

COMPX INTERNATIONAL INC  
Form 10-Q  
August 04, 2008

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarter ended June 30, 2008

Commission file number 1-13905

COMPX INTERNATIONAL INC.  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

57-0981653  
(IRS Employer  
Identification No.)

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

75240-2697  
(Zip Code)

Registrant's telephone number, including area code

(972) 448-1400

Indicate by checkmark:

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 a shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock outstanding on July 30, 2008:

Class A: 2,361,307

Class B: 10,000,000



COMPX INTERNATIONAL INC.

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Items 1, 3 and 5 of Part II are omitted because there is no information to report.



COMPX INTERNATIONAL INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| ASSETS                             | December<br>31,<br>2007 | June 30,<br>2008<br>(unaudited) |
|------------------------------------|-------------------------|---------------------------------|
| Current assets:                    |                         |                                 |
| Cash and cash equivalents          | \$ 18,399               | \$ 18,181                       |
| Accounts receivable, net           | 20,447                  | 20,162                          |
| Receivables from affiliates        | 223                     | 318                             |
| Inventories, net                   | 24,277                  | 25,911                          |
| Prepaid expenses and other         | 1,392                   | 2,234                           |
| Deferred income taxes              | 2,123                   | 2,124                           |
| Current portion of note receivable | 1,306                   | 934                             |
| Total current assets               | 68,167                  | 69,864                          |
| Other assets:                      |                         |                                 |
| Goodwill                           | 40,784                  | 41,147                          |
| Other intangible assets            | 2,569                   | 2,284                           |
| Note receivable                    | 261                     | -                               |
| Assets held for sale               | 3,117                   | 2,817                           |
| Other assets                       | 666                     | 81                              |
| Total other assets                 | 47,397                  | 46,329                          |
| Property and equipment:            |                         |                                 |
| Land                               | 11,612                  | 12,051                          |
| Buildings                          | 38,990                  | 39,538                          |
| Equipment                          | 124,238                 | 123,141                         |
| Construction in progress           | 2,659                   | 3,172                           |
|                                    | 177,499                 | 177,902                         |
| Less accumulated depreciation      | 105,348                 | 106,296                         |
| Net property and equipment         | 72,151                  | 71,606                          |
| Total assets                       | \$ 187,715              | \$ 187,799                      |



## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

|   | December<br>31,<br>2007 | June 30,<br>2008<br>(unaudited) |
|---|-------------------------|---------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>     |                         |                                 |
| Current liabilities:                            |                         |                                 |
| Current maturities of note payable to affiliate | \$ 250                  | \$ 750                          |
| Accounts payable and accrued liabilities        | 17,652                  | 17,931                          |
| Interest payable to affiliate                   | 559                     | 451                             |
| Income taxes payable to affiliates              | 282                     | 297                             |
| Income taxes                                    | 170                     | 161                             |
| Total current liabilities                       | 18,913                  | 19,590                          |
| Noncurrent liabilities:                         |                         |                                 |
| Note payable to affiliate                       | 49,730                  | 49,230                          |
| Deferred income taxes and other                 | 14,969                  | 14,400                          |
| Total noncurrent liabilities                    | 64,699                  | 63,630                          |
| Stockholders' equity:                           |                         |                                 |
| Preferred stock                                 | -                       | -                               |
| Class A common stock                            | 25                      | 24                              |
| Class B common stock                            | 100                     | 100                             |
| Additional paid-in capital                      | 55,824                  | 54,873                          |
| Retained earnings                               | 37,080                  | 37,664                          |
| Accumulated other comprehensive income          | 11,074                  | 11,918                          |
| Total stockholders' equity                      | 104,103                 | 104,579                         |
| Total liabilities and stockholders' equity      | \$ 187,715              | \$ 187,799                      |

Commitments and contingencies (Notes 1 and 6)

See accompanying Notes to Condensed Consolidated Financial Statements.

## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

|   | Three months ended<br>June 30, |           | Six months ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2007                           | 2008      | 2007                         | 2008      |
|   | (unaudited)                    |           |                              |           |
| Net sales   | \$ 45,229                      | \$ 43,708 | \$ 88,780                    | \$ 84,228 |
| Cost of goods sold  | 33,366                         | 32,726    | 64,796                       | 63,305    |
| Gross margin  | 11,863                         | 10,982    | 23,984                       | 20,923    |
| Selling, general and administrative expense                               | 6,571                          | 6,504     | 13,237                       | 12,908    |
| Other operating expense, net  | 688                            | 11        | 706                          | 19        |
| Operating income  | 4,604                          | 4,467     | 10,041                       | 7,996     |
| Other non-operating income, net   | 354                            | 24        | 655                          | 141       |
| Interest expense  | (48)                           | (504)     | (102)                        | (1,266)   |
| Income before income taxes  | 4,910                          | 3,987     | 10,594                       | 6,871     |
| Provision for income taxes  | 2,261                          | 1,863     | 4,927                        | 3,186     |
| Net income  | \$ 2,649                       | \$ 2,124  | \$ 5,667                     | \$ 3,685  |
| Basic and diluted earnings per common share                               | \$ .17                         | \$ .17    | \$ .37                       | \$ .30    |
| Cash dividends per share  | \$ .125                        | \$ .125   | \$ .25                       | \$ .25    |
| Shares used in the calculation of basic<br>and diluted earnings per share | 15,279                         | 12,374    | 15,284                       | 12,410    |

See accompanying Notes to Condensed Consolidated Financial Statements.



## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|  | Six months ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2007                         | 2008      |
|  | (unaudited)                  |           |
| Cash flows from operating activities:                      |                              |           |
| Net income   | \$ 5,667                     | \$ 3,685  |
| Depreciation and amortization                              | 5,480                        | 4,677     |
| Deferred income taxes                                      | (1,537)                      | (647)     |
| Other, net   | 235                          | 496       |
| Change in assets and liabilities:                          |                              |           |
| Accounts receivable, net                                   | (1,106)                      | 180       |
| Inventories, net   | (3,565)                      | (2,137)   |
| Accounts payable and accrued liabilities                   | 246                          | 84        |
| Accounts with affiliates                                   | 99                           | (80)      |
| Income taxes   | (579)                        | (5)       |
| Other, net   | 400                          | (895)     |
| Net cash provided by operating activities                  | 5,340                        | 5,358     |
| Cash flows from investing activities:                      |                              |           |
| Capital expenditures                                       | (5,477)                      | (3,431)   |
| Cash collected on note receivable                          | 1,306                        | 1,306     |
| Proceeds on disposal of asset held for sale and other, net | 42                           | 250       |
| Net cash used in investing activities                      | (4,129)                      | (1,875)   |
| Cash flows from financing activities:                      |                              |           |
| Dividends paid   | (3,820)                      | (3,101)   |
| Treasury stock acquired                                    | -                            | (1,006)   |
| Issuance of common stock and other, net                    | 204                          | (56)      |
| Net cash used in financing activities                      | (3,616)                      | (4,163)   |
| Cash and cash equivalents – net change from:               |                              |           |
| Operating, investing and financing activities              | (2,405)                      | (680)     |
| Currency translation                                       | 695                          | 462       |
| Cash and cash equivalents at beginning of period           | 29,688                       | 18,399    |
| Cash and cash equivalents at end of period                 | \$ 27,978                    | \$ 18,181 |
| Supplemental disclosures – cash paid for:                  |                              |           |
| Interest   | \$ 56                        | \$ 1,305  |

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|                                  |  |       |       |       |     |
|----------------------------------|--|-------|-------|-------|-----|
| Income taxes, net                |  | 6,938 |       | 4,096 |     |
| Non-cash investing activities:   |  |       |       |       |     |
| Accrual for capital expenditures |  | \$    | 1,232 | \$    | 293 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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## COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE  
INCOME

Six months ended June 30, 2008

(In thousands)

(unaudited)

|   | Common stock<br>Class |         | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income-currency<br>translation | Treasury<br>stock | Total<br>stockholders'<br>equity | Comprehensive<br>income |
|---|-----------------------|---------|----------------------------------|----------------------|---|-------------------|----------------------------------|-------------------------|
|   | A                     | Class B |                                  |                      |   |                   |                                  |                         |
| Balance at<br>December 31, 2007               | \$ 25                 | \$ 100  | \$ 55,824                        | \$ 37,080            | \$ 11,074   | \$ -              | \$ 104,103                       |                         |
| Net income                                    | -                     | -       | -                                | 3,685                | -   | -                 | 3,685                            | \$ 3,685                |
| Other<br>comprehensive<br>income, net         | -                     | -       | -                                | -                    | 844   | -                 | 844                              | 844                     |
| Issuance of<br>common stock and<br>other, net | -                     | -       | 54                               | -                    | -   | -                 | 54                               | -                       |
| Treasury stock:                               |                       |         |                                  |                      |   |                   |                                  |                         |
| Acquired                                      | -                     | -       | -                                | -                    | -   | (1,006)           | (1,006)                          | -                       |
| Retired                                       | (1)                   | -       | (1,005)                          | -                    | -   | 1,006             | -                                | -                       |
| Cash dividends                                | -                     | -       | -                                | (3,101)              | -   | -                 | (3,101)                          | -                       |
| Balance at June 30,<br>2008                   | \$ 24                 | \$ 100  | \$ 54,873                        | \$ 37,664            | \$ 11,918   | \$ -              | \$ 104,579                       |                         |
| Comprehensive<br>income                       |                       |         |                                  |                      |   |                   |                                  | \$ 4,529                |

See accompanying Notes to Condensed Consolidated Financial Statements.



COMPX INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

Note 1 - Organization and basis of presentation:

Organization – We (NYSE: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at June 30, 2008. We manufacture and sell component products (security products, precision ball bearing slides, ergonomic computer support systems, and performance marine components). At June 30, 2008, (i) Valhi, Inc. (NYSE: VHI) holds approximately 83% of NL's outstanding common stock and (ii) subsidiaries of Contran Corporation hold 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 directly by Mr. Simmons or other persons or related companies to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of the companies and us.

Basis of presentation - Consolidated in this Quarterly Report are the results of CompX International Inc. and subsidiaries. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 that we filed with the Securities and Exchange Commission ("SEC") on February 26, 2008 (the "2007 Annual Report"). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2007 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2007) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results of operations for the interim periods ended June 30, 2008 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2007 Consolidated Financial Statements contained in our 2007 Annual Report.

Refer to our 2007 Annual Report for a discussion of commitments and contingencies.

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

## Note 2 - Business segment information:

|                                 | Three months ended |           | Six months ended |           |
|---------------------------------|--------------------|-----------|------------------|-----------|
|                                 | June 30,           |           | June 30,         |           |
|                                 | 2007               | 2008      | 2007             | 2008      |
|                                 | (In thousands)     |           |                  |           |
| Net sales:                      |                    |           |                  |           |
| Security Products               | \$ 20,169          | \$ 20,189 | \$ 39,947        | \$ 39,265 |
| Furniture Components            | 19,861             | 19,731    | 39,295           | 37,484    |
| Marine Components               | 5,199              | 3,788     | 9,538            | 7,479     |
| Total net sales                 | \$ 45,229          | \$ 43,708 | \$ 88,780        | \$ 84,228 |
| Operating income:               |                    |           |                  |           |
| Security Products               | \$ 3,899           | \$ 3,357  | \$ 8,010         | \$ 6,596  |
| Furniture Components            | 1,680              | 2,370     | 3,943            | 3,795     |
| Marine Components               | 722                | 165       | 1,117            | 268       |
| Corporate operating expense     | (1,697)            | (1,425)   | (3,029)          | (2,663)   |
| Total operating income          | 4,604              | 4,467     | 10,041           | 7,996     |
| Other non-operating income, net | 354                | 24        | 655              | 141       |
| Interest expense                | (48)               | (504)     | (102)            | (1,266)   |
| Income before income taxes      | \$ 4,910           | \$ 3,987  | \$ 10,594        | \$ 6,871  |

## Note 3 - Inventories, net:

|                   | December       |                  |
|-------------------|----------------|------------------|
|                   | 31,<br>2007    | June 30,<br>2008 |
|                   | (In thousands) |                  |
| Raw materials     | \$ 6,341       | \$ 9,156         |
| Work in progress  | 9,783          | 9,204            |
| Finished products | 8,153          | 7,551            |
| Total             | \$ 24,277      | \$ 25,911        |

## Note 4 - Accounts payable and accrued liabilities:

| December       |                  |
|----------------|------------------|
| 31,<br>2007    | June 30,<br>2008 |
| (In thousands) |                  |

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|                                     |    |        |    |        |
|-------------------------------------|----|--------|----|--------|
| Accounts payable                    | \$ | 7,139  | \$ | 8,712  |
| Accrued liabilities:                |    |        |    |        |
| Employee benefits                   |    | 7,196  |    | 6,122  |
| Customer tooling                    |    | 736    |    | 591    |
| Taxes other than on income          |    | 572    |    | 598    |
| Insurance                           |    | 502    |    | 524    |
| Professional fees                   |    | 252    |    | 285    |
| Reserve for uncertain tax positions |    | 237    |    | -      |
| Other                               |    | 1,018  |    | 1,099  |
| <br>Total                           | \$ | 17,652 | \$ | 17,931 |

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## Note 5 - Provision for income taxes:

|  | Six months ended<br>June 30, |              |
|--|------------------------------|--------------|
|  | 2007                         | 2008         |
|  | (In thousands)               |              |
| Expected tax expense, at the U.S. federal statutory income tax rate of 35% | \$ 3,708                     | \$ 2,405     |
| Non-U.S. tax rates   | (108)                        | (116)        |
| Incremental U.S. tax on earnings of non-U.S. subsidiaries                  | 1,094                        | 696          |
| State income taxes and other, net  | 233                          | 201          |
| <br>Total  | <br>\$ 4,927                 | <br>\$ 3,186 |

## Note 6 – Stockholders’ equity:

Share repurchases. Our board of directors has previously authorized the repurchase 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. 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 may use cash on hand or debt to acquire the shares. Repurchased shares will be added to our treasury and cancelled.

During the first six months of 2008, we purchased approximately 126,000 shares of our Class A common stock in market transactions for an aggregate of approximately \$1.0 million in cash. We cancelled these treasury shares and allocated their cost to common stock at par value and additional paid-in capital. At June 30, 2008 approximately 678,000 shares were available for purchase under the repurchase authorization.

## Note 7 – Recent accounting pronouncements:

Fair Value Measurements – In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, Fair Value Measurements, which became 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 February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 which delays the provisions of SFAS No. 157 until January 1, 2009 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). Beginning with the first quarter of 2008, all of our fair value measurements are in compliance with SFAS No. 157, except for non financial assets and liabilities for which we will be required to be in compliance with SFAS No. 157 prospectively beginning in the first quarter of 2009. The adoption of this standard did 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 choose, 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. SFAS No. 159 became effective for us on January 1, 2008. We did not elect to measure any eligible items at fair value in accordance with this new standard either at the date we adopted the new standard or subsequently during the first six months of 2008; therefore, the adoption of this standard did not have a material effect on our Consolidated Financial Statements.

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Derivative Disclosures – In March 2008 the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities to provide enhanced disclosures about how and why we use derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect our financial position and performance and cash flows. This statement will become effective for us in the first quarter of 2009. We periodically use currency forward contracts to manage a portion of our foreign currency exchange rate market risk associated with trade receivables or future sales. We had no such contracts outstanding at December 31, 2007 or June 30, 2008. Because our prior disclosures regarding these forward contracts have substantially met all of the applicable disclosure requirements of the new standard, we do not believe the enhanced disclosure requirements of this new standard will have a significant effect on our Consolidated Financial Statements.

GAAP Hierarchy – In May 2008 the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 supersedes Statement on Auditing Standards (“SAS”) No. 69, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The guidance in this new standard, which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements in conformity with GAAP, is not materially different from the guidance contained in SAS 69, and accordingly, this standard, when adopted, will not have any effect on our Consolidated Financial Statements. The effective date of this standard has not yet been determined.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

We are a leading manufacturer of security products, precision ball bearing slides, and ergonomic computer support systems used in the office furniture, transportation, tool storage 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.

We reported operating income of \$4.5 million in the second quarter of 2008 compared to \$4.6 million in the same period of 2007. Operating income was \$8.0 million for the six-month period ended June 30, 2008 compared to \$10.0 million for the comparable period of 2007. Our operating income decreased in 2008 as compared to the same periods in 2007 primarily due to the effects of lower order rates from many of our customers resulting from unfavorable economic conditions in North America, increased raw material costs and the effect of relative changes in foreign currency exchange rates.

## Results of Operations

|                              | 2007      | Three months ended<br>June 30, |           |        |
|------------------------------|-----------|--------------------------------|-----------|--------|
|                              |           | %                              | 2008      | %      |
|                              |           | (Dollars in thousands)         |           |        |
| Net sales                    | \$ 45,229 | 100.0%                         | \$ 43,708 | 100.0% |
| Cost of goods sold           | 33,366    | 73.8                           | 32,726    | 74.9   |
| Gross margin                 | 11,863    | 26.2                           | 10,982    | 25.1   |
| Operating costs and expenses | 7,259     | 16.0                           | 6,515     | 14.9   |
| Operating income             | \$ 4,604  | 10.2%                          | \$ 4,467  | 10.2%  |
|                              |           | Six months ended<br>June 30,   |           |        |
|                              |           | %                              | 2008      | %      |
|                              |           | (Dollars in thousands)         |           |        |
| Net sales                    | \$ 88,780 | 100.0%                         | \$ 84,228 | 100.0% |
| Cost of goods sold           | 64,796    | 73.0                           | 63,305    | 75.2   |
| Gross margin                 | 23,984    | 27.0                           | 20,923    | 24.8   |
| Operating costs and expenses | 13,943    | 15.7                           | 12,927    | 15.3   |
| Operating income             | \$ 10,041 | 11.3%                          | \$ 7,996  | 9.5%   |

Net sales. Net sales decreased 3% and 5%, respectively, in the second quarter and first six months of 2008 compared to the same periods in 2007. Net sales decreased principally due to lower order rates from many of our customers resulting from unfavorable economic conditions in North America, offset in part by the effect of sales price increases

for certain products to mitigate the effect of higher raw material costs.

Cost of goods sold and gross margin. Cost of goods sold decreased in both the second quarter and first six months of 2008 as compared to the same periods in 2007 due to decreased sales volumes. As a percentage of sales, our gross margin decreased 1% and 2% in the second quarter and first six months of 2008, respectively, compared to the same periods in 2007 primarily due to higher raw material costs, not all of which could be recovered through sales price increases or surcharges, and changes in product mix (primarily in the Security Products segment), combined with reduced coverage of fixed manufacturing costs from lower sales volume.

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Operating costs and expenses. Operating costs and expenses consist 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 transaction gains and losses. As a percentage of net sales, operating costs and expenses decreased approximately 1% quarter over quarter from 2007 to 2008 and were comparable for the year to date comparative period. The decrease in operating costs and expenses for the quarter is primarily the result of foreign exchange losses recognized in the second quarter of 2007 which were approximately \$680,000 more than the foreign exchange losses recognized in the second quarter of 2008. Excluding foreign exchange losses, operating costs and expenses were comparable quarter over quarter.

Operating income. Operating income as a percentage of sales for the second quarter of 2008 was flat compared to the second quarter of 2007. Operating income as a percentage of sales decreased approximately 2% in the first six months of 2008 compared to the first six months of 2007 due to the decline in sales and gross margin discussed above.

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 foreign 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 primarily denominated 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. Overall, fluctuations in foreign currency exchange rates had the following effects on our Furniture Component segment's net sales and operating income in 2008 as compared to 2007:

|                            | Increase (decrease)                       |   |
|----------------------------|---|---|
|                            | Three months ended June 30, 2008 vs. 2007 | Six months ended June 30, 2008 vs. 2007 |
|                            | (In thousands)                            |   |
| Impact on net sales        | \$ 341                                    | \$ 1,011                                |
| Impact on operating income | 215                                       | (360)                                   |

The positive impact on sales relates to sales denominated in non-U.S. dollar currencies translated 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 for the six-month period results from the U.S. dollar denominated sales of non-U.S. operations converting into lower local currency amounts due to the weakening of the U.S. dollar. This negatively impacted our gross margin as it results in less local currency generated from sales to cover the costs of non-U.S. operations which are primarily denominated in local currency. The negative impact on the six-month comparison was partially offset by lower currency exchange losses in the second quarter of 2008 as compared to 2007. This also resulted in the net positive impact of currency on second quarter operating income.

Interest expense. Interest expense increased by approximately \$456,000 and \$1.2 million for the three month and six month periods ending June 30, 2008 compared to the same periods ending June 30, 2007, respectively. The total increase in interest expense is related to our 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 to continue to be

higher in 2008 due to the addition of this debt.

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Provision for income taxes. A tabular reconciliation between our effective income tax rates and the U.S. federal statutory income tax rate of 35% is included in Note 5 to the Condensed Consolidated Financial Statements. Our income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of our pre-tax earnings can result in fluctuations in the effective income tax rate. Generally, the effective tax rate on income derived from our U.S. operations, including the effect of U.S. state income taxes, is lower than the effective tax rate on income derived from our non-U.S. operations, in part due to an election not to claim a credit with respect to foreign income taxes paid but instead to claim a tax deduction, consistent with the election made by Contran, the parent of our consolidated U.S. federal income tax group. The election to not claim foreign tax credits is the primary reason our effective income tax rate in 2007 and 2008 is higher than the 35% U.S. federal statutory income tax rate.

Our effective income tax rate for the second quarter and the first six months of 2008 was 47% and 46%, respectively, as compared to our effective income tax rates for the same periods in 2007 of 46% and 47%, respectively. We currently expect our effective income tax rate for the remainder of 2008 to approximate our effective income tax rate for the six months ended June 30, 2008.

## Segment Results

The key performance indicator for our segments is the level of their operating income margins.

|                             | Three months ended<br>June 30, |           |                                       | Six months ended<br>June 30, |           |             |
|-----------------------------|--------------------------------|-----------|---------------------------------------|------------------------------|-----------|-------------|
|                             | 2007                           | 2008      | %<br>Change<br>(Dollars in thousands) | 2007                         | 2008      | %<br>Change |
| Net sales:                  |                                |           |                                       |                              |           |             |
| Security Products           | \$ 20,169                      | \$ 20,189 | 0%                                    | \$ 39,947                    | \$ 39,265 | (2%)        |
| Furniture                   |                                |           |                                       |                              |           |             |
| Components                  | 19,861                         | 19,731    | (1%)                                  | 39,295                       | 37,484    | (5%)        |
| Marine Components           | 5,199                          | 3,788     | (27%)                                 | 9,538                        | 7,479     | (22%)       |
| Total net sales             | \$ 45,229                      | \$ 43,708 | (3%)                                  | \$ 88,780                    | \$ 84,228 | (5%)        |
| Gross margin:               |                                |           |                                       |                              |           |             |
| Security Products           | \$ 6,193                       | \$ 5,660  | (9%)                                  | \$ 12,728                    | \$ 11,200 | (12%)       |
| Furniture                   |                                |           |                                       |                              |           |             |
| Components                  | 4,060                          | 4,383     | 8%                                    | 8,357                        | 7,817     | (6%)        |
| Marine Components           | 1,610                          | 939       | (42%)                                 | 2,899                        | 1,906     | (34%)       |
| Total gross margin          | \$ 11,863                      | \$ 10,982 | (7%)                                  | \$ 23,984                    | \$ 20,923 | (13%)       |
| Operating income:           |                                |           |                                       |                              |           |             |
| Security Products           | \$ 3,899                       | \$ 3,357  | (14%)                                 | \$ 8,010                     | \$ 6,596  | (18%)       |
| Furniture                   |                                |           |                                       |                              |           |             |
| Components                  | 1,680                          | 2,370     | 41%                                   | 3,943                        | 3,795     | (4%)        |
| Marine Components           | 722                            | 165       | (77%)                                 | 1,117                        | 268       | (76%)       |
| Corporate operating expense | (1,697)                        | (1,425)   | (16%)                                 | (3,029)                      | (2,663)   | (12%)       |
| Total operating income      | \$ 4,604                       | \$ 4,467  | (3%)                                  | \$ 10,041                    | \$ 7,996  | (20%)       |

Security Products. Security Products net sales were flat in the second quarter of 2008 compared to the same period of last year, and decreased 2% in the first six months of 2008 compared to the same period in the prior year. The decrease in sales is primarily due to lower order rates from many of our customers resulting from unfavorable economic conditions in North America, offset in part by the effect of sale price increases for certain products to mitigate the effect of higher raw material costs. As a percentage of net sales, both our gross margin and operating income percentages decreased 3% in each of the second quarter and first six months of 2008 compared to the same periods in 2007. The decrease in gross margin and operating income percentage is primarily due to a change in sales mix to a higher percentage of lower margin products and increased raw material costs.



Furniture Components. Furniture Components net sales declined 1% in the second quarter of 2008 and declined 5% in the first six months of 2008 compared to the same periods in 2007. The decline in net sales is primarily due to lower order rates from many of our customers resulting from unfavorable economic conditions in North America, offset in part by the effect of sales price increases for certain products to mitigate the effect of higher raw material costs. Furniture Components gross margin percentage increased approximately 2% in the second quarter of 2008 compared to the same period in 2007 and was flat for the comparative six month periods. Operating income percentage increased approximately 4% in the second quarter of 2008 compared to the second quarter of 2007 and was flat for the comparative six month periods. The increase in the gross margin and operating income percentages for the quarter are primarily the net result of cost reductions implemented in 2007 in response to lower sales volumes and increased raw material costs.

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Marine Components. Marine Components net sales decreased 27% during the second quarter of 2008 as compared to the same period in 2007, and declined 22% in the first six months of 2008 compared to the same period in the prior year primarily due to a general slowdown in the marine industry. Gross margin percentage decreased 6% and 5% in the second quarter and first six months of 2008, compared to the same periods in the prior year, respectively. Operating income percentage decreased 10% and 8% in the second quarter and six month periods of 2008 compared to the same periods in 2007, respectively. The decreases in gross margin and operating income percentages are the result of reduced coverage of fixed costs from lower sales volume.

Outlook. Demand continues to be slow across most product segments as customers react to the condition of the overall economy. However, we are experiencing a greater softness in demand in the industries that we serve which is directly connected to lower consumer spending, as further explained below.

- Our Security Products segment is the least affected by the softness in consumer demand, as their products are sold to a diverse number of business customers across a wide range of markets, most of which are not directly impacted by changes in consumer demand. While demand may be fairly stable for this business segment, it is unclear as to when sales growth will return.
- Our Furniture Components segment sales are primarily concentrated in the office furniture, toolbox, home appliance and a number of other industries. Several of these industries are more directly affected by consumer demand than those served by our Security Products segment. We expect many of the markets served by Furniture Components to continue to experience low demand in the short term.
- Our Marine segment has been affected the most by the slowing economy as the decrease in consumer confidence, the decline in home values, a tighter credit market and higher fuel costs have resulted in a significant reduction in consumer spending in the marine market. The marine market is not currently expected to recover until consumer confidence returns and home values stabilize. A continued under performance of the marine market over the next twelve to eighteen months could negatively impact our required annual impairment evaluation of the goodwill allocated to the Marine segment. An adverse outcome from the evaluation could directly affect operating earnings.

While changes in market demand are not within our control, we are focused on the areas that we can impact. Our lean manufacturing and cost cutting initiatives are expected to continue to improve our productivity and result in a more efficient infrastructure that can be leveraged when demand growth returns. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, expand into new markets and develop new products in order to mitigate the impact of reduced demand as well as broaden our sales base.

In addition to challenges with overall demand, volatility in the cost of our raw materials is ongoing. We currently expect this to be a challenge for the remainder of 2008. We may not be able to fully recover these costs through price increases or surcharges due to the competitive nature of the markets we serve.

#### Liquidity and Capital Resources

##### Consolidated cash flows -

Operating activities. Trends in cash flows from operating activities, excluding changes in assets and liabilities, have generally been similar to the trends in our operating earnings. 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, period-to-period relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. Cash provided by operating activities for the first six months of 2008 was comparable to the first six months of 2007 due primarily to the net effects of the following items:



- Lower operating income in 2008 of \$2.0 million;
- Lower net cash used from relative changes in our inventories, receivables, payables and accruals of \$2.6 million in 2008 due primarily to relative changes in our receivable and inventory levels;
- Lower cash paid for income taxes in 2008 of \$2.8 million due to our lower earnings in 2008; and
- Higher cash paid for interest in 2008 of \$1.2 million due to the October issuance of our promissory note to an affiliate.

Relative changes in working capital can have a significant effect on cash flows from operating activities. Our average days' sales outstanding ("DSO") decreased from 44 days at December 31, 2007 to 42 days at June 30, 2008 due to timing of collections at the end of June. For comparative purposes, our average DSO increased from 41 days at December 31, 2006 to 44 days at June 30, 2007. Our average number of days in inventory ("DII") was 66 days at December 31, 2007 and 72 days at June 30, 2008. The increase in days in inventory is primarily due to the higher cost of commodity raw materials at June 30, 2008 combined with lower sales. Additionally, our raw material balance is higher as a result of purchasing higher than normal quantities to mitigate the impact of expected future cost increases. For comparative purposes, our average DII increased from 57 to 70 days at December 31, 2006 and June 30, 2007, respectively, primarily due to the higher cost of commodity raw materials at June 30, 2007.

Investing activities. Net cash used in investing activities totaled \$4.1 million in the first six months of 2007 compared to \$1.9 million used in the first six months of 2008 primarily due to the timing of capital expenditures.

Financing activities. Net cash used in financing activities totaled \$3.6 million and \$4.2 million for the six months ended June 30, 2007 and 2008, respectively. In the first six months of 2008, we purchased approximately 126,000 shares of our Class A common stock for an aggregate \$1.0 million. In addition, we paid aggregate quarterly dividends of \$3.8 million and \$3.1 million, or \$.25 per share, in each of the first six months of 2007 and 2008, respectively.

Debt obligations. Provisions contained in our revolving credit facility 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, the 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.

Future cash requirements -

Liquidity. Our primary source of liquidity on an ongoing basis is our cash flow from operating activities, which is generally used to (i) fund capital expenditures, (ii) repay short-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. 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 acquisitions.

Periodically, we evaluate 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, modify our dividend policy or take a combination of such steps to manage 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.

We believe that cash generated from operations and borrowing availability under our \$50 million revolving credit facility, 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 actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

At June 30, 2008, there were no amounts outstanding under our \$50 million revolving credit facility that matures in January 2009, and the entire balance was available for future borrowings.

Capital expenditures. Firm purchase commitments for capital projects in process at June 30, 2008 approximated \$2.2 million. We expect to spend approximately \$1.7 million in the remainder of 2008 to complete the replacement of waste treatment equipment at our South Carolina facility.

Repurchase of common stock. We have in the past, and may in the future, make repurchases of our common stock in the market or privately-negotiated transactions. At July 24, 2008, we had approximately 678,000 shares available for repurchase of our common stock under authorizations approved by the board of directors.

Commitments and contingencies. There have been no material changes in our contractual obligations since we filed our 2007 Annual Report, and we refer you to that report for a complete description of these commitments.

Off-balance sheet financing arrangements –

We do not have any off-balance sheet financing agreements other than the operating leases discussed in our 2007 Annual Report.

Recent accounting pronouncements –

See Note 7 to the Condensed Consolidated Financial Statements.

Critical accounting policies –

There have been no changes in the first six months of 2008 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2007 Annual Report.

## Forward-Looking Information

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we caution that the statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts are forward-looking statements that represent our beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "anticipates," "expects" or comparable terminology, or by discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if our expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in the our other filings with the Securities and Exchange Commission. While it is not possible to identify all factors, we continue to face many risks and uncertainties 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,
  - Demand for high performance marine components,
    - 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

We are exposed to market risk, including foreign currency exchange rates, interest rates and security prices. For a discussion of these market risk items, refer to Part I, Item 7A – “Quantitative and Qualitative Disclosure About Market Risk” in our 2007 Annual Report. There has been no material changes in these market risks during the first six months of 2008.

ITEM 4. 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 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 we are required to disclose in the reports that we file or submit to the SEC under the Act is accumulated and communicated to the our management, including our principal executive officer and our 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, our Vice Chairman of the Board, President and Chief Executive Officer, and Darryl R. Halbert, our Vice President, Chief Financial Officer and Controller, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of June 30, 2008. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of June 30, 2008.

**Internal Control Over Financial Reporting.** We also maintain 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 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 our 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 Condensed Consolidated Financial Statements.

**Changes in Internal Control Over Financial Reporting.** There has been no change to our internal control over financial reporting during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## Part II. OTHER INFORMATION

## ITEM 1A. Risk Factors.

Reference is made to the 2007 Annual Report for a discussion of the risk factors related to our businesses. There have been no material changes in such risk factors during the first six months of 2008.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds; Share Repurchases.

Our board of directors has previously authorized the repurchase of our common stock in open market transactions, including block purchases, or in privately negotiated transactions, which may include transactions with our affiliates. 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 6 to the Condensed Consolidated Financial Statements.

The following table discloses certain information regarding the shares of our common stock we purchased during the second quarter of 2008. All of these purchases were made in April under the repurchase program in open market transactions.

| Period                          | Total number of shares purchased | Average price paid per share, including commissions | Total number of shares purchased as part of a publicly-announced plan | Maximum number of shares that may yet be purchased under the publicly-announced plan at end of period |
|---------------------------------|----------------------------------|---|---|---|
| April 1, 2008 to April 30, 2008 | 73,753                           | \$ 6.92   | 73,753  | 677,947   |

## ITEM 4. Submission of Matter to a Vote of Security Holders

Our 2008 Annual Meeting of Stockholders was held on May 28, 2008. Paul M. Bass, Jr., David A. Bowers, Norman S. Edelcup, Edward J. Hardin, Ann Manix, Glenn R. Simmons and Steven L. Watson were elected as directors, each receiving votes "For" their election from at least 99% of the approximately 12.4 million votes eligible to be cast at the Annual Meeting.

## ITEM 6. Exhibits.

| Item No. | Exhibit Index |               |
|----------|---------------|---------------|
|          | 31.1          | Certification |
|          | 31.2          | Certification |
|          | 32.1          | Certification |

We have retained a signed original of any of the above exhibits that contains signatures, and we will provide such exhibit to the Commission or its staff upon request. We will also furnish, without charge, a copy of our Code of Business Conduct and Ethics, Corporate Governance Guidelines and Audit Committee Charter, each as adopted by our board of directors, 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.

SIGNATURES

Pursuant to the requirements 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.  
(Registrant)

Date: August 1, 2008  
Darryl R. Halbert  
Vice President, Chief Financial Officer  
and Controller

By: /s/ Darryl R. Halbert