activities	**4,853,813**	6,370,217	11,367,723
Investing Activities			
Purchases of property, plant and equipment	**(2,062,313)**	(2,763,130)	(1,559,863)
Proceeds from sale of equipment and other assets	**13,367**	-	-
Business acquisitions, net of cash acquired	**-**	-	(303,746)
Proceeds from sale of investment	**-**	915,133	-
Net cash used in investing activities	**(2,048,946)**	(1,847,997)	(1,863,609)
Financing Activities			
Principal payments on long-term debt	**(2,007,357)**	(3,732,726)	(6,853,694)
Proceeds from sales of Common Stock	**324,800**	-	-
Purchases of Common Stock for treasury	**(142,193)**	(317,726)	(55,855)
Dividends paid	**(1,595,985)**	(1,593,118)	(1,597,864)
Net cash used in financing activities	**(3,420,735)**	(5,643,570)	(8,507,413)
Effect of exchange rate changes on cash	**139,558**	78,934	(12,489)
Net change in cash and cash equivalents	**(476,310)**	(1,042,416)	984,212
Cash and cash equivalents at beginning of year	**4,896,816**	5,939,232	4,955,020
Cash and cash equivalents at end of year	**$ 4,420,506**	$ 4,896,816	$ 5,939,232

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. Significant items subject to estimates and assumptions include valuation allowances for receivables and inventories; and assets and obligations related to employee benefit plans.

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 for 2004, all locations, including subsidiaries in Asia and Mexico, are consolidated as of the Company's fiscal year end of January 1, 2005. The Company has historically consolidated its subsidiaries located in Asia and Mexico as of November 30, which has 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%.

Cash Equivalents

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

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.

2. Accounting Policies *(continued)*

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. Revenues from the sale of products to distributors fall under the same guidelines. The Company does not offer any special right of return, stock rotation or price protection to its distributors or the end customers.

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. ($15,296,932 for U.S. inventories at January 1, 2005) and by the first-in, first-out (FIFO) method for inventories outside the U.S. ($5,180,672 for inventories outside the U.S. at January 1, 2005). Current cost exceeds the LIFO carrying value by approximately $3,922,000 at January 1, 2005 and $3,677,000 at January 3, 2004. There was no material LIFO quantity liquidation in 2004 or 2003.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment (including equipment under capital lease) are stated at cost. Depreciation ($3,131,483 in 2004, $3,118,885 in 2003 and $3,006,994 in 2002) 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.

Goodwill and Intangibles

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 2004, 2003 and 2002 was $329,927, $500,443 and $558,466, respectively. Total amortization expense for each of the next five years is estimated to be as follows: 2005 - $177,064; 2006 - $170,397; 2007 - $162,768; 2008 - $160,250; and 2009 - $117,250.

Statement of Financial Accounting Standard ("SFAS") No. 142, Goodwill and Other Intangible Assets, classifies intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. The Company reviews goodwill and intangible assets with indefinite lives for impairment annually and/or if events or changes in circumstances indicate the carrying value of an asset

2. Accounting Policies *(continued)*

may have been impaired. The Company reviews intangible assets with definite lives for impairment whenever conditions exist that indicate the carrying value may not be recoverable, such as economic downturn in a market or a change in the assessment of future operations. Goodwill and intangible assets are considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are primarily established using discounted cash flow methodology. The determination of discounted cash flows is based on the business' strategic plans and long-range forecasts. The revenue growth rates included in the plans are management's best estimates based on current and forecasted market conditions, and the profit margin assumptions are projected by each segment based on the current cost structure and anticipated cost changes.

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 2004, 2003 or 2002. Trademarks are not amortized as their lives are deemed to be indefinite.

The following is a roll-forward of goodwill for 2004 and 2003:

	2004	**2003**
Beginning balance	**$ 10,519,766**	$ 10,364,140
Foreign exchange	**84,520**	155,626
Ending balance	**$ 10,604,286**	$ 10,519,766

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 $1,166,747 in 2004, $1,115,329 in 2003 and $1,040,661 in 2002.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $447,778 in 2004, $449,304 in 2003 and $495,889 in 2002.

Income Taxes

The Company and its 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.

2. Accounting Policies *(continued)*

Earnings Per Share

The denominators used in the earnings per share computations follow:

	2004	2003	2002
Basic:			
Weighted average shares outstanding	**3,627,541**	3,620,593	3,631,278
Denominator for basic earnings per share	**3,627,541**	3,620,593	3,631,278
Diluted:			
Weighted average shares outstanding	**3,627,541**	3,620,593	3,631,278
Dilutive stock options	**118,160**	38,372	49,806
Denominator for diluted earnings per share	**3,745,701**	3,658,965	3,681,084

The Company has excluded the effect of 69,500, 177,500 and 547,500 shares in 2004, 2003 and 2002, respectively, from the above dilutive stock options, as their inclusion would be anti-dilutive.

Derivatives

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

The Company's interest rate swap agreement is considered "effective" through use of the short-cut method, as defined under 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 in current assets or liabilities with the offset amount recorded to accumulated other comprehensive income (loss) in shareholders' equity.

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 2004, 2003 or 2002, 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, 2003, and 2002:

	2004	2003	2002
Risk free interest rate	**3.48%**	3.18%	3.89%
Expected volatility	**0.295**	0.287	0.309
Expected option life	**5 years**	5 years	5 years
Weighted-average dividend yield	**2.2%**	2.9%	3.1%

2. Accounting Policies *(continued)*

The weighted average fair market value of the shares granted under options was $20.37 in 2004, $15.30 in 2003, and $14.19 in 2002. 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, $3.37 in 2003, and $3.42 in 2002.

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)		
	2004	**2003**	**2002**
Net income, as reported	**$4,758**	$3,362	$3,292
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards granted since July 19, 2000, net of related tax effects	**311**	85	138
Pro forma net income	**$4,447**	$3,277	$3,154
Earnings per share:			
Basic – as reported	**$1.31**	$0.93	$0.91
Basic – pro forma	**$1.23**	$0.91	$0.87
Diluted – as reported	**$1.27**	$0.92	$0.89
Diluted – pro forma	**$1.19**	$0.90	$0.86

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

Reclassification

Certain prior year amounts have been reclassified to conform to the 2004 presentation.

3. Business Acquisitions

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

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

The above acquisitions have been accounted for using the purchase method. The acquired businesses are included in the consolidated operating results of the Company from their date of acquisition. The excess of the cost of the acquired businesses over the fair market value of the net tangible and intangible assets acquired has been allocated to goodwill. The effect of these acquisitions on the Company's consolidated financial position and operation results is not material.

4. Contingencies

The Company is party to various legal proceedings and claims related to its normal business operations. In the opinion of management, the Company has substantial and meritorious defenses for these claims and proceedings in which it is a defendant, and believes these matters will be ultimately resolved without a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company. The aggregate provision for losses related to contingencies arising in the ordinary course of business was not material to operating results in 2003 and 2002.

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 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.

5. Debt

The Company has an unsecured loan agreement ("Loan Agreement"), which includes a term portion and a revolving credit portion. The term portion of the Loan Agreement is payable in quarterly principal payments of $700,000 in 2005 and increases annually through maturity on January 1, 2009. The first payment of calendar 2004 was made in fiscal 2003. The Company may borrow up to $7,500,000 through July 1, 2005 under the revolving credit portion of the Loan Agreement, with a quarterly commitment fee of 0.25% on the unused portion.

The interest rates on the term and the revolving credit portions of the Loan Agreement may vary. The interest rates may vary based on 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 January 1, 2005, the interest rate on the term and revolving credit portions of the Loan Agreement was 3.88% and 3.77%, respectively.

5. Debt *(continued)*

The Company maintains 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 and $8,400,000 on January 3, 2004), which is reduced on a quarterly basis in accordance with the principal repayment schedule of the term portion of the Loan Agreement. The interest rate on the swap contract bears interest at a fixed rate of 9.095% and expires July 1, 2005.

Debt consists of:

	2004	2003
Term loan	**$ 13,825,000**	$ 15,625,000
Revolving credit loan	**1,000,000**	1,000,000
Capital lease obligation with interest at 4.99% and payable in monthly installments of $21,203 through April 2009	**989,672**	1,189,290
Other	**-**	7,652
	15,814,672	17,821,942
Less current portion	**4,009,811**	2,007,273
	$ 11,804,861	$ 15,814,669

The Company paid interest of $1,002,955 in 2004, $1,402,631 in 2003 and $1,741,511 in 2002.

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

As of January 1, 2005, scheduled annual principal maturities of long-term debt, including capital lease obligations, for each of the next five years follow:

2005	$ 4,009,811
2006	3,420,523
2007	3,831,782
2008	3,843,617
2009	708,939
Thereafter	-
	$ 15,814,672

At January 1, 2005 and January 3, 2004, building improvements and equipment, with a cost of approximately $2,000,000, were recorded under a capital lease with accumulated amortization of approximately $554,000 and $443,000, respectively. The capital lease is secured by the equipment under the lease and a $900,000 letter of credit.

6. Stock Rights

The Company has a stock rights plan. At January 1, 2005, there were 3,634,867 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.

7. Stock Options and Awards

Stock Options

The Company has incentive stock option plans for officers, other key employees, and non-employee directors: the 1989, 1995, 1997 and 2000 plans. Options granted under the 1989 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. All options granted in 2004, 2003, and 2002 were granted at prices equal to the fair market value of the stock on the dates granted. No restricted stock was granted in 2004, 2003 or 2002.

As of January 1, 2005, there were 297,642 shares available for future grant under the above noted plans: 2000 – 245,000 shares; 1997 – 52,500; 1995 – 142; and 1989 – no shares available for grant. As of January 1, 2005, there were 976,142 shares reserved under all option plans for future issuance.

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

	Shares	Weighted Average Exercise Price
Outstanding at December 29, 2001	679,000	$13.477
Granted	35,000	14.190
Cancelled	(25,000)	14.251
Outstanding at December 28, 2002	689,000	13.475
Granted	10,000	15.300
Cancelled	(45,000)	14.539
Outstanding at January 3, 2004	654,000	13.417
Granted	57,000	20.370
Cancelled	(10,000)	14.812
Exercised	(22,500)	14.436
Outstanding at January 1, 2005	**678,500**	**$13.948**

7. Stock Options and Awards *(continued)*

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding as of January 1, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of January 1, 2005	Weighted Average Exercise Price
$ 9.92 – $11.92	191,500	2.8	$10.442	191,500	$10.442
$14.00 – $15.30	417,500	5.1	14.541	415,244	14.542
$18.50 – $20.37	69,500	8.9	20.034	69,500	20.034
	678,500	4.8	$13.948	676,244	$13.945

8. Income Taxes

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

	2004	2003	2002
Property, plant and equipment	**$ 3,521,617**	$ 3,445,288	$ 3,057,400
Investment in common stock	**-**	-	307,500
Other	**338,085**	221,160	164,400
Total deferred income tax liabilities	**3,859,702**	3,666,448	3,529,300
Other postretirement benefits	**(816,273)**	(886,371)	(979,700)
Inventories	**(721,309)**	(338,737)	(316,300)
Allowance for doubtful accounts	**(106,106)**	(97,674)	(82,900)
Accrued compensation	**(201,280)**	(187,393)	(198,200)
Interest rate swap obligation	**(58,949)**	(232,005)	(455,000)
Pensions	**(724,363)**	(809,954)	(826,713)
Tax credits	**(234,827)**	-	-
Other	**(283,961)**	(333,750)	(496,500)
Total deferred income tax assets	**(3,147,068)**	(2,885,884)	(3,355,313)
Net deferred income tax liabilities	**$ 712,634**	$ 780,564	$ 173,987

Income before income taxes consists of:

	2004	2003	2002
Domestic	**$ 3,512,795**	$ 1,778,405	$ 2,736,969
Foreign	**3,316,244**	3,612,085	1,997,339
	$ 6,829,039	$ 5,390,490	$ 4,734,308

The provision for income taxes follows:

	2004	2003	2002
Current:			
Federal	**$ 905,843**	$ 703,890	$ 458,302
Foreign	**1,025,183**	749,390	437,506
State	**148,404**	184,800	92,400
Deferred	**(8,092)**	390,788	454,200
	$ 2,071,338	$ 2,028,868	$ 1,442,408

8. INCOME TAXES *(continued)*

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

	2004		2003		2002	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Income taxes using U.S. federal statutory rate	**$ 2,321,873**	**34%**	$ 1,832,665	34%	$ 1,609,700	34%
State income taxes, net of federal benefit	**78,463**	**1**	199,062	4	73,500	2
Impact of foreign subsidiaries on effective tax rate	**(242,163)**	**(4)**	1,232	-	(291,000)	(6)
Other—net	**(86,835)**	**(1)**	(4,091)	-	50,208	1
	$ 2,071,338	**30%**	$ 2,028,868	38%	$ 1,442,408	31%

Total income taxes paid were $1,445,099 in 2004, $1,162,688 in 2003 and $1,239,668 in 2002.

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 $234,827 which expire in varying amounts through 2014. Available and prudent tax planning strategies support this deferred tax asset at January 1, 2005.

United States income taxes have been provided on the undistributed earnings of foreign subsidiaries ($11,146,178 at January 1, 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 is effective immediately and provides accounting and disclosure guidance for the repatriation provision. FSP No. 109-2 allows companies additional time to evaluate the effects of the law on its unremitted earnings for the purpose of applying the "indefinite reversal criteria" under APB Opinion No. 23, *Accounting for Income Taxes – Special Areas,* and requires explanatory disclosures from companies that have not yet completed the evaluation. The Company is currently evaluating the effects of the repatriation provision and its impact on the consolidated financial statements. The Company does not expect to complete this evaluation before the end of 2005. The range of possible amounts of unremitted earnings that is being considered for repatriation under this provision is between zero and $500,000. The related potential range of income tax is between zero and $84,000.

9. LEASES

The Company leases certain equipment and buildings under operating lease arrangements. Most leases are for a fixed term and for a fixed amount. 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.

9. Leases *(continued)*

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:

2005	$ 614,235
2006	614,499
2007	344,411
2008	281,698
2009	194,114
	$ 2,048,957

Rent expense for all operating leases was $642,000 in 2004, $383,098 in 2003 and $306,293 in 2002.

10. Retirement Benefit Plans

The Company has non-contributory defined benefit pension plans covering most U.S. employees. Plan benefits are generally based upon age at retirement, years of service and, for its salaried plan, the level of compensation. The Company also sponsors unfunded nonqualified supplemental retirement plans that provide certain current and former officers with benefits in excess of limits imposed by federal tax law. The measurement date for the obligations disclosed below is September 30 of each year.

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

Significant disclosures relating to these benefit plans follow:

	Pension Benefits		Postretirement Benefits	
Change in Projected Benefit Obligation	**2004**	**2003**	**2004**	**2003**
Benefit obligation at beginning of year	**$ 36,915,855**	$ 33,737,224	**$ 2,129,909**	$ 1,997,724
Change due to availability of final actual assets and census data	**(98,325)**	132,099	**(134,531)**	75,758
Plan amendment (a)	**-**	145,612	**-**	-
Service cost	**1,198,318**	1,131,435	**75,488**	70,321
Interest cost	**2,299,608**	2,274,329	**123,456**	137,124
Actuarial loss	**534,203**	1,659,027	**59,421**	78,130
Benefits paid	**(2,264,213)**	(2,163,871)	**(192,115)**	(229,148)
Benefit obligation at end of year	**$ 38,585,446**	$ 36,915,855	**$ 2,061,628**	$ 2,129,909

(a) A plan was amended in 2003 to increase benefits for specified retired participants.

Change in Plan Assets				
Fair value of plan assets at beginning of year	**$ 32,071,588**	$ 28,816,677	**$ 892,428**	$ 796,507
Change due to availability of final actual assets and census data	**(56,755)**	(1,251)	**(33,774)**	7,855
Actual return on plan assets	**2,365,233**	3,900,350	**73,515**	69,174
Employer contributions	**652,052**	1,519,683	**-**	-
Benefits paid	**(2,246,538)**	(2,163,871)	**12,454**	18,892
Fair value of plan assets at end of year	**$ 32,785,580**	$ 32,071,588	**$ 944,623**	$ 892,428

10. RETIREMENT BENEFIT PLANS (*continued*)

	Pension Benefits		Postretirement Benefits	
	2004	**2003**	**2004**	**2003**
Reconciliation of Funded Status				
Under-funded status	**$ (5,799,866)**	$ (4,844,267)	**$ (1,117,005)**	$ (1,237,481)
Unrecognized prior service cost	**929,535**	1,126,515	**(320,038)**	(80,144)
Unrecognized net actuarial loss (gain)	**9,406,330**	9,032,632	**(782,778)**	(1,067,145)
Unrecognized net asset at transition	**(226,898)**	(424,055)	**-**	-
Net amount recognized in the balance sheet	**$ 4,309,101**	$ 4,890,825	**$ (2,219,821)**	$ (2,384,770)

	Pension Benefits		Postretirement Benefits	
	2004	**2003**	**2004**	**2003**
Amount Recognized on Balance Sheet				
Prepaid benefit cost	**$ 348,634**	$ 1,192,281	**$ -**	$ -
Accrued benefit liability	**(4,885,160)**	(4,015,858)	**(2,219,821)**	(2,384,770)
Intangible asset	**870,064**	964,592	**-**	-
Accumulated other comprehensive loss	**7,975,563**	6,749,810	**-**	-
Net amount recognized in the balance sheet	**$ 4,309,101**	$ 4,890,825	**$ (2,219,821)**	$ (2,384,770)

In 2004 and 2003, the accumulated benefit obligation for all qualified and nonqualified defined benefit pension plans was $37,038,422 and $35,372,932 respectively.

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

	2004	2003
Projected benefit obligation	**$ 36,507,181**	$ 30,005,029
Accumulated benefit obligation	**35,565,225**	29,028,413
Fair value of plan assets	**31,189,244**	25,458,556

Estimated future benefit payments are $2.4 million in 2005, $2.4 million in 2006, $2.4 million in 2007, $2.4 million in 2008, $2.4 million in 2009 and a total of $11.9 million from 2010 through 2014.

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

	Allocation Parameters	2004	2003
Equity securities	**30 – 70%**	**63%**	60%
Fixed income	**30 – 60%**	**31**	32
Cash and cash equivalents	**0 – 10%**	**6**	8
Total		**100%**	100%

10. 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 410,974 shares and 430,874 of the common stock of the Company having a market value of $8,219,480 and $6,700,091 at January 1, 2005 and January 3, 2004, respectively. The plans sold 19,900 shares of common stock of the Company during 2004. Dividends received during 2004 and 2003 on the common stock of the Company were $189,585 for each year.

	Pension Benefits		
	2004	**2003**	**2002**
Assumptions			
Discount rate	**6%**	6.5%	7%
Expected return on plan assets	**8.5%**	8.5%	9%
Rate of compensation increase	**4.25%**	4.25%	4.25%
Components of Net Periodic Benefit Cost			
Service cost	**$ 1,198,318**	$ 1,131,435	$ 1,073,638
Interest cost	**2,299,608**	2,274,329	2,198,127
Expected return on plan assets	**(2,567,814)**	(2,755,927)	(1,577,856)
Net amortization and deferral	**305,795**	770,747	(1,146,850)
Net periodic benefit cost	**$ 1,235,907**	$ 1,420,584	$ 547,059

	Postretirement Benefits		
	2004	**2003**	**2002**
Assumptions			
Discount rate	**6%**	6.5%	7%
Expected return on plan assets	**8.5%**	8.5%	9%
Components of Net Periodic Benefit Cost			
Service cost	**$ 75,488**	$ 70,321	$ 73,311
Interest cost	**123,456**	137,124	132,966
Expected return on plan assets	**(73,515)**	(69,174)	(66,224)
Net amortization and deferral	**(85,809)**	(83,617)	(92,752)
Net periodic benefit cost	**$ 39,620**	$ 54,654	$ 47,301

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

10. Retirement Benefit Plans (*continued*)

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

	1-Percentage Point	
	Increase	**Decrease**
Effect on total of service and interest cost components	$ 31,476	$ (13,950)
Effect on postretirement benefit obligation	$ 284,476	$ (125,900)

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

On December 8, 2003, the "Medicare Prescription Drug Improvement and Modernization Act of 2003" (the "Act") was signed into law. The Act introduces a prescription drug benefit under Medicare 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 superceded 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.

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.

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 $146,002 in 2004, $141,903 in 2003 and $139,598 in 2002.

11. Financial Instruments

The carrying values of financial instruments (cash and cash equivalents, accounts receivable, accounts payable, the interest rate swap obligation, and debt) as of January 1, 2005 and January 3, 2004, approximate fair value. Fair value was based on expected cash flows and current market conditions.

12. Reportable Segments

The accounting policies of the segments are the same as those described in Note 2. Operating profit is total revenue less operating expenses, excluding interest and 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.

	2004	2003	2002
Revenue:			
Sales to unaffiliated customers:			
Industrial Hardware	**$ 45,993,489**	$ 35,422,702	$ 29,271,624
Security Products	**42,422,863**	39,281,707	36,388,970
Metal Products	**11,713,806**	13,602,172	15,676,613
	$ 100,130,158	$ 88,306,581	$ 81,337,207
Intersegment Revenue:			
Industrial Hardware	**$ 210,445**	$ 60,598	$ 44,669
Security Products	**2,619,746**	1,697,607	1,286,004
	$ 2,830,191	$ 1,758,205	$ 1,330,673
Income Before Income Taxes:			
Industrial Hardware	**$ 4,933,313**	$ 3,238,931	$ 3,905,129
Security Products	**3,465,408**	3,614,913	2,972,310
Metal Products	**(548,030)**	(369,528)	(494,639)
Operating Profit	**7,850,691**	6,484,316	6,382,800
Interest expense	**(1,044,490)**	(1,302,830)	(1,716,057)
Other income	**22,838**	209,004	67,564
	$ 6,829,039	$ 5,390,490	$ 4,734,308
Geographic Information:			
Net Sales:			
United States	**$ 78,119,489**	$ 71,204,620	$ 70,279,299
Foreign	**22,010,669**	17,101,961	11,057,908
	$ 100,130,158	$ 88,306,581	$ 81,337,207

Foreign sales are primarily to customers in North America.

	2004	2003	2002
Identifiable Assets:			
United States	**$ 63,248,575**	$ 61,353,242	$ 66,135,214
Foreign	**14,823,190**	13,264,174	9,997,323
	$ 78,071,765	$ 74,617,416	$ 76,132,537
Industrial Hardware	**$ 28,573,163**	$ 24,159,290	$ 22,457,174
Security Products	**32,664,197**	32,811,830	31,932,295
Metal Products	**11,703,155**	11,969,126	13,879,715
	72,940,515	68,940,246	68,269,184
General corporate	**5,131,250**	5,677,170	7,863,353
	$ 78,071,765	$ 74,617,416	$ 76,132,537

12. Reportable Segments (*continued*)

	2004	2003	2002
Depreciation and Amortization			
Industrial Hardware	$ 1,311,921	$ 1,244,666	$ 1,156,987
Security Products	972,132	890,572	856,335
Metal Products	1,177,358	1,484,090	1,552,138
	$ 3,461,411	$ 3,619,328	$ 3,565,460
Capital Expenditures			
Industrial Hardware	$ 1,037,417	$ 1,866,426	$ 519,101
Security Products	782,360	627,311	404,355
Metal Products	206,443	267,978	596,388
	2,026,220	2,761,715	1,519,844
Currency translation adjustment	(13,098)	(10,156)	(679)
General corporate	49,191	11,571	40,698
	$ 2,062,313	$ 2,763,130	$ 1,559,863

13. 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 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.

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. Public entities will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period 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.

13. Recent Accounting Pronouncements (*continued*)

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 (loss) and net income (loss) per share in the stock based compensation accounting policy note included in Note 2 to the consolidated financial statements.

14. Selected Quarterly Financial Information (Unaudited)

Selected quarterly financial information (unaudited) follows:

	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

	2003				
	First	**Second**	**Third**	**Fourth**	**Year**
Net sales	$21,590,714	$21,591,111	$21,864,105	$23,260,651	$88,306,581
Gross margin	5,499,535	5,272,665	5,287,464	5,528,276	21,587,940
Selling and administrative expenses	3,819,453	3,473,743	3,631,127	4,179,301	15,103,624
Net income	953,377	936,688	942,759	528,798	3,361,622
Net income per share:					
Basic	$.26	$.26	$.26	$.15	$.93
Diluted	$.26	$.26	$.26	$.14	$.92
Weighted average shares outstanding:					
Basic	3,630,303	3,625,310	3,612,748	3,614,030	3,620,593
Diluted	3,630,303	3,630,514	3,688,008	3,687,052	3,658,965

Fiscal 2004 consisted of four 13 week quarters totaling 52 weeks for the year. Fiscal 2003 consisted of 13 weeks for the first, second and third quarters, with the fourth quarter being 14 weeks, totaling 53 weeks for the year.

Report of 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 January 3, 2004, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three 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 January 3, 2004, and the consolidated results of its operations and its cash flows for each of the three 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

None.

ITEM 9A CONTROLS AND PROCEDURES

As of the end of the fiscal year ended January 1, 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 11 and 12 of said proxy statement, being the portion captioned "Executive Compensation", the information appearing on page 10 of said proxy statement, being the portions captioned "Audit Committee Financial Expert" and "Report of Audit Committee", and the information appearing on page 8 of said proxy statement, being the portion captioned "Section 16(a) Beneficial Ownership Reporting Compliance" and "Committees of the Board of Directors", and the information appearing on page 22 of said proxy statement, being the portion captioned "Exhibit B – The Eastern Company Code of Business Conduct and Ethics." The Registrant's only Executive Officers are Leonard F. Leganza, President and Chief Executive Officer and John L. Sullivan III, Vice President, Secretary and Treasurer.

ITEM 11 EXECUTIVE COMPENSATION

There are incorporated herein by reference the portions of the Registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A since the close of its fiscal year, which involve director and executive compensation, the information appearing on page 9 and on pages 11 through 17 of said proxy statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

(b) There are incorporated herein by reference the portions of the Registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A since the close of its fiscal year, which involve the security ownership of management, the information appearing on pages 3 and 4, 6 and 7, and 11 and 16 of said proxy statement.

(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 sections titled "Appointment of 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 – January 1, 2005 and January 3, 2004 ....22.

Consolidated Statements of Income — Fiscal years ended January 1, 2005, January 3, 2004 and December 28, 2002 ....24.

Consolidated Statements of Comprehensive Income (Loss) — Fiscal years ended January 1, 2005, January 3, 2004, and December 28, 2002 ....24.

Consolidated Statements of Shareholders' Equity — Fiscal years ended January 1, 2005, January 3, 2004 and December 28, 2002 ....25.

Consolidated Statements of Cash Flows—Fiscal years ended January 1, 2005, January 3, 2004, and December 28, 2002 ....26.

Notes to Consolidated Financial Statements ....27.

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm ....44.

(2) Financial Statement Schedule

Schedule II — Valuation and qualifying accounts ....48.

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 50 through 51.

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

Form 8-K filed on April 28, 2004 setting forth the press release reporting the Company’s earnings for the quarter ended April 3, 2004.

Form 8-K filed on July 28, 2004 setting forth the press release reporting the Company’s earnings for the quarter ended July 3, 2004.

Form 8-K filed on October 27, 2004 setting forth the press release reporting the Company’s earnings for the quarter ended October 2, 2004.

Form 8-K filed on February 10, 2005 setting forth the press release reporting the Company’s earnings for the quarter and fiscal year ended January 1, 2005.

Form 8-K filed on February 24, 2005 setting forth the Employment Agreement for Leonard F. Leganza.

Form 8-K filed on February 25, 2005 setting forth the 2005 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
Description		ADDITIONS			
		(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 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
Fiscal year ended December 28, 2002:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$344,000	$91,296		$131,296 (a)	$304,000

(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 23, 2005

THE EASTERN COMPANY

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

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

/s/ Leonard F. Leganza
Leonard F. Leganza
Director, President
and Chief Executive Officer
March 23, 2005

/s/ John W. Everets
John W. Everets
Director
March 23, 2005

/s/ Charles W. Henry
Charles W. Henry
Director
March 23, 2005

/s/ David C. Robinson
David C. Robinson
Director
March 23, 2005

/s/ Donald S. Tuttle, III
Donald S. Tuttle III
Director
March 23, 2005

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 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.

(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 27, 2005. 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".

(21) List of subsidiaries as follows:

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

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

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

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

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

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

(23) Consent of independent registered public accounting firm 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 2004 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 23, 2005

/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 23, 2005

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

EXHIBIT 32

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

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

1) 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:

2) The Company's Annual Report on Form 10-K for the Period ended January 1, 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

3) 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 23rd day of March, 2005.

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

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

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

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

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