

Compr
CompX International Inc.
2007 Annual Report | compx.com

## 2007 Comp Annual Report

COMP INTERNATIONAL DESIGNS AND MANUFACTURES COMPONENTS THAT BECOME AN ESSENTIAL PART OF OUR CUSTOMERS' PRODUCTS. IN 2007, EACH OF OUR BUSINESS SEGMENTS EXPERIENCED LOWER COMPARABLE SALES AS CUSTOMERS SCALED BACK THEIR REQUIREMENTS IN THE SLOWING ECONOMY.

Volatile commodity markets caused a continuing rise in raw material costs that were only partially recoverable through selling price increases. Our operations responded well to these external forces by redoubling their efforts to gain additional higher margin business and find ways of controlling costs in order to minimize to the extent possible the impact on operating profit, but those successes were not sufficiently significant to offset the decline in our sales base. The results of these efforts are, however, evident in our improved gross margin percentage.

In addition to normal operating activities, we completed a major
facility consolidation, including construction of a new 120,000 square foot production facility in Grayslake, Illinois. We combined three separate northern Illinois area facilities into the new building, giving us the opportunity to streamline administration and support activities and the ability to leverage engineering and production capabilities across all three operations. The goal of the consolidation is both to improve cost efficiency and to create synergistic opportunities in developing enhanced products for our customers.

Due to the strength of our working capital position and operating cash flow, we internally funded
more than $\$ 12,000,000$ in cash outlays during the year for construction costs and expenses related to the relocation.

As we look forward into 2008, we expect the overall economic outlook and raw material costs to be a persistent challenge. However, our strategy of focusing on supplying value-added engineered products to an increasingly diversified set of industries along with our focus on constantly striving to improve operating cost efficiencies has positioned us well to weather these external factors and to continue to have the resources necessary to take advantage of new opportunities as they arise.
Amid 8. Bower
"THE GOAL OF THE CONSOLIDATION IS BOTH TO IMPROVE COST EFFICIENCY AND TO CREATE SYNERGISTIC OPPORTUNITIES

## David A. Bowers

President and Chief Executive Officer


WORKING CAPITAL

(in millions)

# SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 <br> FORM 10-K 

ANNUAL REPORT PURSUANT TO SECTION 13 OR $15(\mathrm{~d})$ OF THE SECURITIES EXCHANGE ACT OF 1934 - For the fiscal year ended December 31, 2007

Commission file number 1-13905

## COMPX INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

## Delaware <br> (State or other jurisdiction of Incorporation or organization)

5430 LBJ Freeway, Suite 1700, Three Lincoln Centre, Dallas, Texas
(Address of principal executive offices)

Registrant's telephone number, including area code

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

> Title of each class
> Class A common stock
> (\$.01 par value per share)

57-0981653
(IRS Employer Identification No.)

75240-2697
(Zip Code)
(972) 448-1400

## Name of each exchange

 on which registeredNew York 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 $\square$ No 凹

If the Registrant is not required to file reports pursuant to Section 13 or Section $15(d)$ of the Act. Yes $\square$ No $\boxtimes$

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 $\boxtimes$ No $\square$

If disclosure of delinquent filers pursuant to Item 405 of Regulation $S-K$ is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 区

Whether the registrant is a large accelerated filer, an accelerated filer or a nonaccelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer $\square$ Accelerated filer $\square$ Non-accelerated filer $\boxtimes$ Smaller reporting company

Whether the Registrant is a shell Company (as defined in Rule $12 b-2$ of the Exchange Act). Yes $\square$ No $\boxtimes$

The aggregate market value of the 1.8 million shares of voting stock held by nonaffiliates of CompX International Inc. as of June 30, 2007 (the last business day of the Registrant's most recently completed second fiscal quarter) approximated $\$ 32.5$ million.

As of February 25 2008, 2,435,160 shares of Class A common stock were outstanding.

## Documents incorporated by reference

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

## ITEM 1. BUSINESS

## General

CompX International Inc. (NYSE:CIX), incorporated in Delaware in 1993, is a leading manufacturer of security products, precision ball bearing slides, and ergonomic computer support systems used in the office furniture, transportation, postal, tool storage, appliance and a variety of other industries. We are also a leading manufacturer of stainless steel exhaust systems, gauges, and throttle controls for the performance marine industry. Our products are principally designed for use in medium to high-end product applications, where design, quality and durability are critical to our customers.

At December 31, 2007, (i) NL Industries, Inc. (NYSE: NL) owned 86\% of our outstanding common stock; (ii) Valhi, Inc. (NYSE: VHI) holds approximately 83\% of NL's outstanding common stock; and (iii) a subsidiary of Contran Corporation holds approximately $93 \%$ of Valhi's outstanding common stock. Substantially all of contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, (for which Mr. Simmons is sole trustee) or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each company and us.

Our corporate offices are located at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240. Our telephone number is (972) 448-1400. We maintain a website at

Unless otherwise indicated, references in this report to "we", "us", or "our" refer to CompX International Inc. and its subsidiaries taken as a whole.

## Forward Looking Statements

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Annual Report on Form $10-K$ that are not historical in nature are forward-looking in nature about our future, and are not statements of historical fact. Such statements are found in this report, including, but not limited to, statements found in Item 1 - "Business," Item 1A - "Risk Factors," Item 3 - "Legal Proceedings," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk." These statements are forward-looking statements that represent our beliefs and assumptions based on currently available information. In some cases you can identify these forward-looking statements by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expects" or comparable terminology or by discussions of strategies or trends. Although we believe the expectations reflected in forward-looking statements are reasonable, we do not know if these expectations will be correct. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. Among the factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Annual Report and those described from time to time in our other filings with the SEC including, but not limited to, the following:

- Future supply and demand for our products,
- Changes in our raw material and other operating costs (such as steel and energy costs),
- General global economic and political conditions, (such as changes in the level of gross domestic product in various regions of the world),
- Demand for office furniture,
- Service industry employment levels,
- The possibility of labor disruptions,
- Competitive products and prices, including increased competition from low-cost manufacturing sources (such as China),
- Substitute products,
- Customer and competitor strategies,
- Costs and expenses associated with compliance with certain requirements of the Sarbanes-Oxley Act of 2002 relating to the evaluation of our internal control over financial reporting,
- The introduction of trade barriers,
- The impact of pricing and production decisions,
- Fluctuations in the value of the U.S. dollar relative to other currencies (such as the Canadian dollar and New Taiwan dollar),
- Potential difficulties in integrating completed or future acquisitions,
- Decisions to sell operating assets other than in the ordinary course of business,
- Uncertainties associated with new product development,
- Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- Our ability to comply with covenants contained in our revolving bank credit facility,
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- The impact of current or future government regulations,
- Possible future litigation,
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts,
- Operating interruptions (including, but not limited to labor disputes, leaks, natural disasters, fires, explosions, unscheduled, or unplanned downtime and transportation interruptions); and
- Government laws and regulations and possible changes therein.

Should one or more of these risks materialize or if the consequences worsen, or if the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

## Industry Overview

We manufacture components that are sold to a variety of industries including office furniture, recreational transportation (including performance boats), mailboxes, tool boxes, appliances, banking equipment, vending equipment and computers and related equipment. Approximately $32 \%$ of our total sales are to the office furniture manufacturing industry, which decreased from 36\% in 2006 and 43\% in 2005. The decrease in the percentage of sales to the office furniture industry is partially the result of our strategy to diversify our sales in order to strengthen our customer base. We believe that our emphasis on new product development and sales of our products to additional markets has resulted in our potential for higher rates of earnings growth and diversification of risk. See also Item 6 - "Selected Financial Data" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Business Segments

We currently have three operating business segments - Security Products, Furniture Components, and Marine Components. For additional information regarding our segments, see "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 to our Consolidated Financial Statements.

## Manufacturing, Operations, and Products

Security Products. Our Security Products segment, with a manufacturing facility in South Carolina and a facility in Illinois shared with Marine Components, manufactures locking mechanisms and other security products for sale to the postal, transportation, office furniture, banking, vending, and other industries. We believe
we are a North American market leader in the manufacture and sale of cabinet locks and other locking mechanisms. Our security products are used in a variety of applications including ignition systems, mailboxes, vending and gaming machines, parking meters, electrical circuit panels, storage compartments, office furniture and medical cabinet security. These products include:

- disc tumbler locks which provide moderate security and generally represent the lowest cost lock to produce;
- pin tumbler locking mechanisms which are more costly to produce and are used in applications requiring higher levels of security, including our KeSet high security system, which allows the user to change the keying on a single lock 64 times without removing the lock from its enclosure; and
- our innovative eLock electronic locks which provide stand alone security and audit trail capability for drug storage and other valuables through the use of a proximity card, magnetic stripe, or keypad credentials.

A substantial portion of our Security Products' sales consist of products with specialized adaptations to individual manufacturer's specifications, some of which are listed above. We also have a standardized product line suitable for many customers which is offered through a North American distribution network with our STOCK LOCKS distribution program to lock distributors and for smaller original equipment manufacturers ("OEMs").

Furniture Components. Our Furniture Components segment, with manufacturing facilities in Canada, Michigan and Taiwan, manufactures a complete line of precision ball bearing slides and ergonomic computer support systems for use in applications such as computer related equipment, tool storage cabinets, imaging equipment, file cabinets, desk drawers, automated teller machines, appliances and other applications. These products include:

- Our patented Integrated Slide Lock which allows a file cabinet manufacturer to reduce the possibility of multiple drawers being opened at the same time;
- our patented adjustable Ball Lock which reduces the risk of heavily-filled drawers, such as auto mechanic tool boxes, from opening while in movement;
- our Self-Closing Slide, which is designed to assist in closing a drawer and is used in applications such as bottom mount freezers;
- articulating computer keyboard support arms (designed to attach to desks in the workplace and home office environments to alleviate possible strains and stress and maximize usable workspace), along with our patented LeverLock keyboard arm, which is designed to make ergonomic adjustments to the keyboard arm easier;
- CPU storage devices which minimize adverse effects of dust and moisture; and
- complementary accessories, such as ergonomic wrist rest aids, mouse pad supports and flat screen computer monitor support arms.

Marine Components. Our Marine Components segment, with a manufacturing facility in Wisconsin and a facility in Illinois shared with Security Products, manufactures and distributes marine instruments, hardware and accessories for performance boats. Our specialty marine component products are high performance components designed to operate within precise tolerances in the highly corrosive marine environment. These products include:

- original equipment and aftermarket stainless steel exhaust headers, exhaust pipes, mufflers, other exhaust components and billet accessories; and
- high performance gauges and related components such as GPS speedometers, throttles, controls, tachometers and panels.

Our business segments operated six manufacturing facilities at December 31, 2007 including one facility in Grayslake, Illinois that houses operations relating to Security Products and Marine Components. For additional information, see also "Item 2 - Properties", including information regarding leased and distribution-only facilities.

| Security Products |  |  |
| :--- | :--- | :--- |
| Mauldin, SC |  | Furniture Components <br> Grayslake, IL |

## Raw Materials

Our primary raw materials are:

- zinc (used in the Security Products segment for the manufacture of locking mechanisms);
- coiled steel (used in the Furniture Components segment for the manufacture of precision ball bearing slides and ergonomic computer support systems);
- stainless steel (used in the Marine Components segment for the manufacture of exhaust headers and pipes and other components; and
- plastic resins (used primarily in the Furniture Components segment for injection molded plastics in the manufacturer of ergonomic computer support systems).

These raw materials are purchased from several suppliers and are readily available from numerous sources.

We occasionally enter into raw material arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not necessarily commit us to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified purchase volumes. We utilize purchase arrangements to stabilize our raw material prices provided we meet the specified minimum monthly purchase quantities. Raw materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. Due to the competitive nature of the markets served by our products, it is often difficult to recover all increases in raw material costs through increased product selling prices or raw material surcharges. Consequently, overall operating margins can be affected by raw material cost pressures. Steel and zinc prices are cyclical, reflecting overall economic trends and specific developments in consuming industries and are currently at historically high levels.

## Patents and Trademarks

We hold a number of patents relating to our component products, certain of which are believed to be important to us and our continuing business activity. Patents generally have a term of 20 years, and our patents have remaining terms ranging from less than one year to 15 years at December 31, 2007. Our major trademarks and brand names include:

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    Furniture Components
CompX Precision Slides®
CompX Waterloo®
CompX ErgonomX®
CompX DurISLide®
Dynaslide®
Waterloo Furniture
    Components Limited®
```

| Security Products |  |
| :--- | :--- |
| CompX Security Products® |  |
| Custom Marine® |  |
| National Cabinet Lock® | Livorsi Marine® |
| Fort Lock® | CMI Industrial Mufflers ${ }^{\mathbb{T M}}$ |
| Timberline® | Custom Marine Stainless |
| Chicago Lock® | Exhaust |
| STOCK LOCKS® | The \#l Choice in |
| KeSet® | Performance Boating® |
| TuBar® | Mega Rim |
| ACE II® | Race Rim |
|  | CompX Marine |
|  |  |

## Sales, Marketing and Distribution.

We sell components directly to large OEM customers through our factory-based sales and marketing professionals and engineers working in concert with field salespeople and independent manufacturers' representatives. We select manufacturers' representatives based on special skills in certain markets or relationships with current or potential customers.

A significant portion of our sales are also made through distributors. We have a significant market share of cabinet lock sales as a result of the locksmith distribution channel. We support our distributor sales with a line of standardized products used by the largest segments of the marketplace. These products are packaged and merchandised for easy availability and handling by distributors and end users. Due to our success with the STOCK LOCKS inventory program within the Security Products segment, similar programs have been implemented for distributor sales of ergonomic computer support systems within the Furniture Components segment.

In 2007, our ten largest customers accounted for approximately $31 \%$ of our total sales; however, no one customer accounted for sales of $10 \%$ or more in 2007 . Of the $31 \%$, $13 \%$ was related to Security Products and $18 \%$ was related to Furniture Components. Overall, our customer base is diverse and the loss of any single customer would not have a material adverse effect on our operations.

## Competition

The markets in which we participate are highly competitive. We compete primarily on the basis of product design, including ergonomic and aesthetic factors, product quality and durability, price, on-time delivery, service and technical support. We focus our efforts on the middle and high-end segments of the market, where product design, quality, durability and service are valued by the customer.

Our Marine Components segment competes with small domestic manufacturers and is minimally affected by foreign competitors. Our Security Products and Furniture Components segments compete against a number of domestic and foreign manufacturers. Suppliers, particularly Asian based furniture component suppliers, have put intense price pressure on our products. In some cases, we have lost sales to these lower cost manufacturers. We have responded by

- shifting the manufacture of some products to our lower cost facilities,
- working to reduce costs and gain operational efficiencies through workforce reductions and lean process improvements in all of our facilities, and
- by working with our customers to be their value-added supplier of choice by offering customer support services which Asian based suppliers are generally unable to provide.


## International Operations

We have substantial operations and assets located outside the United States, principally Furniture Component operations in Canada and Taiwan. The majority of our 2007 non-U.S. sales are to customers located in Canada. These operations are subject to, among other things, currency exchange rate fluctuations. Our results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. Political and economic uncertainties in certain of the countries in which we operate may expose us to risk of loss. We do not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar event. We cannot predict, however, whether events of this type in the future could have a material effect on our operations. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item 7A - "Quantitative and Qualitative Disclosures About Market Risk" and Note 1 to the Consolidated Financial Statements.

## Regulatory and Environmental Matters

Our operations are subject to federal, state, local and foreign laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, discharge, disposal, remediation of and exposure to hazardous and non-hazardous substances, materials and wastes ("Environmental Laws"). Our operations also are subject to federal, state, local and foreign laws and regulations relating to worker health and safety. We believe that we are in substantial compliance with all such laws and regulations. To date, the costs of maintaining compliance with such laws and regulations have not significantly impacted our results. We currently do not anticipate any significant costs or expenses relating to such matters; however, it is possible future laws and regulations may require us to incur significant additional expenditures.

## Employees

As of December 31, 2007, we employed the following number of people:

| United States | 636 |
| :---: | ---: |
| Canada | 259 |
| Taiwan | $\underline{134}$ |
| Total | $\underline{\underline{1,029}}$ |

${ }^{(1)}$ Approximately $75 \%$ of our Canadian employees are represented by a labor union covered by a collective bargaining agreement that expires in January 2009 which provides for annual wage increases from 1\% to $2.5 \%$ over the term of the contract. We believe our labor relations are good at all of our facilities.

## Available Information

Our fiscal year ends December 31. We furnish our stockholders with annual reports containing audited financial statements. In addition, we file annual, quarterly and current reports, proxy and information statements and other information with the SEC. We also make our annual report on Form $10-\mathrm{K}$, quarterly reports on Form 10-Q, current reports on Form $8-K$ and amendments thereto, available free of charge through our website at as soon as reasonably practical after they have been filed with the SEC. We also provide to anyone, without charge, copies of such documents upon written request. Requests should be directed to the attention of the Corporate Secretary at our address on the cover page of this Form 10-K.

Additional information, including our Audit Committee Charter, our Code of Business Conduct and Ethics and our Corporate Governance Guidelines, can also be found on our website. Information contained on our website is not a part of this Annual Report.

The general public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer. The SEC maintains an Internet website at
that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including us.

## Item 1A. RISK FACTORS

Listed below are certain risk factors associated with us and our businesses. In addition to the potential effect of these risk factors discussed below, any risk factor which could result in reduced earnings or operating losses, or reduced liquidity, could in turn adversely affect our ability to service our liabilities or pay dividends on our common stock or adversely affect the quoted market prices for our securities.

## Many of the markets in which we operate are mature and highly competitive resulting in pricing pressure and the need to continuously reduce costs.

Many of the markets we serve are highly competitive, with a number of competitors offering similar products. We focus our efforts on the middle and highend segment of the market where we feel that we can compete due to the importance of product design, quality and durability to the customer. However, our ability to effectively compete is impacted by a number of factors. The occurrence of any of these factors could result in reduced earnings or operating losses.

- Competitors may be able to drive down prices for our products because their costs are lower than our costs, especially those sourced from Asia.
- Competitors' financial, technological and other resources may be greater than our resources, which may enable them to more effectively withstand changes in market conditions.
- Competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements.
- Consolidation of our competitors or customers in any of the markets in which we compete may result in reduced demand for our products.
- New competitors could emerge by modifying their existing production facilities to manufacture products that compete with our products.
- Our ability to sustain a cost structure that enables us to be cost-competitive.
- Our ability to adjust costs relative to our pricing.
- Customers may no longer value our product design, quality or durability over lower cost.

Sales for certain precision slides and ergonomic products are concentrated in the office furniture industry, which has periodically experienced significant reductions in demand that could result in reduced earnings or operating losses.

Sales of our products to the office furniture manufacturing industry accounted for approximately $32 \%$, $36 \%$ and $43 \%$ for 2007,2006 and 2005 , respectively. The future growth, if any, of the office furniture industry will be affected by a variety of macroeconomic factors, such as service industry employment levels, corporate cash flows and non-residential commercial construction, as well as industry factors such as corporate reengineering and restructuring, technology demands, ergonomic, health and safety concerns and corporate relocations. There can be no assurance that current or future economic or industry trends will not materially and adversely affect our business.

Our failure to enter into new markets with our current businesses would result in the continued significant impact of fluctuations in demand within the office furniture manufacturing industry on our operating results.

In an effort to reduce our dependence on the office furniture market for certain products and to increase our participation in other markets, we have been devoting resources to identifying new customers and developing new applications for those products in markets outside of the office furniture industry, such as home appliances and tool boxes. Developing these new applications for our products involves substantial risk and uncertainties due to our limited experience with customers and applications in these markets as well as facing competitors who are already established in these markets. We may not be successful in developing new customers or applications for our products outside of the office furniture industry. Significant time may be required to develop new applications and uncertainty exists as to the extent to which we will face competition in this regard.

## Our development of new products as well as innovative features for current products is critical to sustaining and growing our sales.

Historically, our ability to provide value-added custom engineered products that address requirements of technology and space utilization has been a key element of our success. The introduction of new products and features requires the coordination of the design, manufacturing and marketing of the new products with current and potential customers. The ability to coordinate these activities with current and potential customers may be affected by factors beyond our control. While we will continue to emphasize the introduction of innovative new products that target customer-specific opportunities, there can be no assurance that any new products we introduce will achieve the same degree of success that we have achieved with our existing products. Introduction of new products typically requires us to increase production volume on a timely basis while maintaining product quality. Manufacturers often encounter difficulties in increasing production volumes, including delays, quality control problems and shortages of qualified personnel or raw materials. As we attempt to introduce new products in the future, there can be no assurance that we will be able to increase production volume without encountering these or other problems, which might negatively impact our financial condition or results of operations.

## Recent and future acquisitions could subject us to a number of operational risks.

A key component of our strategy is to grow and diversify our business through acquisitions. Our ability to successfully execute this component of our strategy - 9 -
entails a number of risks, including:

- the identification of suitable growth opportunities;
- an inaccurate assessment of acquired liabilities that were undisclosed or not properly disclosed;
- the entry into markets in which we may have limited or no experience;
- the diversion of management's attention from our core businesses;
- the potential loss of key employees or customers of the acquired businesses;
- difficulties in realizing projected efficiencies, synergies and cost savings; and
- an increase in our indebtedness and a limitation in our ability to access additional capital when needed.


## Higher costs of our raw materials may decrease our liquidity.

Certain of the raw materials used in our products are commodities that are subject to significant fluctuations in price in response to world-wide supply and demand. Coiled steel is the major raw material used in the manufacture of precision ball bearing slides and ergonomic computer support systems. Plastic resins for injection molded plastics are also an integral material for ergonomic computer support systems. Zinc is a principal raw material used in the manufacture of security products. Stainless steel tubing is the major raw material used in the manufacture of marine exhaust systems. These raw materials are purchased from several suppliers and are generally readily available from numerous sources. We occasionally enter into raw material supply arrangements to mitigate the short-term impact of future increases in raw material costs. Materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. Should our vendors not be able to meet their contractual obligations or should we be otherwise unable to obtain necessary raw materials, we may incur higher costs for raw materials or may be required to reduce production levels, either of which may decrease our liquidity as we may be unable to offset the higher costs with increased selling prices for our products.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

## ITEM 2. PROPERTIES

Our principal executive offices are located in approximately 1,000 square feet of leased space at 5430 LBJ Freeway, Dallas, Texas 75240 . The following table sets forth the location, size, business operating segment and general product types produced for each of our operating facilities.

| Facility Name | Business Segment | Location | Size <br> (square feet) | Products Produced |
| :---: | :---: | :---: | :---: | :---: |
| Owned Facilities: |  |  |  |  |
| Waterloo ${ }^{(1)}$ | FC | Kitchener, Ontario | 276,000 | Slides/ergonomic products |
| Durislide ${ }^{(1)}$ | FC | Byron Center, MI | 143,000 | Slides |
| National ${ }^{(1)}$ | SP | Mauldin, SC | 198,000 | Security products |
| Dynaslide ${ }^{(2)}$ | FC | Taipei, Taiwan | 45,500 | Slides |
| Custom ${ }^{(2)}$ | MC | Neenah, WI | 95,000 | Specialty marine products |
| Grayslake ${ }^{(1)}$ | SP/MC | Grayslake, IL | 120,000 | Security products/specialty marine products |

Leased Facilities:

| Dynaslide | FC | Taipei, Taiwan | 36,000 | Slides |
| :--- | :---: | :--- | :--- | :--- |
| Dynaslide | FC | Taipei, Taiwan | 22,000 | Slides |
| Distribution Center | SP/FC/MC | Rancho Cucamonga, CA | 12,000 | Product distribution |

FC - Furniture Components business segment
SP - Security Products business segment
MC - Marine Components business segment
(1) ISO-9001 registered facilities
(2) ISO-9002 registered facilities

We believe all of our facilities are well maintained and satisfactory for their intended purposes. During 2007, we built a larger facility at the site of our Marine Components subsidiary, Livorsi Marine, in Grayslake, Illinois. We moved two of our Security Products operations to the new facility during the third and fourth quarters of 2007. One of the vacated properties was sold in 2006 and the other is currently held for sale.

## ITEM 3. LEGAL PROCEEDINGS

We are involved, from time to time, in various environmental, contractual, product liability, patent (or intellectual property) and other claims and disputes incidental to our business. Currently no material environmental or other material litigation is pending or, to our knowledge, threatened. We currently believe that the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None.

## PART II

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

Common Stock and Dividends. Our Class A common stock is listed and traded on the New York Stock Exchange (symbol: CIX). As of February 25, 2008, there were approximately 18 holders of record of CompX Class A common stock. The following table sets forth the high and low closing sales prices per share for our Class A common stock for the periods indicated, according to Bloomberg, and dividends paid during each period. On February 25, 2008, the closing price per share of our Class A common stock according to Bloomberg was $\$ 10.08$.

High $\quad$ Low | Dividends |
| :---: |
| paid |

Year ended December 31, 2006

| First Quarter | $\$ 18.36$ | $\$ 14.62$ | $\$ .125$ |
| :--- | ---: | ---: | ---: |
| Second Quarter | 17.90 | 15.25 | .125 |
| Third Quarter | 17.66 | 15.44 | .125 |
| Fourth Quarter | 20.50 | 14.89 | .125 |

Year ended December 31, 2007

| First Quarter | $\$ 20.44$ | $\$ 15.19$ | $\$ .125$ |
| :--- | ---: | ---: | ---: |
| Second Quarter | 20.37 | 16.00 | .125 |
| Third Quarter | 20.87 | 14.23 | .125 |
| Fourth Quarter | 20.13 | 12.05 | .125 |
|  |  |  |  |
| January 1, 2008 through February 25, 2008 | $\$ 14.14$ | $\$ 8.94$ | - |

We paid regular quarterly dividends of $\$ .125$ per share during 2006 and 2007. In February of 2008, our board of directors declared a first quarter 2008 dividend of $\$ .125$ per share, to be paid on March 21, 2008 to CompX shareholders of record as of March 11, 2008. However, declaration and payment of future dividends and the amount thereof, if any, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual requirements and restrictions and other factors deemed relevant by our board of directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which we might pay. In this regard, our revolving bank credit facility places certain restrictions on the payment of dividends. We are limited to (i) a $\$ .125$ per share quarterly dividend, not to exceed $\$ 8.0$ million in any calendar year, plus (ii) $\$ 20.0$ million plus $50 \%$ of net income since September 30, 2005 over the term of the credit facility.

Performance Graph. Set forth below is a line graph comparing the yearly change in our cumulative total stockholder returns on our Class A common stock against the cumulative total return of the Russell 2000 Index and an index of a self-selected peer group of companies for the period from December 31, 2002 through December 31, 2007. The peer group index is comprised of The Eastern Company and Leggett \& Platt Inc. The graph shows the value at December 31 of each year assuming an original investment of $\$ 100$ at December 31, 2002 and reinvestment of dividends.

|  | December 31, |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| CompX International Inc. | \$ 100 | \$78 | \$203 | \$203 | \$263 | \$196 |
| Russell 2000 Index | 100 | 147 | 174 | 182 | 216 | 212 |
| Peer Group | 100 | 99 | 133 | 111 | 119 | 91 |



Equity compensation plan information. We have an equity compensation plan, which was approved by our stockholders, which provides for the discretionary grant to our employees and directors of, among other things, options to purchase our Class A common stock and stock awards. As of December 31, 2007, there were 349,000 options outstanding to purchase shares of our common stock, and approximately 673,000 shares of our Class A common stock were available for future grant or issuance. We do not have any equity compensation plans that were not approved by our stockholders. See Note 8 to the Consolidated Financial Statements.

Treasury Stock Purchases. In August 2007, our board of directors authorized the repurchase of up to 500,000 shares of our Class A common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. This authorization was in addition to the 467,000 shares of Class A common stock that remained available at the close of business on August 9, 2007 for repurchase under prior authorizations of our board of directors. We may repurchase our common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market
conditions, we may terminate the program prior to its completion. We will use cash on hand to acquire the shares. Repurchased shares will be added to our treasury and cancelled. See Note 8 to the Consolidated Financial Statements.

The following table discloses certain information regarding the shares of our common stock we purchased during the fourth quarter of 2007 (there were no purchases during December 2007). All of these purchases were made under the repurchase program in open market transactions, except for the net 2.7 million shares we repurchased and/or cancelled in a related party transaction as discussed in Note 12 to the Consolidated Financial Statements.

|  |  |  | Maximum number of |
| :---: | :---: | :---: | :---: |
|  | Total | Average | Total number of |
|  | price paid | shares that may yet |  |

October 1, 2007
to October 31,
2007
November 1, 2007 to November 30, 2007
46,000 \$16.14

46,000
804,400
$\underline{\underline{2,761,520}} \quad \underline{\underline{65,100}}$

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our Consolidated Financial Statements and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our operations are comprised of a 52 or 53 -week fiscal year. 2004 was a 53week year, all other years shown are 52 -week years.

|  | Years ended December 31 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2003 | 2004 | $\underline{2005}$ | 2006 | $\underline{2007}$ |
|  |  | million | excep | share | ta) |
| Statements of Operations Data: |  |  |  |  |  |
| Net sales | \$174.0 | \$182.6 | \$186.3 | \$190.1 | \$177.7 |
| Gross Margin | \$ 31.1 | \$ 39.8 | \$ 43.8 | \$ 46.5 | \$ 45.2 |
| Operating income | \$ 8.8 | \$ 15.4 | \$ 19.1 | \$ 20.3 | \$ 15.6 |
| Provision for income taxes | \$ 3.4 | \$ 7.8 | \$ 18.6 | \$ 9.7 | \$ 6.9 |
| Income from continuing operations | \$ 5.8 | \$ 9.5 | \$ 0.9 | \$ 11.7 | \$ 9.0 |
| Discontinued operations | (4.5) | (12.5) | (0.5) | - | - |
| Net income (loss) | \$ 1.3 | \$ (3.0) | \$ 0.4 | \$ 11.7 | \$ 9.0 |

## Diluted Earnings Per Share Data:



## Balance Sheet Data (at year end):

Cash and other current assets
Total assets
Current liabilities
Long-term debt and note payable
to affiliate, including
current maturities
Stockholders' equity

| $\$ 80.2$ | $\$ 78.3$ | $\$ 80.8$ | $\$ 76.2$ | $\$ 68.2$ |
| ---: | ---: | ---: | ---: | ---: |
| 210.7 | 186.3 | 188.6 | 192.0 | 187.7 |
| 24.5 | 26.0 | 20.3 | 17.8 | 18.9 |
|  |  |  |  |  |
| 26.0 | 0.1 | 1.6 | - | 50.0 |
| 154.4 | 155.3 | 150.1 | 153.7 | 104.1 |

## Statements of Cash Flow Data:

Cash provided by (used in):
Operating activities

$$
\begin{array}{crrrr}
\$ 24.4 & \$ 30.2 & \$ 20.0 & \$ 27.4 & \$ 11.9 \\
(8.2) & (3.2) & (3.7) & (19.3) & (12.4) \\
(7.3) & (27.1) & (7.2) & (8.8) & (11.7)
\end{array}
$$

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

## Business Overview

We are a leading manufacturer of security products, precision ball bearing slides, and ergonomic computer support systems used in the office furniture, transportation, postal, tool storage, home appliance and a variety of other industries. We are also a leading manufacturer of stainless steel exhaust systems, gauges and throttle controls for the performance boat industry.

## Operating Income Overview

We reported operating income of $\$ 15.6$ million in 2007 compared to operating income of $\$ 20.3$ million in 2006 and $\$ 19.1$ million in 2005 . We improved our product mix in 2007 as compared to 2006 through our emphasis on selling higher margin products and improving our operating efficiency through our continued focus on reducing costs. However, these improvements were more than offset by the unfavorable effects of costs related to the consolidation of three of our northern Illinois facilities into one newly completed facility, the unfavorable effect of relative changes in foreign currency exchange rates, lower sales to the office furniture industry due to competition from lower priced Asian manufacturers and lower order rates from many of our customers due to unfavorable economic conditions, all of which resulted in a net decrease in operating income from 2006 to 2007. We also experienced higher raw material costs in 2006 and 2007 , although the unfavorable impact on gross margin was largely mitigated through the implementation of sales price increases on most products that were affected. Our operating income increased from 2005 to 2006 primarily due to a more favorable product mix, the impact of two marine acquisitions, and our on-going focus on reducing costs partially offset by the negative impact of changes in currency exchange rates.

Fluctuations in foreign currency exchange rates positively impacted sales in 2007 as compared to 2006 by $\$ 900,000$, and negatively impacted operating income by $\$ 2.4$ million. Fluctuations in foreign currency exchange rates positively impacted sales in 2006 as compared to 2005 by $\$ 1.1$ million, and negatively impacted operating income by $\$ 1.1$ million. The impact on net sales is primarily due to the strengthening Canadian dollar in relation to the U.S. dollar. The net impact on operating income primarily results from our Canadian operations, due to the relative increase in costs as a result of the stronger Canadian dollar.

## Critical Accounting Policies and Estimates

We have based the accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" upon our Consolidated Financial Statements. We prepared our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In preparing our Consolidated Financial Statements, we are required to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. On an on-going basis, we evaluate our estimates, including those related to inventory reserves, the recoverability of long-lived assets (including goodwill and other intangible assets) and the realization of deferred income tax assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Our actual future results might differ from previously-estimated amounts under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements and are applicable to all of our operating segments:

- Inventory reserves - We provide reserves for estimated obsolete or unmarketable inventories equal to the difference between the cost of inventories and the estimated net realizable value using assumptions about future demand for our
products and market conditions. We also consider the age and the quantity of inventory on hand in estimating the reserve. If actual market conditions are less favorable than those we projected, we may be required to recognize additional inventory reserves.
- Long-lived assets - We account for our long-lived assets, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We assess property, equipment and capitalized permit costs for impairment only when circumstances indicate an impairment may exist. Our determination is based upon, among other things, our estimates of the amount of future net cash flows to be generated by the long-lived asset and our estimates of the current fair value of the asset. During 2007, we consolidated certain of our operations and no longer utilized one of our owned manufacturing facilities. In November of 2007, this facility and related assets met the criteria for "assets held for sale" and we concluded that the carrying amount of the assets exceeded estimated fair value less costs to sell such assets, which resulted in a loss of $\$ 600,000$ during the fourth quarter of 2007 . See Note 9 to the Consolidated Financial Statements.

In accordance with SFAS No. 142, Goodwill and other Intangible Assets, we review goodwill for impairment at least annually. We are also required to review goodwill for impairment at other times during each year when impairment indicators, as defined, are present. No goodwill impairments were deemed to exist as a result of our annual impairment review completed during the third quarter of 2007, as the estimated fair value of each reporting unit exceeded the net carrying value of the respective reporting unit. See Notes 1 and 4 to the Consolidated Financial Statements. The estimated fair values of these three reporting units are determined based on discounted cash flow projections.

Significant judgment is required in estimating cash flows. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

- Income taxes - Deferred taxes are recognized for future tax effects of temporary differences between financial and income tax reporting in accordance with the recognition criteria of SFAS No. 109, Accounting for Income Taxes. We record a reserve for uncertain tax positions in accordance with FIN No. 48, Accounting for Uncertain Tax Positions for tax positions where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, it is possible that in the future we may change our estimate of the amount of the deferred income tax assets that would more-likely-than-not be realized in the future resulting in an adjustment to the deferred income tax asset valuation allowance that would either increase or decrease, as applicable, reported net income in the period the change in estimate was made.

In addition, we make an evaluation at the end of each reporting period as to whether or not some or all of the undistributed earnings of our foreign subsidiaries are permanently reinvested (as that term is defined in GAAP). While we may have concluded in the past that some of the undistributed earnings are permanently reinvested, facts and circumstances can change in the future, and it is possible that a change in facts and circumstances, such as a change in the expectation regarding the capital needs of our foreign subsidiaries, could result in a conclusion that some or all of the undistributed earnings are no longer permanently reinvested. In such an event, we would be required to recognize a deferred income tax liability in an amount equal to the estimated incremental U.S. income tax and withholding tax liability that would be generated if all of the previously-considered permanently reinvested undistributed earnings were distributed to us in the U.S. In this regard, during 2005 we determined that certain of the undistributed earnings of our non-U.S. operations could no longer be considered permanently reinvested, and
in accordance with GAAP we recognized an aggregate $\$ 9.0$ million provision for deferred income taxes on the undistributed earnings of our foreign subsidiaries. See Note 8 to the Consolidated Financial Statements.

- Accruals - We record accruals for environmental, legal and other contingencies and commitments when estimated future expenditures associated with the contingencies become probable, and we can reasonably estimate the amounts of the future expenditures. However, new information may become available to us, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount we are required to accrue for such matters (and, therefore, a corresponding decrease or increase of our reported net income in the period of such change.)


## Results of Operations - 2006 Compared to 2007 and 2005 Compared to 2006

|  | Years ended December 31, |  |  | \% Change |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\underline{2005}$ | 2006 | $\underline{2007}$ | 2005-06 | 2006-07 |
|  | (Dollars in millions) |  |  |  |  |
| Net sales | \$186.3 | \$190.1 | \$177.7 | 2\% | (7\%) |
| Cost of good sold | 142.6 | 143.6 | 132.5 | 1\% | (8\%) |
| Gross margin | 43.7 | 46.5 | 45.2 | 6\% | (3\%) |
| Operating costs and expenses | 24.6 | 26.2 | 29.6 | 7\% | 13\% |
| Operating income | \$ 19.1 | \$ 20.3 | \$ 15.6 | 6\% | (23\%) |
| Percent of net sales: |  |  |  |  |  |
| Cost of goods sold | 77\% | 76\% | 75\% |  |  |
| Gross margin | 23\% | 24\% | 25\% |  |  |
| Operating costs and expenses | 13\% | 14\% | 17\% |  |  |
| Operating income | 10\% | 11\% | 9\% |  |  |

Net Sales. Net sales decreased in 2007 as compared to 2006 principally due to lower sales of certain products to the office furniture market where Asian competitors have established selling prices at a level below which we consider would return a minimal margin as well as lower order rates from many of our customers due to unfavorable economic conditions, offset in part by the effect of sales price increases for certain products to mitigate the effect of higher raw material costs.

Net sales increased in 2006 as compared to 2005 principally due to new sales volumes generated from the August 2005 and April 2006 acquisitions of two Marine Components businesses, which increased sales by $\$ 11.3$ million in 2006 . Other factors contributing to the increase in sales include sales volume increases in Security Products resulting from improved demand and the favorable effects of currency exchange rates on Furniture Components sales; offset in part by sales volume decreases for certain Furniture Components products due to competition from lower priced Asian manufacturers.

Costs of Goods Sold and Gross Margin. Cost of goods sold as a percentage of net sales decreased from 2006 to 2007, and gross margin percentage increased from the prior year. During 2007, we experienced the favorable effects of an improved product mix and improvements in our operating efficiency through cost reductions partially offset by the unfavorable effect of relative changes in foreign currency exchange rates, lower sales to the office furniture industry due to competition from lower priced Asian manufacturers and lower order rates from many of our customers due to unfavorable economic conditions.

Cost of goods sold decreased as a percentage of net sales in 2006 compared to 2005, and as a result gross margin increased over the same period. The resulting improvement in gross margin was primarily due to an improved product mix, with a decline in lower-margin Furniture Components sales and an increase in sales of higher margin Security and Marine Components products, as well as a continued focus on
reducing costs, offset in part by higher raw material costs and the unfavorable effect of changes in currency exchange rates.

Operating Costs and Expenses. Operating costs and expenses consists primarily of salaries, commissions and advertising expenses directly related to product sales, as well as, gains and losses on plant, property and equipment and currency gains and losses. As a percentage of net sales, operating costs and expenses increased from 2006 to 2007 primarily as a result of lower sales volumes, the increase in foreign exchange transaction losses due to the strengthening of the Canadian dollar in relation to the U.S. dollar (a loss increase over 2006 of $\$ 1.2$ million) as well as costs related to the consolidation of three of our northern Illinois facilities into one newly completed facility of approximately $\$ 2.7$ million. These costs include abnormal manufacturing costs such as physical move costs, equipment installation, redundant labor and recruiting fees, and an impairment charge of $\$ 765,000$ for fixed assets no longer in use. Approximately $\$ 600,000$ of the impairment charge relates to the write-down of our vacated River Grove facility to its estimated net realizable value. See Note 9 to the Consolidated Financial Statements.

Operating costs and expenses as a percentage of net sales were comparable from 2005 to 2006.

Operating Income. Operating income for 2007 decreased $\$ 4.7$ million, or 23\% compared to 2006 and operating margins decreased to $9 \%$ in 2007 compared to $11 \%$ for 2006. As compared to 2006, in 2007 we improved our product mix through our emphasis on selling higher margin products and continued our focus on improving our operating efficiency by reducing costs. However, these improvements were more than offset by the unfavorable effects of the $\$ 2.7$ million in costs noted above related to the consolidation of three of our northern Illinois facilities into one newly completed facility, a $\$ 2.4$ million unfavorable effect of relative changes in foreign currency exchange rates (including the $\$ 1.2$ million related to foreign exchange transaction losses noted above), lower sales to the office furniture industry due to competition from lower priced Asian manufacturers and lower order rates from many of our customers due to unfavorable economic conditions resulting in a net decrease in operating income from 2006 to 2007.

Operating income for 2006 increased $\$ 1.2$ million, or 6\% compared to 2005 and operating margins increased to 11\% in 2006 compared to 10\% for 2005. Our operating income increased from 2005 to 2006 primarily due to a more favorable product mix, the impact of two marine acquisitions, and our on-going focus on reducing costs partially offset by the negative impact of changes in currency exchange rates and higher raw material costs.

Currency. Our Furniture Components segment has substantial operations and assets located outside the United States (in Canada and Taiwan). The majority of sales generated from our non-U.S. operations are denominated in the U.S. dollar with the remainder denominated in other currencies, principally the Canadian dollar and the New Taiwan dollar. Most raw materials, labor and other production costs for our non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of our non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results.

Our Furniture Components segment's net sales were positively impacted while their operating income was negatively impacted by currency exchange rates in the following amounts as compared to the currency exchange rates in effect during the prior year.

Impact on:
Net sales Operating income


The positive impact on sales relates to sales denominated in non-U.S. dollar
currencies translating into higher U.S. dollar sales due to a strengthening of the local currency in relation to the U.S. dollar. The negative impact on operating income results from the U.S. dollar denominated sales of non-U.S. operations converted into lower local currency amounts due to the weakening of the U.S. dollar. This negatively impacts margin as it results in less local currency generated from sales to cover the costs of non-U.S. operations which are denominated in the local currency.

## General

Our profitability primarily depends on our ability to utilize our production capacity effectively, which is affected by, among other things, the demand for our products and our ability to control our manufacturing costs, primarily comprised of labor costs and raw materials such as zinc, copper, coiled steel, stainless steel and plastic resins. Raw material costs represent approximately $49 \%$ of our total cost of sales. During 2005, 2006 and 2007, worldwide raw material costs increased significantly. We occasionally enter into raw material supply arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not necessarily commit us to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified volume purchase levels. This allows us to stabilize raw material purchase prices to a certain extent, provided the specified minimum monthly purchase quantities are met. We enter into such arrangements for zinc, coiled steel and plastic resins. We anticipate further significant changes in the cost of these materials, from their current levels for the next year. Materials purchased on the spot market are sometimes subject to unanticipated and sudden price increases. Due to the competitive nature of the markets served by our products, it is often difficult to recover increases in raw material costs through increased product selling prices or raw material surcharges. Consequently, overall operating margins may be affected by raw material cost pressures.

Other non-operating income (expense), net
As summarized in Note 11 to the Consolidated Financial Statements, "other nonoperating income (expense), net" primarily includes interest income and was comparable from 2007 to 2006. Other non-operating income increased in 2006 compared to 2005 primarily due to higher interest rates on invested cash balances resulting in increased interest income.

## Interest expense

Interest expense increased approximately $\$ 550,000$ in 2007 compared to 2006 as a result of financing the October 2007 repurchase and/or cancellation of a net 2.7 million shares of our Class $A$ common stock from an affiliate with a promissory note. We expect interest expense will be higher in 2008 as compared to 2007 due to the issuance of the promissory note. See Notes 9 and 13 to the Consolidated Financial Statements. Interest expense was comparable from 2006 to 2005.

## Provision for income taxes

As a member of the Contran Tax Group, we compute our provision for income taxes on a separate company basis, using the tax elections made by Contran. One such election is whether to claim a deduction or a tax credit against U.S. taxable income with respect to foreign income taxes paid. Consistent with elections of the contran Tax Group, in 2005, 2006 and 2007 we did not claim a credit with respect to foreign income taxes paid but instead we claimed a tax deduction. This resulted in an increase in our effective income tax rate.

Under GAAP, we are required to recognize a deferred income tax liability with respect to the incremental U.S. income taxes (federal and state) and foreign withholding taxes that we would incur when the undistributed earnings of our non-U.S. subsidiaries are subsequently repatriated, unless we determine that those undistributed earnings are permanently reinvested for the foreseeable future. Prior to the third quarter of 2005 , we had not recognized a deferred tax liability related to such incremental income taxes on the undistributed earnings of certain of our nonU.S. operations, as those earnings were deemed to be permanently reinvested. GAAP
requires us to reassess the permanent reinvestment conclusion on an ongoing basis to determine if our intentions have changed. As of September 30, 2005, and based primarily upon changes in our strategic plans for certain of our non-U.S. operations, we determined that the undistributed earnings of those subsidiaries could no longer be considered to be permanently reinvested except for the pre-2005 earnings in Taiwan. Accordingly, and in accordance with GAAP, in 2005 we recognized an aggregate $\$ 9.0$ million provision for deferred income taxes on the aggregate undistributed earnings of these non-U.S. subsidiaries.

Our effective income tax rate in 2005, excluding the $\$ 9.0$ million provision discussed above, decreased from $49 \%$ to $45 \%$ in 2006 primarily due to the geographic mix of our pre-tax earnings and a $\$ 142,000$ income tax benefit recorded in 2006 related to the effect of the reduction in the Canadian federal income tax rate and the elimination of the federal surtax on our previously recorded net deferred income tax liability. Our effective income tax rate was comparable at $45 \%$ and $44 \%$ in 2006 and 2007, respectively. We currently expect our effective income tax rate for 2008 will approximate our effective income tax rate for 2007.

## Segment Results

The key performance indicator for our segments is the level of their operating income (see discussion below). For additional information regarding our segments refer to Note 2 to the Consolidated Financial Statements.

Net sales and operating income

|  | Years ended December 31, |  |  | \% Change |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\underline{2005}$ | 2006 | $\underline{2007}$ | 2005-2006 | 2006-2007 |
|  | (In millions) |  |  |  |  |
| Net sales: |  |  |  |  |  |
| Security Products | \$76.7 | \$81.7 | \$80.1 | 7\% | (2\%) |
| Furniture Components | 105.5 | 93.0 | 81.3 | (12\%) | (13\%) |
| Marine Components | 4.1 | 15.4 | 16.3 | 276\% | 6\% |
| Total net sales | \$186.3 | \$190.1 | \$177.7 | 2\% | (7\%) |
| Gross margin: |  |  |  |  |  |
| Security Products | \$22.1 | \$23.9 | \$24.1 | 8\% | 1\% |
| Furniture Components | 20.8 | 18.9 | 16.7 | (9\%) | (12\%) |
| Marine Components | 0.9 | 3.7 | 4.4 | 311\% | 19\% |
| Total gross margin | \$43.8 | \$46.5 | \$45.2 | 6\% | (3\%) |
| Operating income: |  |  |  |  |  |
| Security Products | 13.1 | 14.6 | 12.2 | 11\% | (16\%) |
| Furniture Components | 11.0 | 10.1 | 8.0 | (8\%) | (21\%) |
| Marine Components | 0.5 | 0.8 | 0.8 | 60\% | - |
| Corporate operating expenses | (5.5) | (5.2) | (5.4) | (5\%) | 4\% |
| Total operating income | \$ 19.1 | \$ 20.3 | \$ 15.6 | 6\% | (23\%) |
| Operating income margin: |  |  |  |  |  |
| Security Products | 17\% | 18\% | 15\% |  |  |
| Furniture Components | 10\% | 11\% | 10\% |  |  |
| Marine Components | 12\% | 5\% | 5\% |  |  |
| Total operating income margin | 10\% | 11\% | 9\% |  |  |

Security Products. Security Products net sales decreased $2 \%$ to $\$ 80.1$ million in 2007 compared to $\$ 81.7$ million in 2006 . Gross margin percentage was comparable year over year. Operating income margin percentage decreased in 2007 compared to 2006, which resulted in a $16 \%$ decrease in operating income. The margin percentage decrease was primarily due to $\$ 2.7$ million in costs incurred relating to the consolidation of two of our northern Illinois Security Products facilities into a new facility shared with a Marine Components operation and lower sales volumes resulting from lower order rates from many of our customers due to unfavorable economic conditions.

Security Products net sales increased $7 \%$ to $\$ 81.7$ million in 2006 compared to $\$ 76.7$ million in 2005 . Gross margin percentage and operating income margin percentage in 2006 also improved over 2005 resulting in an 11\% increase in operating income from the combined sales growth and margin improvement. The margin percentage increases were the result of a more favorable product mix and the leveraging of the fixed cost structure over higher net sales.

Furniture Components. Furniture Components net sales decreased 13\% to \$81.3 million in 2007 from $\$ 93.0$ million in 2006 , primarily due to lower sales volumes to the office furniture industry where, for certain products Asian competitors have established selling prices at a level below which we consider would return a minimal margin and the effect of lower order rates from many of our customers due to unfavorable economic conditions. Gross margin percentage increased slightly in 2007 compared to 2006 due to an improved product mix from the replacement of high volume, low margin products sales lost to Asian competitors with lower volume, higher margin sales and a reduction of operating costs, lower depreciation expense and improvements in operational efficiencies through workforce reductions and process improvements.

Furniture Components net sales decreased $12 \%$ to $\$ 93.0$ million in 2006 from $\$ 105.5$ million in 2005. However, operating income margin declined only $\$ 900,000$ due to reductions in operating costs and improvements in operational efficiencies through workforce reductions and process improvements, and an improved product mix from the replacement of high volume, low margin products sales lost to Asian competitors with lower volume, higher margin sales.

Marine Components. Marine Components net sales increased in 2007 from 2006 and in 2006 from 2005 due to the impact of acquisitions. We acquired an initial Marine Components company in August 2005 with an additional acquisition occurring in April 2006. Operating income increased in 2006 from 2005 as the result of the acquisitions and was comparable from 2006 to 2007.

## Outlook

Demand is slowing across most product segments as customers react to the condition of the overall economy. Asian sourced competitive pricing pressures are expected to continue to be a challenge for us as Asian manufacturers, particularly those located in China, gain share in certain markets. We believe the impact of this environment will be mitigated through our on-going initiatives to expand both new products and new market opportunities. Our strategy in responding to the competitive pricing pressure has included reducing production costs through product reengineering, improving manufacturing processes through lean manufacturing techniques and moving production to lower-cost facilities, including our own Asian-based manufacturing facilities. In addition, we continue to develop sources for lower cost components for certain product lines to strengthen our ability to meet competitive pricing when practical. We also emphasize and focus on opportunities where we can provide valueadded customer support services that Asian-based manufacturers are generally unable to provide. As a result of pursuing this strategy, we will forego certain segment sales in favor of developing new products and new market opportunities where we believe the combination of our cost control initiatives and value-added approach will produce better results for our shareholders. We also expect raw material cost volatility to continue during 2008, which we may not be able to fully recover through price increases or surcharges due to the competitive nature of the markets we serve.

## Liquidity and Capital Resources

Summary.
Our primary source of liquidity on an on-going basis is our cash flow from operating activities, which is generally used to (i) fund capital expenditures, (ii) repay short-term or long-term indebtedness incurred primarily for working capital or capital expenditure purposes and (iii) provide for the payment of dividends (if declared). From time-to-time, we will incur indebtedness, primarily for short-term working capital needs, or to fund capital expenditures or business combinations. In addition, from time-to-time, we may also sell assets outside the ordinary course of business, the proceeds of which are generally used to repay indebtedness (including
indebtedness which may have been collateralized by the assets sold) or to fund capital expenditures or business combinations.

Consolidated cash flows.
Operating activities. Trends in cash flows from operating activities, excluding changes in assets and liabilities, for 2005,2006 and 2007 have generally been similar to the trends in our earnings. Depreciation and amortization expense decreased in 2007 compared to 2006 due to the timing of capital expenditures placed into service during 2007 versus 2006. Depreciation and amortization expense increased in 2006 compared to 2005 as the result of increased capital expenditures and the timing of assets and intangibles acquired through acquisitions. See Notes 1 and 4 to the Consolidated Financial Statements.

Changes in assets and liabilities result primarily from the timing of production, sales and purchases. Such changes in assets and liabilities generally tend to even out over time. However, year-to-year relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. The decrease in cash provided by operating activities in 2007 compared to 2006 is primarily the result of:

- higher cash paid for income taxes in 2007 of $\$ 6.9$ million primarily relating to U.S. taxes on dividends repatriated from our non-U.S. subsidiaries,
- lower operating income of $\$ 4.7$ million, and
- a $\$ 2.6$ million increase in 2007 in cash used from relative changes in assets and liabilities (excluding taxes) primarily due to higher raw materials costs resulting in an increase in our inventory balance.

The increase in our cash provided by operating activities in 2006 as compared to 2005 is primarily the result of:

- lower cash paid for income taxes in 2006 of $\$ 2.0$ million,
- higher operating income of $\$ 1.2$ million, and
- a $\$ 2.3$ million decrease in 2006 in cash used from relative changes in assets and liabilities (excluding taxes) primarily due to the timing of collections of accounts receivable and a lower inventory balance in 2006.

Our average days'-sales-outstanding ("DSO") at December 31, 2007 was 44 days compared to 41 days at December 31, 2006. The increase is primarily due to the timing of collections on the higher accounts receivable balance as of December 31, 2007. For comparative purposes, our average DSO was relatively flat at 41 days for December 31, 2006 and 40 days at December 31, 2005. Our average number of days-ininventory ("DII") was 66 days at December 31,2007 and 57 days at December 31, 2006 . The increase in DII is primarily due to the higher cost of commodity raw materials during 2007. For comparative purposes our average DII was 57 days at December 31, 2006 and 59 days at December 31, 2005. The decrease is primarily due to reductions in raw materials during 2006 as we utilized the higher than normal balance in ending inventory at the end of 2005 that was acquired during 2005 as part of our efforts to mitigate the impact of volatility in raw material prices.

Investing activities. Net cash used by investing activities totaled $\$ 3.7$ million, $\$ 19.3$ million, and $\$ 12.4$ million for the years ended December 31, 2005, 2006 and 2007, respectively. Capital expenditures in the past three years have primarily emphasized improving our manufacturing facilities and investing in manufacturing equipment which utilizes new technologies and increases automation of the manufacturing process to provide for increased productivity and efficiency. During 2007, we constructed a new facility and consolidated three of our northern Illinois facilities into one facility at a cost of approximately $\$ 9.6$ million. The consolidation of three previously separate operations into one facility is expected to create opportunities to reduce operating costs and improve operating efficiencies. As a part of the facility consolidation project, the Lake Bluff, Illinois facility was sold in 2006 for approximately $\$ 1.3$ million which approximated book value and was leased-back until we vacated the facility in October 2007. The River Grove, Illinois facility is no longer
being utilized and met the "asset held for sale" criteria in November of 2007. We expect to dispose of the River Grove facility during 2008. See Note 9 to the Consolidated Financial Statements.

During 2006, we built a new facility for one of our Marine Components subsidiaries at a cost of $\$ 4.1$ million. The new facility is expected to provide the subsidiary with sufficient capacity to take advantage of sales growth opportunities.

In April 2006, we completed the acquisition of a marine component products business for $\$ 9.8$ million, net of cash acquired. In August 2005, we completed the acquisition of our initial marine component product business for $\$ 7.3$ million, net of cash acquired. See Note 2 to the Consolidated Financial Statements.

On January 24, 2005, we completed the disposition of all of the net assets of our European Thomas Regout operations to members of Thomas Regout management for net proceeds of approximately $\$ 22.3$ million. The proceeds consisted of cash (net of costs to sell) of approximately $\$ 18.1 \mathrm{million}$ and a subordinated note for approximately $\$ 4.2$ million. The subordinated note requires annual payments over a period of four years. In April of 2006 and 2007, we collected the first and second payments of $\$ 1.3$ million, respectively. Historically, the Thomas Regout European operations did not contribute significantly to net cash flows from operations. See Note 10 to the Consolidated Financial Statements.

Capital expenditures for 2008 are estimated at approximately $\$ 12.6$ million. Capital expenditure projects in 2007 emphasized improved production efficiency including replacement of equipment that is being retired and the facility consolidation discussed above.

Financing activities. Net cash used by financing activities totaled $\$ 7.2$ million, $\$ 8.8$ million, and $\$ 11.7$ million in 2005 , 2006 and 2007 , respectively. Cash dividends paid totaled $\$ 7.3$ million ( $\$ .50$ per share) in 2007 and $\$ 7.6$ million in each of 2006 and 2005 ( $\$ .50$ per share). Dividends paid decreased in 2007 as a result of the repurchase and/or cancellation of a net 2.7 million shares of our Class A common stock held by TIMET, an affiliate. We purchased these shares for $\$ 19.50$ per share, or aggregate consideration of $\$ 52.6$ million, which we paid in the form of a consolidated promissory note. At December 31, 2007, we had prepaid approximately $\$ 2.6$ million toward the promissory note. See Notes 9 and 13 to the Consolidated Financial Statements.

In addition to the TIMET repurchase and cancellation of shares discussed above, we also repurchased approximately 179,100 shares of our Class A common stock in market transactions for an aggregate of $\$ 3.3$ million. See Note 8 to the Consolidated Financial Statements.

In 2006 we prepaid $\$ 1.6$ million of indebtedness we assumed in our August 2005 marine components acquisition.

Our $\$ 50$ million secured revolving bank credit facility is collateralized by 65\% of the ownership interests in our first-tier non-United States subsidiaries. Provisions contained in our Revolving Bank Credit Agreement could result in the acceleration of outstanding indebtedness prior to its stated maturity for reasons other than defaults from failing to comply with typical financial covenants. For example, our Credit Agreement allows the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. The terms of the Credit Agreement could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside of the ordinary course of business. At December 31, 2007 we had no balances outstanding under the facility and the full $\$ 50$ million was available for borrowing. See Note 6 to the Consolidated Financial Statements.

Off balance sheet financing arrangements. Other than certain operating leases discussed in Note 13 to the Consolidated Financial Statements, neither we nor any of our subsidiaries or affiliates are parties to any off-balance sheet financing arrangements.

We believe that cash generated from operations and borrowing availability under our Credit Agreement, together with cash on hand, will be sufficient to meet our liquidity needs for working capital, capital expenditures, debt service and dividends (if declared). To the extent that our actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

We periodically evaluate our liquidity requirements, alternative uses of capital, capital needs and available resources in view of, among other things, our capital expenditure requirements, dividend policy and estimated future operating cash flows. As a result of this process, we have in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, issue additional securities, repurchase shares of our common stock, modify our dividend policy or take a combination of such steps to manage our liquidity and capital resources. In the normal course of business, we may review opportunities for acquisitions, joint ventures or other business combinations in the component products industry. In the event of any such transaction, we may consider using available cash, issuing additional equity securities or increasing our indebtedness or that of our subsidiaries.

Contractual obligations. As more fully described in the notes to the Consolidated Financial Statements, we are a party to various debt, lease and other agreements which contractually and unconditionally commit the Company to pay certain amounts in the future. See Notes 6 and 14 to the Consolidated Financial Statements. The following table summarizes such contractual commitments as of December 31, 2007 by the type and date of payment.

Note and interest payable to affiliate Operating leases
Purchase obligations
Income taxes
Fixed asset acquisitions
Total contractual cash obligations

\$ 3,235

| $\$ 7,797$ |
| ---: |
| 528 |
| - |
| - |
| - |

$\$ 8,325$

2013 and Total $\underline{2008 ~ 2009-2010 ~ 2011-2012 ~ a f t e r ~}$ (In thousands)

The timing and amount shown for our commitments related to long-term debt, operating leases and fixed asset acquisitions are based upon the contractual payment amount and the contractual payment date for such commitments. The timing and amount shown for purchase obligations, which consist of all open purchase orders and contractual obligations (primarily commitments to purchase raw materials) is also based on the contractual payment amount and the contractual payment date for such commitments. The amount shown for income taxes is the consolidated amount of income taxes payable at December 31, 2007, which is assumed to be paid during 2008. Fixed asset acquisitions include firm purchase commitments for capital projects. We currently estimate that our unrecognized tax benefits will decrease by approximately $\$ 180,000$ during the next twelve months due to the expiration of certain tax statues or the resolution of certain examinations and filing procedures related to one or more of our subsidiaries.

Commitments and contingencies. See Note 13 to the Consolidated Financial Statements.

Recent accounting pronouncements. See Note 14 to the Consolidated Financial Statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. We are exposed to market risk from changes in currency exchange rates and interest rates. We periodically use currency forward contracts to manage a portion of currency exchange rate risk associated with receivables, or similar exchange rate
risk associated with future sales, denominated in a currency other than the holder's functional currency. Otherwise, we do not generally enter into forward or option contracts to manage market risks, nor do we enter into any contract or other type of derivative instrument for trading or speculative purposes. Other than the contracts discussed below, we were not a party to any material forward or derivative option contract related to currency exchange rates or interest rates at December 31, 2006 and 2007. See Note 1 to the Consolidated Financial Statements.

Interest rates. We are exposed to market risk from changes in interest rates, primarily related to indebtedness.

At December 31, 2006 and 2007, we had no amounts outstanding under our secured Revolving Bank Credit Agreement. In conjunction with the repurchase and/or cancellation of a net 2.7 million shares of our class A common stock, during the fourth quarter of 2007, we issued a promissory note for $\$ 52.6$ million. See Note 12 to the Consolidated Financial Statements. At December 31, 2007, there was $\$ 50.0$ million outstanding on the promissory note which bears interest at LIBOR plus 1\%, and the fair value of such indebtedness approximates its carrying value. The interest rate is reset quarterly based on the three month LIBOR.

Currency exchange rates. We are exposed to market risk arising from changes in currency exchange rates as a result of manufacturing and selling our products outside the United States (principally Canada and Taiwan). A portion of our sales generated from our non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar and the New Taiwan dollar. In addition, a portion of our sales generated from our non-U.S. operations are denominated in the U.S. dollar. Most raw materials, labor and other production costs for these non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of our non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results.

As already mentioned certain of our sales generated by our Canadian operations are denominated in U.S. dollars. To manage a portion of the related currency exchange rate market risk associated with receivables or future sales, we periodically enter into short-term forward currency exchange contracts. At each balance sheet date, any outstanding forward currency contracts are marked-to-market with any resulting gain or loss recognized in income currently unless the contract is designated as a hedge upon which the mark-to-market adjustment is recorded in other comprehensive income. We had no forward currency contracts outstanding at December 31, 2006 or 2007.

Other. The above discussion includes forward-looking statements of market risk which assumes hypothetical changes in market prices. Actual future market conditions will likely differ materially from such assumptions. Accordingly, such forward-looking statements should not be considered to be our projections of future events, gains or losses. Such forward-looking statements are subject to certain risks and uncertainties some of which are listed in "Business-General."

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this Item is contained in a separate section of this Annual Report. See "Index of Financial Statements" (page F-1).

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We maintain a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the Securities and Exchange Commission (the "SEC"), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the

Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Act is accumulated and communicated to our management, including its principal executive officer and its principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of David A. Bowers, the Company's Vice Chairman of the Board, President and Chief Executive Officer, and Darryl R. Halbert, the Company's Vice President, Chief Financial Officer and Controller, have evaluated our disclosure controls and procedures as of December 31, 2007. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of the date of such evaluation.

## Scope of Management Report on Internal Control Over Financial Reporting. We

 also maintain a system of internal control over financial reporting. The term "internal control over financial reporting," as defined by regulations of the SEC, means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and includes those policies and procedures that:- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets.
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Section 404 of the Sarbanes-Oxley Act of 2002 , requires us to include a management report on internal control over financial reporting in the Annual Report on Form 10-K for the year ended December 31, 2007. Our independent registered public accounting firm will also be required to annually attest to the effectiveness of our internal control over financial reporting, but under the rules of the SEC this attestation is not required until our Annual Report on Form 10-K for the year ended December 31, 2008. In addition, the SEC has proposed a rule that, if adopted, would not require our independent registered public accounting firm to issue its attestation until our Annual Report on Form $10-\mathrm{K}$ for the year ended December 31, 2009.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our evaluation of the effectiveness of our internal control over financial reporting is based upon the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (commonly referred to as the "COSO" framework). Based on our evaluation under that framework, our management has concluded that our internal control over financial reporting was effective as of December 31, 2007 . This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report. See "Scope of Management's Report on Internal Control Over Financial Reporting" above.

Changes in Internal Control Over Financial Reporting. There has been no change to our system of internal control over financial reporting during the quarter ended

December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our system of internal control over financial reporting.

Certifications. Our chief executive officer is required to annually file a certification with the New York Stock Exchange ("NYSE"), certifying our compliance with the corporate governance listing standards of the NYSE. During 2007, our chief executive officer filed such annual certification with the NYSE, indicating we were in compliance with such listed standards. Our chief executive officer and chief financial officer are also required to, among other things, quarterly file a certification with the SEC regarding the quality of our public disclosures, as required by Section 302 of the Sarbanes-Oxley Act of 2002 . We have filed the certifications for the quarter ended December 31, 2007 as exhibits 31.1 and 31.2 to this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION
Not applicable.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report ("Proxy Statement").

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to our Proxy Statement.

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

The information required by this Item is incorporated by reference to our Proxy Statement.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to our Proxy Statement. See also Note 12 to the Consolidated Financial Statements.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to our Proxy Statement.

## PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES
(a) and (c) Financial Statements

The consolidated financial statements listed on the accompanying Index of Financial Statements (see page $F-1$ ) are filed as part of this Annual Report.

All financial statement schedules have been omitted either because they are not applicable or required, or the information that would be required to be included is disclosed in the notes to the consolidated financial statements.
(b)

## Exhibits

We have retained a signed original of any of these exhibits that contain signatures, and we will provide such exhibits to the Commission or its staff. Included as exhibits are the items listed in the Exhibit Index. We, upon request, will furnish a copy of any of the exhibits listed below upon payment of $\$ 4.00$ per exhibit to cover our costs of furnishing the exhibits. Instruments defining the rights of holders of long-term debt issues which do not exceed 10\% of consolidated total assets will be furnished to the Commission upon request. We, upon request, will also furnish, without charge, a copy of our Code of Business Conduct and Ethics, as adopted by the board of directors on February 24, 2004, upon request. Such requests should be directed to the attention of our Corporate Secretary at our corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

3.2 Amended and Restated Bylaws of Registrant, adopted by the Board of Directors October 24, 2007 - incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed October 30, 2007 (File No 1-13905).
10.1 Share Purchase Agreement with Subordinated Loan schedule between the Registrant and Anchor Holding B.V. dated January 24, 2005 incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004. All related schedules and annexes will be provided to the SEC upon request.
10.2 Intercorporate Services Agreement between the Registrant and Contran Corporation effective as of January 1, 2004 - incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form $10-\mathrm{K}$ for the year ended December 31, 2003.
10.3* CompX International Inc. 1997 Long-Term Incentive Plan - incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-1 (File No. 333-42643).
10.4* CompX International Inc. Variable Compensation Plan effective as of January 1, 1999 - incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.
10.5 Tax Sharing Agreement between the Registrant, NL Industries, Inc. and Contran Corporation dated as of October 5, 2004 - incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form $10-\mathrm{K}$ for the year ended December 31, 2004.
10.6 Stock Purchase Agreement dated October 16, 2007 between the Registrant and TIMET Finance Management Company - incorporated by reference to Exhibit 10.1 of the registrants Current Report on Form 8-K filed on October 22, 2007 (File No. 1-13905).
10.7 Agreement and Plan of Merger dated as of October 16, 2007 among Registrant, CompX Group, Inc. and CompX KDL LLC - incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8K filed on October 22, 2007 (File No. 1-13905).
10.8 Form of Subordination Agreement among the Registrant, TIMET Finance Management Company, CompX Security Products Inc., CompX Precision Sildes Inc., CompX Marine Inc., Custom Marine Inc., Livorsi Marine Inc., Wachovia Bank, National Association as administrative agent for itself, Compass Bank and Comerica Bank - incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on October 22, 2007 (File No. 1-13905).
10.9 Subordinated Term Loan Promissory Note dated October 26, 2007 executed by the Registrant and payable to the order of TIMET Finance Management Company - incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on October 30, 2007 (File No. 113905).
10.10 Agreement Regarding Shared Insurance between the Registrant, Contran Corporation, Keystone Consolidated Industries, Inc., Kronos Worldwide, Inc., NL Industries, Inc., Titanium Metals Corporation, and Valhi, Inc. dated October 30, 2003 - incorporated by reference to Exhibit 10.12 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003.


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## SIGNATURES

Pursuant to the requirements of Section 13 or $15(\mathrm{~d})$ of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## COMPX INTERNATIONAL INC.

Date: February 26, 2008
By: /s/ David A. Bowers
David A. Bowers
Vice Chairman of the Board,
President and Chief Executive Officer (Principal Executive Officer)

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

## Signature

/s/ Glenn R. Simmons
Glenn R. Simmons
/s/ David A. Bowers
David A. Bowers
/s/ Darryl R. Halbert
Darryl R. Halbert
/s/ Paul M. Bass, Jr.
Paul M. Bass, Jr.
/s/ Norman S. Edelcup Director February 26, 2008
Norman S. Edelcup
/s/ Edward J. Hardin
Edward J. Hardin
/s/ Ann Manix Director February 26, 2008
Ann Manix
/s/ Steven L. Watson Director
Steven L. Watson

Title
Chairman of the Board

Vice Chairman of the
February 26, 2008
Board, President and Chief
Executive Officer (Principal Executive Officer)

Vice President, Chief Financial Officer and Controller
(Principal Financial and Accounting Officer)

## Date

February 26, 2008 (Principal Executive

Director February 26, 2008

Director February 26, 2008

February 26, 2008

# Annual Report on Form 10-K 

## Items 8 and 15 (a)

Index of Financial Statements

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All financial statement schedules have been omitted either because they are not applicable or required, or the information that would be required to be included is disclosed in the notes to the consolidated financial statements.


#### Abstract

To the Board of Directors and Stockholders of CompX International Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of CompX International Inc. and its Subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.


/s/PricewaterhouseCoopers LLP
Dallas, Texas
February 26, 2008

# COMPX INTERNATIONAL INC. AND SUBSIDIARIES <br> CONSOLIDATED BALANCE SHEETS 

## (In thousands, except share data)

| ASSETS | December 31, |  |
| :---: | :---: | :---: |
|  | 2006 | 2007 |
| Current assets: |  |  |
| Cash and cash equivalents | \$ 29,688 | \$ 18,399 |
| Accounts receivable, less allowance for doubtful accounts of $\$ 682$ and $\$ 648$ | 19,986 | 20,447 |
| Receivables from affiliates | 259 | 223 |
| Refundable income taxes | 42 | 68 |
| Inventories | 21,733 | 24,277 |
| Prepaid expenses and other current assets | 1,130 | 1,324 |
| Deferred income taxes | 2,050 | 2,123 |
| Current portion of note receivable | 1,306 | 1,306 |
| Total current assets | 76,194 | 68,167 |
| Other assets: |  |  |
| Goodwill | 40,759 | 40,784 |
| Other intangible assets | 3,174 | 2,569 |
| Note receivable | 1,567 | 261 |
| Assets held for sale | - | 3,117 |
| Other | 644 | 666 |
| Total other assets | 46,144 | 47,397 |
| Property and equipment: |  |  |
| Land | 8,826 | 11,612 |
| Buildings | 35,284 | 38,990 |
| Equipment | 114,207 | 124,238 |
| Construction in progress | 2,559 | 2,659 |
|  | 160,876 | 177,499 |
| Less accumulated depreciation | 91,188 | 105,348 |
| Net property and equipment | 69,688 | 72,151 |
| Total assets | \$192,026 | \$187,715 |

## COMPX INTERNATIONAL INC. AND SUBSIDIARIES <br> CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except share data)

| LIABILITIES AND STOCKHOLDERS' EQUITY | December 31, |  |
| :---: | :---: | :---: |
|  | 2006 | 2007 |
| Current liabilities: |  |  |
| Current maturities of note payable to affiliate | \$ - | \$ 250 |
| Accounts payable and accrued liabilities | 16,842 | 17,652 |
| Interest payable to affiliate | - | 559 |
| Income taxes payable to affiliates | 136 | 282 |
| Income taxes | 836 | 170 |
| Total current liabilities | 17,814 | 18,913 |
| Noncurrent liabilities: |  |  |
| Note payable to affiliate | - | 49,730 |
| Deferred income taxes | 20,522 | 14,969 |
| Total noncurrent liabilities | 20,522 | 64,699 |
| Stockholders' equity: |  |  |
| Preferred stock, \$.01 par value; 1,000 shares authorized, none issued | - | - |
| Class A common stock, \$.01 par value; <br> 20,000,000 shares authorized; 5,266,980 and | 53 | 25 |
| Class B common stock, \$.01 par value; |  |  |
| 10,000,000 shares authorized, issued and outstanding | 100 | 100 |
| Additional paid-in capital | 110,106 | 55,824 |
| Retained earnings | 35,353 | 37,080 |
| Accumulated other comprehensive income | 8,078 | 11,074 |
| Total stockholders' equity | 153,690 | 104,103 |
| Total liabilities and stockholders' equity | \$192,026 | \$187,715 |

Commitments and contingencies (Notes 6 and 13)

## COMPX INTERNATIONAL INC. AND SUBSIDIARIES <br> CONSOLIDATED STATEMENTS OF INCOME <br> (In thousands, except per share data)

|  | $\begin{aligned} & \text { Years } \\ & 2005 \\ & \hline \end{aligned}$ | Ended December 31, |  |
| :---: | :---: | :---: | :---: |
|  |  | 2006 | 2007 |
| Net sales | \$186,349 | \$190,123 | \$177,683 |
| Cost of goods sold | 142,594 | 143,649 | 132,455 |
| Gross margin | 43,755 | 46,474 | 45,228 |
| Selling, general and administrative expense | 24,155 | 26,060 | 25,846 |
| Facility consolidation expense | - | - | 2,665 |
| Other operating expense, net | 538 | 113 | 1,161 |
| Operating income | 19,062 | 20,301 | 15,556 |
| Other non-operating income, net Interest expense | $\begin{gathered} 724 \\ (336) \\ \hline \end{gathered}$ | $\begin{array}{r} 1,270 \\ \quad(219) \\ \hline \end{array}$ | $\begin{array}{r} 1,133 \\ (760) \\ \hline \end{array}$ |
| Income from continuing operations before income taxes | 19,450 | 21,352 | 15,929 |
| Provision for income taxes | 18,568 | 9,696 | 6,949 |
| Income from continuing operations | 882 | 11,656 | 8,980 |
| Discontinued operations, net of tax | (477) | - | - |
| Net income | 405 | 11,656 | 8,980 |
| Basic and diluted earnings (loss) per common share: |  |  |  |
| Continuing operations | . 06 | . 76 | \$ . 61 |
| Discontinued operations | \$ (.03) | \$ | \$ |
| Earnings per share | \$ $\quad .03$ | \$ $\quad .76$ | \$ ${ }^{\text {S }}$ |
| Cash dividends per share | \$ $\quad .50$ | \$ . 50 | \$ |
| Shares used in the calculation of earnings per share amounts for: |  |  |  |
| Basic earnings per share | 15,212 | 15,244 | 14,764 |
| Dilutive impact of stock options | 19 | 13 | 8 |
| Diluted shares | 15,231 | 15,257 | 14,772 |

## COMPX INTERNATIONAL INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME <br> (In thousands)



## COMPX INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## (In thousands)



## COMPX INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

## (In thousands)

|  |  | $\begin{aligned} & \text { Years } \\ & 2005 \\ & \hline \end{aligned}$ |  | $\begin{aligned} & \text { led Dec } \\ & 2006 \\ & \hline \end{aligned}$ |  | $\begin{aligned} & 31, \\ & 2007 \\ & \hline \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Cash and cash equivalents: |  |  |  |  |  |  |
| Net increase (decrease) from: |  |  |  |  |  |  |
| Operating, investing and financing activities | \$ | 9,163 |  | (647) | \$ | $(12,284)$ |
| Effect of exchange rate on cash |  | 392 |  | (257) |  | 995 |
| Balance at beginning of year |  | 21,037 |  | 30,592 |  | 29,688 |
| Balance at end of year | \$ | 30,592 |  | 29,688 | S | 18,399 |
| Supplemental disclosures: |  |  |  |  |  |  |
| Cash paid for: |  |  |  |  |  |  |
| Interest | \$ | 259 |  | 139 | \$ | 109 |
| Income taxes |  | 9,390 |  | 7,418 |  | 14,365 |
| Noncash investing and financing activities: |  |  |  |  |  |  |
| Note payable to affiliate issued for repurchase of common stock | \$ | - | \$ | - | \$ | 52,580 |
| Accrual for capital expenditures | \$ | - | \$ | - | \$ | 665 |
| Note receivable received upon disposal of business unit | \$ | 4,179 | \$ | - | \$ | - |

## COMPX INTERNATIONAL INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2007

## Note 1 - Summary of significant accounting policies:

Organization. We (NYSE: CIX) are 86\% owned by NL Industries, Inc. (NYSE: NL) at December 31, 2007. We manufacture and sell component products (security products, precision ball bearing slides, ergonomic computer support systems and performance marine components). At December 31, 2007, (i) Valhi, Inc. holds approximately $83 \%$ of $\mathrm{NL}^{\prime} s$ outstanding common stock and (ii) a subsidiary of Contran Corporation holds approximately 93\% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (of which Mr. Simmons is sole trustee), or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of the companies and us.

Unless otherwise indicated, references in this report to "we", "us", or "our" refer to CompX International Inc. and its subsidiaries, taken as a whole.

Management estimates. In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at each balance sheet date and the reported amounts of our revenues and expenses during each reporting period. Actual results may differ significantly from previously-estimated amounts under different assumptions or conditions.

Principles of consolidation. Our consolidated financial statements include the accounts of CompX International Inc. and our majority-owned subsidiaries. We eliminate all material intercompany accounts and balances. We have no involvement with any variable interest entity covered by the scope of FASB Interpretation No. 46R, Consolidation of Variable Interest Entities.

Fiscal year. Our operations are reported on a 52 or 53 -week fiscal year. The years ended December 31, 2005, 2006 and 2007 consisted of 52 weeks.

Translation of foreign currencies. We translate the assets and liabilities of our subsidiaries whose functional currency is other than the U.S. dollar at year-end rates of exchange, while we translate their revenues and expenses at average exchange rates prevailing during the year. We accumulate the resulting translation adjustments in stockholders' equity as part of accumulated other comprehensive income, net of related deferred income taxes. We recognize currency transaction gains and losses in income.

Cash and cash equivalents. We classify as cash and cash equivalents bank time deposits and government and commercial notes and bills with original maturities of three months or less.

Net sales. We record sales when products are shipped and title and other risks and rewards of ownership have passed to the customer. Amounts charged to customers for shipping and handling are not material. Sales are stated net of price, early payment and distributor discounts and volume rebates. We report any tax assessed by a governmental authority that we collect from our customers that is both imposed on and concurrent with our revenue producing activities (such as sales, use, value added and excise taxes) on a net basis (meaning we do not recognize these taxes either in our revenues or in our costs and expenses.)

Accounts receivable. We provide an allowance for doubtful accounts for known and estimated potential losses rising from our sales to customers based on a periodic review of these accounts.

Inventories and cost of sales. We state inventories at the lower of cost or market, net of allowance for obsolete and slow-moving inventories. We generally base inventory costs on average cost that approximates the first-in, first-out method. We allocate fixed manufacturing overheads based on normal production capacity and recognize abnormal manufacturing costs as period costs. Our cost of sales includes costs for materials, packing and finishing, utilities, salary and benefits, maintenance and depreciation.

Selling, general and administrative expenses; advertising costs. Selling, general and administrative expenses include costs related to marketing, sales, distribution, research and development and administrative functions such as accounting, treasury and finance, and includes costs for salaries and benefits, travel and entertainment, promotional materials and professional fees. We expense advertising and research development costs as incurred. Advertising costs were approximately $\$ 686,000$ in 2005, $\$ 872,000$ in 2006, and $\$ 804,000$ in 2007.

Goodwill and other intangible assets; amortization expense. Goodwill represents the excess of cost over fair value of individual net assets acquired in business combinations. Goodwill is not subject to periodic amortization. We amortize other intangible assets, consisting principally of certain patents acquired, using the straight line method over their estimated lives (approximately 8 years remaining at December 31, 2007). We assess goodwill and other intangible assets for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. See Note 4.

Property and equipment; depreciation expense. We state property and equipment, including purchased computer software for internal use, at cost. We compute depreciation of property and equipment for financial reporting purposes principally by the straight-line method over the estimated useful lives of 15 to 40 years for buildings and 3 to 10 years for equipment and software. We use accelerated depreciation methods for income tax purposes, as permitted. Depreciation expense was $\$ 10.6$ million in 2005 , $\$ 11.4$ million in 2006 , and $\$ 10.4$ million in 2007. Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized in income currently. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized.

We evaluate assets for impairment when events or changes in circumstances indicate that assets may be impaired to determine if an impairment exists. Such events or changes in circumstances include, among other things, (i) significant current and prior periods or current and projected periods with operating losses, (ii) a significant decrease in the market value of an asset or (iii) a significant change in the extent or manner in which an asset is used. We consider all relevant factors. We perform the impairment evaluation by comparing the estimated future undiscounted cash flows (exclusive of interest expense) associated with the asset to the asset's net carrying value to determine if a write-down to market value or discounted cash flow value is required. We assess impairment of property and equipment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. See Note 9.

Employee benefit plans. We maintain various defined contribution plans in which we make contributions based on matching or other formulas. Defined contribution plan expense related to continuing operations approximated $\$ 2.3$ million in 2005, $\$ 2.2$ million in 2006 and $\$ 2.5$ million in 2007.

Self-insurance. We are partially self-insured for workers' compensation and certain employee health benefits and self-insured for most environmental issues. We purchase coverage in order to limit our exposure to any significant levels of
workers' compensation or employee health benefit claims. We accrue self-insured losses based upon estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and our own historical claims experience.

Derivatives and hedging activities. Certain of our sales generated by our non-U.S. operations are denominated in U.S. dollars. We periodically use currency forward contracts to manage a portion of currency exchange rate market risk associated with receivables, or similar exchange rate risk associated with future sales, denominated in a currency other than the holder's functional currency. We have not entered into these contracts for trading or speculative purposes in the past, nor do we anticipate entering into such contracts for trading or speculative purposes in the future. Most of our currency forward contracts meet the criteria for hedge accounting under GAAP and are designated as cash flow hedges. For these currency forward contracts, gains and losses representing the effective portion of our hedges are deferred as a component of accumulated other comprehensive income, and are subsequently recognized in earnings at the time the hedged item affects earnings. Occasionally, we enter into currency forward contracts which do not meet the criteria for hedge accounting. For these contracts, we mark-to-market the estimated fair value of the contracts at each balance sheet date based on quoted market prices for the forward contracts, with any resulting gain or loss recognized in income currently as part of net currency transactions. The quoted market prices for the forward contracts are a Level 1 input as defined by Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements. See Note 14. We had no currency forward contracts outstanding at December 31, 2006 or 2007.

Income taxes. We are a member of the Contran Tax Group. We have been and currently are a part of the consolidated tax returns filed by Contran in certain United States state jurisdictions. As a member of the Contran Tax Group, we are jointly and severally liable for the federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. See Note 13.

As a member of the Contran Tax Group, we are a party to a tax sharing agreement which provides that we compute our provision for U.S. income taxes on a separate-company basis. Pursuant to the tax sharing agreement, we make payments to or receive payments from $N L$ in amounts we would have paid to or received from the U.S. Internal Revenue Service or the applicable state tax authority had we not been a member of the Contran Tax Group. The separate company provisions and payments are computed using the tax elections made by Contran. Under certain circumstances, such tax regulations could require Contran to treat items differently than we would on a stand alone basis, and in such instances GAAP requires us to conform to Contran's tax election. We made net cash payments of $\$ 3.5$ million in 2005, $\$ 5.6$ million in 2006 , and $\$ 9.5$ million in 2007 to Contran.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including undistributed earnings of foreign subsidiaries which are not permanently reinvested. Earnings of foreign subsidiaries subject to permanent reinvestment plans aggregated $\$ 5.6$ million at December 31,2006 and $\$ 5.7$ million at December 31, 2007. Determination of the amount of unrecognized deferred tax liability on such permanent reinvestment plans was not practicable. We periodically evaluate our deferred tax assets in the various taxing jurisdictions in which we operate and adjust any related valuation allowance based on the estimate of the amount of such deferred tax assets which we believe do not meet the more-likely-than-not recognition criteria.

Prior to 2007, we provided a reserve for uncertain income tax positions when we believed it was probable a tax position would not prevail with the applicable tax authority and the amount of the lost benefit associated with such tax position was reasonably estimable. Beginning in 2007 , we record a reserve for uncertain
tax positions in accordance with $F I N$ No. 48, Accounting for Uncertain Tax Positions for each tax position where we believe it is more-likely-than-not our position will prevail with the applicable tax authorities. See Note 14.

Earnings per share. Basic earnings per share of common stock is computed using the weighted average number of common shares actually outstanding during each period. Diluted earnings per share of common stock includes the impact of outstanding dilutive stock options. The weighted average number of outstanding stock options excluded from the calculation of diluted earnings per share because their impact would have been antidilutive aggregated approximately 404,000 in 2005, 397,000 in 2006 and 368,000 in 2007.

Fair value of financial instruments. The carrying amounts of accounts receivable and accounts payable approximates fair value due to their short-term nature. The carrying amount of indebtedness approximates fair value due to the stated variable interest rate approximating a market rate. These estimated fair value amounts have been determined using available market information or other appropriate valuation methodologies. The fair value of our indebtedness would be a Level 2 input as defined by SFAS No. 157. See Note 14.

## Note 2 - Business and geographic segments:

Our operating segments are defined as components of our operations about which separate financial information is available that is regularly evaluated by our chief operating decision maker in determining how to allocate resources and in assessing performance. Our chief operating decision maker is Mr. David A. Bowers, our president and chief executive officer. We have three operating segments Security Products, Furniture Components and Marine Components. The Security Products segment, with a manufacturing facility in South Carolina and a facility shared with Marine Components in Illinois, manufactures locking mechanisms and other security products for sale to the office furniture, transportation, postal, banking, vending and other industries. The Furniture Components segment, with facilities in Canada, Michigan and Taiwan, manufactures and distributes a complete line of precision ball bearing slides and ergonomic computer support systems for use in office furniture, computer-related equipment, tool storage cabinets, appliances and other applications. Our Marine Components segment with a facility in Wisconsin and a facility shared with Security Products in Illinois manufactures and distributes marine instruments, hardware, and accessories for performance boats.

In August 2005 and April 2006, we completed acquisitions of two marine component products businesses, for aggregate cash consideration of $\$ 7.3$ million and $\$ 9.8$ million, respectively, net of cash acquired. The purchase price has been allocated among tangible and intangible net assets acquired based upon an estimate of the fair value of such net assets. The pro forma effect to us assuming the acquisitions had been completed as of January 1, 2005 is not material. The combination of these two acquisitions makes up the entirety of our Marine Components segment.

The chief operating decision maker evaluates segment performance based on segment operating income, which is defined as income before income taxes, and interest expense, exclusive of certain general corporate income and expense items (primarily interest income) and certain non-recurring items (such as gains or losses on the disposition of business units and other long-lived assets outside the ordinary course of business). The accounting policies of the reportable operating segments are the same as those described in Note 1. Capital expenditures include additions to property and equipment, but exclude amounts attributable to business combinations.

Segment assets are comprised of all assets attributable to the reportable segments. Corporate assets are not attributable to the operating segments and consist primarily of cash, cash equivalents and notes receivable and, at December 31, 2007, assets held for sale. See Note 9. For geographic information, net F-13
sales are attributable to the place of manufacture (point of origin) and the location of the customer (point of destination); property and equipment are attributable to their physical location. At December 31, 2006 and 2007, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $\$ 50.2$ million and $\$ 40.5$ million, respectively.

| Net sales: |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Security Products | \$ 76,667 | \$ | 81,684 | \$ | 80,085 |
| Furniture Components | 105,524 |  | 92,983 |  | 81,331 |
| Marine Components | 4,158 |  | 15,456 |  | 16,267 |
| Total net sales | \$186,349 |  | 190,123 |  | 77,683 |
| Operating income: |  |  |  |  |  |
| Security Products | \$ 13,141 | \$ | 14,620 | \$ | 12,218* |
| Furniture Components | 10,985 |  | 10,036 |  | 8,001 |
| Marine Components | 427 |  | 822 |  | 799 |
| Corporate operating expenses | $(5,491)$ |  | $(5,177)$ |  | $(5,462)$ |
| Total operating income | 19,062 |  | 20,301 |  | 15,556 |
| Other non-operating income, net | 724 |  | 1,270 |  | 1,133 |
| Interest expense | (336) |  | (219) |  | (760) |
| Income from continuing operations before income taxes | \$ 19,450 |  | 21,352 |  | 15,929 |
| Depreciation and amortization: |  |  |  |  |  |
| Security Products | \$ 3,876 | \$ | 4,309 | \$ | 4,574 |
| Furniture Components | 6,798 |  | 6,798 |  | 5,457 |
| Marine Components | 207 |  | 666 |  | 958 |
| Corporate Depreciation | 43 |  | 24 |  | 21 |
| Total | \$ 10,924 |  | 11,797 |  | 11,010 |
| Capital expenditures: |  |  |  |  |  |
| Security Products | \$ 4,909 | \$ | 5,335 | \$ | 12,240 |
| Furniture Components | 5,549 |  | 1,504 |  | 1,349 |
| Marine Components | 32 |  | 5,205 |  | 896 |
| Total | \$ 10,490 | \$ | 12,044 |  | 14,485 |
| Goodwill: |  |  |  |  |  |
| Security Products | \$ 23,742 | \$ | 23,742 | \$ | 23,742 |
| Furniture Components | 6,594 |  | 7,135 |  | 7,160 |
| Marine Components | 5,342 |  | 9,882 |  | 9,882 |
| Total | \$ 35,678 | \$ | 40,759 | \$ | 40,784 |

* Includes $\$ 2.7$ million of costs related to the consolidation of three of our northern Illinois facilities into one facility. See Note 9.

|  | Years ended December 31, |  |  |
| :---: | :---: | :---: | :---: |
|  | 2005 | 2006 | 2007 |
|  |  | (In thousands) |  |
| Net sales: |  |  |  |
| Point of origin: |  |  |  |
| United States | \$113,510 | \$127,620 | \$118,460 |
| Canada | 63,918 | 52,395 | 52,684 |
| Taiwan | 14,213 | 15,910 | 11,714 |
| Eliminations | $(5,292)$ | $(5,802)$ | $(5,175)$ |
| Total | \$186,349 | \$190,123 | \$177,683 |
| Point of destination: |  |  |  |
| United States | \$149,487 | \$153,942 | \$147,716 |
| Canada | 25,015 | 19,985 | 19,251 |
| Other | 11,847 | 16,196 | 10,716 |
| Total | \$186,349 | \$190,123 | \$177,683 |
|  | December 31, |  |  |
|  | 2005 | 2006 | 2007 |
|  | (In thousands) |  |  |
| Total assets: |  |  |  |
| Security Products | \$ 76,875 | \$ 74,887 | \$ 80,051 |
| Furniture Components | 77,226 | 77,781 | 67,184 |
| Marine Components | 10,614 | 26,607 | 26,436 |
| Corporate and eliminations | 23,837 | 12,751 | 14,044 |
| Total | \$188,552 | \$192,026 | \$187,715 |
| Net property and equipment: |  |  |  |
| United States | \$ 42,751 | \$ 47,865 | \$ 50,876 |
| Canada | 16,978 | 14,144 | 13,912 |
| Taiwan | 8,260 | 7,679 | 7,363 |
| Total | \$ 67,989 | \$ 69,688 | \$ 72,151 |

## Note 3 - Inventories:



Total

| December 31, |  |
| :--- | ---: |
| 2006 |  |
| (In thousands) | $\frac{2007}{}$ |
| $\$ 5,892$ | $\$, 341$ |
| 8,744 | 9,783 |
| 7,097 | 8,153 |
| $\$ 21,733$ | $\$ 24,277$ |

Note 4 - Goodwill and other intangible assets:
We have assigned goodwill to each of our reporting units (as that term is defined in SFAS No. 142) which correspond to our operating segments. In accordance with SFAS No. 142 we test for goodwill impairment at the reporting unit level. In accordance with the requirements of SFAS No. 142, we review goodwill for each of our four reporting units for impairment during the third quarter of each year or when circumstances arise that indicate an impairment might be present. In determining the estimated fair value of the reporting units, we use appropriate valuation techniques, such as discounted cash flows. Such discounted

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$$

cash flows would be a Level 3 input as defined by SFAS No. 157. See Note 14. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value. Our 2005, 2006 and 2007 annual impairment reviews of goodwill indicated no impairments.

Changes in the carrying amount of goodwill related to continuing operations during the past three years is presented in the table below. Goodwill was generated principally from acquisitions of certain business units during 1998, 1999, 2000, and the Marine Components acquisitions in August 2005 and April 2006. See Note 2.

|  | Security Products | Furniture Components (In mil | Marine Components ions) | Total |
| :---: | :---: | :---: | :---: | :---: |
| Balance at December 31, 2004 | \$23.7 | \$5.3 | \$ - | \$29.0 |
| Goodwill acquired during the year | - | 1.5 | 5.4 | 6.9 |
| Changes in currency exchange rates | - | (0.2) | - | (0.2) |
| Balance at December 31, 2005 | 23.7 | 6.6 | 5.4 | 35.7 |
| Goodwill acquired during the year | - | 0.4 | 4.5 | 4.9 |
| Changes in currency exchange rates | - | 0.1 | - | 0.1 |
| Balance at December 31, 2006 | 23.7 | 7.1 | 9.9 | 40.7 |
| Changes in currency exchange rates | - | 0.1 | - | 0.1 |
| Balance at December 31, 2007 | \$23.7 | \$7.2 | \$9.9 | \$40.8 |

Other intangible assets are stated net of accumulated amortization of $\$ 2.5$ million at December 31, 2006 and $\$ 3.1$ million at December 31, 2007. Amortization of intangible assets was $\$ 314,000$ in 2005, $\$ 441,000$ in 2006 , and $\$ 604,000$ in 2007, and is expected to be approximately $\$ 600,000$ in 2008 through 2010, approximately $\$ 550,000$ in 2011 and approximately $\$ 250,000$ in 2012.

## Note 5 - Accounts payable and accrued liabilities:

Accounts payable
Accrued liabilities:
Employee benefits
Customer tooling
Taxes other than on income
Insurance
Professional
Reserve for uncertain tax positions
Other

Total
$\frac{\text { December } 31,}{\frac{2006}{\text { (In thousands) }}}$
$\$ 6,151 \quad \$ 7,139$
7,549
617
302
621
334
-
1,268
$\$ 16,842$
\$17,652

## Note 6 - Credit facility:

At December 31, 2007, we have a $\$ 50$ million revolving bank credit facility that matures in January 2009 and bears interest, at our option, at either the
prime rate plus a margin determined by our leverage ratio or LIBOR plus a margin determined by our leverage ratio. The credit facility is collateralized by $65 \%$ of the ownership interests in our first-tier non-U.S. subsidiaries. The facility contains certain covenants and restrictions customary in lending transactions of this type, which among other things, restricts our ability and that of our subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or transfer all or substantially all assets to, another entity. The facility also requires maintenance of specified levels of net worth (as defined). In the event of a change of control, as defined, the lenders would have the right to accelerate the maturity of the facility. At December 31, 2007, we had no outstanding draws against the credit facility and the full amount of the facility was available for borrowing.

The credit facility permits us to pay dividends and/or repurchase common stock in an amount equal to the sum of (i) a dividend of $\$ .125$ per share in any calendar quarter, not to exceed $\$ 8.0$ million in any calendar year, plus (ii) $\$ 20.0$ million plus $50 \%$ of aggregate net income over the term of the credit facility. The purchase and/or cancellation of a net 2.7 million shares of our Class $A$ common stock from Titanium Metals Corporation ("TIMET") discussed in Note 12 did not count against these limitations. In addition to the permitted $\$ .125$ per share amount to repurchase our common stock and/or to pay dividends, at December 31, 2007, $\$ 31.5$ million was available for dividends and/or repurchases of our common stock under the terms of the facility.

## Note 7 - Income taxes:

The components of pre-tax income, the provision for income taxes attributable to continuing operations, the difference between the provision for income taxes and the amount that would be expected using the U.S. federal statutory income tax rate of $35 \%$, and the comprehensive provision for income taxes are presented below.

|  | Years ended December 31, |  |  |
| :---: | :---: | :---: | :---: |
|  | 2005 | 2006 | 2007 |
|  | (In thousands) |  |  |
| Components of pre-tax income from continuing operations: |  |  |  |
| United States | \$10,564 | \$14,022 | \$ 8,647 |
| Non-U.S. | 8,886 | 7,330 | 7,282 |
| Total | \$19,450 | \$21,352 | \$15,929 |
| Provision for income taxes: |  |  |  |
| Currently payable: |  |  |  |
| U.S. federal and state | \$ 4,920 | \$ 5,651 | \$9,902 |
| Foreign | 3,528 | 2,509 | 3,596 |
|  | 8,448 | 8,160 | 13,498 |
| Deferred income taxes (benefit): |  |  |  |
| U.S. federal and state | 10,215 | 2,074 | $(6,503)$ |
| Foreign | (95) | (538) | (46) |
|  | 10,120 | 1,536 | $(6,549)$ |
| Total | \$18,568 | \$ 9,696 | \$ 6,949 |


|  | Years ended December 31 |  |  |
| :---: | :---: | :---: | :---: |
|  | 2005 | 2006 | 2007 |
|  | (In thousands) |  |  |
| Expected tax expense, at the U.S. federal statutory income tax rate of $35 \%$ | \$ 6,808 | \$ 7,473 | \$ 5,575 |
| Non-U.S. tax rates | (253) | (298) | (237) |
| Incremental U.S. tax on earnings of foreign subsidiaries | 12,006 | 2,138 | 1,384 |
| State income taxes and other, net | 224 | 535 | 404 |
| Canadian tax rate change | - | (142) | 152 |
| Tax credits | - | (432) | (329) |
| Tax contingency reserve adjustments, net | (217) | 422 | - |
| Total | \$18,568 | \$ 9,696 | \$ 6,949 |
| Comprehensive provision (benefit) for income tax benefit allocable to: |  |  |  |
| Income from continuing operations | \$18,568 | \$ 9,696 | \$ 6,949 |
| Discontinued operations | (387) | - | - |
| Other comprehensive income - currency translation | (223) | 1,210 | 1,580 |
| Total | \$17,958 | \$10,906 | \$ 8,529 |

The components of net deferred tax assets (liabilities) are summarized below.

```
Tax effect of temporary differences related to:
    Inventories
    Tax on unremitted earnings of non-U.S. subsidiaries
    Property and equipment
    Accrued liabilities and other deductible differences
    Tax loss and credit carryforwards
    Other taxable differences
    Valuation allowance
Total
Net current deferred tax assets
Net noncurrent deferred tax liabilities
Total
\begin{tabular}{|c|c|}
\hline 785 & \$ 1,049 \\
\hline \((12,490)\) & \((8,265)\) \\
\hline \((5,556)\) & \((4,669)\) \\
\hline 1,364 & 1,113 \\
\hline 4,335 & 4,191 \\
\hline \((3,009)\) & \((2,364)\) \\
\hline \((3,901)\) & \((3,901)\) \\
\hline \$(18, 472) & \$ 112,8 \\
\hline
\end{tabular}
Net current deferred tax assets
Net noncurrent deferred tax liabilities
\begin{tabular}{cc}
2,050 & 2,123 \\
\((20,522)\) & \((14,969)\) \\
\hline
\end{tabular}
Total
\(\$(18,472) \quad \$(12,846)\)
```

$\frac{\text { December } 31,}{\frac{2006}{\text { (In thousands) }}}$

Under GAAP, we are required to recognize a deferred income tax liability with respect to the incremental U.S. income taxes (federal and state) and foreign withholding taxes that would be incurred when undistributed earnings of a foreign subsidiary are subsequently repatriated, unless we have determined that those undistributed earnings are permanently reinvested for the foreseeable future. Prior to the third quarter of 2005 , we had not recognized a deferred tax liability related to such incremental income taxes on the undistributed earnings of certain of our non-U.S. operations, as those earnings were subject to specific permanent reinvestment plans. GAAP requires us to reassess the permanent reinvestment conclusion on an ongoing basis to determine if our intentions have changed. In September of 2005, and based primarily upon changes in our strategic plans for certain of our non-U.S. operations, we determined that the undistributed earnings

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$$

of these subsidiaries could no longer be considered to be permanently reinvested except for the pre-2005 earnings in Taiwan. Accordingly, and in accordance with GAAP, in September of 2005 we recognized an aggregate $\$ 9.0$ million provision for deferred income taxes on the aggregate undistributed earnings of these foreign subsidiaries.

In January 2005, we completed our disposition of our Thomas Regout operations in Europe. See Note 10. We generated a $\$ 3.9$ million federal income tax benefit associated with the U.S. capital loss realized in the first quarter of 2005 upon completion of the sale of the Thomas Regout operations. Recognition of the benefit of such capital loss by us was appropriate under GAAP in the fourth quarter of 2004 at the time we classified the operations as held-for-sale. However, we also determined, based on the weight of available evidence that realization of the benefit of the capital loss did not and continues not to meet the more-likely-than-not recognition criteria. Therefore, we have also recognized a deferred income tax asset valuation allowance to fully offset the deferred tax asset related to the capital loss carryforward. The capital loss carryforward discussed above expires in 2010.

At December 31, 2007, we had, for U.S. federal income tax purposes, net operating loss carryforwards of approximately $\$ 784,000$ which expire in 2008 through 2017. Utilization of such net operating loss carryforwards is limited to approximately $\$ 400,000$ per tax year. We utilized approximately $\$ 400,000$ of the carryforwards in each of 2005, 2006, and 2007. We believe it is more-likely-thannot that the carryforwards will be utilized to reduce future income tax liabilities, and accordingly we have not provided a deferred income tax asset valuation allowance to offset the benefit of the carryforwards.

Note 8 - Stockholders' equity:

|  | Shares of common stock |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Class A |  |  | Class B |
|  | Issued | Treasury | Outstanding | Issued and outstanding |
| Balance at December 31, 2004 | 5,178,880 | - | 5,178,880 | 10,000,000 |
| Issued | 55,400 | - | 55,400 | - |
| Balance at December 31, 2005 | 5,234,280 | - | 5,234,280 | 10,000,000 |
| Issued | 32,700 | - | 32,700 | - |
| Balance at December 31, 2006 | 5,266,980 | - | 5,266,980 | 10,000,000 |
| Affiliate repurchase: |  |  |  |  |
| Issued | 374,000 | (483, ${ }^{-}$ | 374,000 | 10,000,000 |
| Reacquired | - - | $(483,600)$ | $(483,600)$ | , - |
| Retirement | $(\underline{3,070,420)}$ | 483,600 | $(\underline{2,586,820)}$ | $(10,000,000)$ |
| Total affiliate repurchase | $(\underline{2,696,420)}$ | - | $(\underline{2,696,420)}$ | - |
| Other: |  |  |  |  |
| Issued | 87,300 | - | 87,300 | - |
| Reacquired | - | $(179,100)$ | $(179,100)$ | - |
| Retirement | $(179,100)$ | 179,100 | - | - |
| Total other | $(91,800)$ | - | $(91,800)$ | - |
| Balance at December 31, 2007 | 2,478,760 | - | $\underline{\underline{2,478,760}}$ | $\underline{10,000,000}$ |

Class $A$ and Class $B$ common stock. The shares of Class $A$ common stock and Class $B$ common stock are identical in all respects, except for certain voting rights and certain conversion rights in respect of the shares of the Class $B$ common stock. Holders of Class A common stock are entitled to one vote per share. NL Industries, Inc. ("NL"), which holds all of the outstanding shares of Class B common stock, is entitled to one vote per share in all matters except for election of directors, for which NL is entitled to ten votes per share. Holders of all classes of common stock entitled to vote will vote together as a single class on all matters presented to the stockholders for their vote or approval, except as otherwise required by applicable law. Each share of Class A common stock and Class B common stock have an equal and ratable right to receive dividends to be paid from our assets when, and if declared by the board of directors. In the event of the dissolution, liquidation or winding up of our operations, the holders of Class A common stock and Class B common stock will be entitled to share equally and ratably in the assets available for distribution after payments are made to our creditors and to the holders of any of our preferred stock that may be outstanding at the time. Shares of the Class A common stock have no conversion rights. Under certain conditions, shares of class $B$ common stock will convert, on a share-for-share basis, into shares of Class A common stock.

Share repurchases and cancellations. In August 2007, our board of directors authorized the repurchase of up to 500,000 shares of our Class A common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. This authorization was in addition to the 467,000 shares of Class A common stock that remained available at the close of business on August 9, 2007 for repurchase under prior authorizations of our board of directors. We may repurchase our common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, we may terminate the program prior to its completion. We will use cash on hand to acquire the shares. Repurchased shares will be added to our treasury and cancelled.

During 2007, we purchased approximately 179,100 shares of our Class A common stock in market transactions for an aggregate of $\$ 3.3$ million in cash. We cancelled these treasury shares and allocated their cost to common stock at par value and additional paid-in capital. At December 31, 2007 approximately 804,400 shares were available for purchase under these repurchase authorizations.

In October 2007, our board of directors authorized the repurchase and cancellation of a net 2.7 million shares of our Class A common stock held directly and indirectly by TIMET. We purchased these shares for $\$ 19.50$ per share, or aggregate consideration of $\$ 52.6$ million, which we paid in the form of $a$ promissory note. The price per share was determined based on our open market repurchases of our Class A common stock around the time the repurchase from TIMET was approved. The authorization for the repurchase of these Class A shares from TIMET was in addition to the share repurchase authorizations discussed above. See Note 12. We also cancelled these treasury shares and allocated their cost to common stock at par value and additional paid-in capital.

Incentive compensation plan. The CompX International Inc. 1997 Long-Term Incentive Plan provides for the award or grant of stock options, stock appreciation rights, performance grants and other awards to employees and other individuals who provide services to us. Up to 1.5 million shares of Class A Common Stock may be issued pursuant to the plan. Generally, employee stock options are granted at prices not less than the market price of our stock on the date of grant, vest over five years and expire ten years from the date of grant.

The following table sets forth changes in outstanding options during the past three years.

|  | $\frac{\text { Shares }}{\left(\text { In } 000^{\prime} \mathrm{S}\right)}$ | Exercise price per share | Amount payable upon exercise | Weighted average exercise price |
| :---: | :---: | :---: | :---: | :---: |
| Outstanding at December 31, 2004 | 562 | \$10.00-20.00 | \$9,952 | \$17.71 |
| Exercised | (50) | 11.59-14.30 | (638) | 12.76 |
| Canceled | (42) | $13.00-20.00$ | (677) | 16.12 |
| Outstanding at December 31, 2005 | 470 | \$10.00-20.00 | \$8,637 | \$18.38 |
| Exercised | (27) | 13.00 | (347) | 13.00 |
| Canceled | (6) | 20.00 | (120) | 20.00 |
| Outstanding at December 31, 2006 | 437 | \$10.00-20.00 | \$ 8,170 | \$18.70 |
| Exercised | (81) | $10.00-20.00$ | $(1,394)$ | 17.21 |
| Canceled | (7) | 17.94-20.00 | (133) | 19.00 |
| Outstanding at December 31, 2007 | 349 | \$12.15-20.00 | \$ 6,643 | \$19.03 |

Outstanding options at December 31, 2007 represent approximately $3 \%$ of our total outstanding shares of common stock at that date and expire at various dates through 2012 with a weighted-average remaining term of 1 year. Our market price per share at December 31, 2007 was $\$ 14.62$. Of the 349,000 outstanding options, which were fully vested at December 31, 2007, 134,000 options were exercisable at prices lower than the December 31, 2007 market price per share with an aggregate intrinsic value (defined as the excess of the market price of our common stock over the exercise price) of approximately $\$ 2.3$ million. At December 31, 2007, an aggregate of 672,820 shares were available for future grants. Shares issued under the incentive stock plan are generally newly-issued shares. The intrinsic value of our options exercised aggregate approximately $\$ 238,500$ in $2005, \$ 123,900$ in 2006 and $\$ 241,400$ in 2007, and the related income tax benefit from the exercises was $\$ 67,000$ in 2005, $\$ 44,000$ in 2006 and $\$ 77,000$ in 2007.

## Note 9 - Facility consolidation

Prior to 2007, we had three facilities in northern Illinois, two Security Products facilities (located in Lake Bluff, Illinois and River Grove, Illinois) and one Marine Components facility (located in Grayslake, Illinois). In order to create opportunities to reduce operating costs and improve operating efficiencies, we determined that it would be more effective to consolidate these three operations into one location. In 2006, we acquired land adjacent to the Marine Components facility for approximately $\$ 1.8$ million in order to expand the facility, and during 2007 we incurred approximately $\$ 9.6$ million of capital expenditures in connection with the expansion.

In addition to the capital expenditures, during 2007, we incurred approximately $\$ 2.7$ million in expenses relating to the facility consolidation including physical move costs, equipment installation, redundant labor and recruiting fees and write downs for fixed assets no longer in use, all of which are included in facility consolidation expense in the accompanying Consolidated Statement of Income. The majority of these costs were incurred during the fourth quarter of 2007.

The fixed asset write downs amounted to $\$ 765,000$ of which $\$ 600,000$ related to the classification of the River Grove facility as an "asset held for sale" in November 2007 as it was no longer being utilized and met all of the criteria under GAAP to be classified as an "asset held for sale". In classifying the facility and related assets (primarily land, building, and building improvements) as held for sale, we concluded that the carrying amount of the assets exceeded the

$$
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$$

estimated fair value less costs to sell such assets. In determining the estimated fair value of such assets, we considered recent sales prices for other property near the facility, Level 2 inputs as defined by SFAS No. 157. Accordingly, we recognized $\$ 600,000$ to write-down the assets to their estimated net realizable value of approximately $\$ 3.1$ million at December 31, 2007. We expect to dispose of the River Grove facility during 2008. The Lake Bluff, Illinois facility was sold in 2006 for approximately $\$ 1.3$ million which approximated book value and was leasedback until we vacated the facility in October 2007.

## Note 10 - Discontinued operations:

In January 2005, we completed the sale of our Thomas Regout European operations for net proceeds (net of expenses) of approximately $\$ 22.3$ million. The net proceeds consisted of approximately $\$ 18.1$ million in cash at the date of sale and a $\$ 4.2$ million principal amount note receivable from the purchaser bearing interest at a fixed rate of $7 \%$ and is payable over four years. The note receivable is collateralized by a secondary lien on the assets sold and is subordinated to certain third-party indebtedness of the purchaser. The net proceeds from the January 2005 sale of the European Thomas Regout operations was $\$ 864,000$ less than the net realizable value estimated at the time of the goodwill impairment charge (primarily due to higher expenses associated with the sale), and discontinued operations in 2005 includes a charge related to the differential (\$477,000, net of income tax benefit). The charge represents an additional impairment of goodwill.

## Note 11 - Other non-operating income, net:

| Interest income | \$ | 613 | \$1,278 | \$1,324 |
| :---: | :---: | :---: | :---: | :---: |
| Other income (expense), net |  | 111 | (8) | (191) |
| Total | \$ | 724 | \$1,270 | \$1,133 |

## Note 12 - Related party transactions:

We may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. We continuously consider, review and evaluate, and understand that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that we might be a party to one or more such transactions in the future.

In 2007, we purchased and/or cancelled a net 2.7 million shares of our Class A common stock from TIMET. A subsidiary of Contran and persons and other entities related to Mr. Simmons own an aggregate of approximately $52 \%$ of TIMET's outstanding common stock at December 31, 2007. We purchased and/or cancelled these shares for $\$ 19.50$ per share, or aggregate consideration of $\$ 52.6$ million, which we paid in the form of a promissory note. The price per share was determined based on our open market repurchases of our Class A common stock around the time the repurchase from

TIMET was approved. The promissory note bears interest at LIBOR plus 1\% (5.98\% at December 31, 2007) and provides for quarterly principal repayments of $\$ 250,000$ commencing in September 2008, with the balance due at maturity in September 2014. The promissory note is subordinated to our U.S. revolving bank credit agreement. See Note 8 and 12. We may make prepayments on the promissory note payable to TIMET at any time, in any amount, without penalty. During the fourth quarter of 2007, we prepaid approximately $\$ 2.6$ million of the promissory note. At December 31, 2007, $\$ 50.0$ million was outstanding under the promissory note, of which $\$ 250,000$ was classified as a current liability. The scheduled repayments of the promissory note are shown in the table below.

Years ending December 31,

| 2008 | $\mathbf{2 5 0}$ |
| :--- | ---: |
| 2009 | $\mathbf{1 , 0 0 0}$ |
| 2010 | 1,000 |
| 2011 | $\mathbf{1 , 0 0 0}$ |
| 2012 | $\mathbf{1 , 0 0 0}$ |
| 2013 and thereafter | $\underline{45,730}$ |
| Total | $\underline{\underline{\$ 49,980}}$ |

Under the terms of various Intercorporate Service Agreements ("ISAs") with Contran, employees of Contran perform certain management, tax planning, financial, legal and administrative services for us on a fee basis. Such fees are based upon estimates of time devoted to our affairs by individual Contran employees and the compensation of such persons. Because of the large number of companies affiliated with Contran, we believe we benefit from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. Fees pursuant to these agreements aggregated $\$ 2.6$ million in 2005, $\$ 2.7$ million in 2006 and $\$ 2.9$ million in 2007.

Tall Pines Insurance Company and EWI RE, Inc. provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including us. Tall Pines and EWI are subsidiaries of Valhi. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from the insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. The aggregate premiums paid to Tall Pines and EWI were approximately $\$ 930,000$ in 2005, $\$ 770,000$ in 2006 and $\$ 697,000$ in 2007. These amounts principally included payments for insurance, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance for substantially all of the risks it underwrites. We expect that these relationships with Tall Pines and EWI will continue in 2008.

Contran and certain of its subsidiaries and affiliates, including us, purchase certain of their insurance policies as a group, with the costs of the jointly-owned policies being apportioned among the participating companies. With respect to certain of these policies, it is possible that unusually large losses incurred by one or more insureds during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of the policy period. As a result, Contran and certain of its subsidiaries and affiliates, including us, have entered into a loss sharing agreement under which any uninsured loss is shared by those entities who have submitted claims under the relevant policy. We believe the benefits in the form of reduced premiums and broader coverage associated with the group coverage for such policies justifies the risk associated with the potential for any uninsured loss.

Note 13 - Commitments and contingencies:
Legal proceedings. We are involved, from time to time, in various contractual, product liability, patent (or intellectual property), employment and
other claims and disputes incidental to our business. We currently believe that the disposition of all claims and disputes, individually or in the aggregate, if any, should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

Environmental matters and litigation. Our operations are governed by various federal, state, local and foreign environmental laws and regulations. Our policy is to comply with environmental laws and regulations at all of our plants and to continually strive to improve environmental performance in association with applicable industry initiatives. We believe that our operations are in substantial compliance with applicable requirements of environmental laws. From time to time, we may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs.

Income taxes. From time to time, we undergo examinations of our income tax returns, and tax authorities have or may propose tax deficiencies. We believe that we have adequately provided accruals for additional income taxes and related interest expense which may ultimately result from such examinations and we believe that the ultimate disposition of all such examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We have agreed to a policy with Contran providing for the allocation of tax liabilities and tax payments as described in Note 1. Under applicable law, we, as well as every other member of the Contran Tax Group, are each jointly and severally liable for the aggregate federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. NL has agreed, however, to indemnify us for any liability for income taxes of the Contran Tax Group in excess of our tax liability previously computed and paid by us in accordance with the tax allocation policy.

Concentration of credit risk. Our products are sold primarily in North America to original equipment manufacturers. The ten largest customers accounted for approximately 43\% of sales in 2005, 38\% in 2006 and $31 \%$ in 2007. The HON Company accounted for approximately $\$ 19.4$ million ( $10 \%$ ) of sales from all three segments in 2005. No customer accounted for sales of $10 \%$ or more in 2006 or 2007 .

Rent expense, principally for buildings, was $\$ 738,000$ in 2005 , $\$ 787,000$ in 2006 and $\$ 429,000$ in 2007. At December 31, 2007, future minimum rentals under noncancellable operating leases are approximately $\$ 435,000$ in 2008, $\$ 382,000$ in 2009, $\$ 146,000$ in 2010, $\$ 138,000$ in 2011 and $\$ 11,000$ in 2012.

## Note 14 - Recent accounting pronouncements:

Fair Value Measurements - In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which will become effective for us on January 1, 2008. SFAS No. 157 generally provides a consistent, single fair value definition and measurement techniques for GAAP pronouncements. SFAS No. 157 also establishes a fair value hierarchy for different measurement techniques based on the objective nature of the inputs in various valuation methods. In January 2007, the FASB issued FSP No. FAS 157-b, Effective Date of FASB Statement No. 157 which will delay the provisions of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We will be required to ensure all of our fair value measurements are in compliance with SFAS No. 157 on a prospective basis beginning in the first quarter of 2008 , except for non financial assets and liabilities, which we will be required to be in compliance with SFAS No. 157 prospectively beginning in the first quarter of 2009. In addition, we will be required to expand our disclosures regarding the valuation methods and level of inputs we utilize in the first quarter of 2008 , except for non financial assets and liabilities, which will require disclosure in
the first quarter of 2009. The adoption of this standard will not have a material effect on our Consolidated Financial Statements.

Fair Value Option - In the first quarter of 2007 the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to chose, at specified election dates, to measure eligible items at fair value, with unrealized gains and losses included in the determination of net income. The decision to elect the fair value option is generally applied on an instrument-by-instrument basis, is irrevocable unless a new election date occurs, and is applied to the entire instrument and not to only specified risks or cash flows or a portion of the instrument. Items eligible for the fair value option include recognized financial assets and liabilities, other than an investment in a consolidated subsidiary, defined benefit pension plans, OPEB plans, leases and financial instruments classified in equity. An investment accounted for by the equity method is an eligible item. The specified election dates include the date the company first recognizes the eligible item, the date the company enters into an eligible commitment, the date an investment first becomes eligible to be accounted for by the equity method and the date SFAS No. 159 first becomes effective for the company. If we elect to measure eligible items at fair value under the standard, we would be required to present certain additional disclosures for each item we elect. SFAS No. 159 becomes effective for us on January 1, 2008. We do not expect to elect to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards, therefore the adoption of this standard will not have a material effect on our Consolidated Financial Statements.

Business Combinations - In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, which applies to us prospectively for business combinations that close in 2009 and beyond. The statement expands the definition of a business combination to include more transactions including some asset purchases and requires an acquirer to recognize assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date at fair value as of that date with limited exceptions. The statement also requires that acquisition costs be expensed as incurred and restructuring costs that are not a liability of the acquiree at the date of the acquisition be recognized in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Due to the unpredictable nature of business combinations and the prospective application of this statement we are unable to predict the impact of the statement on our Consolidated Financial Statements.

Uncertain tax positions - On January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. ("FIN") 48, Accounting for Uncertain Tax Positions. FIN 48 clarifies when and how much of a benefit we can recognize in our consolidated financial statements for certain positions taken in our income tax returns under Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, and enhances the disclosure requirements for our income tax policies and reserves. Among other things, FIN 48 prohibits us from recognizing the benefits of a tax position unless we believe it is more-likely-than-not our position will prevail with the applicable tax authorities and limits the amount of the benefit to the largest amount for which we believe the likelihood of realization is greater than $50 \%$ FIN 48 also requires companies to accrue penalties and interest on the difference between tax positions taken on their tax returns and the amount of benefit recognized for financial reporting purposes under the new standard. We are required to classify any future reserves for uncertain tax positions in a separate current or noncurrent liability, depending on the nature of the tax position. Our adoption of FIN 48 did not have a material impact on our consolidated financial position or results of operations. Upon adopting FIN 48, we recognized a $\$ 41,000$ increase to retained earnings.

We accrue interest and penalties on our uncertain tax positions as a component of our provision for income taxes. The amount of interest and penalties we accrued during 2007 was not material, and at December 31, 2007 we had $\$ 45,000$ accrued for interest for our uncertain tax positions.

The following table shows the changes in the amount of our uncertain tax positions (exclusive of the effect of interest and penalties) during 2007:

|  | Amount <br> Unrecognized tax benefits: <br> Amount at adoption of FIN 48 thousands) <br> Tax positions take in prior periods: <br> Gross increases <br> Gross decreases |
| :--- | :---: |
| Tax positions taken in current period: |  |
| Gross increases <br> Gross decreases | \$(585) |
| Settlements with taxing authorities - cash paid |  |
| Lapse of applicable statute of limitations |  |
| Amount at December 31,2007 | - |

If our uncertain tax positions were recognized, a benefit of $\$ 221,000$ would affect our effective income tax rate from continuing operations. We currently estimate that our unrecognized tax benefits will decrease by approximately $\$ 180,000$ during the next twelve months due to the expiration of certain tax statues or the resolution of certain examinations and filing procedures related to one or more of our subsidiaries.

We file income tax returns in various U.S. federal, state and local jurisdictions. We also file income tax returns in various foreign jurisdictions, principally in Canada and Taiwan. Our domestic income tax returns prior to 2004 are generally considered closed to examination by applicable tax authorities. Our foreign income tax returns are generally considered closed to examination for years prior to 2002 for Taiwan, and 2003 for Canada.

## Note 15 - Quarterly results of operations (unaudited):

## Quarter ended

$\frac{\text { March } 31}{\text { (In millions, except }} \frac{\text { June } 30}{\text { Sept. } 30} \frac{\text { Dec. } 31}{\text { per share }}$

```
2006:
    Net sales
    Gross profit
    Operating income
```

| \$47.0 | \$50.1 | \$48.8 | \$44.2 |
| :---: | :---: | :---: | :---: |
| 11.6 | 12.3 | 12.9 | 9.7 |
| 4.8 | 5.8 | 6.2 | 3.5 |
| \$ 2.5 | \$ 3.8 | \$ 3.8 | \$ 1.6 |
| - | (.5) | - | . 5 |
| \$ 2.5 | \$ 3.3 | \$ 3.8 | \$ 2.1 |

    Basic and diluted earnings (loss)
        per share:
            Continuing operations
            Discontinued operations
    2007:
Net sales
Gross profit
Operating income
Net income
Basic and diluted earnings per share
Income from continuing operations
Discontinued operations
Net income
$\$ 2.5$
$\$ 3.3$
$\$ 3.8$
$\$ 2.1$

| $\$$ | .16 |
| :---: | :---: |
|  | - |
| $\$$ | .16 |

            \(\$ \quad .25\)
    | $(.03)$ |
| :--- | | .22 |
| :--- |

                \$ . 25
        \$. 10
    | $\$$ | .25 |
| :--- | :--- |
|  | - |
| $\$$ | .25 |


| $\$ 43.6$ | $\$ 45.2$ | $\$ 46.4$ | $\$ 42.5$ |
| :---: | :---: | :---: | :---: |
| 12.1 | 11.9 | $11.9^{(a)}$ | 9.3 |
| 5.4 | 4.6 | $4.3^{(b)}$ | $1.2^{(b)}$ |
| 3.0 | 2.6 | 2.8 | 0.5 |
| $\$ \quad .20$ | $\$ .17$ | $\$$ | .18 |
| $\$$ | $\$ 04$ |  |  |

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The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted-average number of shares used in the per share computations.
(a) We have reclassified certain third quarter 2007 amounts to conform to the year-end presentation.
(b) Quarterly operating income for the quarters ended September 30, 2007 and December 31, 2007 was impacted by $\$ 808,000$ and $\$ 1.9$ million, respectively, of costs related to the consolidation of three of our northern Illinois facilities into one new facility including a $\$ 600,000$ charge to write-down a vacated facility to its estimated net realizable value. See Note 9.

## BOARD of DIRECTORS

# STOCKHOLDER INFORMATION 

## Glenn R. Simmons

Chairman of the Board
Paul M. Bass, Jr.
Vice Chairman
First Southwest Company
David A. Bowers
Vice Chairman of the Board,
President and
Chief Executive Officer
Norman S. Edelcup
Mayor
Sunny Isles Beach, Florida
Edward J. Hardin
Partner
Rogers \& Hardin LLP

## Ann Manix

Retired Managing Partner
Ducker Research
Corporation
Steven L. Watson
President
Valhi, Inc.

## EXECUTIVE OFFICERS

Glenn R. Simmons
Chairman of the Board
David A. Bowers
Vice Chairman of the Board,
President and
Chief Executive Officer
Darryl R. Halbert
Vice President,
Chief Financial Officer and Controller

## J. Mark Hollingsworth

Vice President, General Counsel and Assistant Secretary

Scott C. James
Vice President and President CompX Security Products, CompX Marine
Kelly D. Luttmer
Vice President and Tax Director

ComD
SECURITY PRODUCTS

NATIONAL


Comp
TIMBERLINE


## $\operatorname{Com} \times$ <br> MARINE

## Qustomer

急 AMORS?

## Compr

FURNITURE COMPONENTS

Comp
DURISLIDE

EXCHANGE LISTING
CompX International Inc. Class A Common Stock is traded on the New York Stock Exchange under the Symbol "CIX"

AnNuAL MEETING
The annual meeting of stockholders will be held Wednesday, May 28, 2008, at 10:00 a.m. at:

## CORPORATE

Headouarters
CompX International Inc.
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240
9724481400 compx.com
All stockholders are welcome to attend.

TRANSFER AGENT \& REGISTRAR
Computershare Investor
Services, L.L.C.
2 North La Salle Street
Chicago, IL 60602
3123605481

INDEPENDENT AUDITORS

## PricewaterhouseCoopers LLP

2001 Ross Avenue, Suite 1800
Dallas, TX 75201

FORM 10-K REPORT
The Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission, is included as part of this Annual Report. Copies of the Annual Report are available free of charge at the Company's website at compx.com. Copies are also available without charge upon written request to:

## A. Andrew R. Louis

Secretary
CompX International Inc.
Three Lincoln Centre
5430 LBJ Freeway, Suite 1700 Dallas, TX 75240


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[^0]:    * Management contract, compensatory plan or agreement.

