

THE EASTERN

COMPANY



EBERHARD



EBERHARD CANADA



Sesamee
MEXICO



Industrial Hardware
Group



Greenwald Industries

Illinois Lock Company



Security Products
Group



Metal Products
Group

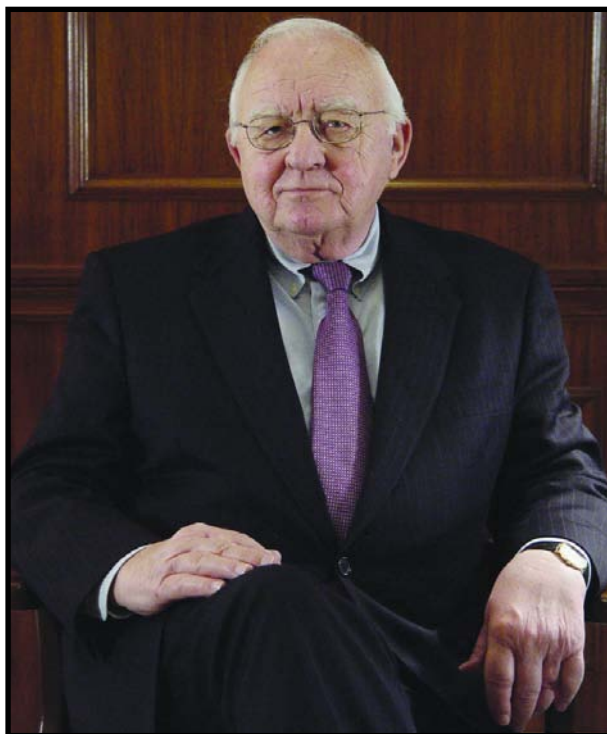
2005 Annual Report

Letter to our Shareholders

The Company's sales reached an all-time high in 2005, growing 9% to \$109.1 million from \$100.1 million in 2004. With this result, we achieved a 10% compounded annual growth rate for the last three years. Also significant is that by year-end 2005, we had achieved 13 straight quarters in which sales improved from their year-earlier level. What is most important, however, is that these sales improvements were the result of ongoing product development programs plus specific marketing efforts aimed at the military sector, the heavy truck hardware sector, the travel industry and the commercial laundry industry. The strength of the general economy, and of the industrial hardware and security product sectors in particular, was also an important factor supporting the growth of our sales. Given the 3.5% - 3.9% growth projected for the general economy, we anticipate that 2006 will be another year of improved sales performance for our company.

Our earnings in 2005 were down from the prior year: \$4.4 million (\$1.12 per diluted share) compared with \$4.8 million (\$1.27 per diluted share). The primary factor responsible for the decline was our continued investment in two key growth initiatives, which reduced net income by \$1.7 million, or \$.44 per diluted share.

These two initiatives support a growth strategy that takes a long-range view of the future development and strengthening of the Company. Such a strategy, and the longer-term investments it calls for, are essential for ensuring our continued healthy survival in the current global economy. The first of the two



initiatives is aimed at modifying the operations of our Metal Products Group. While we believe our mining markets have reached a stable point—a positive sign—the demand for malleable iron castings continues to decline and the demand for ductile iron (and other metals) continues to grow. Ductile iron is superior to malleable iron and also less costly to produce. Considering the sales declines we have experienced in recent years, we believe we need to expand and redirect our metal casting operations to enable us to cast greater quantities of ductile iron (in addition to malleable iron) and more vigorously pursue the ductile iron markets. We believe this strategy will allow us to increase our sales and profitability in the Metal Products Group while we continue to pursue markets in China and Australia for our mining products.

The second initiative addresses the issue of offshoring. All of our operating units have encountered competitive pressures caused by the expansion of offshore sourcing

opportunities available to our marketplace. To counteract those pressures, in 2003 we established Eastern Industrial Ltd., a wholly owned subsidiary located in Shanghai, China. The objectives of this subsidiary are to provide our U.S. units with more competitive products, when necessary, and to serve as an off-shore product source for non-affiliated customers. In 2004 and 2005, the Company's earnings were impacted by the start-up costs associated with establishing this subsidiary and carrying out the recruitment and training necessary to achieve the efficient production and consistent quality required for success. We expect that in 2006, because of our improved capabilities, this unit will perform at a more successful level than in 2005.

Our China-based subsidiary plays an extremely important role in our current supply chain. Moreover, we firmly believe that it is vital for us to strengthen our presence in China so that we can take advantage of significant opportunities as the China market emerges.

Segment Performance

Our Industrial Hardware segment turned in a very solid performance in 2005. Sales increased 17% from 2004, to \$53.8 million from \$46.0 million, while operating profits improved 6%, to \$5.2 million from \$4.9 million. New products contributed to the gains made in 2005. For example, besides supplying high-quality vehicular hardware to the commercial vehicle market, the Eberhard division in 2005 was called upon to design and manufacture a special latch to increase the safety and security of the military Humvee used in the Iraq conflict.

With our backlogs remaining strong, we expect to see further sales improvement in 2006.

The Security Products segment also performed well last year. Sales increased by 4%, to \$44.3 million from \$42.4 million, while operating profits grew by 32%, to \$4.6 million from \$3.5 million. This increase was largely the result of higher expenses incurred in 2004 in the defense and settlement of a patent infringement suit. Our "SearchAlert"™ keyless luggage lock continued to generate strong sales. This product – which we developed in conjunction with the Transportation Security Administration – has been extremely well accepted in the marketplace. We continue to explore opportunities to enter several new markets by developing security applications for our "smart card" systems, which are currently being used in the commercial laundry market.

Sales in our Metal Products segment continued the downward trend of the last several years. Sales decreased 7% to \$10.9 million from \$11.7 million in 2004, while operating losses increased to \$1.9 million from \$0.5 million. The decrease in sales was caused by the loss of malleable iron contract casting business to foreign competition, mostly in China and Mexico. During 2005, we significantly increased our production of ductile iron. However, because of the higher labor cost incurred by manually pouring ductile iron it had a negative impact on operating earn-

ings. We are currently investing in production equipment that will enable us to manufacture ductile iron products more efficiently.

We are continuing our efforts to market our mine roof products into China's mining industry.

Outlook

Looking ahead to the future, we will be facing several challenges. We will need to continue our revenue growth, which will come primarily from new product development; from development of new markets for our existing products; and from acquisitions which enhance or broaden our current product lines or give us entry into new markets.

We will also need to continue improving our margins. This will require us to achieve continually higher levels of operating efficiencies through lean manufacturing techniques and the disciplined setting of budgetary and capital expenditure priorities.

Because of the dedication and capability of our management teams, I believe we are in position to achieve those performance goals.

While we intend to move ahead energetically, we will inevitably confront risks along the way. Changes in economic conditions, both domestic and global; overregulation, which we have already experienced in the recent past; and rising costs for such

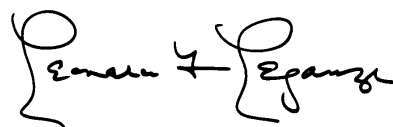
items as energy, health care and raw materials—all could impede our progress.

On the subject of regulation, one issue that rose to further prominence during 2005 was the requirement that companies, large and small, become compliant with Section 404 of the Sarbanes-Oxley Act. That section requires us to document, test and assess our internal financial controls. Compliance will require extensive expenditures for outside accounting services, plus the substantial use of internal manpower resources. The Securities and Exchange Commission has extended the dates for compliance and is considering whether to reduce the requirements for smaller companies such as ours. We intend to complete our internal control documentation and perform internal testing of those controls during 2006. Depending on the nature and extent of the forthcoming changes to the law, the Company may not be required to incur the additional costs of having an independent auditor attest to our internal controls.

We are continuing to focus intensely on controlling costs and improving the financial fundamentals of the Company, including operating income and cash flow. Increasing these metrics will provide the resources that will enable the Company to grow and ultimately to create greater shareholder value.

The enclosed 10-K report contains the detailed and audited financial reports of the Company. I urge all of you to read it.

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



Leonard F. Leganza
President and Chief Executive Officer



Military Humvee

Financial Highlights (in thousands)

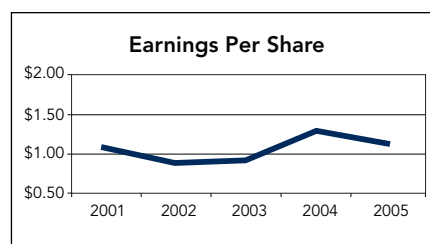
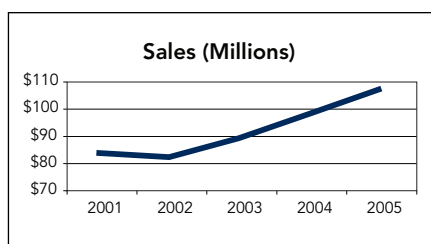
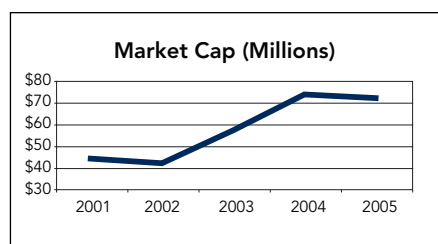
	2005	2004	2003	2002	2001
Net Sales	\$109,107	\$100,130	\$88,307	\$81,337	\$82,825
Net Income	4,367	4,758	3,362	3,292	3,913
Income Taxes	2,653	2,071	2,028	1,442	2,172
Income Before Taxes	7,020	6,829	5,390	4,734	6,085
Interest Expense	1,014	1,044	1,303	1,716	2,259
Depreciation and Amortization	3,460	3,461	3,619	3,565	4,461
Capital Expenditures	1,750	2,062	2,763	1,560	1,895
Dividends Paid	1,600	1,596	1,593	1,598	1,599

PER SHARE DATA

Net Income (Diluted)	\$1.12	\$1.27	\$0.92	\$0.89	\$1.07
Net Book Value	11.88	11.70	11.07	10.30	10.92
Tangible Net Worth	8.42	8.12	7.37	6.56	7.36
Net Working Capital	8.03	7.13	6.80	6.95	7.40
Dividends	0.44	0.44	0.44	0.44	0.44
Average Shares Outstanding (Diluted)	3,885,891	3,745,701	3,658,965	3,681,084	3,667,179

FINANCIAL RATIOS

Return on Investment	10%	12%	9%	8%	10%
Net Income as a % of Sales	4%	5%	4%	4%	5%
Gross Profit Margin	23%	25%	24%	25%	27%
Sales per Employee (in thousands)	\$170	\$158	\$161	\$146	\$139
Net Income Per Employee (in thousands)	\$7	\$8	\$6	\$6	\$7
Current Ratio	3.3	2.9	3.5	3.5	3.7



Summarized Financial Data

	2005	2004	2003
Statement of Earnings			
Net sales	\$ 109,107,290	\$ 100,130,158	\$ 88,306,581
Cost of products sold	84,374,501	74,999,119	66,718,641
Other expenses	17,712,482	18,302,000	16,197,450
	<u>102,086,983</u>	<u>93,301,119</u>	<u>82,916,091</u>
Income before income taxes	7,020,307	6,829,039	5,390,490
Income taxes	2,653,120	2,071,338	2,028,868
NET INCOME	<u>\$ 4,367,187</u>	<u>\$ 4,757,701</u>	<u>\$ 3,361,622</u>
Net Income per share:			
Basic	\$ 1.20	\$ 1.31	\$ 0.93
Diluted	\$ 1.12	\$ 1.27	\$ 0.92
Balance Sheets			
ASSETS			
Current assets	\$ 45,045,156	\$ 40,424,441	\$ 34,965,337
Property, plant and equipment, net	22,396,686	23,906,547	24,930,425
Prepaid pension cost	723,826	348,634	1,192,281
Interest rate swap asset	32,081	—	—
Other assets, net	13,424,086	13,392,143	13,529,373
TOTAL ASSETS	<u>\$ 81,621,835</u>	<u>\$ 78,071,765</u>	<u>\$ 74,617,416</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	\$ 13,822,582	\$ 13,732,694	\$ 10,071,232
Deferred federal income taxes	895,019	1,452,134	1,243,264
Long-term debt, less current portion	12,384,338	11,804,861	15,814,669
Accrued postretirement benefits	2,078,056	2,219,821	2,384,770
Accrued pension cost	6,270,075	4,885,160	4,015,858
Interest rate swap obligation	—	160,417	580,055
Shareholders' equity	46,171,765	43,816,678	40,507,568
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 81,621,835</u>	<u>\$ 78,071,765</u>	<u>\$ 74,617,416</u>
CASH FLOWS			
CASH FLOWS FROM OPERATIONS			
Net income	\$ 4,367,187	\$ 4,757,701	\$ 3,361,622
Depreciation and amortization	3,459,747	3,461,411	3,619,328
Other, net	(2,628,529)	(3,365,299)	(610,733)
Net cash provided by operating activities	5,198,405	4,853,813	6,370,217
INVESTING ACTIVITIES:			
Purchases of equipment	(1,750,252)	(2,062,313)	(2,763,130)
Other	750	13,367	915,133
Net cash used by investing activities	(1,749,502)	(2,048,946)	(1,847,997)
FINANCING ACTIVITIES:			
Payments on debt	(3,009,811)	(2,007,357)	(3,732,726)
Proceeds from revolving credit loan	3,000,000	—	—
Tax benefit from disqualifying disposition of incentive stock options	6,403	—	—
Sales of Common Stock	—	324,800	—
Treasury Stock purchases	—	(142,193)	(317,726)
Dividends paid	(1,600,100)	(1,595,985)	(1,593,118)
Net cash (used) provided by financing activities	(1,603,508)	(3,420,735)	(5,643,570)
Effect of exchange rate changes on cash	80,046	139,558	78,934
Net increase (decrease) in cash	1,925,441	(476,310)	(1,042,416)
Cash at beginning of year	4,420,506	4,896,816	5,939,232
Cash at end of year	<u>\$ 6,345,947</u>	<u>\$ 4,420,506</u>	<u>\$ 4,896,816</u>

The information presented above has been derived from the audited consolidated financial statements of the Company as presented in the Form 10-K included in this report.

INDUSTRIAL HARDWARE GROUP

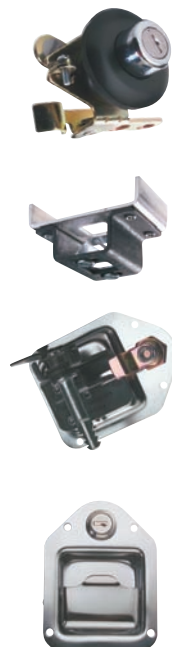
Eberhard Manufacturing Division

The Eberhard Manufacturing Division of Cleveland, Ohio is a leading designer and manufacturer of industrial latching systems servicing various Original Equipment Manufacturers throughout North America. The extensive selection of products Eberhard provides includes external and internal operating handles and rotary latches for military, fire and rescue, service body, and other specialty and commercial vehicles; operating push buttons and slam latches for the automotive and truck accessory toolboxes and tonneau covers. Eberhard also provides many other enclosure devices such as locking gear for over the road tractor trailers, operating devices for school and commercial busses as well as many access door devices for electrical, electronic and specialty metal enclosures.



Eberhard Hardware Manufacturing Division

Eberhard Hardware Manufacturing Limited of Ontario, Canada provides the wide line of traditional industrial latching products to the Canadian market as well as specialty hardware items for global markets. Working with toolbox OEM's in Canada and the United States, new and improved latching systems have also been developed. Additional specialty products include various connectors, brackets, stampings and assemblies for the appliance and electrical OEM markets.



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

Sesamee Mexicana is a distribution center for the Eberhard Manufacturing Division as well as other North American based manufacturers of industrial and vehicular components. Located near Mexico City, Sesamee services the Original Equipment Manufacturers in the vehicular body, electrical enclosure and instrument case markets with hardware, drawer slides, rubber gaskets, and pneumatic gas springs as well as other complementary components.

Canadian Commercial Vehicles Corporation

Canadian Commercial Vehicles ("CCV") is a full-service custom manufacturer of state-of-the-art lightweight honeycomb structures, fabricated metal products and assemblies for transport, construction, and industrial applications.



Eastern Industrial Limited

Eastern Industrial, Ltd., Shanghai offers comprehensive capabilities for Asian sourcing, machine tool design, engineering, rapid prototyping, extensive manufacturing including metal stampings and plastic injection molding to final assembly.



SECURITY PRODUCTS GROUP



Greenwald Industries Division

The Greenwald Industries Division has been a leading supplier of coin acceptors, metering and security products for the self-service laundry market throughout the world for over 50 years. Greenwald is also a leading developer of Smart Card technology applications. Smart Cards contain embedded microchip(s) and are more secure and durable than magnetic strip cards. They contain secure "purses" of electronic stored value or data to accommodate multiple applications.

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

The Illinois Lock Company/CCL Security Products Division produces custom-engineered locks for a variety of original equipment manufacturers and is a leading producer of keyless locks sold under well-known brand names such as Sesamee, Presto and Huski. With our Asian operations, World Lock and World Security, the Company can offer competitive pricing, service and delivery in a global economy.



METAL PRODUCTS GROUP



Frazer & Jones Division

The Frazer & Jones Division is the leading producer of rock anchors in North America. These proprietary anchoring devices are a key component for underground mine roof support in coal and metallurgical mines. In the construction industry the rock anchors are used in tunneling, securing cross-country transmission towers and hydro construction. The Frazer & Jones Division is the only producer in the Western Hemisphere to combine design, engineering and the manufacturing of these products. Frazer & Jones also produces ductile and malleable iron castings to customer engineered specifications for the industrial hardware, pipefitting and construction industries.



Board of Directors

John W. Everets

Chairman
Yorkshire Capital
Boston, Massachusetts

Charles W. Henry

Partner of Kernan & Henry
Waterbury, Connecticut

Leonard F. Leganza

President and Chief Executive Officer
of the Company

David C. Robinson

Consultant
Sinclair-Robinson Group
Wallingford, Connecticut

Donald S. Tuttle, III

Vice President Investments
USB PaineWebber
Middlebury, Connecticut

Russell G. McMillen

Director Emeritus

Officers & Executives

Leonard F. Leganza

President and
Chief Executive Officer

John L. Sullivan III

Vice President,
Secretary and Treasurer

Gene A. Finelli

Assistant Treasurer

Theresa P. Dews

Assistant Secretary

Brian H. Kay

Vice President
Eberhard Manufacturing Division
Eberhard Hardware Manufacturing, Ltd.
Sesamee Mexicana, S.A. de C.V.
Canadian Commercial Vehicles Corporation

Thomas D. Melkus

Vice President
Illinois Lock Company/
CCL Security Products Division

Leonard V. Samela

Vice President
Greenwald Industries Division

Roger Chang

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

Richard E. Luehr

Managing Director
Canadian Commercial Vehicles Corporation

Mark F. Novakowski

Managing Director
Frazer & Jones Division

Steven Zhang

Managing Director
Eastern Industrial, Ltd.

Notes

Annual Meeting

The annual meeting of shareholders of The Eastern Company will be held on Wednesday, April 26, 2006 at 11:00a.m., local time, at the office of the Company, 112 Bridge Street, Naugatuck, CT 06770

Independent Registered Public Accounting Firm

UHY LLP, Hartford, Connecticut

Transfer Agent and Registrar

American Stock Transfer & Trust Co.
40 Wall Street, New York, NY 10005
1-800-937-5449

Dividend Reinvestment & Stock Purchase Plan

The Eastern Company offers a Dividend Reinvestment Plan (DRP) which also features a no-load stock purchase program. It is available to all interested investors who would like to initiate or increase their holdings in Eastern Company stock. To receive a brochure and application form for this plan, contact The Eastern Company directly at (203) 729-2255, ext. 110, or phone the program administrator, American Stock Transfer & Trust Co. at 1-800-278-4353. You may also enroll online by logging onto www.INVESTPOWER.com and by entering the Company Ticker Symbol **EML** under Plan Search.

Forward-Looking Statements

This Annual Report 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.

Common Stock Market Prices and Dividends Paid

The Company's Common Stock is traded on the American Stock Exchange (ticker symbol **EML**). High and low stock prices and dividend payments for the past two years were:

2005				2004			
Quarter	Sales Price High	Sales Price Low	Cash Dividends Declared	Quarter	Sales Price High	Sales Price Low	Cash Dividends Declared
First	\$23.95	\$19.30	\$.11	First	\$16.37	\$14.50	\$.11
Second	23.55	20.00	.11	Second	16.70	15.25	.11
Third	26.25	21.25	.11	Third	16.73	15.10	.11
Fourth	23.44	19.45	.11	Fourth	20.60	16.15	.11

THE EASTERN COMPANY

P.O. Box 460, Naugatuck, CT 06770-0460

INDUSTRIAL HARDWARE GROUP

Eberhard Manufacturing Division
Cleveland, Ohio
www.eberhard.com

Eberhard Hardware Manufacturing, Ltd.
Tillsonburg, Ontario, Canada
www.eberhardcanada.com

Canadian Commercial Vehicles Corporation
Kelowna, British Columbia, Canada
www.ccvbc.com

Eastern Industrial, Ltd.
Shanghai, China
www.eischina.com

Sesamee Mexicana, S.A. de C.V.
Lerma, Mexico
www.sesamee.com.mx

SECURITY PRODUCTS GROUP

Greenwald Industries Division
Chester, Connecticut
www.greenwaldindustries.com

The Illinois Lock Company/
CCL Security Products Division
Wheeling, Illinois
www.illinoislock.com
www.cclsecurity.com

World Lock Co. Ltd.
World Security Industries Co. Ltd.
Taipei, Taiwan; China
www.worldlock.com.tw

METAL PRODUCTS GROUP

Frazer & Jones Division
Syracuse, New York
www.frazerandjones.com

Phone: (203) 729-2255 Fax: (203) 723-8653
E-mail: ir@easterncompany.com Homepage: www.easterncompany.com