EASTERN CO
Form 10-K/A
April 18, 2007

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year ended December 30, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to _______________

Commission File Number 0-599

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

Connecticut	06-0330020
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
112 Bridge Street, Naugatuck, Connecticut	06770
(Address of principal executive offices)	(Zip Code)

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

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

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

Common Stock No Par Value
(Title of Class)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

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

As of July 1, 2006, 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 $63,152,194 (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 23, 2007, 5,503,211 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 19, 2007 are incorporated by reference into Part III.

The Eastern Company
Form 10-K/A
Amendment No.1

EXPLANATORY NOTE

We are amending our annual report on Form 10-K for the year ended December 30, 2006 to include an Exhibit 23 that was omitted from the EDGAR conversion of Form 10-K on March 19, 2007. Exhibit 23, the consent of UHY LLP, the Company's independent registered public accounting firm was not included in the original filing of Form 10-K on March 19, 2007. This amendment also corrects the pagination to include the Exhibit.

Except as discussed above, we have not modified or updated the disclosures presented in the original annual report on Form 10-K. Accordingly, this Form 10-K/A does not reflect events occurring after the filing of our original Form 10-K. Information not affected by the correction is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-K on March 19, 2007.

FOR THE FISCAL YEAR ENDED DECEMBER 30, 2006

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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

During the third quarter of 2006, the Company received orders from a military contractor for component parts used in retro-fitting Humvees as part of the military's up-armor program to provide additional troop protection. These component parts began to be shipped in September 2006 and are scheduled to continue to be shipped into the early part of the second quarter of 2007. This program will result in approximately $31 million in total sales for the Industrial Hardware segment of the Company during the period from September 2006 to April 2007.

Effective November 8, 2006, the Company acquired certain assets of Summit Manufacturing, Inc. ("Summit"), which was integrated into the Company's Security Products segment. Summit designs and manufactures appliance hardware and accessories, including, but not limited to, oven door latches, oven door switches and smoke eliminators and provides subcontract assembly services. The cost of the Summit acquisition was $546,000, inclusive of transaction costs and outstanding debt paid at closing, plus the assumption of $369,000 in current liabilities.

Effective September 25, 2006, the Company acquired certain assets of Royal Lock Corporation ("Royal"), which was also integrated into the Company's Security Products segment. Royal is a supplier of cam locks, switch locks, padlocks, latches, handles and specialty hardware parts. The cost of the Royal acquisition was $6,991,000, inclusive of transaction costs, plus the assumption of $775,000 in current liabilities.

Both of 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 the date of acquisition. Neither the actual results nor the pro forma effects of these acquisitions are material to the Company's financial statements.

In October 2006, the Company's common stock was split 3-for-2. The effect of this stock split is reflected in all applicable share data and per share data in this Annual Report on Form 10-K.

(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

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plastic injection molding. Typical products include passenger restraint locks, slam and draw latches, dead bolt latches, compression latches, cam-type vehicular locks, hinges, tool box locks, light-weight sleeper boxes for Class 8 trucks and school bus door closure hardware. The products are sold directly to original equipment manufacturers and to distributors through a distribution channel consisting of in-house salesmen and outside sales representatives. Sales and customer service efforts are concentrated through in-house sales personnel where greater representation of our diverse product lines can be promoted across a variety of markets.

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

Security Products

The Security Products segment, made up of Greenwald Industries, Illinois Lock Company/CCL Security Products/Royal Lock, 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, as well as hardware and accessories for the appliance industry. 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, access control units, oven door latches, oven door switches and smoke eliminators. Illinois Lock Company/CCL Security Products/Royal Lock 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(TM), PRESTOSEAL(TM), DUO, X-STATIC(R), EXCALIBUR(TM), WARLOCK(TM), LITE LOCK(TM), SESAMEE(R), BIG TAG(R), PRESTOLOCK(R) and HUSKI(TM). 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 through national and regional sales personnel where greater representation of our diverse product lines can be promoted across a variety of markets.

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

Metal Products

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

Typical products include mine roof support anchors, couplers for railroad 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 competing 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 demand for malleable iron castings, the Company has invested in equipment for the production and marketing of ductile iron castings.

General

Raw materials and outside services were readily available from domestic sources for all of the Company's segments during 2006 and are expected to be readily available in 2007 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 2006 and does not expect any such problems in 2007. In 2006, the Company experienced significant price increases for zinc, brass and stainless steel, used mainly in the Industrial Hardware and Security Products segments, as well as scrap iron used in the Metal Products segment. These higher prices had a negative impact on gross margin in 2006, and will continue to negatively impact gross margin in 2007, if prices do not stabilize.

Patent protection for the various product lines within the Company is limited, but is sufficient to protect the Company's 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 generally not highly concentrated by customer. However, due to the military Humvee retro-fit contract, one customer in the Industrial Hardware Segment accounted for approximately 15% of total sales in 2006. No other customers exceeded 10% or more of the Company's consolidated sales for the year ended December 30, 2006. Following the completion of the Humvee retro-fit contract in April 2007, if additional military orders are not received, the Company anticipates sales in the second quarter of 2007 would be in the range of 10% - 20% above the second quarter of 2006.

The dollar amount of the backlog of orders received by the Company is believed to be firm as of fiscal year ended December 30, 2006 at $37,929,000, as compared to $17,219,000 at December 31, 2005. The primary source of the increase from 2005 to 2006 are orders related to the military Humvee retro-fit program.

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 currently utilizes three wholly-owned subsidiaries in Asia to help offset offshore competition.

Research and development expenditures in 2006 were $1,354,000 and represented approximately 1% of gross revenues. In 2005 and 2004 they were $1,150,000 and $1,167,000, 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, 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 2006 was 695.

(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' revenues 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. Information about risks attendant to the Company's foreign operations is set forth at Item 1A of this Annual Report on Form 10-K.

(e) Available Information

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

ITEM 1A RISK FACTORS

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

OUR BUSINESS IS SUBJECT TO RISKS ASSOCIATED WITH CONDUCTING BUSINESS OVERSEAS.

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

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

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

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

INCREASES IN THE PRICE OR REDUCED AVAILABILITY OF RAW MATERIALS.

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

INCREASED COMPETITION IN THE MARKETS THE COMPANY SERVICES COULD IMPACT REVENUES AND EARNINGS.

Any change in competition may result in lost market share or reduced prices, which could result in reduced profit margins. This may impair the ability to grow or even maintain current levels of revenues and earnings. While the Company has an extensive customer base, loss of certain customers could adversely affect the Company's business, financial condition or results of operations until such business is replaced, and no assurances can be made that the Company would be able to regain or replace any lost customers.

THE COMPANY WILL BE REQUIRED TO EVALUATE ITS INTERNAL CONTROL OVER FINANCIAL REPORTING UNDER SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002.

As of December 31, 2006, the Company is a "non-accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended. Pursuant to current reporting requirements, the Company expects to be an "accelerated filer", as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, and will be required to comply with Section 404 of the Sarbanes-Oxley

Act of 2002 beginning with our Annual Report on Form 10-K for fiscal year end 2007. Section 404 will require the Company to include in its report management's assessment of the effectiveness of the Company's internal control over financial reporting as of the end of the fiscal period for which the Company is filing its 10-K. This report must also include disclosure of any material weaknesses in internal control over financial reporting that the Company has identified. Additionally, the Company's independent registered public accounting firm will be required to issue an attestation report on management's assessment of its internal control over financial reporting and their evaluation of the operating effectiveness of the Company's internal control over financial reporting. The Company's assessment requires it to make subjective judgments and the independent registered public accounting firm may not agree with the Company's assessment. If the Company or its independent registered public accounting firm were unable to complete the assessments within the period prescribed by Section 404 and thus be unable to conclude that the internal control over financial reporting is effective, investors could lose confidence in our reported financial information, which could have an adverse effect on the market price of the Company's common stock or impact the Company's borrowing ability.

THE INABILITY TO IDENTIFY OR COMPLETE ACQUISITIONS COULD LIMIT FUTURE GROWTH.

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

DEMAND FOR NEW PRODUCTS AND THE INABILITY TO DEVELOP AND INTRODUCE NEW COMPETITIVE PRODUCTS AT FAVORABLE PROFIT MARGINS COULD ADVERSELY AFFECT THE COMPANY'S PERFORMANCE AND PROSPECTS FOR FUTURE GROWTH AND THE COMPANY WOULD NOT BE POSITIONED TO MAINTAIN CURRENT LEVELS OF REVENUES AND EARNINGS.

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

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THE COMPANY COULD BE SUBJECT TO LITIGATION WHICH COULD HAVE A MATERIAL IMPACT ON THE COMPANY'S BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS.

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

THE COMPANY COULD BE SUBJECT TO ADDITIONAL TAX LIABILITIES.

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

THE COMPANY'S GOODWILL OR INDEFINITE-LIVED INTANGIBLE ASSETS MAY BECOME IMPAIRED WHICH COULD REQUIRE A SIGNIFICANT CHARGE TO EARNINGS TO BE RECOGNIZED.

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

THE COMPANY MAY NEED ADDITIONAL CAPITAL IN THE FUTURE, AND IT MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS, IF AT ALL.

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

THE COMPANY'S STOCK PRICE IS HIGHLY VOLATILE DUE TO LOW FLOAT, WHICH IS THE NUMBER OF SHARES OF THE COMPANY'S COMMON STOCK THAT ARE OUTSTANDING AND AVAILABLE FOR TRADING BY THE PUBLIC.

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

THE COMPANY MAY NOT BE ABLE TO REACH ACCEPTABLE TERMS FOR CONTRACTS NEGOTIATED WITH ITS LABOR UNIONS AND BE SUBJECT TO WORK STOPPAGES OR DISRUPTION OF

PRODUCTION.

During 2007, union contracts covering 32% of the total workforce of the Company will expire. The Company has been successful in negotiating new contracts over the years, but cannot guarantee that will continue. Failure to negotiate new union contracts could result in disruption of production, inability to deliver product or a number of unforeseen circumstances, any of which could have an unfavorable material impact on the Company's results of operations or financial statements.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

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

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

THE INDUSTRIAL HARDWARE GROUP INCLUDES THE FOLLOWING:

The Eberhard Manufacturing Division in Strongsville, Ohio owns 9.6 acres of land and a building containing 138,000 square feet, located in an industrial park. The building is steel frame, one-story, having curtain walls of brick, glass and insulated steel panel. The building has two high bays, one of which houses two units of automated warehousing. The Company has rented additional space in an adjacent building to fulfill space requirements for the current military contracts.

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

The Canadian Commercial Vehicles Corporation, a wholly-owned subsidiary in Kelowna, British Columbia, leases 46,500 square feet of building space located in an industrial park. The building is made from brick and concrete, contains approximately 5,400 square feet of office space on two levels and houses a modern paint booth for finishing our products. The building is protected by a F1 rated fire suppression system and alarmed for fire and security. The current lease is renewable annually on January 1st.

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

The Sesamee Mexicana subsidiary moved into a new facility during 2006 and is leasing 18,000 square feet located in an industrial park in Lerma, Mexico on an open-end basis. The building is steel framed with concrete block and glass curtain walls.

THE SECURITY PRODUCTS GROUP INCLUDES THE FOLLOWING:

The Greenwald Industries Division in Chester, Connecticut owns 26 acres of land and a building containing 120,000 square feet. The building is steel frame, one story, having brick over concrete blocks.

The Illinois Lock Company/CCL Security Products/Royal Lock Division occupies a building containing 44,000 square feet in Wheeling, Illinois. The building is brick and located in an industrial park. In December 2006, the Company purchased this building and land for $2.2 million. This facility had been leased prior to December 2006. The Company is also leasing approximately 10,000 square feet of warehouse space occupied by Royal Lock during the transition into our existing facility.

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 $0.09 per diluted share, in 2004.

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

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter ended December 30, 2006.

PART II

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

The Company's common stock is traded on the American Stock Exchange (ticker symbol EML). The approximate number of record holders of the Company common stock on December 30, 2006 was 595.

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

2006				2005	
	Market Price				Market Pri
Quarter	High	Low	Dividend	Quarter	High
First	$14.67	$12.50	$.07	First	$15.97
Second	15.10	13.27	.08	Second	15.70
Third	18.83	13.70	.08	Third	17.50
Fourth	19.40	16.20	.08	Fourth	15.63

The Company increased the dividend rate by 9% in the second quarter of 2006. 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. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 5 to the Company's financial statements included at Item 8 of this Annual Report on Form 10-K.

The following table sets forth information regarding securities authorized for issuance under the Company's equity compensation plans as of December 30, 2006, 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
	(a)	(b)
Equity compensation plans approved by security holders	629,250(1)	$9.77
Equity compensation plans not approved by security holders	373,500(3)	8.32
Total	1,002,750	$9.23

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 337,500 shares to 487,500 shares.

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Each director who is not an employee of the Company ("Outside Director") is paid a director's fee for his services at the annual rate of $24,600. All annual fees paid to non-employee members of the Board of Directors of the Company are paid in common stock of the Company or cash, in accordance with the Directors Fee Program adopted by the shareholders on March 26, 1997 and amended on January 5, 2004. The directors make an annual election, within a reasonable time before their first quarterly payment, to receive their fees in the form of cash, stock or a combination thereof. The election remains in force for one year.

There were no issuer purchases of equity securities in 2006. The Company does not have any share repurchase plans or programs.

STOCK PERFORMANCE GRAPH

The following graph sets forth the Company's cumulative total shareholder return based upon an initial $100 investment made on December 31, 2001 (i.e., stock appreciation plus dividends during the past five fiscal years) compared to the Wilshire 5000 Index and the S&P Industrial Machinery Index.

The Company manufactures and markets a broad range of locks, latches, fasteners and other security hardware that meets the diverse security and safety needs of industrial and commercial customers. Consequently, while the S&P Industrial Machinery Index being used for comparison is the standard index most closely related to the Company, it does not completely represent the Company's products or market applications. The Wilshire 5000 is a market index made up of 5,000 publicly-traded companies, including those having both large and small capitalization.

[CHART OF CUMULATIVE TOTAL RETURN APPEARS HERE]

	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
Eastern Co.	$100	$ 95	$139	$183	$182	$277
Wilshire 5000	$100	$ 79	$104	$117	$125	$144
S&P (C) Industrial Machinery	$100	$ 99	$137	$162	$159	$181

ITEM 6 SELECTED FINANCIAL DATA

	2006	2005	2004
INCOME STATEMENT ITEMS (in thousands)			
Net sales	$138,465	$109,107	$100,130
Cost of products sold	103,882	84,375	74,999
Depreciation and amortization	3,746	3,460	3,461
Interest expense	1,098	1,014	1,044
Income before income taxes	14,846	7,020	6,829
Income taxes	5,187	2,653	2,071
Net income	9,659	4,367	4,758
Dividends	1,715	1,600	1,596
BALANCE SHEET ITEMS (in thousands)			
Inventories	$ 28,043	$ 20,768	$ 20,478
Working capital	35,546	31,223	26,692
Property, plant and equipment, net	25,816	22,397	23,907
Total assets	103,485	81,622	78,072
Shareholders' equity	54,391	46,172	43,817
Capital expenditures	6,722	1,750	2,062
Long-term obligations, less current portion	17,507	12,384	11,805
PER SHARE DATA			
Net income per share			
Basic	$ 1.76	$ .80	$ .87
Diluted	1.67	.75	.85
Dividends	.31	.29	.29
Shareholders' equity (Basic)	9.94	8.47	8.05
Average shares outstanding: Basic	5,474,137	5,455,073	5,441,312
Diluted	5,768,108	5,828,837	5,618,552

The information in the table above reflects a 3-for-2 stock split effective October 2006.

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

Summary

Net sales for 2006 increased 27% to $138.5 million from $109.1 million in 2005. Net income increased 121% to $9.7 million, or $1.67 per diluted share, from $4.4 million, or $0.75 per diluted share in 2005. Net sales and net income were favorably impacted by shipments of approximately $19 million from the Industrial Hardware segment to fulfill orders received in September 2006 to produce door latching components for a military project to up-armor existing Humvees. Shipments toward fulfillment of that military project are expected to continue through April of 2007. Net sales in the Industrial Hardware segment increased approximately 40% in 2006. Sales increased in the Security Products segment by 13%, resulting from the combined acquisitions of Royal Lock and Summit Manufacturing which contributed 5% of the increases and increases in existing operations of 8%. The Metal Products segment also experienced an increase in sales of 19%, resulting from increased shipments of both malleable and ductile iron products.

The following table shows, for the fourth quarter of 2006 and 2005, selected line items from the consolidated statements of income as a percentage of net sales, by segment.

	2006 Fourth Quarter		
	Industrial Hardware	Security Products	Metal Products
Net sales	100.0%	100.0%	100.0%
Cost of products sold	63.4%	76.0%	103.3%
Gross margin	36.6%	24.0%	-3.3%
Selling and administrative expense	9.3%	16.7%	8.8%
Operating profit	27.3%	7.3%	-12.1%

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

The following table shows the amount of change from the fourth quarter of 2005 to the fourth quarter of 2006 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

	Industrial Hardware	Security Products	Metal Products	
Net sales	$ 18,189	$ 2,598	$ 729	$
Volume	-6.0%	19.3%	19.2%	
Prices	0.0%	-0.4%	0.6%	
New Products	136.2%	3.8%	6.1%	

	130.2%	22.7%	25.9%	
Cost of products sold	$ 9,909	$ 2,366	$ 932	$
	94.5%	28.5%	34.2%	
Gross margin	$ 8,280	$ 232	$ (203)	$
	237.8%	7.4%	-234.4%	
Selling and administrative expenses	$ 947	$ 333	$ 42	$
	46.5%	16.5%	15.7%	
Operating profit	$ 7,333	$ (101)	$ (245)	$
	507.3%	-9.0%	-134.3%	

Net sales in the fourth quarter of 2006 increased 76% to $49.7 million from $28.2 million a year earlier. Net income for the quarter increased 335% to $5.6 million (or $.96 per diluted share) from $1.3 million (or $.23 per diluted share) a year earlier.

Gross margin for the fourth quarter of 2006 improved 124% from the fourth quarter of 2005. Higher sales volume which resulted in better utilization of production capacity mainly in the Industrial Hardware segment was the main reason for the improvement. Gross margin was negatively impacted by cost increases for raw materials and increased payroll and payroll related charges in all three of our business segments.

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Selling and administrative expenses for the fourth quarter of 2006 increased 30.6% compared to the prior year quarter due to higher payroll and payroll related charges for all business segments and increased amortization of intangibles associated with the Royal Lock and Summit Manufacturing acquisitions.

In 2006, the Company continued to experience increased costs related to the required compliance with Section 404 of the Sarbanes-Oxley Act. The fees paid during 2006 for assistance with the documentation required by Section 404 were approximately $145,000, which does not include the cost of internal personnel. The Company has completed the documentation phase of its process and will incur additional costs in 2007 for third party testing of its internal control procedures. Based on the Company's current public float and current regulations, the Company will be required to report on its internal controls in the 2007 Form 10-K, which will be filed in March 2008. Future attestation fees, for work to be completed by the independent registered public accounting firm, are projected to be in the range of $230,000 - $350,000.

The Company adopted SFAS 123R, Share Based Payment (as Amended) effective January 1, 2006. SFAS 123R eliminates the alternative to use the intrinsic value method of accounting that was provided for in SFAS 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees and directors to the extent issued at fair market value. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all companies to apply a fair-value-based measurement method in accounting generally for all share-based payment transactions with employees. SFAS 123R does not require the recording of compensation expense in periods prior to the date of adoption. As no stock options were granted in 2006 and, as all options granted prior to January 1, 2006 were fully vested, there was no impact on the current year financial statements.

The Company adopted SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, effective January 1, 2006. 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 adoption of SFAS No. 151 did not have a material impact on the consolidated financial statements of the Company.

The Company adopted SFAS No. 154, Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 (Accounting Changes) and FASB Statement No. 3 (Reporting Accounting Changes in Interim Financial Statements), effective January 1, 2006. SFAS No. 154 provides guidance on accounting for and reporting of accounting changes and error corrections. It requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the specific period effects or the cumulative effect of the change. The adoption of SFAS No. 154 did not have a material impact on the Company's consolidated financial statements.

On December 30, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS No. 158"), which was issued by the FASB in September 2006. This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. As allowed under SFAS 158, the Company did not adopt the measurement date provision in 2006. The Company will adopt the measurement date provision by 2008 as required.

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48") Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ("SFAS 109"). This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 details how companies should recognize, measure, present, and disclose uncertain tax positions that have been or are expected to be taken. As such, financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts. We are currently analyzing the effect of FIN 48 on our financial statements. The Company will adopt FIN 48 in the first quarter of 2007.

In September 2006, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108 ("SAB 108"), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 eliminates the diversity of practice surrounding how public companies quantify financial statement misstatements. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. SAB 108 must be applied to annual

financial statements for their first fiscal year ending after November 15, 2006.

The application of SAB 108 did not have a material impact on our financial condition or results of operations.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. We have not yet determined the impact that the implementation of SFAS No. 157 will have on our results of operations or financial condition. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

Critical Accounting Policies and Estimates

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

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

Allowance for Doubtful Accounts

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

Inventory Reserve

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out ("LIFO") method at the Company's U.S. facilities. Accordingly, a LIFO valuation reserve is calculated using the dollar value link chain method.

We review the net realizable value of inventory in detail on an ongoing basis, giving consideration to deterioration, obsolescence and other factors. Based on these assessments, we provide for an inventory reserve in the period in which an impairment is identified. The reserve fluctuates with market conditions, design cycles and other economic factors.

Goodwill and Other Intangible Assets

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

projections. If different assumptions were used in these plans, the related discounted cash flows used in measuring impairment could be different and an impairment of assets might need to be recorded.

Pension and Other Postretirement Benefits

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

The discount rate used is based on comparisons to the Moody's Aa Corporate Bond index, as well as a hypothetical yield curve that creates a reference portfolio of high quality corporate bonds whose payments mimic the plan's benefit payment stream. The expected long-term rate of return on assets is developed with input from the Company's actuarial firms. Also considered is the Company's historical experience with pension fund asset performance in comparison with expected returns. The long-term rate-of-return assumption used for determining net periodic pension expense for 2006 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 $2.1 million in 2007.

RESULTS OF OPERATIONS

Fiscal 2006 Compared to Fiscal 2005

The following table shows, for 2006 and 2005, selected line items from the consolidated statements of income as a percentage of net sales, by segment.

	2006		
	Industrial Hardware	Security Products	Metal Produc
Net sales	100.0%	100.0%	100.
Cost of products sold	70.5%	74.2%	104.
Gross margin	29.5%	25.8%	-4.
Selling and administrative expense	12.1%	16.8%	9.
Operating profit	17.4%	9.0%	-14.

	2005		
	Industrial Hardware	Security Products	Metal Produc
Net sales	100.0%	100.0%	100.
Cost of products sold	75.6%	72.1%	107.
Gross margin	24.4%	27.8%	-7.
Selling and administrative expense	14.7%	17.5%	9.
Operating profit	9.7%	10.3%	-17.

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The following table shows the amount of change from 2005 to 2006 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

	Industrial Hardware	Security Products	Metal Products
Net sales	$ 21,590	$ 5,743	$ 2,025
Volume	-1.9%	11.3%	12.5%
Prices	0.0%	0.0%	0.6%
New Products	42.0%	1.7%	5.4%
	----	----	----
	40.1%	13.0%	18.5%
Cost of products sold	$ 12,533	$ 5,181	$ 1,793
	30.8%	16.2%	15.3%
Gross margin	$ 9,057	$ 562	$ 232
	68.8%	4.5%	29.7%
Selling and			

administrative expenses	$ 1,178	$ 624	$ 211
	14.9%	8.0%	19.6%
Operating profit	$ 7,879	$ (62)	$ 21
	150.6%	-1.4%	1.2%

INDUSTRIAL HARDWARE SEGMENT

Net sales in the Industrial Hardware segment were up 40.1% in 2006 from the 2005 level. New product introductions, mainly the component parts for the Humvee retrofit program, were responsible for the increase in sales for this segment. All of the new products were internally developed and offered to the variety of markets we service including: military, utility truck, vehicular accessories and recreational vehicles. New products included retrofit components for military Humvees, a hidden hinge used on service truck bodies, a three point handle assembly and a star wheel rotary assembly for the truck accessory market and pickup truck camper shell used in the emergency vehicle market as well as an assortment of handles and latches used in many of the markets we sell to. Sales volume of existing products was up in all but two of the markets we service - truck trailers and van bodies. Sales at the Company's Mexican subsidiary increased 12% from 2005 primarily due to economic growth in Mexico.

Cost of products sold for the Industrial Hardware segment increased 30.8% from 2005 to 2006. In addition to manufacturing costs associated with the higher volume of sales, the major factor causing the increase was the higher costs of raw materials.

Gross margin as a percentage of net sales increased from 24.4% to 29.5%, which is a direct result of the significant increase in sales volume resulting in more efficient utilization of our existing facilities.

Selling and administrative expenses increased 14.9% from 2005 levels due to increases in payroll and payroll related charges.

SECURITY PRODUCTS SEGMENT

Net sales in the Security Products segment increased 13.0% from 2005 to 2006. Increased sales volume of existing products in our core lock business coupled with the acquisitions of Royal Lock and Summit Manufacturing, more than offset declines in sales volume of our commercial laundry products. Volume decreases occurred in traditional laundry products such as drop meters and meter cases as well as the newer "smart card" systems. Most of the 2006 decline in "smart card" systems was due to a retro-fit of card systems in 2005. In addition to the oven latch line from the Summit Manufacturing acquisition, new products were mainly lock related, such as: a car carrier clamp assembly, an L-handle for a sportrack and an electric car lock set used in the automotive accessories market as well as a variety of other lock products for various markets.

Cost of products sold for the Security Products segment increased 16.2% from 2005 to 2006. Most of the increase in cost of products sold was directly proportionate to the increase in sales. The major item that outpaced the

increased sales level were raw material costs, which we were not able to be recover through increased prices due to the competitive nature of many of the markets we sell to.

Gross margin decreased from 27.8% to 25.8% as a percentage of net sales for the

Security Products segment resulting from the higher manufacturing costs, mainly raw materials, as well as a change in product mix.

Selling and administrative expenses increased 8.0% from the same period a year ago due to higher costs for payroll and payroll related charges, advertising expenses and amortization of intangibles associated with the acquisitions of Royal Lock and Summit Manufacturing.

METAL PRODUCTS SEGMENT

Net sales in the Metal Products segment increased 18.5% from 2005 to 2006. Sales of mine products increased 20% in 2006 compared to 2005, while sales of contract casting products increased 16% from 2005. In 2006, sales of mine roof supports increased in both the U.S. and Canadian markets. Shipments of ductile iron castings increased 35% to 973 tons in 2006 from 723 tons in 2005. The Company continued its marketing efforts to sell mine roof anchor products in Australia and China. Sales of new products in 2006 included a new mine roof anchor for the Canadian market and a variety of dome nuts for use in underground mining applications.

Cost of products sold decreased as a percentage of net sales due mainly to higher sales volume. Cost increases were experienced for raw materials, payroll and payroll related charges, supplies and tools and equipment maintenance. In order to improve the efficiency of producing ductile iron castings, the Company installed a new automatic pouring system designed specifically for ductile iron in July 2006. The Company experienced higher costs than anticipated with the start-up of the equipment and did not start achieving the anticipated improvement in pouring efficiency until late in the fourth quarter of 2006.

Gross margin in the Metal Products segment improved slightly as a percentage of net sales mainly due to higher sales volume resulting in better utilization of production facilities and product mix.

Selling and administrative expenses in the Metal Products segment increased 19.6% from 2005 to 2006, due to increases in payroll and payroll related charges, advertising and travel expenses.

Other Items

The following table shows the amount of change from 2005 to 2006 in other items (dollars in thousands):

	Total
Interest expense	$ 84 8.2%
Other income	$ 72 92.0%
Income taxes	$ 2,534 95.5%

Interest expense increased from 2005 to 2006 primarily due to the increased level of debt associated with the amended Loan Agreement, which is discussed in Note 5 in Item 8 of this Form 10-K.

Other income increased from 2005 to 2006 due to a gain on the termination of a swap agreement, which is discussed in Note 5 in Item 8 of this Form 10-K.

Income taxes - the effective tax rate decreased in 2006 to 35% from the 38% rate in 2005. The decrease is the result of a change in the mix of U.S and foreign income, as well as a change in the mix of U.S. earnings in states with lower income tax rates.

FISCAL 2005 COMPARED TO FISCAL 2004

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

	2005		
	Industrial Hardware	Security Products	Metal Produc
Net sales	100.0%	100.0%	100.
Cost of products sold	75.6%	72.1%	107.
Gross margin	24.4%	27.8%	-7.
Selling and administrative expense	14.7%	17.5%	9.
Operating profit	9.7%	10.3%	-17.

	2004		
	Industrial Hardware	Security Products	Metal Produc
Net sales	100.0%	100.0%	100.
Cost of products sold	72.5%	71.5%	96.
Gross margin	27.5%	28.5%	3.
Selling and administrative expense	16.8%	20.3%	8.
Operating profit	10.7%	8.2%	-4.

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

Industrial Hardware	Security Products	Metal Products

Net sales	$ 7,853	$ 1,901	$ (777)
Volume	4.3%	1.8%	-6.4%
Prices	3.2%	1.1%	-0.3%
New Products	9.6%	1.6%	0.1%
	----	----	----
	17.1%	4.5%	-6.6%
Cost of products sold	$ 7,352	$ 1,631	$ 392
	22.1%	5.4%	3.5%
Gross margin	$ 501	$ 270	$ (1,169)
	4.0%	2.2%	-302.8%
Selling and administrative expenses	$ 204	$ (847)	$ 139
	2.6%	-9.8%	14.9%
Operating profit	$ 297	$ 1,117	$ (1,308)
	6.0%	32.2%	-238.7%

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INDUSTRIAL HARDWARE SEGMENT

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

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

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

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

SECURITY PRODUCTS SEGMENT

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

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

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

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

METAL PRODUCTS SEGMENT

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

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

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

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

Other Items

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

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

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

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

Income taxes increased from 2004 to 2005 due to a higher effective tax rate, 38% in 2005 versus 30% in 2004, resulting primarily from a change in the mix of taxable earnings in foreign jurisdictions with higher effective tax rates and the imposition of higher state tax rates.

LIQUIDITY AND SOURCES OF CAPITAL

The Company's financial position remained strong throughout 2006. The primary source of the Company's cash is earnings from operating activities adjusted for cash generated from or used for 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 need 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.

	2006	2005	2004
Current ratio	2.5	3.3	2.9
Average days' sales in accounts receivable	46	48	47
Inventory turnover	3.7	4.1	3.7
Ratio of working capital to sales	25.7%	28.6%	26.7%
Total debt to shareholders' equity	37.9%	34.2%	36.1%

At December 30, 2006, December 31, 2005, and January 1, 2005, the Company had cash and cash equivalents of $3.1 million, $6.3 million and $4.4 million, respectively, and working capital of $35.5 million, $31.2 million and $26.7 million, respectively.

Net cash provided by operating activities was $7.9 million in 2006 compared to $5.2 million in 2005 and $4.9 million in 2004. The $2.7 million increase from 2005 to 2006 is primarily the result of the increase in earnings in 2006, as well as changes in the components of working capital. The $0.3 million increase from 2004 to 2005 related primarily to changes in the components of working capital. During 2006, working capital used $5.6 million in cash as a result of increased sales activity, primarily in the 4th quarter of the year. Increases in accounts receivable and inventory accounted for $14.4 million of cash usage while increases in accounts payable, accrued compensation and other accrued expenses provided $8.9 million in cash. In 2005, working capital used $2.7 million in cash as a result of increased sales activity. Accounts receivable accounted for most of the increase, rising $2.2 million. In 2004, working capital used approximately $3.6 million in cash as a result of increased sales activity. Included in this amount were a $3.3 million increase in inventories and a $1.6 million increase in accounts receivable, offset by a $500,000 increase in accounts payable and an $800,000 increase in accrued compensation.

During 2006, 2005 and 2004 the Company used $14.2, $1.7 and $2.0 million of cash in investing activities, respectively. In 2006, the Company made two small acquisitions which used approximately $7.5 million in cash. The remaining $6.7 million in 2006 and virtually all of the amounts for 2005 and 2004 related to the purchase of fixed assets. Significant purchases in 2006 included $2.2 million of land and building for one of the Company's Security Products Segment manufacturing facilities, approximately $600,000 in new equipment purchases related to a significant contract received by the Industrial Hardware Segment, and approximately $570,000 for an automatic pouring system for ductile iron for the Metal Products Segment. The Company expects capital expenditures for 2007 to be approximately $4.5 million to $5.5 million.

Net cash provided by financing activities in 2006 totaled approximately $3.2 million. This was the result of the Company's restructuring of its outstanding debt in order to provide cash for the business and fixed asset acquisitions previously described above. See additional details concerning debt below. Net cash used by financing activities totaled $1.6 million and $3.4 million in 2005 and 2004, respectively. During 2005, the Company borrowed an additional $3.0 million on its revolving credit facility to cover short-term cash requirements. Principal payments of long-term debt amounted to $3.0 million and $2.0 million in 2005 and 2004, 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 $945,000, $826,000 and $642,000 in 2006, 2005 and 2004, respectively.

On September 22, 2006, the Company amended the unsecured loan agreement ("Loan

Agreement"), which includes a term portion and a revolving credit portion, with its lender, Bank of America, N.A. The amendment restructures and increases the balance of the term portion of the loan into a new seven (7) year loan in the amount of $20,000,000. The restructured term portion is payable in quarterly payments of $714,286 beginning January 2, 2007. The proceeds were used to repay in full the outstanding balance of its existing term loan, $12,625,000, and for the acquisition of Royal Lock.

In addition, the Company increased the maximum amount available under the revolving credit portion from $7,500,000 to $12,000,000 and renewed and extended the maturity date to September 22, 2009. The revolving credit portion has a variable quarterly commitment fee ranging from 0.10% to 0.25% based on operating results. As of December 30, 2006, the quarterly fee is 0.15% on the unused portion.

The interest rates on the term and the revolving credit portions of the Loan Agreement vary. The interest rates may vary based on the LIBOR rate plus a margin spread of 1.0% to 1.65% for the term portion and 1.0% to 1.6% for the revolving credit portion. The margin rate spread is based on operating results calculated on a rolling-four-quarter basis. The Company may also borrow funds at the lender's prime rate. On December 30, 2006, the interest rate on the term portion of the Loan Agreement was 6.62%.

Also on September 22, 2006, the Company terminated its interest rate swap contract with the lender. At the time of termination, the notional amount was $9,468,750, which was equal to 75% of the outstanding balance of the term loan on that date. As a result of the termination, the Company received $73,100 of cash which was included in other income. The Company had originally entered into the interest rate swap contract with an original notional amount of $11,793,750 which was equal to 75% of the outstanding balance of the term loan on August 11, 2005. The notional amount began to decrease on a quarterly basis beginning October 3, 2005 following the principal repayment schedule of the term portion of the Loan Agreement. The Company had a fixed interest rate of 4.61% on the swap contract and paid the difference between the fixed rate and LIBOR when LIBOR was below 4.61% and received interest when the LIBOR rate exceeded 4.61%.

On November 2, 2006, the Company entered into an interest rate swap contract with the lender with an original notional amount of $20,000,000 (notional amount $20,000,000 on December 30, 2006), which was equal to 100% of the outstanding balance of the term loan on that date. The notional amount will decrease on a quarterly basis beginning January 2, 2007 following the principal repayment schedule of the term loan. The Company has a fixed interest rate of 5.25% on the swap contract and will pay the difference between the fixed rate and LIBOR when LIBOR is below 5.25% and will receive interest when the LIBOR rate exceeds 5.25%.

On August 1, 2005, the Company had also amended the Loan Agreement. The amendment renewed and extended the maturity of the revolving credit loan from July 1, 2005 to August 1, 2007 and restructured and increased the existing balance of the term loan into a new five (5) year term loan. The additional $4,000,000 proceeds from the term loan were used to pay down the balance on the revolving credit agreement at that time.

Previously, the Company maintained an interest rate swap contract, as required, with the lender for an original notional amount of $15,000,000 (notional amount $6,600,000 on January 1, 2005), which was reduced on a quarterly basis in accordance with the principal repayment schedule of the term portion of the Loan Agreement. The interest rate on the swap contract was at a fixed rate of 9.095% and expired on July 1, 2005.

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. The loan covenants also prohibit the Company from paying any dividends in the event the payment would result in a default under the terms of the Loan Agreement.

Tabular Disclosure of Contractual Obligations

The Company's known contractual obligations as of December 30, 2006, are shown below:

			Payment d
Contractual Obligations (in thousands)	Total	Less than 1 Year	1-3 Year
Long-term debt obligations	$ 20,000	$ 2,857	$ 5,71
Estimated interest on long-term debt and capital lease obligations	4,531	1,300	1,85
Capital lease obligations	619	255	36
Operating lease obligations	1,762	595	1,06
Estimated contributions to pension plans	5,324	2,102	2,72
Estimated postretirement benefits other than pensions	1,221	165	32
Total	$ 33,457	$ 7,274	$ 12,03

The amounts shown in the above table for estimated contributions to pension plans and estimated postretirement 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.

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

At December 30, 2006, the Company maintained a stand-by letter of credit in the amount of $559,000 related to one of its capital leases. This amount is declining on a monthly basis as payments on the lease are made. The stand-by 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 20% of total sales and 14% of total assets. Its U.S. operations buy from and sell to these foreign affiliates, and also make limited sales (approximately 7% of total sales) to nonaffiliated foreign customers. This trade activity could be affected by fluctuations in foreign currency exchange or by weak economic conditions. The

Company's currency exposure is concentrated in the Canadian dollar, Mexican peso, New Taiwan dollar, Chinese RMB and Hong Kong dollar. Because of the Company's limited exposure to any single foreign market, any exchange gains or losses have not been material and are not expected to be material in the future. Had the exchange rate as of December 30, 2006 for all of the listed currencies changed by 1%, the total change in reported earnings would have been less than $20,000. As a result, the Company does not attempt to mitigate its foreign currency exposure through the acquisition of any speculative or leveraged financial instruments. In 2006, a 10% increase/decrease in exchange rates would have resulted in a translation increase/decrease to sales of approximately $2.6 million, and to equity of approximately $1.6 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 1.65%. 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 1.25% on both the term loan portion and the revolving credit line portion of the Loan Agreement. Changes in LIBOR rates will also affect the Company's interest expense. To hedge against future LIBOR rate increases, the Company has an interest rate swap contract on 100% of the term loan principal amount under the Loan Agreement. The interest rate on the swap contract is 5.25% and the swap contract expires on September 22, 2013. 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 $20.0 million as of December 30, 2006. Therefore, the term debt is not subject to the volatility of short-term interest rates because the entire amount of debt is hedged under the swap contract.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Eastern Company

Consolidated Balance Sheets

	December 30 2006
ASSETS	
Current Assets	
Cash and cash equivalents	$ 3,101,458
Accounts receivable, less allowances of $319,000 in 2006 and $295,000 in 2005	24,859,152
Inventories:	
Raw materials and component parts	8,008,603
Work in process	6,366,354
Finished goods	13,667,609
	28,042,566
Prepaid expenses and other assets	2,391,425

Deferred income taxes	931,641
Total Current Assets	59,326,242
Property, Plant and Equipment	
Land	1,102,628
Buildings	13,687,524
Machinery and equipment	32,068,499
Accumulated depreciation	(21,042,934)
	25,815,717
Other Assets	
Goodwill	13,742,160
Trademarks	117,959
Patents, technology and other intangibles net of accumulated amortization	4,216,508
Interest rate swap asset	-
Intangible pension asset	-
Prepaid pension cost	266,358
	18,342,985
	$ 103,484,944

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Consolidated Balance Sheets

	December 30 2006
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	$ 13,170,491
Accrued compensation	3,098,525
Other accrued expenses	4,399,358
Current portion of long-term debt	3,111,908
Total Current Liabilities	23,780,282
Deferred income taxes	1,123,537
Long-term debt, less current portion	17,506,802
Accrued postretirement benefits	1,221,156
Accrued pension cost	5,323,550
Interest rate swap obligation	138,412
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: 8,012,550 shares in 2006 and 7,992,626 shares in 2005	17,974,115
Treasury Stock: 2,533,089 shares in 2006 and 2005	(16,655,041)
Retained earnings	58,279,371
Accumulated other comprehensive income (loss):	
Foreign currency translation	756,452
Unrecognized net pension and postretirement benefit costs, net of taxes	(5,875,261)
Additional minimum pension liability, net of taxes	-
Derivative financial instruments, net of taxes	(88,431)
	(5,207,240)
Total Shareholders' Equity	54,391,205
	$ 103,484,944

See accompanying notes.

Consolidated Statements of Income

	Year ended	
	December 30 2006	December 31 2005
Net sales	$ 138,465,411	$ 109,107,290
Cost of products sold	(103,881,660)	(84,374,501)
Gross margin	34,583,751	24,732,789
Selling and administrative expenses	(18,789,514)	(16,776,253)
Operating profit	15,794,237	7,956,536
Interest expense	(1,097,640)	(1,014,052)
Other income	149,451	77,823
Income before income taxes	14,846,048	7,020,307
Income taxes	5,187,300	2,653,120
Net income	$ 9,658,748	$ 4,367,187
Earnings per Share:		
Basic	$ 1.76	$ .80
Diluted	$ 1.67	$ .75

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Year ended	
	December 30 2006	December 31 2005
Net income	$ 9,658,748	$ 4,367,187
Other comprehensive income/(loss) -		
Change in foreign currency translation	(62,114)	354,762
Change in fair value of derivative financial instruments, net of income taxes (benefit) of ($35,301) in 2006, $75,797 in 2005 and $168,000 in 2004	(62,092)	116,701
Reclassification adjustment for termination of derivative financial instrument, net of income tax benefit of $26,477	(46,623)	-
Change in additional minimum pension liability net of income taxes (benefit) of $927,837 in 2006, ($584,440) in 2005 and ($227,839) in 2004	1,466,438	(994,753)
Effect on net pension and postretirement benefit costs related to the adoption of FAS 158, net of income tax benefit of $734,263 in 2006	(1,299,146)	-
	(3,537)	(523,290)
Comprehensive income	$ 9,655,211	$ 3,843,897

See accompanying notes.

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Consolidated Statements of Shareholders' Equity

	Common Shares	Common Stock	Treasury Shares
Balances at January 3, 2004	7,944,572	$17,177,797	(2,520,513)
Net income			
Cash dividends declared, $.29 per share			
Purchase of Common Stock for treasury			(12,576)
Issuance of Common Stock upon the exercise of stock options	33,750	324,800	

Issuance of Common Stock for directors' fees	7,068	80,964	
Balances at January 1, 2005	7,985,390	17,583,561	(2,533,089)
Net income			