

CROSS®



A.T. Cross Company 2005 Annual Report



**Dear Fellow Shareholders:**

Early in 2005, senior management, in recognition of the fact that Cross is evolving from its position of being a manufacturer and marketer of fine writing instruments to a branded lifestyle company that offers a broad range of personal accessories, developed a new, more relevant Mission Statement; namely: ***Cross exists to provide accessories that make everyday activities more special for consumers around the globe.*** This statement aptly conveys the essence of Cross' unique way of bringing value to its consumers. We believe that if we focus our efforts toward this purpose, we will restore meaningful profitability to Cross and create significant shareholder value. With this imperative in mind, in 2005 we worked to accomplish three goals:

Goal #1: Increase market share of the Cross brand by reshaping our approach to the Quality Writing Instrument (QWI) market and by developing compelling new brand extensions.

Goal #2: Continue to execute our "Cross into the Future" reorganization program, which is designed to significantly reduce our QWI cost structure.

Goal #3: Grow our Costa Del Mar® polarized sunglass business as we look to become a larger competitor in the growing premium sunglass market.

We are pleased to report that we made good progress in each of these areas in 2005 and delivered a profit. This bodes well for 2006 and beyond as these initiatives gain traction and our evolution continues.

Our Approach to Quality Writing Instruments

In 2005, our QWI business declined 4%. A combination of factors is at the root of this result. Primary among them are that retail customers, in an effort to improve their turn, reduced their QWI inventory, and Corporate Gift customers, to comply with stricter gift giving policies, lowered their average price per order. These trends are global in nature. However, we believe that we can overcome them and restore growth to our QWI business. We started down this path by rolling out the following key initiatives:

We began to accelerate our new product development effort.

Our focus on new products began to bear fruit in the second half of 2005. After achieving 13% of total QWI sales from new products in the first half of 2005, we significantly



increased our second half activity and saw 23% of total QWI sales come from new products. In 2006, this number is expected to grow to 28%. We are proud of the innovation we constantly bring to the QWI market. In 2005, products like Apogee™, Tech3, Avitar and Calais, as well as fresh finishes on ATX®, Verve™ and Townsend, brought unprecedented newness to our consumers. New products are exciting. We know that our consumers appreciate them and respond. As we move forward, we will devote a significant portion of our resources to bringing more and better ideas to market, and making sure that our partners have the tools to maximize the commercial potential of our new products.

We reduced the number of products within our product lines.

In order to make room for the increased flow of new products, we implemented a product review process which eliminated under-performing product from the market. By the end of 2005, this process had reduced the number of SKUs that we offer by 26%. This ongoing program will assist trade customers in focusing their inventory dollars on our fastest moving core products and on our new products. We compete for the trade's inventory dollars, not only with other QWI brands, but with brands in the accessory and gift arenas. We have repeatedly



VERVE MERLOT FOUNTAIN PEN

seen that the faster Cross product turns, the greater share of inventory dollars we receive.

We set in motion programs to improve our in-store presentation.

Cross traditionally offers its customers considerable in-store support designed to differentiate our brand at point of sale. In 2005, after conducting market research among QWI consumers and understanding consumers' buying behavior in our Boston-based concept stores, we developed several new approaches for these in-store efforts. In a number of test locations, these innovative approaches – which include unique display designs, clearer product segmentation, and more access to product for consumers – have significantly grown comparable store sales and have delivered the high level of sales per square foot that our trade seeks. These programs will be rolled out in 2006.

We continued to build our direct-to-consumer effort.

In 2005, ignited by the launch of our first-ever direct mail holiday catalog, our Cross brand sales directly to our consumers (through our catalog, e-commerce site

www.cross.com, 800 number and the Cross stores) grew 32%. These vehicles offer us the opportunity to showcase the complete Cross branded product line to consumers in an upscale manner, at full price. In addition, they offer the Cross consumer the ability to purchase Cross products in whichever channel they choose to shop. Consumers are responding to this approach and we will develop it further as we continue to provide this service.

Cross Brand Extensions

In 2005, Cross brand extensions (non-QWI) represented 3% of our Cross brand revenue. During the year, we successfully launched Cross Precision Reading Glasses. Additionally, we experienced significant sales in our holiday direct mail catalog and our Boston retail stores from Cross watches and Cross leather accessories. We know from this data and research results that Cross has strong brand equity that can lead to revenue growth beyond the QWI market. As we move forward, we will focus a greater percentage of our time and resources on developing Cross brand extensions and selling them through channels that can support them appropriately.



Cross into the Future Reorganization Program

In mid-2003, we announced our “Cross into the Future” restructuring program. The goal of the program is to streamline our entire cost structure. We must do this in order to remain competitive in the global marketplace where low costs are no longer a competitive advantage, but a necessity. To date, we have reduced the size of our European and U.S. operations, consolidated inventory, and made significant progress on the linchpin of the effort: overseas sourcing. By the end of 2005, a meaningful portion of Cross’ manufacturing equipment had been transferred to our partner’s factory and set up by Cross engineers. Cross

pens continue to be manufactured on the same equipment that was used in Rhode Island with material supplied by many of the same suppliers Cross has always purchased from. The result is product produced to Cross standards at a globally competitive cost. At the end of 2006, when we put in place the final elements of the sourcing initiative, the “Cross into the Future” program will be complete. This project, without adjusting for the impact of inflation, is expected to reduce our costs by \$11 million. Some of these savings have been invested in our efforts to grow and support the business, and some have been underwriting increased fixed costs such as employee benefit programs and Sarbanes-Oxley compliance. Importantly, with the cost reductions



LAVA
POLARIZED
SUNGLASSES

that we will implement in 2006, we are on target to deliver a cost structure that will support growth and deliver improved earnings for the foreseeable future.

As we have stated from the beginning of the manufacturing transition, our primary objective with regard to offshore sourcing is to deliver to consumers the unsurpassed quality that they expect from a Cross branded product. We have been deliberate in our efforts in order to achieve this goal, and we know from the scrutiny with which we inspect our products that we have achieved it. Quality is at the heart of our brand equity. We constantly invest to maintain it and we will continue to do so in every place that our product is produced.

Costa Del Mar

The shining star within our Company in 2005 was our Costa Del Mar polarized sunglass business. The brand grew 30%. In the two-and-one-half years we have owned the brand, the terrific team at Costa has grown the business over 70%. They have done this by introducing very successful new products, gaining shelf space with key customers, expanding the business to untapped markets like California and positioning the brand in a compelling and authentic way to an enthusiastic consumer base.

There is more to come! Costa's core consumer is the avid fisherman; specifically, the avid male fisherman in the southeastern United States. In 2005, as we introduced a wider range of styles, which featured our polarized lens technology, we began to see new consumers begin to explore our brand. Of particular note among these new consumers are increasing numbers of women and college students. Combined with our push west from Florida, this phenomenon is delivering explosive growth. In 2006, we intend to continue to fund programs that will capitalize on consumers' growing awareness of Costa. We see many opportunities for this brand and we will be aggressive in pursuing them.

The team's performance with Costa Del Mar indicates that we can be successful in acquiring and building niche optical brands. As a result, we will allocate resources in 2006 toward finding other brands that fit the Costa profile of several years ago, ones that could benefit from our capital and expertise. When we find such brands we will look to add them to our optical portfolio as we continue to gain share in this important category.

Summary

In 2005, we continued the transformation of A.T. Cross. With the exceptional Cross brand as the backbone, we are



BRINE AND STRINGER
POLARIZED SUNGLASSES

focused on our purpose of providing accessories that make everyday activities more special for consumers around the globe. We know that we have work to do to restore growth to our core QWI business. We have strategies and a plan that we believe will accomplish that important goal, as well as firmly establish the Cross brand in other categories. Our restructuring will be completed in 2006. Our cost structure will be smaller but will be one that will foster growth. These elements, combined with the growing momentum being generated by Costa Del Mar in our Optical Segment, will restore meaningful profitability to our Company.

We would like to thank all the employees and business associates of Cross.

Their constant effort and support has allowed us to make significant progress toward the transformation the Company is driving to achieve. They are an invaluable asset and we look forward to working with them to deliver a successful 2006.

David G. Whalen
President and Chief Executive Officer

Russell A. Boss
Chairman



Cross Brand - Laying the Foundation for Future Growth

2005 was a year of changes for the Cross brand. We embarked on a program of renewal for Cross, designed to create a more compelling story for our consumers and our retail partners. Our writing instrument assortment changed dramatically in 2005 and we continued our brand's focused extension into new categories. We also tested new, more upscale methods of presenting the Cross brand at retail. Finally, we saw significant success in our initial forays into direct sales to consumers. With plans to build on all of these initiatives in the years to come, we believe the future prospects for the Cross brand are indeed bright.

Reconnecting with Consumers

The Cross brand has a special place in the hearts of many fine writing instrument owners. Proprietary research with thousands of consumers around the globe confirmed that Cross leads the writing instrument industry in such key measures as brand satisfaction and the desire for future purchases. We started to improve on this strong consumer legacy in the fourth quarter of 2005 when we launched a new communications initiative designed to present our products as contemporary accessories for everyday life. Initially, our new branding approach was implemented in our redesigned website,

consumer catalog and in-store collateral materials. In 2006, we will roll out the new face of the Cross brand to every aspect of our consumer communications including advertising, packaging and fixturing.

Introducing Successful New Products

At the core of the Cross brand is our rich history of providing discerning consumers with an array of high-quality, innovative products. We reaffirmed our commitment to product development by increasing the resources we commit to the design and development of new products. We also streamlined and systematized our new product development process. The results spoke for themselves: in 2005, we brought out the largest and most effective offering of new products in the Company's history.

The Apogee Collection

The most successful new product introduction since Ion® in 2000, the fourth quarter launch of Apogee unveiled a unique new collection that combines iconic Cross design elements with contemporary styling in a unique wide-girth product. We created Apogee to reinforce the Cross offering for the discerning fine writing instrument consumer who is looking for a more stylish everyday



product. Highlighted by an extended spring-loaded clip and a distinctively wide center ring, Apogee comes in three luxurious finishes: proprietary cut chrome, a deep, rich red European lacquer and an ebony-black European lacquer. The Apogee collection spans rhodium-plated 18 karat gold nib fountain pens, rolling balls, ball points and pencils. The Apogee launch was supported by an integrated marketing campaign consisting of direct mail, email marketing, advertising and in-store displays.

The Tech3 Collection

The second major collection launched in 2005 was our

successful introduction of Tech3. This affordably priced collection provides Cross with a compelling offering in the growing multi-mechanism product category. Reinforcing the Cross history of technical innovation, Tech3 gives the functionally oriented consumer the option to utilize three writing technologies in one product. A simple twist of the barrel propels either a black ball point tip, a red ball point tip or a pencil from the medium-girth body. Consumer response to Tech3 was overwhelming, with the product becoming a top style in our office superstore and specialty store retail channels.



CROSS LEATHERGOODS AND WATCHES

Updating Our Existing Collections

While the launch of our latest collections helped Cross gain new customers, we also put significant efforts behind driving repeat purchases with existing customers by rolling out updates to our existing collections. Although the Townsend, Century® II and Verve collections all saw significant new additions in 2005, the highlight of our updating efforts was the introduction of seasonal colors to the contemporary ATX collection. With the launch of bright primary colors in Spring and cool jewel tones in Fall, ATX moved in sync with the palettes seen in upscale accessory and apparel collections around the globe. These colors brought consumers back into stores and helped spur year-on-year growth for the ATX collection in every one of our major markets.

Revitalizing Office Superstore Products

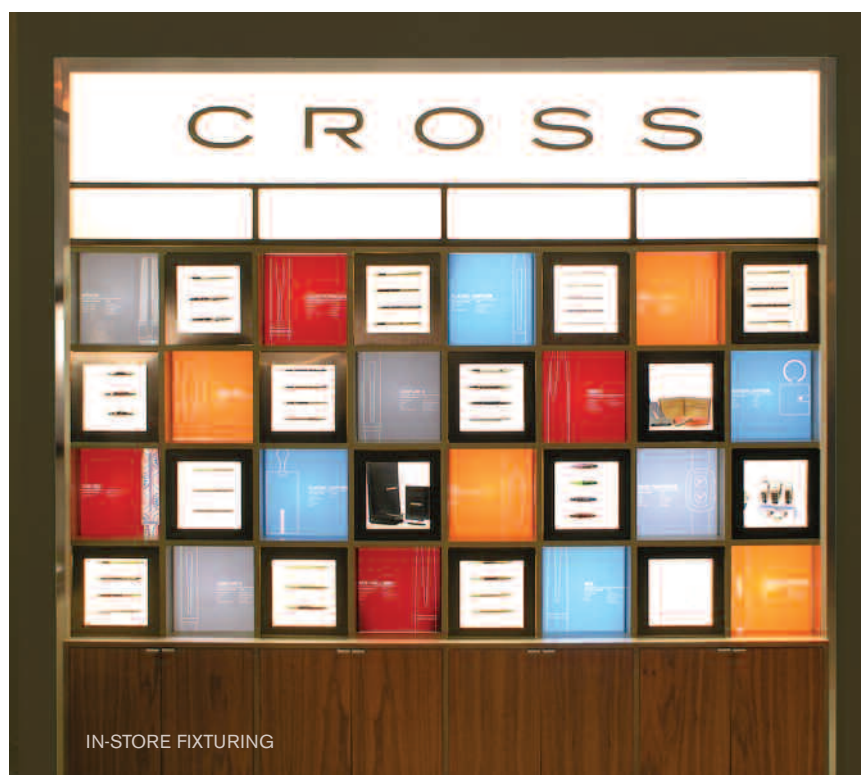
In 2005, we made a commitment to improve performance in the office superstore channel by developing new collections designed specifically for the unique needs of this class of trade. Providing classic Cross quality at good value, these new collections were rolled out to the office superstores alone. Targeting the various

fine writing instrument consumers shopping this channel, we introduced the traditionally styled Calais Collection at the end of the second quarter and the updated Albion Collection at the beginning of the third quarter. Together, these two new collections generated second half year-on-year sales increases in this channel of over six percent.

Entering New Categories

Cross took a strong step forward in 2005 toward gaining increased shelf space in existing distribution channels by extending the brand to two new product categories. First, we tested a Cross leather accessories concept with a number of key retailers throughout the world. The test collection features supple Italian calfskin and fine turned-edge construction detailing across a number of money pieces, executive accessories and gift items for men and women. Launched during the important holiday selling season, this collection not only sold through well, but provided important learning for updates in 2006.

The second major brand extension this past year was the global roll-out of Cross Precision Reading Glasses. These products are designed and sourced under a license agreement with Sun Optics, a leading manufacturer and marketer of precision reading glasses. We launched four stylish frames, each available in the six most popular



IN-STORE FIXTURING

dioptric powers. The product is sold on top-of-counter through unique fixtures placed in current Cross channels of distribution, as well as in new venues for the Cross brand such as optical chains.

Improving Our Retail Presentation

Another exciting development for the Cross brand in 2005 was our successful test of a new display concept based on ideas created in the Cross stores. Encompassing walls, display cases and towers, this concept brings color and excitement to the Cross display at point of sale, helping to better position the brand as a contemporary accessory for everyday life. Fashioned from walnut, stainless steel and glass, these test fixtures helped drive significant comparable store sales increases in

the fourth quarter in all of the doors where they were placed. Given these successful results, we will roll out this program to a significant number of key doors in 2006.



HOLIDAY CONSUMER
DIRECT MAIL CATALOG



BRINE POLARIZED
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Testing New Distribution Channels

In 2005, we continued our exploration of new ways in which to get Cross products into the hands of consumers. The two Boston-area Cross stores, opened in 2004, continued to provide us with valuable product and merchandising learning leading directly to the creation of our new global display concept and to the development of new product categories such as leather accessories. Complementing our stores was our updated website, which allows the Cross consumer to shop online for our product in a number of convenient ways: by product collection, writing technology, price and occasion. Consumers rewarded these efforts by creating another year of strong growth in online sales.

In the fourth quarter, we supplemented our test stores and our website with the launch of our first consumer direct mail catalog. In addition to inviting people to shop online at cross.com, or to call our toll-free 800 number, each catalog also tagged key local retailers, giving the Cross consumer their choice of the most convenient place to purchase Cross products. The catalog was an unqualified success: it presented the Cross brand to consumers in an upscale, premium manner; it generated significant sales in our non-writing instrument categories; and it drove overall sales increases in the Cross stores, website and call center.

Based on the success of this holiday catalog, we are planning to increase the number of catalog mailings in 2006.

Costa Del Mar Brand – Another Record Year

Costa Del Mar continued to be the juggernaut of the sunglass industry, posting record sales and profit numbers, and climbing from ninth to fifth in U.S. sales among premium sport sunglass brands in 2005.* Our investments in the company, now in its second full year with Cross, are paying off. New operating systems, new product design resources, and additional sales and marketing investments are making a difference with customers and positioning Costa Del Mar for sustained growth.

Costa Del Mar further reinforced its position as the performance brand of choice for water sports enthusiasts by introducing innovative new styles for hard core fishermen. Costa's new Hammerhead™, Release and Reef Raider styles combine traditional Costa performance with contemporary styling, proving that functional fishing glasses can look cool too.

Costa Del Mar's patented Wave 580 lens is continuing to win accolades from professional fishermen and other water enthusiasts. Chico Fernandez, the newest member of Costa's pro staff and widely regarded as the most accomplished fly fisherman in the world,



LAVA AND BAHIA MAR
POLARIZED SUNGLASSES

believes that Costa's Wave 580 lenses enable him to see things that he has never seen in his 50 years on the water. According to Chico, he sees so much better thanks to the reduced glare and blocked yellow light, he'll occasionally spot fish before the guide sees them up in the platform.

While Costa's performance continues to wow the pros, it is resonating with broader audiences as well. In 2005, Costa made significant additions to its female collection. Rincon™, Parismina, Tico and Vela, styles that offer women polarized performance in frames that are as fashionable as the hottest new designer shades, were introduced and are quickly attracting new female consumers to the brand.

Costa continued to gain popularity with college students, who are making Costa Del Mar sunglasses part of the college "uniform." Costa's *U of Blue Tour* visited college campuses throughout the southeast in 2005, bringing a combination of fishing stories from Costa pros and music from some of the hottest bands on the college circuit to appreciative students eager to become part of the brand.

The Costa wave continued to roll into new geographic markets in 2005 as well, with west coast and international sales gaining momentum and outpacing total company sales. Costa's message of quality, performance and authenticity is proving to resonate at all levels, and we fully expect the momentum to continue into 2006 and beyond.

* Industry estimates

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

Commission File Number 1-6720

A. T. CROSS COMPANY

(Exact name of registrant as specified in its charter)

Rhode Island

(State or other jurisdiction of incorporation or organization)

05-0126220

(IRS Employer Identification No.)

One Albion Road, Lincoln, Rhode Island

(Address of principal executive offices)

02865

(Zip Code)

Registrant's telephone number, including area code: (401) 333-1200

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

Title of each class

Name of each exchange on which registered:

Class A Common Stock (\$1 Par Value)

American Stock Exchange

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

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

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

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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates as of July 2, 2005, the last business day of the registrant's most recently completed second fiscal quarter was \$30.2 million.

The number of shares outstanding of each of the registrant's classes of common stock as of March 1, 2006 was:

| | | | |
|----------------------|---|------------|--------|
| Class A common stock | - | 13,365,437 | Shares |
| Class B common stock | - | 1,804,800 | Shares |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2006 annual meeting of shareholders are incorporated by reference into Part III of this report.

PART I

Item 1. BUSINESS

Business

The A.T. Cross Company has two reportable business segments: writing instruments and accessories ("WI&A"), and optical. The optical segment was established in 2003 with the acquisition of Costa Del Mar Sunglasses, Inc. For certain financial information with respect to these segments, see Note K to the Company's consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Writing Instruments and Accessories

We manufacture and market fine quality writing instruments under the Cross[®] brand consisting of ball-point pens, fountain pens, selectip rolling ball pens, which accommodate various types of refills, and mechanical pencils. We also manufacture and market a variety of refills for most of our product types. In addition to Cross branded writing instruments, we design and market writing instruments sold under the Penatia[®] and Omni[®] by Cross brands and a line of writing instruments sold under the licensed name of Bill Blass[®]. The Company is an original equipment manufacturer ("OEM") of writing instruments. In addition to writing instruments, we also design and market a variety of personal and business accessories including watches, sold primarily to the business gift market, precision reading glasses, desk sets, leather goods and key rings. The Company periodically launches new products.

Our writing instruments are offered in a variety of styles and materials at various price points. They are packaged and sold as individual units or in matching sets. The majority of the Company's writing instrument sales occur at suggested retail price points between approximately \$10 and \$50. We believe we are a market leader in the United States at these price points. Products in this price range include: Classic[®] Century[®], Ion[®], Tech3 and selected Century II and ATX[®] writing instruments. The Cross Townsend[®], Verve[™], Apogee[™] and Century II lines as well as selected Classic Century writing instruments provide the Company a presence in the \$55 to \$300 price range. Certain Classic Century, Cross Townsend and Verve writing instruments are priced over \$300. The Calais and Albion lines of writing instruments are sold exclusively to the Company's office superstore customers. The Penatia brand, which is not a "Cross" branded line of writing instruments, provides the Company a presence in the under \$10 price range.

Watches are priced between \$70 and \$190, precision reading glasses are priced at \$20 and the majority of business accessories are priced between \$20 and \$110.

The Company emphasizes styling, innovation, craftsmanship and quality in the design and production of all of its products. All Cross branded writing instruments carry a full warranty of unlimited duration against mechanical failure. Our watches are sold with a limited ten-year warranty, and business accessories are sold with a limited one-year warranty.

The Company's products are sold throughout the United States by our direct sales force and manufacturers' agents or representatives to approximately 5,600 retail and wholesale accounts. Retail accounts include: gift stores, department stores, jewelers, stationery, office supply and pen specialty stores, mass merchandisers and United States military post exchanges. Our wholesale accounts distribute the Company's products to retail outlets that purchase in smaller quantities. The Company's products are also sold to consumers in the United States, Canada and Hong Kong on the Company's website: www.cross.com. Advertising specialty representatives market the Company's writing instruments, accessories and watches in the United States to business accounts. Typically, such products are engraved or carry the purchaser's name or emblem and are used for gifts, sales promotions, incentive purposes or advertising.

Sales of the Company's products outside the United States during 2005 were made to foreign distributors and retailers worldwide by the Company and its wholly-owned subsidiaries.

Optical

The Company, through its wholly-owned subsidiary Costa Del Mar Sunglasses, Inc., designs, manufactures and markets premium, high-quality, polarized eyewear through its optical segment under the brand name Costa Del Mar[®]. Offered in more than 35 styles and 16 lens options at suggested retail price points between approximately \$100 and \$300, our eyewear is sold by employee representatives and manufacturer's agents to approximately 3,000 retail accounts throughout the United States. Retail accounts include optical and sunglass specialty shops, department stores and sporting goods retailers. Costa Del Mar sunglasses are sold with a lifetime warranty against defects in materials and workmanship.

Raw Materials

Raw materials for use in writing instruments are obtained from both domestic and foreign suppliers. Items such as certain fountain pen front sections, refills, coated caps and barrels, and some lacquer coatings are imported from Germany, Switzerland and France. Complete pencil mechanisms, certain refill components, leads, resin caps and barrels, some fountain pen front sections, cap components and certain coated shells are imported from Japan. Some rings, screw machine parts, pen mechanisms, molded components, and cap and barrel components and assemblies are imported from China.

The majority of component materials for the optical segment are imported from specialized manufacturers located in Europe and Japan.

To maintain the highest level of product quality, we rely on a limited number of domestic and foreign suppliers for certain raw materials and manufacturing technologies. The Company may be adversely affected in the event that these suppliers cease operations or if pricing terms become less favorable. The Company believes, but cannot be assured, that the raw materials currently supplied by these vendors could be obtained from other sources and that the manufacturing technologies could either be developed internally or that suitably similar technologies could be located.

Patents, Licenses and Trademarks

The Company, directly or through its subsidiaries, has certain writing instrument, timepiece, accessory and optical trademark registrations and/or pending trademark applications in the United States and many foreign countries, including but not limited to its principal trademark "CROSS" and the trademark "COSTA DEL MAR." The principal trademark "CROSS" is of fundamental importance to our business in general and the trademark "COSTA DEL MAR" is of fundamental importance to the optical segment. The Company, directly or through its subsidiaries, holds certain United States and foreign writing instrument patents and/or has filed United States and foreign patent applications covering products including, but not limited to, Cross Townsend, Morph[®], Ion, Cross Matrix[®], Verve, MicroPen and fountain pens and mechanical pencils and ball-point pen mechanisms. While we pursue a practice of seeking patent protection for novel inventions or designs, our business is not dependent upon obtaining and maintaining patents.

Seasonal Business

Retail demand for our writing instrument and accessory products is highest prior to Christmas and other gift-giving occasions. The Company historically has generated approximately one third of its annual sales in its fiscal fourth quarter. However, seasonal fluctuations have not materially affected continuous production of writing instrument products.

Costa Del Mar historically has generated its strongest sales in the first half of its fiscal year.

Working Capital Requirements

Writing instrument and sunglass inventory balances tend to be highest in anticipation of new product launches and before peak selling seasons. The Company offers, and may offer in the future, extended payment terms, primarily to domestic retail writing instrument customers, at certain points during the year, usually September through November. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

Customers

The Company is not dependent upon any single customer for more than 10% of its consolidated revenues. The Company is dependent, however, on three large office supply accounts, Staples, Inc., OfficeMax, Inc. and Office Depot, Inc., for a significant portion of its revenue. In 2005, sales to this group were approximately 11% of consolidated revenues. The loss of one or more of these customers could have a material adverse effect on the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

Backlog of Orders

The backlog of orders is not a significant factor in the Company's business.

Competition

The writing instrument industry is competitive, in particular with respect to product quality, brand recognition and price. There are numerous manufacturers of ball-point, rolling ball and fountain pens, and mechanical pencils in the United States and abroad. Many of these manufacturers produce lower priced writing instruments than those produced by the Company. Although the Company is a major producer of ball-point, rolling ball and fountain pens, and mechanical pencils in the \$10 to \$50 price range, other writing instrument companies have significantly higher sales volumes from a broader product line across a wider range of prices or have greater resources as divisions of larger corporations. The Company emphasizes styling, innovation, craftsmanship and quality in the design and production of all of its products. All of the Company's Cross branded writing instruments carry a full warranty of unlimited duration against mechanical failure.

The sunglass market in the United States is estimated to be \$2.1 billion at wholesale. The Company's optical segment under the brand name Costa Del Mar competes in the premium-priced (\$50+ retail) sunglass market segment, which is estimated to be \$1.3 billion at wholesale. Several other sunglass companies also compete in the premium segment. Costa Del Mar sunglasses are sold with a lifetime warranty against defects in materials and workmanship.

See also the "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

Research and Development

The Company had expenditures for research and development of new products and improvement of existing products of approximately \$1.8 million in 2005, \$1.8 million in 2004 and \$1.9 million in 2003. For additional discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

Environment

The Company believes it is in substantial compliance with all Federal, state and local environmental laws and regulations. The Company believes that future capital expenditures for environmental control facilities will not be material. See Item 3 "Legal Proceedings" and Note L to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Employees

The Company had approximately 704 employees worldwide at December 31, 2005.

International Operations and Export Sales

Approximately 48% of the Company's sales in 2005 were in foreign markets. The primary foreign markets are in Europe and Asia. Sales of the Company's products to foreign distributors are subject to import duties in many countries. The operations of the Company's foreign subsidiaries and branches are subject to the effects of currency fluctuations, the availability of United States dollar exchange, exchange control and other restrictive regulations. Undistributed earnings of our foreign subsidiaries generally are not subject to current United States Federal and state income taxes until such earnings are considered not permanently reinvested in the growth of business outside the United States. See Note J and Note K to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K. For the effect of foreign sales on the Company's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

Availability of Securities and Exchange Commission Filings

The Company's website address is www.cross.com. The Company makes available free of charge, through the Investor Relations section of its website, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such materials have been electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). The Company includes its website address in this Annual Report on Form 10-K only as an inactive textual reference and does not intend it to be an active link to its website.

Executive Officers of the Company

The following are the executive officers of the Company (each of whom serves until his or her successor is elected and has qualified), their respective ages as of January 1, 2006 and their principal positions:

| <u>NAME</u> | | <u>AGE</u> | <u>TITLE</u> | <u>YEAR IN WHICH FIRST HELD OFFICE</u> |
|----------------------|-----|------------|--|--|
| David G. Whalen | (1) | 48 | President and Chief Executive Officer | 1999 |
| Kevin F. Mahoney | (2) | 46 | Vice President, Finance and Chief Financial Officer | 2005 |
| Gary S. Simpson | (3) | 54 | Corporate Controller, Chief Accounting Officer | 1997 |
| Tina C. Benik | (4) | 46 | Vice President, Legal and Human Resources Corporate Secretary | 2000 |
| Stephen A. Perreault | (5) | 58 | Vice President, Operations | 1995 |
| Joseph V. Bassi | (6) | 53 | Finance Director | 1997 |
| Peter J. Canole | (7) | 51 | Vice President, Global Sales | 2004 |
| Charles S. Mellen | (8) | 42 | Vice President, Global Marketing | 2005 |
| Robin Boss Dorman | (9) | 40 | Vice President, Strategic Development | 2005 |

- (1) Prior to becoming President and Chief Executive Officer in 1999, David G. Whalen was President, North America of Ray-Ban Sun Optics, a division of the Luxottica Group S.p.A., from 1997 to 1999.
- (2) Prior to becoming Vice President, Finance and Chief Financial Officer in 2005, Kevin F. Mahoney was Director, Corporate Development at the Raytheon Company from 2004 to 2005. From 1984 to 2004, Mr. Mahoney was with Deloitte & Touche LLP, most recently serving as Partner.
- (3) Prior to becoming Corporate Controller in 1997, Gary S. Simpson was the Controller, Lincoln Operations from 1992 to 1997.
- (4) Prior to becoming Vice President, Legal and Human Resources; Corporate Secretary in 2000, Tina C. Benik was Vice President, Legal, General Counsel and Corporate Secretary from 1993 to 2000.
- (5) Prior to becoming Vice President, Operations in 1995, Stephen A. Perreault held various senior executive positions in jewelry, cosmetics, and gift manufacturing and distribution companies, including: Weingeroff Enterprises, Inc., Lantis Corporation, Swarovski Jewelry U.S. Ltd. and Avon Products, Inc.
- (6) Prior to becoming Finance Director in 1997, Joseph V. Bassi was Manager, Financial Planning from 1996 to 1997 and Manager, Budgeting and Financial Planning from 1987 to 1996.
- (7) Prior to becoming Vice President, Global Sales in 2004, Peter J. Canole was Vice President, International from 2003 to 2004, Vice President, Asia from 2001 to 2003 and Managing Director, Asia-Pacific from 2000 to 2001. From 1998 to 2000, Mr. Canole was Director, Worldwide Travel Retail for Hasbro, Inc.
- (8) Prior to becoming Vice President, Global Marketing in 2005, Charles S. Mellen was Vice President of Marketing at Tumi, Inc. from 1996 to 2004.
- (9) Prior to becoming Vice President, Strategic Development in 2005, Robin Boss Dorman was Vice President, Corporate Development from 2000 to 2005 and Vice President, Marketing and Sales, Americas in 1999. Ms. Dorman is the daughter of Mr. Russell A. Boss, Chairman, and the niece of Mr. Bradford R. Boss, Chairman Emeritus.

Item 1A. RISK FACTORS

The following section describes certain of the more prominent risks and uncertainties inherent in our operations. The risks and uncertainties below are those that we currently consider material; however, this section does not intend to discuss all possible risks and uncertainties that a company like Cross with broad international operations could experience. We are susceptible to macroeconomic downturns in the United States or abroad that may affect the general economic climate and the performance of our customers. Similarly, the price of our securities is subject to volatility due to fluctuations in general market conditions, differences in our results of operations from estimates and projections generated by the investment community, and other factors beyond our control. Further, there could be other risks and uncertainties that are not presently known to us or that may become more significant to us. You should read these Risk Factors in conjunction with the factors discussed elsewhere in this and other of our filings with the Securities and Exchange Commission and in materials incorporated by reference in these filings. We undertake no obligation to correct or update any forward-looking statements or statements of risk related thereto for any reason.

We depend on the success of new products. Our ability to sustain profitability and restore growth in sales depends largely on consumer acceptance of numerous new products recently introduced and planned for introduction. Further, consumer preferences are continuously changing. The markets in which we sell are highly competitive, and there is no assurance that consumer acceptance will be realized to the degree necessary to generate growth in our sales and earnings.

Our global manufacturing, sales and distribution operations make us susceptible to the risks of overseas operations. We have sales offices and certain operations in more than seven countries worldwide and distributors in over 75 countries worldwide. In 2005, approximately 48% of our revenue came from sales to locations outside the United States. Operating internationally exposes us to changes in export controls and other laws or policies, as well as the general political and economic conditions, security risks, health conditions and possible disruptions in transportation networks, of the various countries in which we operate, which could result in an adverse effect on our business and results of operations in such countries.

Incorrect forecasts of customer demand could adversely affect our results of operations. The Company manufactures product based on forecasts of customers' demands. These forecasts are based on multiple assumptions. If we inaccurately forecast customer demand by overestimating that demand, we may hold inadequate, excess or obsolete inventory that would reduce our profit margins and adversely affect our results of operations and financial condition.

Our success depends on our ability to retain and recruit a sufficient number of qualified employees in a competitive environment. Our success depends in part on our retention and recruitment of skilled personnel, including technical, distribution, sourcing, marketing, sales, management and staff personnel. There can be no assurance that we will be able to successfully retain and recruit the key personnel that we require.

Our dependence on certain suppliers may leave us temporarily without adequate access to raw materials or products. To maintain the highest level of product quality, we rely on a limited number of domestic and foreign suppliers for certain raw materials, manufacturing technologies and certain finished products. We may be adversely affected in the event that these suppliers cease operations or if pricing terms become less favorable. We believe, but cannot guarantee, that the raw materials currently supplied by these vendors could be obtained from other sources and that the manufacturing technologies could either be developed internally or that suitably similar technologies could be located. If we are unable to replace a key supplier we may face delays in delivering finished products according to our customers' demands, which could have an adverse effect on our financial performance.

Overseas manufacturing makes us dependent upon the performance of our overseas partners. As a result of our manufacturing initiative, we will manufacture a significant number of finished products in China. We expect that our manufacturing operations in China will be overseen and managed by a local manufacturing partner. Should that partner not perform as expected, or should the relationship between the parties deteriorate, there could be a material adverse effect on our operations. Despite our best efforts to maintain our strict quality standards, if the quality of our products is perceived to be affected by the initiative, our reputation may be harmed and we may lose future sales.

We depend on certain accounts for a significant percentage of our sales. The Company is dependent on three large office supply accounts, Staples, Inc., OfficeMax, Inc. and Office Depot, Inc., for approximately 11% of its consolidated revenues. The loss of one or more of these customers could have a material adverse effect on the Company. Further, there is no assurance that these accounts will maintain their current inventory levels.

Unfavorable resolution of pending or future litigation matters could prove costly to us. We are involved from time to time in litigation matters. An unfavorable resolution of pending litigation or future litigation could have a material adverse effect on our financial condition. Litigation may result in substantial costs and expenses and significantly divert the attention of our management regardless of the outcome. There can be no assurance that we will be able to achieve a favorable settlement of pending litigation or obtain a favorable resolution of litigation if it is not settled. In addition, current and future litigation, governmental proceedings or environmental matters could lead to increased costs or interruptions of our normal business operations.

Extension of the Cross brand beyond writing instruments may fail. Because of the maturity of the fine writing instrument industry, our ability to achieve growth is dependent, in part, on our ability to extend the Cross brand beyond writing instruments. There is no assurance that consumers will accept the Cross brand outside of writing instruments, particularly business accessories and watches, at the level necessary to generate sustainable growth for us with these products, or that consumers will accept the design and price of these products. Because we have less institutional experience with product lines outside of writing instruments, and because the complementary product lines that we enter into, such as business accessories and watches, may be extremely competitive already, these brand extensions may not prove to be successful, adversely affecting future sales growth.

Our effort to streamline operations may not generate the savings we anticipate. We expect to generate cash from our streamlining of operations, some of which will be invested in our sales and marketing programs and other initiatives to generate growth. A significant portion of these savings has yet to be generated and is contingent on our ability to effectively transition a segment of our manufacturing overseas and on our ability to keep costs in other areas at acceptable levels. If we are unable to realize the anticipated cost savings of this streamlining, our results of operations would suffer.

The diversification of our business may not be successful. In order to generate growth outside of writing instruments, one of our strategic initiatives is to diversify outside of our core Cross branded product. Costa Del Mar was our first foray into this area of diversification. There can be no assurance that Costa Del Mar will continue to grow at its current levels or that we will find additional suitable targets for acquisition. If we do find a suitable acquisition target, we cannot assure you that we will be able to consummate a deal on terms satisfactory to us or that we will be able to successfully integrate those operations into our company. We also can not assure you that such a strategy will not divert our management's time and attention from development of our core branded products in a way that will adversely affect writing instrument or other Cross branded sales.

Item 2. PROPERTIES

The Company owns and occupies approximately 269,000 square feet of manufacturing, warehouse and office space in Lincoln, Rhode Island. This facility, which is well maintained and in good repair, is utilized in manufacturing, distribution and administrative capacities of the Company's WI&A segment. The Company leases administrative facilities and/or warehouse space for its WI&A segment operations in France, the United Kingdom, The Netherlands, Spain, Germany, Japan, Taiwan, Hong Kong, Singapore and Lincoln, Rhode Island as well as retail facilities in Cambridge and Newton, Massachusetts.

The Company's optical segment leases an administrative and warehouse facility in Ormond Beach, Florida.

Item 3. LEGAL PROCEEDINGS

The Company is named as one of approximately sixty defendants in a contribution suit brought by CCL/Unilever relating to the J.M. Mills Landfill Site, which is part of the Peterson/Puritan Superfund Site in Cumberland, Rhode Island. These complaints allege that the Company is liable under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") for contribution for past and future costs incurred at the Site. Past and future costs, excluding the required remedy, are currently estimated at \$6 million to \$7 million. No discovery has been taken to date.

The Company is involved in various other litigation and legal matters that have arisen in the ordinary course of business. To its knowledge, management believes that the ultimate resolution of any of those existing matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

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

Market Information

The Company's Class A common stock is traded on the American Stock Exchange (symbol: ATX). There is no established trading market for the Company's Class B common stock. At December 31, 2005, there were 1,283 shareholders of record of the Company's Class A common stock and two shareholders of record of the Company's Class B common stock. The weighted average numbers of total shares outstanding was 14,719,251 and 14,925,848 during 2005 and 2004, respectively. High and low sales prices of Class A common stock for the last two years were:

| <u>2005</u> | | | <u>2004</u> | | |
|----------------|---------------|---------------|----------------|-------------|------------|
| <u>QUARTER</u> | <u>HIGH</u> | <u>LOW</u> | <u>QUARTER</u> | <u>HIGH</u> | <u>LOW</u> |
| First | \$6.10 | \$4.96 | First | \$7.08 | \$6.25 |
| Second | \$6.09 | \$3.71 | Second | \$6.74 | \$4.75 |
| Third | \$5.07 | \$4.30 | Third | \$5.59 | \$4.95 |
| Fourth | \$4.92 | \$3.78 | Fourth | \$5.80 | \$4.50 |

Dividend Information

The Company has not paid dividends to its stockholders since 1998 and does not plan to pay cash dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance the growth of the Company. In addition the Company's line of credit facility restricts the Company from declaring cash dividends on its common stock.

Issuer Purchases of Equity Securities

| | <u>TOTAL NUMBER OF SHARES PURCHASED</u> | <u>AVERAGE PRICE PAID PER SHARE</u> | <u>TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS</u> | <u>MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS</u> |
|---------------------------------------|---|---|---|---|
| October 2, 2005 - October 29, 2005 | - | - | - | 256,300 |
| October 30, 2005 - November 26, 2005 | 12,200 | \$4.15 | 12,200 | 244,100 |
| November 27, 2005 - December 31, 2005 | <u>17,800</u> | <u>\$4.06</u> | <u>17,800</u> | 226,300 |
| Total | <u>30,000</u> | <u>\$4.09</u> | <u>30,000</u> | |

On October 23, 2002, the Company's Board of Directors authorized a plan to repurchase up to 10% of the Company's outstanding Class A common stock. Under this plan, the Company was authorized to purchase approximately 1.4 million shares of stock on the open market, subject to regulatory considerations, from time to time, depending on market conditions. At December 31, 2005, the Company had repurchased 1,173,700 shares under this plan for approximately \$6.3 million at an average price per share of \$5.41. In the fourth quarter of 2005, the Company purchased 30,000 shares for approximately \$123,000 at an average price per share of \$4.09.

Item 6. SELECTED FINANCIAL DATA

Five-Year Summary

| | <u>2005</u> | <u>2004</u> | <u>2003*</u> | <u>2002</u> | <u>2001</u> |
|---|------------------|-------------|--------------|-------------|-------------|
| OPERATIONS: (THOUSANDS OF DOLLARS) | | | | | |
| Net Sales | \$129,115 | \$129,480 | \$126,365 | \$118,226 | \$124,356 |
| Income (Loss) Before Income Taxes | 573 | (1,553) | 2,218 | 6,687 | 2,538 |
| Income Tax Provision (Benefit) | 189 | (698) | 441 | 1,771 | 1,616 |
| Income (Loss) from Continuing Operations | 384 | (855) | 1,777 | 4,915 | 922 |
| Income from Discontinued Operations, Net | - | - | - | - | 58 |
| Net Income (Loss) | 384 | (855) | 1,777 | 4,915 | 980 |
| PER SHARE DATA: (DOLLARS) | | | | | |
| Basic and Diluted Net Income (Loss) Per Share | 0.03 | (0.06) | 0.12 | 0.31 | 0.06 |

| FINANCIAL POSITION: (THOUSANDS OF DOLLARS) | <u>2005</u> | <u>2004</u> | <u>2003*</u> | <u>2002</u> | <u>2001</u> |
|--|------------------|-------------|--------------|-------------|-------------|
| Current Assets | \$ 73,590 | \$ 73,048 | \$ 76,712 | \$ 68,184 | \$ 72,805 |
| Current Liabilities | 23,298 | 27,923 | 30,718 | 25,537 | 28,173 |
| Working Capital | 50,292 | 45,125 | 45,994 | 42,647 | 44,632 |
| Total Assets | 112,893 | 113,351 | 118,146 | 105,573 | 111,350 |
| Retirement Plan Obligations | 10,505 | 8,310 | 5,214 | 4,847 | 5,059 |
| Long-Term Debt, Less Current Maturities | 10,456 | 5,513 | 6,863 | - | - |
| Accrued Warranty Costs | 1,457 | 1,603 | 1,936 | 1,888 | 3,541 |
| Shareholders' Equity | 67,177 | 70,002 | 73,415 | 73,301 | 74,575 |

* Sales from the optical segment, established in April of 2003 with the acquisition of Costa Del Mar Sunglasses, Inc., were \$8.9 million in 2003. The increases in total assets and long-term debt in 2003 are principally due to this acquisition.

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

Results of Operations

Overview

A.T. Cross Company is a leading designer and marketer of branded personal accessories including writing instruments, watches, precision reading glasses, personal and business accessories and sunglasses. The Company has been a manufacturer and marketer of fine quality writing instruments since 1846. Sold primarily under the Cross brand, ball-point, fountain and selectip rolling ball pens and mechanical pencils are offered in a variety of styles and finishes. Also under the Cross brand, the Company offers a line of watches, reading glasses and a variety of personal and business accessories. The Company offers a lower priced line of writing instruments and after-market refills under the brand name Penatia. We also offer writing instruments under licensed brands such as Bill Blass. The Company established an optical segment with the April 2003 acquisition of Costa Del Mar Sunglasses, Inc., a designer, manufacturer and marketer of high-quality polarized sunglasses.

The Company has been operating in a difficult economic environment in a mature and competitive category. Fiscal 2005 represented the fifth consecutive year in which the Company's core writing instrument and accessory segment reported a decline in sales. The Company has challenged itself to build upon its unique attributes in order to develop a vibrant, diversified and forward-looking company poised for sustainable growth and long-term profitability. Such attributes include a strong brand name, 159-year heritage, reputation for quality and craftsmanship, global distribution network and strong balance sheet. The Company established several strategic initiatives to build upon these attributes and overcome its challenges, including: becoming an innovative leader in the fine writing category, extending the Cross brand into new categories, developing avenues for diversification and streamlining its operating structure.

The Company is competing vigorously to build its position as the category leader in terms of product innovation, marketing and merchandising. For the sixth consecutive year, approximately 20% of writing instrument and accessory revenue was derived from new products. The Company defines new product sales as those sales generated in a product's first twenty-four months. In 2005, the Company launched several new product lines including Apogee, Tech3 and Avitar. Seasonal spring and fall colors for the ATX product line were also introduced. Four metallic colors were added to the Classic Century line. Two fashion oriented polka dot finishes were added to the Century II line. The Company also launched Calais and Albion, products marketed specifically for its office super store customers. New selections were also added to the licensed Bill Blass offerings.

In addition to bringing new products to the market, in 2005 a number of new marketing and merchandising programs were developed. A new marketing initiative was designed to present our products as contemporary accessories for everyday life. The "Pen Wall", a new display concept, was developed at our Boston area stores and will change the way the Cross brand is presented at select retail locations globally. Our website was enhanced, allowing consumers to shop for products in a number of convenient ways: by product collection, writing technology, price and occasion. The Company also launched its first direct to consumer mail catalog in 2005 and plans to expand this program in 2006.

The Company's sales force is organized around three major geographic regions: the Americas, Asia and Europe, Middle East and Africa ("EMEA"). Within each of these regions, the Company uses a combination of direct sales force, manufacturers' representatives and distributors that sell to carriage trade, corporate and national account customers. Corporate gift sales to business and industry began to strengthen in the second half of 2005 but still reported its second consecutive year of declining sales as the demand for writing instruments for general corporate promotional purposes continued to decline. The Company is attempting to offset this trend by focusing on developing programs marketed toward higher-priced incentive award programs.

The Cross brand has strong consumer awareness and, more importantly, consumers associate the Cross name with innovation, quality and style. The strong awareness of our name and the positive attributes associated with our brand supports the extension of the Cross brand into related personal accessory categories. The Company is moving into categories that allow us to further utilize our existing sourcing infrastructure and global distribution network. A priority for all of our brand extensions is to incorporate the quality, design and craftsmanship that consumers enjoy from Cross' fine writing instruments. We have done this with our Cross branded accessories, which was expanded and improved in 2005. In 2005, under a licensing agreement with Sun Optics, the Company launched a line of Cross branded precision reading glasses. Four styles were introduced, each featuring a contemporary, rimless design and available in the six most popular diopter powers in the United States. The Company's watch collection, expanded in 2004, now includes styles designed to bring the Cross brand to younger fashion-forward consumers. In 2005, readers, watches and business accessories comprised approximately 3% of WI&A sales. We have developed a foothold in these categories and look forward to further strengthening our presence in 2006.

The 2003 acquisition of Costa Del Mar has proven to be very successful. Since the Costa Del Mar acquisition, Cross has benefited from revenue diversification and a substantial contribution to the bottom line. In 2005, Costa Del Mar grew its business 30% through new product introductions and expanded distribution. Costa Del Mar upholds our commitment to delivering exceptional product, innovation and quality to our consumers. The Company continues to look for appropriate acquisitions that will add to top and bottom line growth.

In July 2003, we announced a corporate restructuring program, which involves streamlining our operations and transitioning the manufacturing of certain products overseas in order to reduce our cost structure. The savings we generate will be used to invest in growing our businesses while at the same time generating an appropriate level of profitability. Our corporate reorganization program has two components: administrative and manufacturing. On the administrative side, we streamlined our North American and European non-manufacturing operations and shifted resources to our marketing and selling functions. On the manufacturing side we have adopted a very deliberate process in order to maintain our strict quality standards. The first products moved offshore during 2004, more were transitioned in 2005 and the remaining are planned to be transitioned in 2006. The Company expects the restructuring program to be effectively complete by the end of 2006. This initiative is dependent on our complete satisfaction that all product meets the high-quality standards that consumers expect from Cross. We believe these actions are necessary to preserve Cross's ability to remain a competitive, profitable company. We believe that this restructuring program will provide a more efficient operating structure that will allow us to focus more intensely on building and growing our accessory portfolio. For an analysis of the corporate restructuring program, see Note C to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Comparison of Fiscal 2005 with Fiscal 2004

The following chart details net sales performance by segment and operating unit:

| (THOUSANDS OF DOLLARS) | <u>FISCAL 2005</u> | <u>FISCAL 2004</u> | <u>PERCENTAGE CHANGE</u> |
|--------------------------------------|-------------------------------|--------------------|--------------------------|
| Writing Instruments and Accessories: | | | |
| Americas | \$ 51,835 | \$ 54,415 | (4.7)% |
| Europe, Middle East and Africa | 36,406 | 38,401 | (5.2)% |
| Asia | 18,274 | 18,486 | (1.1)% |
| Other | 3,039 | 3,083 | (1.4)% |
| | <i>Sub-total</i> | 114,385 | (4.2)% |
| Optical | 19,561 | 15,095 | 29.6% |
| | <i>Consolidated Net Sales</i> | \$129,480 | (0.3)% |

Writing instruments and accessories revenue in the Americas declined \$2.6 million, or 4.7%. Sales to the national accounts in the United States, including the three office superstores, were essentially flat compared to 2004. Business gift sales in the United States, although improved in the second half of 2005, were 2.7% less than 2004 as demand for writing instruments for general corporate promotional purposes continues to decline. To offset this decline, the Company has expanded into the higher priced incentive gift market. United States retail sales to carriage trade accounts declined 4% in 2005 compared to 2004. Direct to consumer sales, including sales through the Company's website, the Company's toll free 800 number and the Company's retail stores, some of which resulted from our new consumer direct mail catalog, increased by 30% in 2005 compared to 2004. Sales in Latin America in 2005 increased 2.8% compared to 2004.

Sales in the Europe, Middle East and Africa region ("EMEA") declined 5.2% compared to fiscal 2004. Foreign exchange was unfavorable to EMEA sales results by approximately 1.3 percentage points as sales volume decreased approximately 3.9% for the full year. Declines in sales at the Company's subsidiary markets in the UK, France and Spain of 8.6%, 17.1% and 7.8%, respectively, were somewhat offset by increased sales in the Company's Eastern Europe, Middle East and Africa distributor markets.

Asia revenue of \$18.3 million decreased 1.1% compared to fiscal 2004. Foreign exchange did not have a material impact on Asian sales in 2005 compared to 2004.

The optical segment, which consists of the Company's Costa Del Mar subsidiary, increased revenue by 29.6% in 2005 compared to 2004. This increase was due largely to a number of new product introductions made in 2005, expanded distribution on the west coast of the United States and the effect of a price increase in September 2005.

The following chart details gross profit margins for both the writing instruments and accessories segment as well as the consolidated gross profit margins:

| Gross Profit Margins: | <u>FISCAL 2005</u> | <u>FISCAL 2004</u> | <u>PERCENTAGE POINT CHANGE</u> |
|-------------------------------------|--------------------|--------------------|--------------------------------|
| Writing Instruments and Accessories | 47.6% | 47.8% | (0.2) |
| Consolidated | 48.7% | 48.5% | 0.2 |

Cost of goods sold in 2005 was decreased by approximately \$1.7 million due to the impact of a liquidation of LIFO layers and increased by approximately \$1.2 million for the inflationary impact on ending inventories accounted for on a LIFO basis. There were no liquidations in 2004 and the impact of inflation was nominal. In addition, lower inventory obsolescence provisions of approximately \$0.5 million favorably affected margins in 2005 compared to 2004. Optical segment gross margin improved by 1.5 percentage points from 2004, primarily due to the positive effect of new product margins as well as a price increase implemented in September 2005.

Consolidated selling, general and administrative ("SG&A") expenses were approximately \$56.0 million, 2.3% lower than 2004. SG&A expenses were 43.4% of net sales in 2005 compared to 44.3% of net sales in 2004. SG&A expenses for the WI&A segment were approximately \$48.6 million, 4.8% less than 2004. Included in 2005 WI&A SG&A expense is \$732,000 of credits related to the reversal of certain payroll tax and non-income based tax reserves established prior to 2005 that were determined to be no longer necessary. As a result of the restructuring program, the Company realized general and administrative savings, most of which have been reinvested in developing and launching new products and implementing our direct-to-consumer strategies; as well as covering the increased costs associated with employee benefits and Sarbanes-Oxley compliance. Optical segment SG&A expenses of \$7.4 million were 17.8% higher than fiscal 2004. The majority of this increase was in selling expenses for sales volume related items such as sales commissions and promotional spending.

Service and distribution ("S&D") expenses were approximately \$3.0 million, or 2.3% of net sales, in both fiscal 2005 and 2004.

Research and development ("R&D") expenses were approximately \$1.8 million in both fiscal 2005 and 2004.

Restructuring charges of \$1.2 million were recorded in the Company's WI&A segment in fiscal 2005 compared to \$2.3 million in fiscal 2004. These charges were related to the corporate restructuring program announced in July 2003. For an analysis of the corporate restructuring program, see Note C to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Interest and other (expense) income was \$0.4 million of expense in fiscal 2005 compared to \$0.1 million of income in fiscal 2004. Interest income in fiscal 2005 was \$0.3 million compared to \$0.7 million in 2004. In 2004, the Company recorded \$0.4 million of interest income on the property tax settlement with the Town of Lincoln, Rhode Island. Interest expense was \$0.2 million higher in 2005 due to the higher level of borrowings. The following chart details the major components of interest and other (expense) income:

| (THOUSANDS OF DOLLARS) | <u>FISCAL 2005</u> | <u>FISCAL 2004</u> | <u>CHANGE</u> |
|--|-----------------------|--------------------|----------------|
| Interest Income | \$ 279 | \$ 687 | \$(408) |
| Interest expense | (586) | (413) | (173) |
| Other | (79) | (178) | 99 |
| <i>Interest and Other (Expense) Income</i> | <u>\$(386)</u> | <u>\$ 96</u> | <u>\$(482)</u> |

In fiscal 2005, the Company's effective tax rate was 33.0% compared to 45.0% in fiscal 2004. In 2005, as a result of the American Jobs Creation Act of 2004, the Company revised its capital allocation and repatriation strategy in order to take advantage of the temporary reduction in the income tax rate for dividends. The 2005 income tax provision includes approximately \$0.9 million of income taxes associated with the Company's repatriation of foreign earnings as provided for under the American Jobs Creation Act of 2004. For an analysis of income taxes see Note J to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

As a result of the foregoing, the consolidated net income in fiscal 2005 was \$0.4 million (\$0.03 net income per share, basic and diluted) as compared to the fiscal 2004 net loss of \$0.9 million (\$0.06 net loss per share, basic and diluted).

Comparison of Fiscal 2004 with Fiscal 2003

The following chart details net sales performance by segment and operating unit:

| (THOUSANDS OF DOLLARS) | <u>FISCAL 2004</u> | <u>FISCAL 2003</u> | <u>PERCENTAGE CHANGE</u> |
|--------------------------------------|-------------------------------|--------------------|--------------------------|
| Writing Instruments and Accessories: | | | |
| Americas | \$ 54,415 | \$ 61,653 | (11.7)% |
| Europe, Middle East and Africa | 38,401 | 34,613 | 10.9% |
| Asia | 18,486 | 16,782 | 10.2% |
| Other | <u>3,083</u> | <u>4,385</u> | (29.7)% |
| | <i>Sub-total</i> | 117,433 | (2.6)% |
| Optical | <u>15,095</u> | <u>8,932</u> | 69.0% |
| | <i>Consolidated Net Sales</i> | <u>\$126,365</u> | 2.5% |

Writing instruments and accessories revenue in the Americas region declined by \$7.2 million, or 11.7%, in 2004. This decline was primarily due to an 11.2% decline in domestic sales, as our national accounts division declined by 20% in 2004 compared to 2003. Office superstore accounts, which are handled by the national accounts division, reduced their on hand inventory levels of Cross product by approximately 18% during the year. In addition, sell through of the Company's products was down 13% year on year.

Business gift sales in the United States in 2004 were 12% below 2003 as corporate demand for fine writing products declined due to competition from lower priced writing instrument products and other product categories.

Retail sales in the United States, consisting of sales to carriage trade customers and direct to consumer sales, primarily through the Company's website, increased 2% in 2004 compared to 2003. Sales through the Company's website, www.cross.com, increased 64%. However, this was partially offset by a 4.5% decline in sales to carriage trade retailers. Starting in mid-2003, the Company transitioned from manufacturers' sales representatives to a direct sales force. The sales results for the east coast sales force, which transitioned mid-2003, increased 13% in 2004 compared to 2003. Sales for the west coast, which transitioned early in 2004, were down 2% for the year, but showed improved results compared to 2003 for the second, third and fourth quarters. The central/southern region, in the midst of transition, performed poorly as did military accounts. The Company's manufacturers' sales representatives for collegiate accounts improved results by 26.5%.

The increase in sales in the EMEA region was largely due to the effects of foreign exchange as the weaker United States dollar versus the euro and pound sterling resulted in higher translated United States dollar sales in 2004. Foreign exchange was favorable to EMEA sales results by approximately 8.7 percentage points as sales volume increased approximately 2% for the full year. Sales to customers in our subsidiary markets in the United Kingdom, France, Germany and Ireland were up 18%, 28%, 8% and 13% respectively.

Asia revenue of \$18.5 million in 2004 increased 10.2% compared to fiscal 2003 and increased by approximately 6% excluding the favorable effects of foreign exchange. Sales by our Hong Kong subsidiary increased 35% in 2004 as the Company launched a major effort in China to place Cross "shop-in-shops" in important stores in a number of large cities.

The Company's other sales consist of OEM sales of writing instruments and digital pens as well as its two retail test stores opened during 2004 in the greater Boston area. OEM sales decreased 40% compared to fiscal 2003 largely the result of a decline in the sales of digital pens for tablet PC products. Revenue from the Company's two retail test stores partially offset this decline.

The optical segment, which consists of the Company's Costa Del Mar subsidiary, increased revenue by 18% in fiscal 2004 compared to the comparable 2003 fiscal period. This increase was due to a number of new product introductions made in 2004 along with expanded distribution on the west coast of the United States.

The following chart details gross profit margins for both the writing instruments and accessories segment as well as the consolidated gross profit margins:

| Gross Profit Margins: | <u>FISCAL 2004</u> | <u>FISCAL 2003</u> | <u>PERCENTAGE POINT CHANGE</u> |
|-------------------------------------|--------------------|--------------------|--------------------------------|
| Writing Instruments and Accessories | 47.8% | 50.7% | (2.9) |
| Consolidated | 48.5% | 51.0% | (2.5) |

Writing instrument and accessory margins were adversely affected by additional inventory obsolescence reserves recorded in the fourth quarter of 2004 for certain slow-moving or discontinued products as the Company streamlined its product offering for 2005. This higher provision for inventory obsolescence comprised 1.4 percentage points of the 2.9 percentage point decline in writing instruments and accessories gross margin. The remaining decline was largely attributable to the highly competitive market conditions, which affected margins throughout 2004. The optical segment's gross margin for fiscal 2004 had a slight, but favorable effect on the consolidated gross margin for the year.

Consolidated selling, general and administrative ("SG&A") expenses of approximately \$57.4 million were \$1.4 million, or 2.4%, higher than in 2003. SG&A expenses were 44.3% of net sales in both 2004 and 2003. SG&A expenses for WI&A of approximately \$51.1 million were \$0.8 million lower than fiscal 2003. The effect of foreign exchange in the WI&A segment resulted in approximately \$1.6 million of higher SG&A expenses, which was more than offset by savings resulting from the Company's restructuring program. SG&A expenses for the optical segment were \$6.3 million in fiscal 2004 and \$4.1 million from the April 2003 acquisition date through January 3, 2004.

Service and distribution ("S&D") expenses of \$3.0 million were \$0.2 million higher than fiscal 2003 and are in line with the increase in revenue compared to fiscal 2003.

Research and development ("R&D") expenses of \$1.8 million were \$0.2 million lower than fiscal 2003. This was due primarily to more WI&A segment R&D work being outsourced than performed in-house. Offsetting this somewhat was an increase in R&D at the optical segment in support of the new product lines.

Restructuring charges of \$2.3 million were recorded in the Company's WI&A segment in fiscal 2004 compared to \$2.4 million in fiscal 2003. These charges were related to the corporate restructuring program announced in July 2003. For an analysis of the corporate restructuring program, see Note C to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

A \$1.0 million gain on disposition of asset held for sale was recorded in fiscal 2003 as a result of the 2003 sale of the Company's former manufacturing and distribution facility in Ireland, which was closed in 2001.

Consolidated interest income in fiscal 2004 was \$0.7 million compared to \$0.5 million in 2003. In 2004, the Company recorded \$0.4 million of interest income on the property tax settlement with the Town of Lincoln, Rhode Island. In 2003, the Company recorded \$156,000 of interest income on the value added tax claim settlement with the Spanish government. Excluding these one-time events, interest income in 2004 was 23% lower than 2003 due to the lower level of average invested funds on relatively flat average interest rates. The following chart details the major components of interest and other income (expense):

| (THOUSANDS OF DOLLARS) | <u>FISCAL 2004</u> | <u>FISCAL 2003</u> | <u>CHANGE</u> |
|--|--------------------|--------------------|---------------|
| Interest income | \$ 687 | \$ 526 | \$ 161 |
| Interest expense | (413) | (291) | (122) |
| Unrealized loss on trading securities | (19) | (105) | 86 |
| Other | <u>(159)</u> | <u>(196)</u> | <u>37</u> |
| <i>Interest and Other Income (Expense)</i> | <u>\$ 96</u> | <u>\$ (66)</u> | <u>\$ 162</u> |

In fiscal 2004, the Company's effective tax rate was 45.0% compared to 19.9% in fiscal 2003. The increase in 2004 over the Federal statutory rate was primarily related to the reduction in the reserve for potential income tax exposures. In 2003, the rate was favorably affected by a benefit from foreign sourced income taxed at lower rates. For an analysis of income taxes see Note J to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

As a result of the foregoing, the consolidated net loss in fiscal 2004 was \$0.9 million (\$0.06 net loss per share, basic and diluted) as compared to the fiscal 2003 net income of \$1.8 million (\$0.12 net income per share, basic and diluted).

Liquidity and Capital Resources

Historically, the Company's sources of liquidity and capital resources have been its cash, cash equivalents and short-term investments ("cash"), cash generated from operations and amounts available under the Company's line of credit. These sources have been sufficient in the past to support the Company's routine operating requirements, capital projects, restructuring, defined benefit retirement plan contributions, stock repurchase programs and debt service. The Company does not expect its future cash needs in 2006 to increase to the extent that these historical sources of liquidity and capital will not be sufficient to meet its needs.

The Company's cash balance of \$11.1 million at the end of fiscal 2005 declined \$4.4 million from the prior year, a result of many factors, the most significant of which are described in this section.

Accounts receivable increased approximately \$1.9 million from the prior year. WI&A segment accounts receivable of \$27.8 million increased approximately \$0.7 million from the prior year while optical segment accounts receivable of \$4.0 million increased by \$1.2 million from a year ago. The Company offers a dating program, primarily to its domestic retail writing instrument customers, whereby they may either delay payment on certain third and fourth quarter purchases until January of the next year or earn a greater discount if payment is made earlier. The increase in both the writing instrument and optical segment accounts receivable was largely the result of the December 2005 sales increase compared to December 2004.

Total inventory of \$15.0 million decreased by \$0.5 million compared to year end 2004. WI&A segment inventory declined by \$1.1 million, due to both the higher December 2005 sales volume and the Company's restructuring program. As part of the restructuring program, the Company has transferred ownership of certain raw material and

work-in-process inventory to its Chinese contract manufacturer in conjunction with the transition of product lines that are currently produced solely in China. At December 31, 2005 and January 1, 2005, approximately \$4.6 million and \$1.3 million, respectively, were owed to the Company for that inventory, and the related receivable balance is included in receivable from Chinese contract manufacturer. Optical segment inventory of \$3.7 million increased \$0.6 million in order to support anticipated increased sales volumes in the first quarter of 2006.

In fiscal 2005, approximately \$1.2 million was paid as a result of a corporate restructuring program initiated in 2003. The amount paid since the inception of this program through the end of fiscal 2005 was \$5.7 million. The total cost of this restructuring program is expected to be approximately \$7.5 million incurred over the life of the program, assuming full implementation. The total cash portion of this restructuring program is expected to be approximately \$7.5 million. As a result of the restructuring program, the Company realized general and administrative savings, most of which have been reinvested in developing and launching new products and implementing our direct-to-consumer strategies; as well as covering the increased costs associated with employee benefits and Sarbanes-Oxley compliance. The Company expects the restructuring program to be effectively complete by the end of 2006.

The Company's working capital was \$50.3 million at the end of fiscal 2005, an increase of \$5.2 million from fiscal 2004, and its current ratio at the end of fiscal 2005 and 2004 was 3.2:1 and 2.6:1, respectively. Operating cash flow was \$0.4 million in fiscal 2005 compared to \$6.2 million in fiscal 2004. This decrease was largely due to the effect of higher accounts receivable and the receivable due from our Chinese contract manufacturer at the end of 2005 compared to the end of 2004.

Additions to property, plant and equipment were approximately \$4.3 million in fiscal 2005 and \$4.5 million in 2004. In fiscal 2006, the Company expects capital expenditures to be approximately \$6.0 million. Depreciation expense in 2006 is expected to be approximately \$5.7 million.

On October 23, 2002, the Company's Board of Directors authorized a plan to repurchase up to 10% of the outstanding Class A common stock. Under this plan, the Company plans to purchase in total approximately 1.4 million shares of stock on the open market, subject to regulatory considerations, from time to time, depending on market conditions. In 2005, the Company repurchased 186,700 shares for approximately \$1.0 million at an average price per share of \$5.33. At December 31, 2005, the Company had repurchased 1,173,700 shares under this plan for approximately \$6.3 million at an average price per share of \$5.41.

The Company maintains a \$20 million secured line of credit with a bank. Under this agreement, the Company has the option to borrow at various interest rates depending upon the type of borrowings made and the Company's consolidated leverage ratio. The unused and available portion of the Company's \$20 million line of credit was \$9.5 million at December 31, 2005.

The Company expects to make a cash contribution of approximately \$1.1 million to its defined benefit retirement plan in 2006.

The Company expects fiscal 2006 research and development expenses to be approximately \$2.5 million.

The Company believes that existing cash and funds from operations, supplemented as appropriate by the Company's borrowing arrangements, will be adequate to finance its foreseeable operating and capital requirements, the remaining requirements of the restructuring and stock repurchase plans and contributions to the defined benefit retirement plan. Should operating cash flows in 2006 not materialize as projected, the Company has a number of planned alternatives to ensure that it will have sufficient cash to meet its operating needs. These alternatives include implementation of strict cost controls on discretionary spending and delaying non-critical research and development, capital projects and completion of the stock repurchase plan.

At the end of fiscal 2005, cash available for domestic operations amounted to approximately \$6.3 million, and cash held offshore for international operations amounted to approximately \$4.8 million.

Contractual Obligations and Commercial Commitments

An interest rate swap agreement effectively fixes the rate on a portion of the Company's line of credit at 4.15%. The Company leases office and warehouse space and certain equipment under non-cancelable operating leases that expire through 2014. Future minimum lease payments under all non-cancelable leases and other contractual obligations at December 31, 2005 were approximately:

| (THOUSANDS OF DOLLARS) | TOTAL | LESS THAN 1 YEAR | 1 TO 3 YEARS | 3 TO 5 YEARS | MORE THAN 5 YEARS |
|------------------------------------|-----------------|------------------|-----------------|--------------|-------------------|
| Long-Term Debt, Including Interest | \$11,824 | \$ - | \$11,824 | \$ - | \$ - |
| Operating Leases | 4,192 | 1,538 | 1,738 | 461 | 455 |
| Pension Plan Obligations | 1,125 | 1,125 | - | - | - |
| Capital Lease Obligations | 206 | 69 | 137 | - | - |
| Purchase Obligations | 93 | 93 | - | - | - |
| Total | \$17,440 | \$2,825 | \$13,699 | \$461 | \$455 |

Off Balance Sheet Arrangements

The Company has no material off balance sheet arrangements.

New Accounting Pronouncements

For a description of new accounting pronouncements that affect the Company and the status of the Company's implementation thereof, see the "New Accounting Pronouncements" section of Note A to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K. None are expected to have a material impact on the Company's consolidated financial position or results of operations.

Impact of Inflation and Changing Prices

The Company's operations are subject to the effects of general inflation as well as fluctuations in foreign currencies. Policies and programs are in place to manage the potential risks in these areas. The Company has generally been successful in controlling cost increases due to general inflation. The Company continues to review its number of suppliers in order to obtain lower costs and higher quality on many of its materials and purchased components. Steps taken in conjunction with restructuring efforts have reduced operating costs in its manufacturing operations.

The Company normally enters into foreign currency exchange contracts to economically hedge that portion of its net financial position exposed to foreign currency fluctuations.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, as well as related disclosures of contingent liabilities. We evaluate our policies and estimates on an ongoing basis, including those related to tax contingencies, inventory obsolescence reserves, warranty reserves, impairment of assets, retirement obligations and revenue recognition. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the following policies as critical to an understanding of our results of operations and financial condition. This is not a comprehensive list of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. For a discussion of our other accounting policies, see Note A "Significant Accounting Policies" to the Company's consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Tax Contingencies. We are subject to a variety of income and other non-income based taxes in numerous jurisdictions around the world. We are also periodically reviewed by tax authorities and positions we have taken with respect to the tax returns are subject to interpretation and negotiation. We provide for estimated tax contingencies that we believe are both probable and estimable. Our assessments are based on our understanding of the appropriate tax law, the estimated exposure and probability of a successful assessment by the taxing authorities. In 2005, net income was increased by approximately \$0.6 million due to the reversal on non-income based tax reserves provided in prior years which were no longer deemed necessary due to the passing of statutes of limitation or as a result of updating our estimates. In addition, our income tax provision for 2005 was reduced by approximately \$0.4 million for the impact of income tax contingencies that were resolved in the current year and the updating of our estimates.

Inventory Reserves. Our global inventories are carried at the lower of cost or market, which requires us to estimate reserves for both obsolescence and the market value we can expect to receive for our on hand inventory. Domestic WI&A segment inventories accounted for on a LIFO basis represent approximately one-third of total inventories. As a result, domestic WI&A finished goods inventories are carried significantly below their current cost and they can typically be realized at selling prices above their carrying value. Because we are required to produce our product with sufficient lead time to satisfy global distribution and expected demand during seasonal peak periods, we are subject to the risks of consumer acceptance of the products we have produced. We assess our need for obsolescence reserves based on a variety of factors including historical demand, future marketing plans and alternative uses for raw material and work-in-process.

Warranty Reserves. The Company's Cross branded writing instruments are sold with a full warranty of unlimited duration against mechanical failure. Costa Del Mar sunglasses are sold with a lifetime warranty against defects in materials and workmanship. In establishing the accrual for warranty costs, management analyzes trends, measured over a period of several years, of several factors that impact the Company's cost to service the warranty. The most significant factors include: the operating costs of the service department, unit sales, the number of units that are returned for warranty repair and the cost of product repairs. The estimates affecting the warranty reserve are updated annually.

Retirement Obligations. The Company's pension benefits are calculated using actuarial concepts, within the framework of Statement of Financial Accounting Standard ("SFAS") No. 87 "Employer's Accounting for Pensions." Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and liability measurement. We evaluate these critical assumptions annually. Other assumptions involve demographic factors such as retirement, mortality, turnover and rate of compensation increases. The discount rate enables us to state expected future cash flow as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. We reduced our discount rate to 5.6% in 2005 from 5.85% in 2004 to reflect market interest rate conditions. To determine the expected long-term rate of return on the plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets will increase pension expense. Our long-term expected return on plan assets was 8.25% in 2005 and 2004.

Impairment Analysis. The Company tests goodwill for impairment at least annually. The Company completed its impairment testing as of November 28, 2005 and determined that goodwill was not impaired. Management's estimates of fair values, projections of future cash flows and other factors are significant factors in testing goodwill for impairment. If these estimates or projections change in the future, the Company may be required to record an impairment charge. Approximately one-half of our goodwill is attributable to the WI&A segment. Our projections for the WI&A segment include significant improvements to our current results as we achieve the benefits of further restructuring and the migration of manufacturing operations to China.

Revenue Recognition. Revenue recognition requires estimates of product returns, term discounts and rebates at the time revenue is recognized. These estimates are based on customer communication and historical experience. Should these estimates change, there could be a material effect on revenue recognized.

For additional information regarding management's estimates, see "Risk Factors" in Item 1A of this Annual Report on Form 10-K and the "Forward-Looking Statements" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

Forward-Looking Statements

Statements contained herein that are not historical fact are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, words such as "believes," "anticipates," "expects," "will" and similar expressions are intended to identify forward-looking statements, including but not limited to statements related to the introduction of new writing instrument products; the new direct to consumer initiatives; the performance of Cross branded non writing instrument products, including watches, precision readers and business accessories; the availability of necessary raw materials and manufacturing technologies; the continued performance of Costa Del Mar; innovation of the Company's programs; benefits of a streamlined operation; diversification of the business beyond writing instruments; anticipated compliance with laws and regulations (including but not limited to environmental laws); and anticipated sufficiency of available working capital. The Company cautions that a number of important factors could cause the Company's actual results for fiscal 2006 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements involve a number of risks and uncertainties. For a discussion of certain of those risks, see "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in interest rates and foreign currency exchange, primarily in its investments, line of credit and foreign currency transactions.

The Company maintains a \$20 million secured line of credit with a bank. Under this agreement, the Company has the option to borrow at various interest rates depending upon the type of borrowings made and the Company's consolidated leverage ratio. The Company believes that changes in interest rates would not be material to its operations, due to its anticipated level of borrowings.

There was \$10.5 million outstanding under the Company's new line of credit at December 31, 2005. There was \$3 million outstanding under the Company's former line of credit at January 1, 2005.

The Company entered into an interest rate swap agreement that effectively fixes the interest rate on a portion of its line of credit at 4.15% per annum. At December 31, 2005, the notional value of the interest rate swap was \$5.5 million.

The Company's foreign exchange exposure is generated primarily from its international operating subsidiaries. The Company seeks to minimize the impact of foreign currency fluctuations by hedging certain foreign currency denominated balance sheet positions with foreign currency forward exchange contracts and/or options. Most of these contracts are short-term, generally expire in one to three months and do not subject the Company to material market risk. The Company does not enter into foreign currency exchange transactions for speculative purposes.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
A.T. Cross Company
Lincoln, Rhode Island

We have audited the accompanying consolidated balance sheets of A.T. Cross Company and subsidiaries (the "Company") as of December 31, 2005 and January 1, 2005, and the related statements of operations, comprehensive (loss) income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed at Item 15C. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and January 1, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.



Deloitte & Touche LLP
Boston, Massachusetts
March 21, 2006

CONSOLIDATED BALANCE SHEETS
A.T. CROSS COMPANY & SUBSIDIARIES

| ASSETS | <u>DECEMBER 31, 2005</u> | <u>JANUARY 1, 2005</u> |
|--|-----------------------------|-----------------------------|
| <i>Current Assets</i> | | |
| Cash and cash equivalents | \$ 11,073,921 | \$ 10,433,809 |
| Short-term investments | - | 5,067,993 |
| Accounts receivable, less allowances for doubtful accounts of \$1,007,000 in 2005 and \$1,179,000 in 2004 | 31,843,941 | 29,986,283 |
| Inventories: Finished goods | 8,719,383 | 7,838,912 |
| Work in process | 2,756,500 | 4,141,240 |
| Raw materials | 3,559,596 | 3,527,457 |
| | 15,035,479 | 15,507,609 |
| Deferred income taxes | 6,339,510 | 5,420,780 |
| Receivable from Chinese contract manufacturer | 4,637,022 | 1,267,124 |
| Other current assets | 4,659,807 | 5,364,674 |
| <i>Total Current Assets</i> | 73,589,680 | 73,048,269 |
| <i>Property, Plant and Equipment</i> | | |
| Land and land improvements | 1,201,732 | 1,201,732 |
| Buildings | 16,729,559 | 16,635,130 |
| Machinery and equipment | 111,486,024 | 111,102,105 |
| | 129,417,315 | 128,938,967 |
| Less accumulated depreciation | 107,724,723 | 105,199,435 |
| <i>Net Property, Plant and Equipment</i> | 21,692,592 | 23,739,532 |
| <i>Goodwill</i> | 7,288,014 | 7,288,014 |
| <i>Intangibles, Net</i> | 4,809,444 | 4,935,570 |
| <i>Deferred Income Taxes</i> | 4,990,918 | 3,823,049 |
| <i>Other Assets</i> | 522,594 | 516,407 |
| <i>Total Assets</i> | <u>\$112,893,242</u> | <u>\$113,350,841</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| <i>Current Liabilities</i> | | |
| Line of credit | \$ - | \$ 3,000,000 |
| Current maturities of long-term debt | - | 1,350,000 |
| Accounts payable | 5,425,033 | 5,081,783 |
| Accrued compensation and related taxes | 4,591,878 | 4,171,714 |
| Accrued expenses and other liabilities | 11,075,823 | 12,305,213 |
| Retirement plan obligations | 1,736,005 | 1,709,267 |
| Restructuring liabilities | 273,326 | 288,853 |
| Income taxes payable | 196,156 | 16,301 |
| <i>Total Current Liabilities</i> | 23,298,221 | 27,923,131 |
| <i>Retirement Plan Obligations</i> | 10,504,939 | 8,310,473 |
| <i>Long-Term Debt, Less Current Maturities</i> | 10,456,179 | 5,512,500 |
| <i>Accrued Warranty Costs</i> | 1,456,608 | 1,602,844 |
| <i>Commitments and Contingencies (Note L)</i> | - | - |
| <i>Shareholders' Equity</i> | | |
| Common stock, par value \$1 per share: | | |
| Class A-authorized 40,000,000 shares, 16,455,099 shares issued and 13,095,351 shares outstanding at December 31, 2005, and 16,347,082 shares issued and 13,174,034 shares outstanding at January 1, 2005 | 16,455,099 | 16,347,082 |
| Class B-authorized 4,000,000 shares, 1,804,800 shares issued and outstanding at December 31, 2005 and January 1, 2005 | 1,804,800 | 1,804,800 |
| Additional paid-in capital | 17,561,390 | 17,142,209 |
| Unearned stock-based compensation | (769,044) | (791,774) |
| Retained earnings | 63,076,096 | 62,691,947 |
| Accumulated other comprehensive loss | (4,802,962) | (2,039,060) |
| | 93,325,379 | 95,155,204 |
| Treasury stock, at cost, 3,359,748 shares in 2005 and 3,173,048 shares in 2004 | (26,148,084) | (25,153,311) |
| <i>Total Shareholders' Equity</i> | <u>67,177,295</u> | <u>70,001,893</u> |
| <i>Total Liabilities and Shareholders' Equity</i> | <u>\$112,893,242</u> | <u>\$113,350,841</u> |

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS
A.T. CROSS COMPANY & SUBSIDIARIES**

| | YEARS ENDED | | |
|--|--------------------------|----------------------------|----------------------------|
| | <u>DECEMBER 31, 2005</u> | <u>JANUARY 1, 2005</u> | <u>JANUARY 3, 2004</u> |
| Net sales | \$129,114,878 | \$129,480,298 | \$126,365,475 |
| Cost of goods sold | <u>66,204,804</u> | <u>66,690,155</u> | <u>61,889,832</u> |
| <i>Gross Profit</i> | 62,910,074 | 62,790,143 | 64,475,643 |
| Selling, general and administrative expenses | 56,021,004 | 57,368,038 | 56,014,123 |
| Service and distribution costs | 2,987,795 | 2,967,356 | 2,783,252 |
| Research and development expenses | 1,790,479 | 1,780,326 | 1,942,783 |
| Restructuring charges | 1,150,510 | 2,323,673 | 2,440,754 |
| Gain on disposition of asset held for sale | <u>-</u> | <u>-</u> | <u>(988,569)</u> |
| <i>Operating Income (Loss)</i> | 960,286 | (1,649,250) | 2,283,300 |
| Interest and other (expense) income, net | <u>(386,754)</u> | <u>95,683</u> | <u>(65,752)</u> |
| <i>Income (Loss) Before Income Taxes</i> | 573,532 | (1,553,567) | 2,217,548 |
| Income tax provision (benefit) | <u>189,383</u> | <u>(698,460)</u> | <u>440,530</u> |
| <i>Net Income (Loss)</i> | <u>\$ 384,149</u> | <u>\$ (855,107)</u> | <u>\$ 1,777,018</u> |
| Basic and Diluted Net Income (Loss) Per Share: | | | |
| <i>Net Income (Loss) Per Share</i> | <u>\$0.03</u> | <u>\$(0.06)</u> | <u>\$0.12</u> |
| Weighted Average Shares Outstanding: | | | |
| <i>Denominator for Basic Net Income (Loss) Per Share</i> | 14,719,251 | 14,925,848 | 15,080,115 |
| Effect of Dilutive Securities: | | | |
| Common stock equivalents | <u>62,531</u> | <u>-(A)</u> | <u>137,805</u> |
| <i>Denominator for Diluted Net Income (Loss) Per Share</i> | <u>14,781,782</u> | <u>14,925,848</u> | <u>15,217,920</u> |

(A) 106,254 incremental shares related to options or restricted stocks granted are not included due to the net loss since the effects of such shares would be anti-dilutive.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
A.T. CROSS COMPANY & SUBSIDIARIES**

| | YEARS ENDED | | |
|---|------------------------------|------------------------------|----------------------------|
| | <u>DECEMBER 31, 2005</u> | <u>JANUARY 1, 2005</u> | <u>JANUARY 3, 2004</u> |
| Net Income (Loss) | \$ 384,149 | \$ (855,107) | \$ 1,777,018 |
| Other Comprehensive Income (Loss), Net of Tax: | | | |
| Foreign currency translation adjustments | (937,448) | 308,312 | 799,110 |
| Unrealized (loss) gain on interest rate swap, net of tax (benefit) provision of (\$5,535) and \$38,038 and (\$32,503) | (10,280) | 70,642 | (60,362) |
| Minimum pension liability adjustment, net of tax benefit of (\$1,028,723), (\$979,391) and (\$2,263) | <u>(1,816,174)</u> | <u>(2,089,820)</u> | <u>(9,050)</u> |
| <i>Comprehensive (Loss) Income</i> | <u>\$ (2,379,753)</u> | <u>\$ (2,565,973)</u> | <u>\$ 2,506,716</u> |

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
A.T. CROSS COMPANY & SUBSIDIARIES**

| | COMMON STOCK | | ADDITIONAL | | | | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE LOSS | | TREASURY STOCK AMOUNT | TOTAL SHAREHOLDERS' EQUITY |
|---|------------------------|--------------------|---------------------|--------------------|--------------------------|-----------------------------------|----------------------|--------------------------------------|-----------------------|-----------------------|----------------------------|
| | SHARES & DOLLAR AMOUNT | | PAID-IN CAPITAL | | STOCK-BASED COMPENSATION | UNEARNED STOCK-BASED COMPENSATION | | LOSS | SHARES | | |
| | CLASS A | CLASS B | CLASS A | CLASS B | | | | | | | |
| Balances at December 28, 2002 | \$16,009,209 | \$1,804,800 | \$15,688,210 | \$18,213 | \$61,770,036 | 2,366,048 | \$(1,057,892) | 494,500 | \$(20,895,341) | \$73,300,809 | |
| Purchase of treasury stock | | | | | | | | | (2,610,787) | (2,610,787) | |
| Grant of restricted stock for future services | 50,000 | | 212,500 | (262,500) | | | | | | | |
| Stock option activity | 12,600 | | 51,581 | | | | | | | 64,181 | |
| Stock purchase plan | 5,368 | | 22,289 | | | | | | | 27,657 | |
| Amortization of unearned stock-based compensation | | | | 126,130 | | | | | | 126,130 | |
| Foreign currency translation adjustments | | | | | 799,110 | | | | | 799,110 | |
| Unrealized loss on interest rate swap | | | | | (60,362) | | | | | (60,362) | |
| Minimum pension liability adjustment | | | | | (9,050) | | | | | (9,050) | |
| Net income | | | | | 1,777,018 | | | | | 1,777,018 | |
| Balances at January 3, 2004 | 16,077,177 | 1,804,800 | 15,974,580 | (154,583) | 63,547,054 | 2,860,548 | (328,194) | 312,500 | (23,506,128) | 73,414,706 | |
| Purchase of treasury stock | | | | | | | | | (1,647,183) | (1,647,183) | |
| Grant of restricted stock for future services | 152,900 | | 669,476 | (822,376) | | | | | | | |
| Stock option activity | 99,810 | | 412,424 | | | | | | | 512,234 | |
| Stock purchase plan | 2,238 | | 11,494 | | | | | | | 13,732 | |
| Non-cash stock-based directors' fees | 14,957 | | 74,235 | | | | | | | 89,192 | |
| Amortization of unearned stock-based compensation | | | | 185,185 | | | | | | 185,185 | |
| Foreign currency translation adjustments | | | | | 308,312 | | | | | 308,312 | |
| Unrealized gain on interest rate swap | | | | | 70,642 | | | | | 70,642 | |
| Minimum pension liability adjustment | | | | | (2,089,820) | | | | | (2,089,820) | |
| Net loss | | | | | (855,107) | | | | | (855,107) | |
| Balances at January 1, 2005 | 16,347,082 | 1,804,800 | 17,142,209 | (791,774) | 62,691,947 | 3,173,048 | (2,039,060) | 186,700 | (25,153,311) | 70,001,893 | |
| Purchase of treasury stock | | | | | | | | | (994,773) | (994,773) | |
| Grant of restricted stock for future services | 50,000 | | 211,250 | (261,250) | | | | | | | |
| Stock option activity | 40,000 | | 136,250 | | | | | | | 176,250 | |
| Stock purchase plan | 3,663 | | 14,953 | | | | | | | 18,616 | |
| Non-cash stock-based directors' fees | 14,354 | | 56,728 | | | | | | | 71,082 | |
| Amortization of unearned stock-based compensation | | | | 283,980 | | | | | | 283,980 | |
| Foreign currency translation adjustments | | | | | (937,448) | | | | | (937,448) | |
| Unrealized loss on interest rate swap | | | | | (10,280) | | | | | (10,280) | |
| Minimum pension liability adjustment | | | | | (1,816,174) | | | | | (1,816,174) | |
| Net income | | | | | 384,149 | | | | | 384,149 | |
| Balances at December 31, 2005 | \$16,455,099 | \$1,804,800 | \$17,561,390 | \$(769,044) | \$63,076,096 | 3,359,748 | \$(4,802,962) | \$3,359,748 | \$(26,148,084) | \$67,177,295 | |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
A.T. CROSS COMPANY & SUBSIDIARIES

| CASH PROVIDED BY (USED IN) | YEARS ENDED | | |
|--|----------------------------|----------------------------|----------------------------|
| | <u>DECEMBER 31, 2005</u> | <u>JANUARY 1, 2005</u> | <u>JANUARY 3, 2004</u> |
| Operating Activities: | | | |
| Net income (loss) from operations | \$ 384,149 | \$ (855,107) | \$ 1,777,018 |
| Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities: | | | |
| Depreciation and amortization | 6,977,060 | 7,472,392 | 7,603,678 |
| Restructuring charges | 1,150,510 | 2,323,673 | 2,440,754 |
| Gain on disposition of asset held for sale | - | - | (988,569) |
| Provision for bad debts | 264,519 | 252,483 | 636,079 |
| Deferred income taxes | (230,284) | (1,050,443) | 246,424 |
| Provision for accrued warranty costs | 239,653 | 175,420 | 119,807 |
| Stock-based directors' fees | 71,082 | 89,192 | - |
| Unrealized (gains) losses on trading securities | (27,881) | 19,246 | 105,404 |
| Amortization of unearned stock-based compensation | 283,980 | 185,185 | 126,130 |
| Warranty costs paid | (458,591) | (460,697) | (298,772) |
| Restructuring charges paid | (1,162,790) | (3,019,743) | (3,033,542) |
| Reversal of payroll and non-income based tax reserves | (832,000) | - | - |
| Foreign currency transaction loss (gain) | 220,103 | (78,411) | (8,996) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (3,143,350) | 2,800,725 | (2,095,283) |
| Inventories | 138,231 | 735,064 | (102,704) |
| Receivable from Chinese contract manufacturer | (3,369,898) | (1,267,124) | - |
| Other assets, net | (254,914) | 2,035,564 | (2,126,619) |
| Accounts payable | 402,980 | (2,035,317) | 861,918 |
| Other liabilities, net | (219,232) | (1,123,946) | (3,180,873) |
| <i>Net Cash Provided by Operating Activities</i> | 433,327 | 6,198,156 | 2,081,854 |
| Investing Activities: | | | |
| Acquisition of Costa Del Mar, net of cash acquired | - | - | (9,569,907) |
| Additions to property, plant and equipment | (4,288,166) | (4,527,994) | (4,110,164) |
| Purchases of short-term investments | - | (3,053,815) | (10,076,464) |
| Sales or maturities of short-term investments | 5,095,874 | 5,893,053 | 10,871,566 |
| Proceeds from disposition of asset held for sale | - | - | 1,563,692 |
| <i>Net Cash Provided by (Used in) Investing Activities</i> | 807,708 | (1,688,756) | (11,321,277) |
| Financing Activities: | | | |
| Proceeds from issuance of long-term debt | - | - | 9,000,000 |
| Repayment of long-term debt | (6,862,500) | (1,350,000) | (787,500) |
| Line of credit proceeds and repayments, net | 7,456,179 | (155,000) | 2,155,000 |
| Proceeds from sale of Class A common stock | 194,866 | 525,966 | 91,838 |
| Purchase of treasury stock | (994,773) | (1,647,183) | (2,610,787) |
| <i>Net Cash (Used in) Provided by Financing Activities</i> | (206,228) | (2,626,217) | 7,848,551 |
| Effect of exchange rate changes on cash and cash equivalents | (394,695) | 255,491 | 541,141 |
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | 640,112 | 2,138,674 | (849,731) |
| Cash and cash equivalents at beginning of year | <u>10,433,809</u> | <u>8,295,135</u> | <u>9,144,866</u> |
| <i>Cash and Cash Equivalents at End of Year</i> | <u>\$11,073,921</u> | <u>\$10,433,809</u> | <u>\$ 8,295,135</u> |
| SUPPLEMENTAL INFORMATION: | | | |
| Non-cash financing activities: | | | |
| Conversion of a portion of outstanding line of credit to term note | \$ - | \$ - | \$ 9,000,000 |
| Income taxes paid (refunded), net | 719,000 | 880,000 | (20,000) |
| Interest paid | 586,000 | 407,000 | 290,000 |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
A.T. CROSS COMPANY & SUBSIDIARIES
DECEMBER 31, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Nature of Operations: The consolidated financial statements include the accounts of A.T. Cross Company and its subsidiaries (the "Company"). Upon consolidation, all material intercompany accounts and transactions are eliminated.

The Company has two reportable business segments: writing instruments and accessories ("WI&A"), and optical.

The Company's WI&A segment designs, manufactures and markets writing instruments, business accessories and watches throughout the world and is an OEM of writing instruments. Writing instrument products are sold under the Cross brand as well as the Penatia and Omni by Cross brands and under the licensed name Bill Blass. They include ball-point pens, fountain pens, selectip rolling ball pens, mechanical pencils and writing instrument accessories such as refills and desk sets. In addition to writing instrument accessories, the Company offers personal accessory products including watches, precision reading glasses and leather goods.

The Company's optical segment designs, manufactures and markets sunglasses throughout the United States under the Costa Del Mar brand. The Company acquired Costa Del Mar in April 2003.

The accounting policies of the Company's segments are described in this summary of significant accounting policies. The Company evaluates segment performance based upon the profit or loss before income taxes. The Company's reportable segments are strategic business units that offer different product lines. They are managed separately, as each unit requires different technologies and marketing strategies.

Accounting for Estimates: The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), requires the Company to make assumptions that affect the estimates reported in these consolidated financial statements. Actual results may differ from these estimates.

Revenue Recognition: Revenue from sales is recognized when the following criteria are met: persuasive evidence of an arrangement exists, title to the goods has passed to the customer, the sales price is fixed or determinable, and collection of the sales price is reasonably assured. Provisions are made at the time the related revenue is recognized for estimated product returns, term discounts and rebates.

Cash Equivalents and Short-Term Investments: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Short-term investments are stated at fair value and consist of interest-bearing investments with a maturity of greater than three months when purchased. At January 1, 2005, short-term investments are classified as trading securities and include time deposits, commercial paper and United States Government Agency bonds. Gains or losses on trading securities, realized and unrealized, are included in interest and other (expense) income in the WI&A segment. At December 31, 2005 and January 1, 2005, approximately 53% and 24%, respectively, of the Company's cash, cash equivalents and short-term investments were on deposit with one financial institution.

Marketable Equity Securities: The Company carries its investments in marketable equity securities that are available-for-sale at fair value and includes them in other current assets. Unrealized holding gains and losses, net of the related tax effect, on such securities are included in accumulated other comprehensive (loss) income, which is reflected in shareholders' equity.

Inventories: Domestic writing instrument inventories are priced at the lower of last-in, first-out ("LIFO") cost or market. The remaining inventories are priced at the lower of first-in, first-out ("FIFO") cost or market.

Marketing Support Costs: The costs of marketing support, including advertising, are charged to expense as incurred and amounted to approximately \$11.1 million, \$12.5 million and \$13.2 million for fiscal 2005, 2004 and 2003, respectively. Accrued marketing support expenses were approximately \$2.3 million and \$1.9 million at December 31, 2005 and January 1, 2005, respectively, and are included in accrued expenses and other liabilities.

Reclassifications: The Company changed the classification of certain previously reported amounts in the accompanying balance sheet as of January 1, 2005 related to the reporting of retirement plan obligations. The effect of the change was to decrease short-term retirement plan obligations by \$8.3 million and increase long-term retirement plan obligations by the same amount. In addition, certain prior year amounts have been reclassified for consistent presentation with the current year.

Derivatives: The Company has a program in place to manage foreign currency risk. As part of that program, the Company can enter into foreign currency exchange contracts to hedge anticipated foreign currency transactions or commitments, primarily purchases of materials and products from foreign suppliers, and certain foreign currency denominated balance sheet positions. The terms of the contracts are generally less than three months. Gains and losses on other contracts that do not qualify for hedge accounting are included in SG&A expenses. The Company does not enter into foreign currency exchange transactions for speculative purposes.

The Company also uses an interest rate swap to manage its exposure to changing interest rates that result from variable rate debt. This swap effectively fixes the interest rate on a portion of the Company's line of credit at 4.15%.

Realized and unrealized gains and losses on contracts intended to hedge specific forecasted transactions or commitments, if any, that qualify for hedge accounting are deferred and recorded as a component of accumulated other comprehensive income (loss) and accounted for as part of the transaction. Contracts are recorded at fair value on the balance sheet as a component of other current assets or accrued expenses and other liabilities.

Property, Plant and Equipment, and Related Depreciation: Property, plant and equipment are stated on the basis of cost. Provisions for depreciation are computed using a combination of accelerated and straight-line methods, which are intended to depreciate the cost of such assets over their estimated useful lives, which are as follows:

| | |
|--|---------------|
| Buildings and Building Additions | 39 Years |
| Building & Land Improvements, and Furniture & Fixtures | 8 to 10 Years |
| Machinery & Equipment | 5 to 8 Years |
| Leasehold Improvements | 4 to 7 Years |
| Vehicles, Tooling and Desktop PCs | 3 to 4 Years |

Warranty Costs: The Company's Cross branded writing instruments are sold with a full warranty of unlimited duration against mechanical failure. Accessories are sold with a one-year warranty against mechanical failure and defects in workmanship, and timepieces are warranted to the original owner to be free from defects in material and workmanship for a period of ten years. Costa Del Mar sunglasses are sold with a lifetime warranty against defects in materials and workmanship. Estimated warranty costs are accrued at the time of sale. The most significant factors in the estimation of warranty cost liabilities include the operating efficiency and related cost of the service department, unit sales and the number of units that are eventually returned for warranty repair. The current portions of accrued warranty costs were \$463,000 and \$535,000 at December 31, 2005 and January 1, 2005, respectively, and were recorded in accrued expenses and other liabilities. The following chart reflects the activity in aggregate accrued warranty costs:

| (THOUSANDS OF DOLLARS) | YEARS ENDED | | |
|---|--------------------------|------------------------|------------------------|
| | <u>DECEMBER 31, 2005</u> | <u>JANUARY 1, 2005</u> | <u>JANUARY 3, 2004</u> |
| <i>Accrued Warranty Costs - Beginning of Year</i> | \$2,138 | \$2,424 | \$2,523 |
| Warranty costs paid | (459) | (461) | (299) |
| Warranty costs accrued | 454 | 554 | 471 |
| Impact of changes in estimates and assumptions | (214) | (379) | (351) |
| Warranty liabilities assumed | - | - | 80 |
| <i>Accrued Warranty Costs - End of Year</i> | <u>\$1,919</u> | <u>\$2,138</u> | <u>\$2,424</u> |

Basic and Diluted Net Income (Loss) Per Share: Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of total shares of Class A and Class B common stock outstanding during the year. Diluted net income (loss) per share is computed by dividing net income (loss) by diluted weighted average shares outstanding. Diluted weighted average shares reflect the dilutive effect, if any, of potential common shares. To the extent that their effect is dilutive, potential common shares include common stock options and restricted stock based on the treasury stock method.

Long-Lived Assets: In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the cost to sell.

Goodwill and Other Intangible Assets: In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is accounted for using an impairment-only approach. Goodwill is tested for impairment annually or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Patents and trademarks are amortized on a straight-line basis over five years and are evaluated for impairment using the methodology described in SFAS No. 142. The required annual impairment tests for all segments were performed on November 28, 2005 and November 29, 2004. The Company concluded for all periods that goodwill was not impaired.

Stock-Based Compensation: The Company applies the intrinsic-value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for employee stock-based compensation and provides pro forma disclosures of the compensation expense determined under the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148. The Company's stock plans are described in Note I, "Omnibus Incentive Plan." No employee stock-based compensation cost is reflected in net income (loss) related to options granted under those plans for which the exercise or purchase price was equal to the market value of the underlying common stock on the date of grant. Deferred compensation is recorded on the date of grant if the exercise or purchase price of the stock award is less than the market value of the underlying common stock on the date of grant. Deferred compensation is expensed on a straight-line basis over the vesting period of the stock award. The following table reflects pro forma net income (loss) and net income (loss) per share had the Company elected to record expense for employee stock options under SFAS No. 123.

| (THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS) | YEARS ENDED | | |
|--|--------------------------|------------------------|------------------------|
| | <u>DECEMBER 31, 2005</u> | <u>JANUARY 1, 2005</u> | <u>JANUARY 3, 2004</u> |
| Net income (loss), as reported | \$ 384 | \$ (855) | \$1,777 |
| Less stock-based compensation expense recognized, net of tax | 187 | 102 | 101 |
| Stock-based compensation expense as determined under SFAS No. 123, net of tax | <u>(326)</u> | <u>(389)</u> | <u>(987)</u> |
| <i>Pro Forma Net Income (Loss)</i> | <u>\$ 245</u> | <u>\$(1,142)</u> | <u>\$ 891</u> |
| Net Income (Loss) Per Share: | | | |
| Basic and diluted - as reported | <u>\$0.03</u> | <u>\$(0.06)</u> | <u>\$0.12</u> |
| Basic and diluted - pro forma | <u>\$0.02</u> | <u>\$(0.08)</u> | <u>\$0.06</u> |

New Accounting Pronouncements: In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 151, "Inventory Costs," an amendment of APB Opinion No. 43, Chapter 4. This Statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. Statement No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of Statement No. 151 will have a material effect on its consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"). This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Statement requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). In April 2005, the Securities and Exchange Commission extended the compliance date for SFAS No. 123R, making it effective at the beginning of the first annual reporting period, rather than the next reporting period, that begins after June 15, 2005, which for the Company is the fiscal year beginning January 1, 2006. The Company is presently evaluating the two methods of adoption allowed by SFAS No. 123R; the modified-prospective transition method and the modified-retrospective transition method.

In September 2005, the Emerging Issues Task Force ("EITF") reached consensus on Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("EITF 04-13"). EITF 04-13 establishes criteria to be applied in determining if arrangements for the purchase and sale of inventory with the same counterparty be viewed as a single exchange transaction or separate and independent transactions within the scope of APB Opinion No. 9, "Accounting for Nonmonetary Transactions," and if the nonmonetary exchanges of inventory should be recognized at fair value or historic carrying cost. This standard is effective for all new, modified or renewed arrangements beginning in the first interim or annual reporting period beginning after March 15, 2006. The Company does not believe that EITF No. 04-13 will have a material effect on its consolidated financial position or results of operations.

NOTE B - INVENTORIES

Domestic writing instrument inventories, approximating \$5.4 million and \$7.8 million at December 31, 2005 and January 1, 2005, respectively, are priced at the lower of LIFO cost or market. The remaining inventories are priced at the lower of FIFO cost or market. If the FIFO method of inventory valuation had been used for those inventories priced using the LIFO method, inventories would have been approximately \$8.4 million and \$8.8 million higher than reported at December 31, 2005 and January 1, 2005, respectively. During fiscal 2005, inventory quantities were reduced resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of current purchases. The effect of this liquidation was to increase net income by approximately \$1.1 million, or \$0.08 per share, basic and diluted.

NOTE C - RESTRUCTURING CHARGES

In 2003, the Company announced a corporate restructuring program of its writing instrument and accessory segment designed to increase its competitiveness in the global marketplace by reducing operating costs and freeing additional capital for product development and diversification as well as marketing and brand development. As part of this program, a number of writing instrument manufacturing departments have been and continue to be moved offshore. Each succeeding step of the process is fully dependent on the newly sourced product achieving the high quality standards expected of every Cross product. Approximately 80 manufacturing positions in Lincoln, Rhode Island were affected in 2003 as part of the initial phase of this plan. In addition, approximately 80 global non-manufacturing positions were eliminated through 2004 as part of the program to consolidate and reduce administrative expenses. The Company expects to incur pre-tax restructuring charges of approximately \$7.5 million over the life of the program, assuming full implementation. Of this \$7.5 million, approximately \$5.4 million will be for severance and related expenses and approximately \$2.1 million for professional fees and other, primarily legal and tax advisory fees and outplacement service charges. The Company expects the restructuring program to be effectively complete by the end of 2006. The following is a tabular presentation of the restructuring liabilities related to this plan:

| (THOUSANDS OF DOLLARS) | SEVERANCE & RELATED EXPENSES | PROFESSIONAL FEES & OTHER | TOTAL |
|--------------------------------------|---------------------------------|------------------------------|----------------------|
| Balances at December 28, 2002 | \$ - | \$ - | \$ - |
| Restructuring charges incurred | 1,997 | 444 | 2,441 |
| Cash payments | (1,221) | (339) | (1,560) |
| Foreign exchange effects | <u>32</u> | <u>-</u> | <u>32</u> |
| Balances at January 3, 2004 | \$ 808 | \$ 105 | \$ 913 |
| Restructuring charges incurred | 1,726 | 639 | 2,365 |
| Cash payments | (2,258) | (722) | (2,980) |
| Foreign exchange effects | <u>(9)</u> | <u>-</u> | <u>(9)</u> |
| Balances at January 1, 2005 | \$ 267 | \$ 22 | \$ 289 |
| Restructuring charges incurred | 415 | 736 | 1,151 |
| Cash payments | (429) | (734) | (1,163) |
| Foreign exchange effects | <u>(4)</u> | <u>-</u> | <u>(4)</u> |
| Balances at December 31, 2005 | <u>\$ 249</u> | <u>\$ 24</u> | <u>\$ 273</u> |

In 2000, the Company's Board of Directors approved a plan to restructure the Company's domestic and international writing instrument operations. As a result, the Company recorded pre-tax restructuring charges of approximately \$19.9 million in fiscal 2000 in the WI&A segment. As part of this restructuring plan, the Company consolidated all writing instrument manufacturing and distribution at its headquarters in Lincoln, Rhode Island, closed its Irish facility and reorganized its European operations. There was no change to the total estimated cost in 2003. In fiscal 2004, the final obligation of this restructuring plan was paid. The total cash portion of this restructuring plan was approximately \$15.5 million. The following is a tabular presentation of the restructuring liabilities related to this plan:

| (THOUSANDS OF DOLLARS) | SEVERANCE & RELATED EXPENSES | CONTRACTUAL OBLIGATIONS | TOTAL |
|--|---------------------------------|----------------------------|--------------------|
| Balances at December 28, 2002 | \$ 71 | \$1,309 | \$1,380 |
| Foreign exchange effects | 14 | 162 | 176 |
| Cash payments | <u>(3)</u> | <u>(1,471)</u> | <u>(1,474)</u> |
| Balances at January 3, 2004 | \$ 82 | \$ - | \$ 82 |
| Change in estimate | (41) | - | (41) |
| Foreign exchange effects | (1) | - | (1) |
| Cash payments | <u>(40)</u> | <u>-</u> | <u>(40)</u> |
| Balances at December 31, 2005 and January 1, 2005 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE D - GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2005 and January 1, 2005, the carrying values of goodwill were approximately \$7.3 million and \$7.3 million, respectively. Other intangibles consisted of the following:

| (THOUSANDS OF DOLLARS) | DECEMBER 31, 2005 | | | JANUARY 1, 2005 | | |
|-------------------------------------|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | OTHER INTANGIBLES NET | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | OTHER INTANGIBLES NET |
| Amortized: | | | | | | |
| Trademarks | \$ 8,101 | \$7,186 | \$ 915 | \$ 7,727 | \$6,706 | \$1,021 |
| Patents | <u>2,847</u> | <u>2,353</u> | <u>494</u> | <u>2,615</u> | <u>2,100</u> | <u>515</u> |
| | <u>\$10,948</u> | <u>\$9,539</u> | <u>1,409</u> | <u>\$10,342</u> | <u>\$8,806</u> | <u>1,536</u> |
| Not Amortized: | | | | | | |
| Trade name | | | <u>3,400</u> | | | <u>3,400</u> |
| <i>Total Other Intangibles, Net</i> | | | <u>\$4,809</u> | | | <u>\$4,936</u> |

The Company amortizes patents and trademarks over an average five-year life. Amortization expense was approximately \$733,000, \$679,000 and \$594,000 for fiscal years 2005, 2004 and 2003, respectively. The estimated future amortization expense for other intangibles remaining as of December 31, 2005 is as follows:

| (THOUSANDS OF DOLLARS) | 2006 | 2007 | 2008 | 2009 |
|------------------------|--------|--------|--------|--------|
| | \$ 645 | \$ 394 | \$ 249 | \$ 121 |

NOTE E - LINE OF CREDIT

In December 2005, the Company entered into a new secured revolving line of credit with a bank. This agreement was amended on January 7, 2006. Under the amended line of credit agreement, the bank agreed to make loans to the Company in an aggregate amount not to exceed \$20 million, including up to \$5 million equivalent in Eurocurrency loans denominated in pounds sterling or Euro ("Eurocurrency Loans") and up to \$15 million of other committed loans to the Company ("Committed Loans") at any time. As part of the aggregate availability, the bank may also issue up to \$3 million in letters of credit. Subject to the limits on availability and the other terms and conditions of the credit agreement, amounts borrowed under the facility may be borrowed, repaid without penalty and reborrowed by the Company. The facility matures and amounts outstanding must be repaid on December 20, 2007.

The interest rate for the Committed Loans will be, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) the higher of the federal funds rate plus 50 basis points or the bank's prime rate. The interest rate for any Eurocurrency Loans will be an interest settlement rate for deposits in pounds sterling or Euro plus an applicable margin. The applicable margin for LIBOR and Eurocurrency loans will be an amount between 1.50% and 2.25%, which amount will vary from time to time based upon the Company's consolidated leverage ratio.

Under the amended credit agreement, the Company has agreed to comply with certain affirmative and negative covenants. The most restrictive covenant restricts the Company from declaring cash dividends on its common stock. Amounts due under the credit agreement are guaranteed by certain of the domestic and foreign subsidiaries of the Company. Amounts due are also secured by a pledge of the assets of the Company and certain of its domestic subsidiaries.

At December 31, 2005, the outstanding balance of the Company's line of credit was \$10.5 million, bearing an interest rate of approximately 7.25%, and the unused and available portion, according to the terms of the amended agreement, was \$9.5 million.

At January 1, 2005, the Company maintained a \$25 million unsecured line of credit with a bank. The outstanding balance of the Company's unsecured line of credit at January 1, 2005 was \$3 million and the unused and available balance was \$22 million. This agreement was replaced by the new credit agreement described above.

NOTE F - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ITEMS

| (THOUSANDS OF DOLLARS) | CUMULATIVE TRANSLATION ADJUSTMENTS | UNREALIZED GAIN (LOSS) ON INTEREST RATE SWAP | MINIMUM PENSION LIABILITY ADJUSTMENT | ACCUMULATED OTHER COMPREHENSIVE LOSS |
|--------------------------------------|------------------------------------|--|--------------------------------------|--------------------------------------|
| Balances at January 1, 2005 | \$ 53 | \$ 10 | \$(2,102) | \$(2,039) |
| Current period change | <u>(938)</u> | <u>(10)</u> | <u>(1,816)</u> | <u>(2,764)</u> |
| Balances at December 31, 2005 | <u>\$(885)</u> | <u>\$ -</u> | <u>\$(3,918)</u> | <u>\$(4,803)</u> |

NOTE G - FINANCIAL INSTRUMENTS

The following table details the United States dollar equivalent of foreign exchange contracts outstanding at December 31, 2005 and January 1, 2005, along with maturity dates and any unrealized gain. The net unrealized gain is recorded in SG&A in the consolidated statements of operations, since the Company did not apply hedge accounting to these contracts.

| (THOUSANDS OF DOLLARS) | CONTRACT AMOUNT U.S.\$ EQUIVALENT | MATURITY DATE | UNREALIZED GROSS GAIN |
|--------------------------|--------------------------------------|------------------|--------------------------|
| December 31, 2005 | | | |
| Euro | \$ 8,118 | 2006 | \$ 3 |
| Sterling | 4,873 | 2006 | 20 |
| Hong Kong Dollar | 3,225 | 2006 | - |
| Taiwan Dollar | 1,523 | 2006 | - |
| Total | <u>\$17,739</u> | | <u>\$23</u> |
| January 1, 2005 | | | |
| Euro | \$13,618 | 2005 | \$51 |
| Total | <u>\$13,618</u> | | <u>\$51</u> |

Foreign currency exchange (losses) gains that are included in SG&A expenses approximated \$(420,000), \$29,000 and \$(307,000) in fiscal 2005, 2004 and 2003, respectively.

In 2003, the Company entered into an interest rate swap agreement with an initial notional amount of \$9 million and a term of five years. This swap effectively fixes the interest rate on a portion of the Company's line of credit at 4.15%. Amounts paid or received under this swap agreement are recorded as adjustments to interest expense. The net unrealized gain (loss) is recorded in interest and other (expense) income in the consolidated statements of operations. At December 31, 2005, the notional value of the interest rate swap was \$5.5 million.

The fair value of forward foreign exchange contracts, based on quoted spot exchange rates, are reported in other current assets or accrued expenses and other liabilities. The fair value of cash, cash equivalents and short-term investments approximates the recorded amounts, due to the short period of time to maturity. The carrying amount of the line of credit, current maturities of long-term debt and long-term debt, less current maturities, approximates fair value as a result of the variable interest rate. The fair value of the swap agreement, based upon quoted market prices, was \$122,000 and \$16,000 at December 31, 2005 and January 1, 2005, respectively, and was reported in other current assets.

NOTE H - EMPLOYEE BENEFIT PLANS

The Company has a non-contributory defined benefit pension plan and a defined contribution retirement plan (consisting of a savings plan and a non-contributory profit sharing plan), which cover substantially all domestic employees. The Company's matching contributions to the savings plan are made all in cash and were approximately \$541,000, \$395,000 and \$557,000 in fiscal 2005, 2004 and 2003, respectively. There were no profit sharing plan contributions during this three-year period. The Company maintains an unfunded excess defined benefit plan for certain key executives as well as a deferred compensation plan that is offered to certain key executives and non-employee directors. Employees of foreign subsidiaries generally receive retirement benefits from Company sponsored defined benefit or defined contribution plans or from statutory plans administered by governmental agencies in their countries. The Company does not provide its employees with any postretirement benefits other than those described above.

Benefits under the defined benefit plans are based on the employee's years of service and compensation, as defined. While there is no requirement under any of these plans to invest in the Company's stock, the defined contribution retirement plan offers the Company's stock as an investment option. The Company's funding policy is consistent with applicable local laws and regulations.

The following chart sets forth the defined benefit plans' combined funded status and amounts recognized in the Company's consolidated balance sheet at the end of each fiscal year:

| (THOUSANDS OF DOLLARS) | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------|-------------|
| <i>Change in Projected Benefit Obligation</i> | | | |
| Benefit obligation at end of prior year | \$ 51,195 | \$ 45,074 | \$ 41,574 |
| Service cost | 1,515 | 1,489 | 1,480 |
| Interest cost | 2,815 | 2,845 | 2,684 |
| Curtailement gain | - | - | (946) |
| Actuarial loss | 1,908 | 3,420 | 1,775 |
| Benefits paid | (1,805) | (1,565) | (1,435) |
| Other | (102) | (68) | (58) |
| <i>Benefit Obligation at End of Year</i> | \$ 55,526 | \$ 51,195 | \$ 45,074 |
| <i>Change in Plan Assets</i> | | | |
| Fair value of plan assets at end of prior year | \$ 34,353 | \$ 32,252 | \$ 29,385 |
| Actual return on plan assets | 1,720 | 2,509 | 3,614 |
| Employer contributions | 2,429 | 1,225 | 746 |
| Benefits paid | (1,805) | (1,565) | (1,435) |
| Administrative expenses paid | (102) | (68) | (58) |
| <i>Fair Value of Plan Assets at End of Year</i> | \$ 36,595 | \$ 34,353 | \$ 32,252 |
| <i>Funded Status</i> | | | |
| Deficiency of plan assets over projected benefit obligation | \$(18,931) | \$(16,842) | \$(12,822) |
| Unrecognized net transition obligation | 56 | 71 | 68 |
| Unrecognized prior service cost | 58 | 147 | 194 |
| Unrecognized net actuarial loss | 12,507 | 9,722 | 5,694 |
| <i>Accrued Pension Cost (Included in Retirement Plan Obligations)</i> | \$ (6,310) | \$ (6,902) | \$ (6,866) |
| <i>Amounts Recognized in the Statement of Position Consist of</i> | | | |
| Prepaid benefit cost | \$ 760 | \$ 755 | \$ 1,104 |
| Accrued benefit cost | (13,062) | (10,834) | (7,991) |
| Intangible assets | 56 | 85 | - |
| Accumulated other comprehensive loss | 5,936 | 3,092 | 21 |
| <i>Net Recognized Amount</i> | \$ (6,310) | \$ (6,902) | \$ (6,866) |
| <i>Accumulated Benefit Obligation</i> | \$ 49,513 | \$ 46,472 | \$ 41,032 |
| <i>Information for Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets</i> | | | |
| <i>Projected Benefit Obligation</i> | \$ 55,526 | \$ 51,195 | \$ 45,074 |
| <i>Accumulated Benefit Obligation</i> | \$ 49,513 | \$ 46,472 | \$ 41,032 |
| <i>Fair Value of Plan Assets</i> | \$ 36,595 | \$ 34,353 | \$ 32,252 |
| <i>Components of Net Periodic Benefit Cost</i> | | | |
| Service cost | \$ 1,515 | \$ 1,489 | \$ 1,480 |
| Interest cost | 2,815 | 2,845 | 2,629 |
| Expected return on plan assets | (2,793) | (3,065) | (2,748) |
| Amortization of transition asset | 6 | 4 | 2 |
| Amortization of prior service cost | 63 | 61 | 53 |
| Recognized net actuarial gain | 77 | 6 | 4 |
| Effect of curtailment | - | - | (1) |
| <i>Net Periodic Benefit Cost</i> | \$ 1,683 | \$ 1,340 | \$ 1,419 |
| <i>Assumptions:</i> | | | |
| <i>Weighted Average Assumptions Used to Determine Benefit Obligation</i> | | | |
| Discount rate | 5.60% | 5.85% | 6.25% |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% |
| <i>Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost</i> | | | |
| Discount rate | 5.85% | 6.25% | 6.50% |
| Expected return on plan assets | 8.25% | 8.25% | 8.50% |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% |

In establishing the long-term rate of return on assets assumption of 8.25%, the Company indexed its targeted allocation percentage by asset category against the long-term expected returns for those asset categories. That weighted-average return approximates 8.25%. The Company monitors investment results of its pension plan managers against benchmarks such as the Standard & Poor's 500 Index and the Russell 2000 Growth Index for the equity portion of the portfolio and the Lehman Brothers Aggregate Bond Index for fixed income investments. Meeting or exceeding those benchmarks over time would provide a reasonable expectation of achieving the 8.25% assumption.

| Plan Asset Information: | TARGET ALLOCATION | ALLOCATION PERCENTAGE | ALLOCATION PERCENTAGE |
|-------------------------|----------------------|--------------------------|--------------------------|
| Asset Category | <u>FYE 2006</u> | <u>FYE 2005</u> | <u>FYE 2004</u> |
| Equity securities | 60%-70% | 65.71% | 67.15% |
| Debt securities | 30%-40% | 33.85% | 25.47% |
| Real estate | 0% | 0.00% | 0.00% |
| Other | <u>0%</u> | <u>0.44%</u> | <u>7.38%</u> |
| | 100% | 100% | 100% |

The investment objective of the Plan is to exceed the actuarial long-term rate of return on assets assumption of 8.25%. To that end, it is Plan practice to invest the assets in accordance with the minimum and maximum ranges established for each asset category. These targeted asset allocation ranges have been established in accordance with the overall risk and return objectives of the portfolio. The Plan employs other risk management practices that stress diversification and liquidity. For equity investments, no more than 10% of the equity portfolio can be invested in one issuer and typically no more than 20% of equity assets can be invested in one industry. Shares must be listed on major stock exchanges to assure liquidity. Debt securities are similarly governed by risk management rules. No more than 5% of the total portfolio may be invested in one issuer (except the United States government), and no one issuer can exceed 5% of the outstanding shares of that issuer. There are also quality ratings associated with debt securities that the Plan managers must adhere to. Certain assets or transactions are prohibited in the management of Plan assets, such as commodities, real estate (except mutual funds or REITS), venture capital, private placements, purchasing securities on margin and short selling.

The Company expects to contribute \$1,125,000 to its pension plan and \$143,000 to its excess benefit plan in 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| (THOUSANDS OF DOLLARS) | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011 - 2015</u> |
|------------------------|-------------|-------------|-------------|-------------|-------------|--------------------|
| | \$1,519 | \$1,563 | \$1,634 | \$1,797 | \$1,933 | \$12,476 |

NOTE I - OMNIBUS INCENTIVE PLAN (THE "OI PLAN")

The Company's OI Plan permits the Compensation Committee of the Board of Directors of the Company to grant various long-term incentive awards, generally equity based, to officers and key employees from one pool of reserved shares. The OI Plan provides for grants of awards, including but not limited to, Incentive Stock Options, at not less than the full market value on the date of grant (except in the case of a shareholder possessing more than 10% of the total combined voting power of all classes of Company stock, in which case the exercise price shall not be less than 110% of the fair market value on the date of grant) and Non-Qualified Stock Options, at an exercise price determined by the Compensation Committee; Stock Appreciation Rights, which are rights to receive an amount equal to the increase, between the date of grant and the date of exercise, in the fair market value of the number of shares of common stock subject to the Stock Appreciation Right; shares of Restricted Stock, which are common shares that have certain conditions attached to them that must be satisfied in order to have unencumbered rights to the Restricted Stock; and Performance Awards, which are awards in common shares or cash. The OI Plan has no definite expiration date but may be terminated by the Board of Directors at any time. Incentive Stock Options may not be granted for a term longer than ten years from the date of grant (five years in the case of a shareholder possessing more than 10% of the total combined voting power of all classes of Company stock). At December 31, 2005, there were 220,000 shares of Restricted Stock outstanding under the OI Plan. Compensation expense recognized for Restricted Stock under the OI Plan amounted to \$283,980, \$185,185 and \$126,130 for fiscal 2005, 2004 and 2003, respectively. At December 31, 2005, there were 2,396,430 shares reserved and 578,087 shares available to be issued under the OI Plan.

Stock option activity during the three years ended December 31, 2005 was as follows:

| Stock Option Plan: | <u>OPTIONS</u> | <u>WEIGHTED AVERAGE PRICE PER SHARE</u> | <u>SHARES RESERVED</u> |
|---|-------------------------|---|-------------------------|
| Outstanding at December 28, 2002 | 2,488,862 | \$ 6.99 | 2,855,801 |
| Restricted Stock Grants | - | - | (50,000) |
| Exercised | (12,600) | \$ 5.09 | (12,600) |
| Granted | 64,500 | \$ 6.11 | - |
| Canceled | <u>(294,398)</u> | \$10.73 | <u>(5,250)</u> |
| Outstanding at January 3, 2004 | 2,246,364 | \$ 6.48 | 2,787,951 |
| Restricted Stock Grants | - | - | (152,900) |
| Director Retainers | - | - | (14,957) |
| Exercised | (99,810) | \$ 4.86 | (99,810) |
| Canceled | <u>(213,408)</u> | \$ 7.76 | <u>(19,500)</u> |
| Outstanding at January 1, 2005 | 1,933,146 | \$ 6.43 | 2,500,784 |
| Restricted Stock Grants | - | - | (50,000) |
| Director Retainers | - | - | (14,354) |
| Exercised | (40,000) | \$ 5.09 | (40,000) |
| Granted | 70,000 | \$ 5.12 | - |
| Canceled | <u>(144,803)</u> | \$ 8.20 | - |
| Outstanding at December 31, 2005 | <u>1,818,343</u> | <u>\$ 6.27</u> | <u>2,396,430</u> |

The following chart contains summary information about the stock options outstanding at December 31, 2005:

| RANGE OF EXERCISE PRICES | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|--------------------------|-------------------------|--|---------------------------------|-------------------------|---------------------------------|
| | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING YEARS OF CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE |
| \$ 4.34 - \$ 4.50 | 29,275 | 5.78 | \$ 4.40 | 19,275 | \$ 4.34 |
| \$ 4.56 - \$ 4.56 | 500,000 | 3.87 | \$ 4.56 | 500,000 | \$ 4.56 |
| \$ 4.69 - \$ 5.06 | 24,600 | 4.11 | \$ 4.93 | 24,600 | \$ 4.93 |
| \$ 5.09 - \$ 5.09 | 204,350 | 4.57 | \$ 5.09 | 204,350 | \$ 5.09 |
| \$ 5.23 - \$ 6.06 | 253,696 | 5.50 | \$ 5.68 | 193,696 | \$ 5.83 |
| \$ 6.16 - \$ 6.94 | 77,106 | 6.23 | \$ 6.28 | 68,776 | \$ 6.29 |
| \$ 7.11 - \$ 7.11 | 295,001 | 6.56 | \$ 7.11 | 295,001 | \$ 7.11 |
| \$ 7.63 - \$ 7.63 | 226,400 | 5.56 | \$ 7.63 | 226,400 | \$ 7.63 |
| \$ 9.69 - \$ 9.97 | 194,309 | 1.87 | \$ 9.89 | 194,309 | \$ 9.88 |
| \$ 10.00 - \$ 15.00 | <u>13,606</u> | 0.96 | \$11.07 | <u>13,606</u> | \$ 11.07 |
| \$ 4.34 - \$15.00 | <u>1,818,343</u> | 4.72 | \$ 6.27 | <u>1,740,013</u> | \$ 6.31 |

The Company also has an Employee Stock Purchase Plan (the "ESP Plan"), allowing eligible employees, other than officers and directors, to purchase shares of the Company's Class A common stock at 10% less than the mean between the high and low prices of the stock on the date of purchase. A maximum of 320,000 shares is available under the ESP Plan, and the aggregate numbers of shares reserved and available for purchase under the ESP Plan were 95,045, 98,708 and 100,946 at December 31, 2005, January 1, 2005 and January 3, 2004, respectively.

The fair value of each stock option granted in fiscal 2005, 2004 and 2003 under the Company's OI Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The following key assumptions were used to value options granted for each of the following fiscal years:

| | <u>WEIGHTED AVERAGE RISK-FREE RATE</u> | <u>AVERAGE EXPECTED LIFE</u> | <u>VOLATILITY</u> | <u>DIVIDEND YIELD</u> |
|-------------|--|------------------------------|-------------------|-----------------------|
| 2005 | 4.34% | 5.0 years | 29.44% | 0.0% |
| 2004 | 1.75% | 5.0 years | 32.00% | 0.0% |
| 2003 | 1.15% | 5.0 years | 38.34% | 0.0% |

The weighted average fair value per share of stock options granted during fiscal 2005 and 2003 was \$1.74 and \$2.14. No stock options were granted in fiscal 2004. It should be noted that the option-pricing model used was designed to value readily tradable stock options with relatively short lives. The options granted to employees are not tradable and have contractual lives of up to ten years unless employment is terminated. However, management believes that the assumptions used and the model applied to value the awards yield a reasonable estimate of the fair value of the grants made under the circumstances.

NOTE J - INCOME TAXES

The provision for income taxes consists of the following:

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|--------------------------|----------------------------|-------------------------|
| <i>Currently Payable (Receivable):</i> | | | |
| Federal | \$ 67,882 | \$ (899,668) | \$103,301 |
| State | 140,818 | 20,637 | 64,045 |
| Foreign | <u>83,290</u> | <u>741,132</u> | <u>(24,746)</u> |
| | 291,990 | (137,899) | 142,600 |
| <i>Deferred:</i> | | | |
| Federal | (159,446) | (367,800) | 297,930 |
| Foreign | <u>56,839</u> | <u>(192,761)</u> | <u>-</u> |
| | (102,607) | (560,561) | 297,930 |
| <i>Total</i> | <u>\$ 189,383</u> | <u>\$ (698,460)</u> | <u>\$440,530</u> |

The reconciliation of income taxes computed at the statutory Federal income tax rate to the provision (benefit) for income taxes from operations is as follows:

| | | | |
|--|--------------------------|----------------------------|-------------------------|
| Statutory Federal income tax provision (benefit) | \$ 195,001 | \$ (528,213) | \$753,966 |
| State income tax expense, less Federal tax benefit | 84,447 | 13,621 | 42,270 |
| Foreign operations | (222,866) | 576,358 | (413,994) |
| Net tax on Section 965 dividend | 861,158 | - | - |
| Accrual adjustment | (370,306) | (586,412) | 215,705 |
| Benefit of export sales | (229,266) | (200,000) | (212,318) |
| Miscellaneous | (128,785) | 26,186 | 54,901 |
| <i>Income Tax Provision (Benefit)</i> | <u>\$ 189,383</u> | <u>\$ (698,460)</u> | <u>\$440,530</u> |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and January 1, 2005 are presented below:

| | <u>2005</u> | <u>2004</u> |
|--|----------------------------|---------------------------|
| <i>Current Deferred Tax Assets and Liabilities:</i> | | |
| <i>Assets:</i> | | |
| Additional costs inventoried for tax purposes and inventory reserves not deductible for tax purposes | \$ 3,224,260 | \$2,875,330 |
| Excess benefit plan | 986,565 | 915,622 |
| Accrued pension costs | 1,914,972 | 1,996,376 |
| Other | <u>1,875,805</u> | <u>958,307</u> |
| | 8,001,602 | 6,745,635 |
| Less valuation allowance | (1,225,316) | (843,833) |
| <i>Current Deferred Tax Assets</i> | 6,776,286 | 5,901,802 |
| <i>Liabilities:</i> | | |
| <i>Current Deferred Tax Liabilities</i> | 436,776 | 481,022 |
| <i>Net Current Deferred Tax Asset</i> | \$ 6,339,510 | \$5,420,780 |
| <i>Long-Term Deferred Tax Assets and Liabilities:</i> | | |
| <i>Assets:</i> | | |
| Intangible assets | \$ 1,939,971 | \$1,725,164 |
| Accrued warranty costs | 801,387 | 870,873 |
| Alternative minimum tax credit carryforward | - | 833,707 |
| Net operating loss carryforward | 2,486,612 | 3,760,751 |
| Accrued pension costs | 2,018,219 | 989,496 |
| Other | <u>212,495</u> | <u>203,596</u> |
| | 7,458,684 | 8,383,587 |
| Less valuation allowance | (2,467,766) | (3,626,023) |
| <i>Long-Term Deferred Tax Assets</i> | 4,990,918 | 4,757,564 |
| <i>Liabilities:</i> | | |
| Property, plant and equipment, principally due to differences in depreciation | - | 389,469 |
| Undistributed foreign earnings not indefinitely reinvested | <u>-</u> | <u>545,046</u> |
| <i>Long-Term Deferred Tax Liabilities</i> | <u>-</u> | <u>934,515</u> |
| <i>Net Long-Term Deferred Tax Asset</i> | <u>\$ 4,990,918</u> | <u>\$3,823,049</u> |
| <i>Net Deferred Tax Asset</i> | <u>\$11,330,428</u> | <u>\$9,243,829</u> |

At December 31, 2005 and January 1, 2005, undistributed earnings of foreign subsidiaries amounted to approximately \$17.6 million and \$39.1 million, respectively. These earnings could become subject to additional tax if they are remitted as dividends, if foreign earnings are lent to the Company or a United States affiliate or if the Company should sell its stock in the subsidiaries. The amount of additional taxes that might be payable on the undistributed foreign earnings of \$17.6 million approximates \$2.5 million. This amount has not been recorded because it is the Company's intention to permanently invest the remainder of the undistributed earnings of its foreign subsidiaries in the growth of business outside the United States. The American Jobs Creation Act of 2004 created Internal Revenue Code Section 965(a), which permits a temporary dividends-received deduction of 85% of the cash dividends received by a United States shareholder from controlled foreign corporations and invested in the United States. Taxpayers may elect to apply the deduction to either the last tax year that begins before October 22, 2004 or the taxpayer's first tax year that begins during the one-year period beginning on October 22, 2004. The Company completed its analysis of this provision in the fourth quarter of 2005 and repatriated \$20.7 million subject to the 85% dividends-received deduction. The tax effect of this repatriation was a charge to 2005 tax expense of approximately \$0.9 million.

At December 31, 2005, the Company had state net operating loss carryforwards of approximately \$20.7 million, which begin to expire in 2006. Net operating loss carryforwards for certain foreign subsidiaries were approximately \$5.8 million for tax purposes. A portion of these losses will expire in 2007. A valuation allowance has been provided for the foreign and state net operating losses and temporary differences that are estimated to expire before they are utilized. The decrease of \$0.8 million in the valuation allowance in fiscal 2005 primarily related to changes in the foreign net operating losses.

We are subject to income taxes in many jurisdictions around the world. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates for certain tax loss contingencies are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. Additional taxes assessed as a result of an audit or litigation could have a material effect on our income tax provision and net income in the period or periods in which the determination is made. We revise our estimates of such tax loss contingencies if and when appropriate. Changes made in fiscal 2005 and 2004 reflect changes in estimates due to better information, current actions by taxing authorities and the passing of statutes of limitation in certain jurisdictions.

NOTE K - SEGMENT INFORMATION

The following chart sets forth segment information for the Company for the three fiscal years ended December 31, 2005:

| (THOUSANDS OF DOLLARS) | WRITING INSTRUMENTS & ACCESSORIES | OPTICAL | TOTAL |
|------------------------------------|---|-----------------|------------------|
| 2005: | | | |
| Revenues from external customers | \$109,554 | \$19,561 | \$129,115 |
| Depreciation and amortization | 6,763 | 214 | 6,977 |
| Segment (loss) profit | (1,991) | 2,564 | 573 |
| Restructuring charges | 1,151 | - | 1,151 |
| Segment assets | 96,556 | 16,337 | 112,893 |
| Goodwill | 3,944 | 3,344 | 7,288 |
| Expenditures for long-lived assets | 4,492 | 403 | 4,895 |
| 2004: | | | |
| Revenues from external customers | \$114,385 | \$15,095 | \$129,480 |
| Depreciation and amortization | 7,291 | 181 | 7,472 |
| Segment (loss) profit | (2,377) | 823 | (1,554) |
| Restructuring charges | 2,324 | - | 2,324 |
| Segment assets | 99,222 | 14,129 | 113,351 |
| Goodwill | 3,944 | 3,344 | 7,288 |
| Expenditures for long-lived assets | 4,872 | 295 | 5,167 |

| (THOUSANDS OF DOLLARS) | WRITING INSTRUMENTS & ACCESSORIES | OPTICAL | TOTAL |
|------------------------------------|---|----------|-----------|
| 2003: | | | |
| Revenues from external customers | \$117,433 | \$ 8,932 | \$126,365 |
| Depreciation and amortization | 7,494 | 110 | 7,604 |
| Segment profit | 1,648 | 570 | 2,218 |
| Restructuring charges | 2,441 | - | 2,441 |
| Segment assets | 106,969 | 11,177 | 118,146 |
| Goodwill | 3,944 | 3,464 | 7,408 |
| Expenditures for long-lived assets | 4,701 | 6,994 | 11,695 |

Geographic Information

| (THOUSANDS OF DOLLARS) | 2005 | 2004 | 2003 |
|-------------------------------------|------------------|------------------|------------------|
| NET SALES: | | | |
| United States | \$ 67,554 | \$ 63,891 | \$ 65,074 |
| Europe, Middle East and Africa | 36,440 | 38,439 | 34,613 |
| Asia Pacific | 18,274 | 18,496 | 16,782 |
| International Americas | 6,847 | 8,654 | 9,896 |
| <i>Total Consolidated Net Sales</i> | <u>\$129,115</u> | <u>\$129,480</u> | <u>\$126,365</u> |

Revenues are attributed to countries based on the location of customers.

| | | | |
|---|------------------|------------------|------------------|
| LONG-LIVED ASSETS: | | | |
| United States | \$ 32,854 | \$ 34,564 | \$ 36,585 |
| Foreign countries | 936 | 1,399 | 1,723 |
| <i>Total Consolidated Long-Lived Assets</i> | <u>\$ 33,790</u> | <u>\$ 35,963</u> | <u>\$ 38,308</u> |

NOTE L - CONTINGENCIES

The Company is named as one of approximately sixty defendants in a contribution suit brought by CCL/Unilever relating to the J.M. Mills Landfill Site, which is part of the Peterson/Puritan Superfund Site in Cumberland, Rhode Island. These complaints allege that the Company is liable under CERCLA for contribution for past and future costs incurred at the Site. Past and future costs (excluding the required remedy) are estimated at \$6 million to \$7 million. Based upon our preliminary investigation there is no evidence to support a finding that the Company arranged for the disposal of hazardous substances at this Site. No discovery has been taken to date. At December 31, 2005, the Company had not established a liability for any environmental remediation relating to the J.M. Mills Landfill Site, as its potential liability, if any, is currently not estimable.

The Company is involved in various other litigation and legal matters that have arisen in the ordinary course of business. To its knowledge, management believes that the ultimate resolution of any of those existing matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

NOTE M - COMMON STOCK

Holders of Class A common stock have the right to elect one-third of the number of directors from time to time fixed by the holders of Class A and Class B common stock voting together as a single class. Holders of Class B common stock have the right to elect the remaining directors. Class A and Class B common stock vote together as a single class to reserve shares to be issued pursuant to options granted with respect to the acquisition of assets or shares of another company under certain circumstances. Except as described above or as otherwise required by law, all voting power is vested in the holders of Class B common stock.

NOTE N - SHORT-TERM INVESTMENTS

At January 1, 2005, the Company had short-term investments consisting of time deposits, commercial paper and United States Government Agency bonds. These investments were classified as trading securities in accordance with SFAS No. 115 "Accounting for Certain Investments and Debt and Equity Securities." Realized and unrealized gains or losses on these trading securities are included in interest and other (expense) income. The following table details the net losses on trading securities at December 31, 2005 and January 1, 2005.

| (THOUSANDS OF DOLLARS) | YEARS ENDED | |
|---|-------------------|-----------------|
| | DECEMBER 31, 2005 | JANUARY 1, 2005 |
| Net losses recognized on trading securities | <u>\$ (114)</u> | <u>\$ (126)</u> |
| Less net losses recognized on trading securities sold | <u>(114)</u> | <u>(98)</u> |
| <i>Unrealized net losses on trading securities still held at reporting date</i> | <u>\$ -</u> | <u>\$ (28)</u> |

NOTE O - RECEIVABLE FROM CHINESE CONTRACT MANUFACTURER

As part of the restructuring program, the Company has transferred ownership of certain raw material and work-in-process inventory to its Chinese contract manufacturer in conjunction with the transition of product lines that are being produced solely in China. The receivable is being repaid by offsetting a portion of the amounts the Company owes the contract manufacturer for completed products it purchases. At December 31, 2005 and January 1, 2005, approximately \$4.6 million and \$1.3 million, respectively, were owed to the Company for that inventory.

NOTE P - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the years ended December 31, 2005 and January 1, 2005:

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

| 2005: | APRIL 2 | JULY 2 | OCTOBER 1 | DECEMBER 31 |
|--|------------------|------------------|-------------------|--------------------|
| Net sales | \$29,559 | \$29,041 | \$29,068 | \$41,447 |
| Gross profit | 14,928 | 14,400 | 13,295 | 20,286 |
| Net (Loss) Income | <u>\$ (508)</u> | <u>\$ (463)</u> | <u>\$ (1,003)</u> | <u>\$ 2,358(B)</u> |
| <i>Basic and Diluted Net (Loss) Income Per Share</i> | <u>\$ (0.03)</u> | <u>\$ (0.03)</u> | <u>\$ (0.07)</u> | <u>\$ 0.16</u> |
| <i>Weighted Average Shares Outstanding:</i> | | | | |
| <i>Denominator for Basic Net (Loss) Income Per Share</i> | 14,768 | 14,705 | 14,729 | 14,737 |
| <i>Effect of Dilutive Securities:</i> | | | | |
| Common stock equivalents | _____(A) | _____(A) | _____(A) | ____26 |
| <i>Denominator for Diluted Net (Loss) Income Per Share</i> | <u>14,768</u> | <u>14,705</u> | <u>14,729</u> | <u>14,763</u> |
| | | | | |
| 2004: | APRIL 3 | JULY 3 | OCTOBER 2 | JANUARY 1 |
| Net sales | \$29,272 | \$29,115 | \$30,128 | \$40,965 |
| Gross profit | 15,793 | 14,457 | 13,925 | 18,615 |
| Net (Loss) Income | <u>\$ (704)</u> | <u>\$ (885)</u> | <u>\$ (1,094)</u> | <u>\$ 1,828</u> |
| <i>Basic and Diluted Net (Loss) Income Per Share</i> | <u>\$ (0.05)</u> | <u>\$ (0.06)</u> | <u>\$ (0.07)</u> | <u>\$ 0.12</u> |
| <i>Weighted Average Shares Outstanding:</i> | | | | |
| <i>Denominator for Basic Net (Loss) Income Per Share</i> | 14,977 | 15,004 | 14,919 | 14,806 |
| <i>Effect of Dilutive Securities:</i> | | | | |
| Common stock equivalents | _____(A) | _____(A) | _____(A) | ____43 |
| <i>Denominator for Diluted Net (Loss) Income Per Share</i> | <u>14,977</u> | <u>15,004</u> | <u>14,919</u> | <u>14,849</u> |

(A) No incremental shares related to options or restricted stocks granted are included due to the net loss in the quarter since the effect of such shares would be anti-dilutive.

(B) During the quarter ended December 31, 2005, net income was increased by approximately \$0.6 million due to the reversal of certain payroll tax and other non-income based tax reserves no longer deemed necessary.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. CONTROLS AND PROCEDURES

A Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act) as of the end of the period covered by this Annual Report. We have concluded that we have a material weakness, as defined by Public Company Accounting Oversight Board Auditing Standard No. 2, relating to the accounting for taxes. We reached this conclusion as a result of several significant audit and internal post closing adjustments in this area. Our plans to address this weakness include the evaluation of the levels and types of resources being allocated to the tax function as well as exploring available technology and process improvements.

In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2005, as a result of the material weakness in our internal controls over financial reporting described above, our disclosure controls and procedures were not effective with respect to our accounting for taxes. We have evaluated the impact of the internal control weakness described above. Based on our evaluation, we do not believe that the control weakness noted above led to any material misstatements in the consolidated financial statements included in this report.

B Changes in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the fourth quarter of our last fiscal year, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See "Election of Directors," "Corporate Governance," "Committees of the Board of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the registrant's definitive proxy statement for the 2006 annual meeting of shareholders, which sections are incorporated by reference herein. See also the "Executive Officers of the Company" section of "Business" in Item 1 of this Annual Report on Form 10-K.

We have a Code of Ethics and Business Conduct that applies to all of our employees, including our chief executive officer and senior financial and accounting officers. The text of our Code of Ethics and Business Conduct is posted in the Investor Relations section of our website, www.cross.com. Disclosure regarding any amendments to, or waivers from, provisions of our code of ethics and business conduct that apply to our chief executive officer and senior financial and accounting officers will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is permitted by the rules of the American Stock Exchange, Inc.

Item 11. EXECUTIVE COMPENSATION

See "Executive Compensation" in the registrant's definitive proxy statement for its 2006 annual meeting of shareholders, which section is incorporated by reference herein. Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

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

See "Security Ownership of Certain Beneficial Owners and Management" in the registrant's definitive proxy statement for the 2006 annual meeting of shareholders, which section is incorporated by reference herein.

Equity Compensation Plan Information

The following table details the Company's equity compensation plans as of December 31, 2005:

| | (A) | (B) | (C) |
|--|--|--|--|
| <u>PLAN CATEGORY:</u> | <u>NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS</u> | <u>WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS</u> | <u>NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A))</u> |
| Equity compensation plans approved by security holders | 1,818,343 | \$ 6.27 | 578,087 |
| Equity compensation plans not approved by security holders | - | - | - |
| <i>Total</i> | <u>1,818,343</u> | <u>\$6.27</u> | <u>578,087</u> |

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Election of Directors" in the registrant's definitive proxy statement for the 2006 annual meeting of shareholders, which sections are incorporated by reference herein.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

See "Appointment of Independent Public Accountants" and "Principal Accounting Firm Fees" in the registrant's definitive proxy statement for the 2006 annual meeting of shareholders, which sections are incorporated by reference herein.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- A (1) and (2) The following consolidated financial statements of A.T. Cross Company and subsidiaries are incorporated by reference to Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2005 and January 1, 2005
Consolidated Statements of Operations for the Years Ended December 31, 2005,
January 1, 2005 and January 3, 2004
Consolidated Statements of Comprehensive (Loss) Income for the Years Ended
December 31, 2005, January 1, 2005 and January 3, 2004
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended
December 31, 2005, January 1, 2005 and January 3, 2004
Consolidated Statements of Cash Flows for the Years Ended December 31, 2005,
January 1, 2005 and January 3, 2004
Notes to Consolidated Financial Statements

(3) Listing of Exhibits

| <u>EXHIBIT NUMBER</u> | <u>DESCRIPTION</u> |
|-----------------------|--|
| (3.1) | Restated Articles of Incorporation and By-laws (incorporated by reference to Exhibit (3) to the registrant's report on Form 10-K for the year ended December 31, 1980) |
| (3.2) | Amendment to Restated Articles of Incorporation (incorporated by reference to Exhibit (3) to the registrant's report on Form 10-K for the year ended December 31, 1994) |
| (3.3) | Amendment to By-laws adopted December 2, 1988 (incorporated by reference to Exhibit (3) to the registrant's report on Form 10-K for the year ended December 31, 1989) |
| (3.4) | Amendment to By-laws adopted February 6, 1992 (incorporated by reference to Exhibit (3) to the registrant's report on Form 10-K for the year ended December 31, 1991) |
| (10.1) | A.T. Cross Company Unfunded Excess Benefit Plan (as amended) (incorporated by reference to Exhibit (10.6) to the registrant's report on Form 10-K for the year ended December 31, 1994) * |
| (10.2) | A.T. Cross Company Executive Life Insurance Program (incorporated by reference to Exhibit (10.8) to the Registrant's report on Form 10-K for the year ended December 31, 1997) * |
| (10.3) | A.T. Cross Company Deferred Compensation Plan for Employee Officers and Directors (incorporated by Reference to Exhibit (10.4) to the registrant's report on Form 10-K for the year ended December 28, 2002) * |
| (10.4) | A.T. Cross Company Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit (10.5) to the registrant's report on Form 10-K for the year ended December 28, 2002) * |
| (10.5) | A.T. Cross Company Omnibus Incentive Plan (incorporated by reference to Exhibit (10) to the registrant's report on Form 10-Q for the quarterly period ended July 3, 2004) * |
| (10.6) | Executive Employment Contract - Peter J. Canole dated November 18, 2004 (incorporated by reference to Exhibit (10.8) to the registrant's report on Form 10-K for the year ended January 1, 2005) * |
| (10.7) | Executive Employment Contract - Charles S. Mellon dated November 21, 2004 (incorporated by reference to Exhibit (10.9) to the registrant's report on Form 10-K for the year ended January 1, 2005) * |
| (10.8) | Executive Employment Contract - Kevin F. Mahoney dated January 11, 2005 (incorporated by reference to Exhibit (10.10) to the registrant's report on Form 10-K for the year ended January 1, 2005) * |
| (10.9) | A.T. Cross Company Long Term Incentive Plan and Severance Program for senior management (incorporated by reference to the registrants report on Form 8-K filed October 25, 2005) * |
| (10.10) | A.T. Cross Company Incentive Compensation Plan - 2006 * |
| (10.11) | Credit Agreement with Bank of America, N.A., |
| (11) | Statement Re: Computation of Net (Loss) Income per Share - (incorporated by reference to the "Consolidated Statements of Operations" financial statement in Item 8 of this Annual Report on Form 10-K) |
| (21) | A.T. Cross Company Subsidiaries, Branches and Divisions |
| (31.1) | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (31.2) | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| (32) | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Management contract, compensatory plan or arrangement

B Exhibits - See Item A (3) above

C Financial Statement Schedule - Schedule II Valuation and Qualifying Accounts

Form 10-K Item 15C

A. T. Cross Company and Subsidiaries

Financial Statement Schedule

The following consolidated financial statement schedule of A.T. Cross Company and subsidiaries is in Item 15C:

Schedule II - Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, or the information required therein has otherwise been disclosed in the consolidated financial statements referred to above, or are inapplicable, and therefore have been omitted.

**Item 15C. SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
A. T. CROSS COMPANY AND SUBSIDIARIES**

| <u>COLUMN A</u> | <u>COLUMN B</u> | <u>COLUMN C</u> <u>ADDITIONS</u> | | <u>COLUMN D</u> | <u>COLUMN E</u> |
|-------------------------------------|---|--|--|-------------------|---|
| <u>DESCRIPTION</u> | <u>BALANCE AT BEGINNING OF PERIOD</u> | <u>CHARGED TO COSTS AND EXPENSES</u> | <u>CHARGED TO OTHER ACCOUNTS</u> | <u>DEDUCTIONS</u> | <u>BALANCE AT END OF PERIOD</u> |
| Allowance for Doubtful Accounts: | | | | | |
| Year Ended December 31, 2005 | \$1,179,000 | \$264,519 | \$ - | \$436,519 | \$1,007,000 |
| Year Ended January 1, 2005 | \$1,234,000 | \$252,483 | \$ - | \$307,483 | \$1,179,000 |
| Year Ended January 3, 2004 | \$1,032,000 | \$636,079 | \$40,000(A) | \$474,079 | \$1,234,000 |

(A) Relates to the acquisition of receivables.

Form 10-K Item 15A (3) Exhibit 21

**A. T. Cross Company
Subsidiaries, Branches and Divisions**

A.T. Cross (Asia Pacific) Limited
Hong Kong Branch
Hong Kong Special Administrative Region
of the People's Republic of China

A.T. Cross (Asia Pacific) Limited
Singapore Branch
Singapore

A.T. Cross (Asia Pacific) Limited
Taiwan Branch
Taipei, Taiwan, The Republic of China

A.T. Cross Benelux B.V.
Woerden, The Netherlands

A.T. Cross Company
French Branch
Paris, France

A.T. Cross Deutschland GmbH
Mainz, Federal Republic of Germany

A.T. Cross Limited
Ballinasloe, Republic of Ireland

A.T. Cross Limited
Luton, Bedfordshire, England

A.T.X. International, Inc.
Lincoln, Rhode Island

Costa Del Mar Sunglasses, Inc.
Ormond Beach, Florida

Cross Company of Japan, Ltd.
Tokyo, Japan

Cross Retail Ventures, Inc.
Boston, Massachusetts

FORM OF 302 CERTIFICATION

I, David G. Whalen, certify that:

1. I have reviewed this annual report on Form 10-K of A.T. Cross Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 21, 2006

DAVID G. WHALEN
David G. Whalen
President and Chief Executive Officer

FORM OF 302 CERTIFICATION

I, Kevin F. Mahoney, certify that:

1. I have reviewed this annual report on Form 10-K of A.T. Cross Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 21, 2006

KEVIN F. MAHONEY
Kevin F. Mahoney
Chief Financial Officer

FORM OF 906 CERTIFICATION

The certification set forth below is being submitted in connection with the Annual Report on Form 10-K for the year ended December 31, 2005 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

David G. Whalen, the Chief Executive Officer and Kevin F. Mahoney, the Chief Financial Officer of A.T. Cross Company, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of A.T. Cross Company.

Date: March 21, 2006

DAVID G. WHALEN
David G. Whalen
Chief Executive Officer

KEVIN F. MAHONEY
Kevin F. Mahoney
Chief Financial Officer

BOARD OF DIRECTORS

RUSSELL A. BOSS
Chairman of the Board
A.T. Cross Company
Class B Director ¹

BRADFORD R. BOSS
Chairman Emeritus
A.T. Cross Company
Class B Director ¹

BERNARD V. BUONANNO, JR.
Senior Partner
Edwards, Angell, Palmer & Dodge, LLP
Providence, Rhode Island
Partner, Riparian Partners, Ltd.
Providence, Rhode Island
Class B Director ^{3, 4}

EDWARD J. COONEY
Vice President and Treasurer
Nortek, Inc.
Providence, Rhode Island
Class B Director ^{2, 4}

GALAL P. DOSS
Chairman and Chief Executive Officer
Family Cosmetics, S.A.E.
Egypt
Class A Director ⁴

TERRENCE MURRAY
Retired Chairman
FleetBoston Financial Corporation
Boston, Massachusetts
Class B Director ^{3, 4}

ANDREW J. PARSONS
Director Emeritus
McKinsey & Company
New York, New York
Class A Director ^{2, 4}

JAMES C. TAPPAN
President
Tappan Capital Partners
Hobe Sound, Florida
Class A Director ^{2, 4}

DAVID G. WHALEN
President and Chief Executive Officer
A.T. Cross Company
Class B Director ¹

CORPORATE OFFICERS

RUSSELL A. BOSS
Chairman of the Board

BRADFORD R. BOSS
Chairman Emeritus

DAVID G. WHALEN
President and Chief Executive Officer

JOSEPH V. BASSI
Finance Director

TINA C. BENIK
Vice President, Legal and Human
Resources
Corporate Secretary

PETER J. CANOLE
Vice President, Global Sales

ROBIN BOSS DORMAN
Vice President, Corporate Development

CHARLES R. MACDONALD
Vice President, A.T. Cross Optical Division
President, Costa Del Mar Sunglasses, Inc.

KEVIN F. MAHONEY
Vice President, Finance and
Chief Financial Officer

CHARLES S. MELLEN
Vice President, Global Marketing

STEPHEN A. PERREAULT
Vice President, Operations

GARY S. SIMPSON
Corporate Controller

ANNUAL MEETING

The Annual Meeting of Shareholders of A.T. Cross Company will be held on Thursday, April 27, 2006 at 10:00 a.m. at the offices of the Company, One Albion Road, Lincoln, Rhode Island 02865.

CORPORATE INFORMATION

CORPORATE HEADQUARTERS
A.T. Cross Company
One Albion Road
Lincoln, Rhode Island 02865 U.S.A.
Tel. (401) 333-1200
Fax (401) 334-2861
www.cross.com

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Boston, Massachusetts

STOCK SYMBOL
American Stock Exchange Symbol: ATX

TRANSFER AGENT AND REGISTRAR
Computershare Trust Company, N.A.
P.O. Box 43010
Providence, Rhode Island 02940-3010
Shareholder Inquiries: (781) 575-2879
www.computershare.com/equiserve

10-K REPORT
A copy of the Company's report to the Securities and Exchange Commission on Form 10-K will be furnished free of charge to any security holder upon written request to the Vice President, Finance and Chief Financial Officer at One Albion Road, Lincoln, Rhode Island 02865.

Alternatively, the Company's SEC filings are made available free of charge through the Investor Relations section of the Company's website: www.cross.com.

Since 1846, the Cross name has been synonymous with a devotion to craftsmanship and quality, lifetime guarantees and genuine beauty. Today, A.T. Cross complements its writing instrument heritage with a broad range of premium personal accessories including timepieces, leather goods, reading glasses and Costa Del Mar sunglasses. These products are sold worldwide, in upscale department and specialty stores, as well as in shop-in-shops in many major international cities.