

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 September 30, 2012

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 November 5, 2012:

Class A:

2,392,107

Class B:

10,000,000

COMPX INTERNATIONAL INC.

Index

	<u>Page</u>
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets – December 31, 2011 and September 30, 2012 (unaudited)	3
Condensed Consolidated Statements of Income - Three and nine months ended September 30, 2011 and 2012 (unaudited)	5
Condensed Consolidated Statements of Comprehensive Income - Three and nine months ended September 30, 2011 and 2012 (unaudited)	6
Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 2011 and 2012 (unaudited)	7
Condensed Consolidated Statement of Stockholders' Equity – Nine months ended September 30, 2012 (unaudited)	8
Notes to Condensed Consolidated Financial Statements (unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosure About Market Risk	27
Item 4. Controls and Procedures	27
Part II. OTHER INFORMATION	
Item 1A. Risk Factors	28
Item 6. Exhibits	28

Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, <u>2011</u>	September 30, <u>2012</u> (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,081	\$ 7,030
Accounts receivable, net	14,246	17,212
Inventories, net	19,578	19,253
Prepaid and other	1,025	2,554
Deferred income taxes	2,495	2,495
Total current assets	<u>47,425</u>	<u>48,544</u>
Other assets:		
Goodwill	34,186	34,457
Other intangible assets	2,045	1,620
Assets held for sale	6,649	6,244
Other assets	94	127
Total other assets	<u>42,974</u>	<u>42,448</u>
Property and equipment:		
Land	11,321	11,510
Buildings	32,255	32,836
Equipment	124,100	119,937
Construction in progress	1,477	2,103
	<u>169,153</u>	<u>166,386</u>
Less accumulated depreciation	<u>118,026</u>	<u>114,964</u>
Net property and equipment	<u>51,127</u>	<u>51,422</u>
Total assets	<u>\$ 141,526</u>	<u>\$ 142,414</u>

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In thousands)

	December 31, 2011	September 30, 2012 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 1,000	\$ 1,000
Accounts payable and accrued liabilities	16,240	15,057
Income taxes payable to affiliate	194	695
Income taxes	1,326	305
Total current liabilities	<u>18,760</u>	<u>17,057</u>
Noncurrent liabilities:		
Long-term debt	23,185	21,515
Deferred income taxes	14,166	16,498
Other noncurrent liabilities	705	3
Total noncurrent liabilities	<u>38,056</u>	<u>38,016</u>
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	24	24
Class B common stock	100	100
Additional paid-in capital	55,125	55,203
Retained earnings	17,967	19,546
Accumulated other comprehensive income	11,494	12,468
Total stockholders' equity	<u>84,710</u>	<u>87,341</u>
Total liabilities and stockholders' equity	<u>\$141,526</u>	<u>\$ 142,414</u>

Commitments and contingencies (Note 1)

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 September 30,		Nine months ended September 30,	
	2011	2012	2011	2012
	(unaudited)			
Net sales	\$35,736	\$37,110	\$105,755	\$110,239
Cost of goods sold	27,202	26,948	78,704	80,578
Gross profit	8,534	10,162	27,051	29,661
Selling, general and administrative expense	5,745	6,190	17,807	18,851
Other operating income (expense):				
Reversal of accrued contingent consideration	—	778	—	778
Assets held for sale write-down	(1,135)	(405)	(1,135)	(405)
Litigation settlement gain	—	—	7,468	—
Litigation expense	—	—	(227)	—
Facility consolidation costs	(175)	—	(1,973)	—
Operating income	1,479	4,345	13,377	11,183
Other non-operating income, net	127	8	385	18
Interest expense	(218)	(139)	(617)	(441)
Income before income taxes	1,388	4,214	13,145	10,760
Provision for income taxes	302	1,605	6,437	4,535
Net income	\$ 1,086	\$ 2,609	\$ 6,708	\$ 6,225
Basic and diluted income per common share	\$.09	\$.21	\$.54	\$.50
Cash dividends per share	\$.125	\$.125	\$.375	\$.375
Shares used in the calculation of basic and diluted income per share	12,386	12,392	12,381	12,389

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2012	2011	2012
	(unaudited)			
Net income	\$ 1,086	\$2,609	\$ 6,708	\$6,225
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(1,414)	843	(997)	873
Impact from cash flow hedges, net	(704)	58	(640)	101
Total other comprehensive income (loss), net	(2,118)	901	(1,637)	974
Comprehensive income (loss)	\$ (1,032)	\$3,510	\$ 5,071	\$7,199

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine months ended September 30,	
	2011	2012
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 6,708	\$ 6,225
Depreciation and amortization	5,259	4,308
Deferred income taxes	885	1,988
Reversal of accrued contingent consideration	—	(778)
Assets held for sale write-down	1,135	405
Other, net	488	308
Change in assets and liabilities (exclusive of acquisition):		
Accounts receivable, net	(1,886)	(2,924)
Inventories, net	(872)	338
Accounts payable and accrued liabilities	(3,176)	(1,932)
Accounts with affiliates	141	501
Income taxes	585	(1,433)
Other, net	(950)	(576)
Net cash provided by operating activities	<u>8,317</u>	<u>6,430</u>
Cash flows from investing activities:		
Capital expenditures	(1,772)	(3,119)
Acquisition, net of cash acquired	(4,903)	—
Proceeds from sale of fixed assets	151	48
Net cash used in investing activities	<u>(6,524)</u>	<u>(3,071)</u>
Cash flows from financing activities:		
Dividends paid	(4,643)	(4,646)
Repayment of loan from affiliate	(4,750)	(1,750)
Borrowing under long-term debt	5,294	—
Repayment of long-term debt	(3,006)	—
Other, net	171	(60)
Net cash used in financing activities	<u>(6,934)</u>	<u>(6,456)</u>
Cash and cash equivalents – net change from:		
Operating, investing and financing activities	(5,141)	(3,097)
Currency translation	(245)	46
Cash and cash equivalents at beginning of period	<u>13,919</u>	<u>10,081</u>
Cash and cash equivalents at end of period	<u>\$ 8,533</u>	<u>\$ 7,030</u>
Supplemental disclosures – cash paid for:		
Interest	\$ 1,402	\$ 308
Income taxes paid, net	4,850	3,478
Non-cash investing and financing activity - Accrual for capital expenditures	\$ 320	\$ 546

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine months ended September 30, 2012
(In thousands)
(unaudited)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Accumulated other comprehensive income</u>		<u>Total</u>
	<u>Class A</u>	<u>Class B</u>	<u>paid-in</u>	<u>earnings</u>	<u>Currency</u>	<u>Hedging</u>	<u>stockholders</u>
			<u>capital</u>		<u>translation</u>	<u>derivatives</u>	<u>equity</u>
Balance at December 31, 2011	\$ 24	\$ 100	\$55,125	\$17,967	\$11,490	\$ 4	\$ 84,710
Net income	—	—	—	6,225	—	—	6,225
Other comprehensive income, net	—	—	—	—	873	101	974
Issuance of common stock	—	—	78	—	—	—	78
Cash dividends	—	—	—	(4,646)	—	—	(4,646)
Balance at September 30, 2012	\$ 24	\$ 100	\$ 55,203	\$ 19,546	\$ 12,363	\$ 105	\$ 87,341

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE MKT: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at September 30, 2012. We manufacture and sell component products (security products, precision ball bearing slides, ergonomic computer support systems, and performance marine components). At September 30, 2012, (i) Valhi, Inc. (NYSE: VHI) held approximately 83% of NL's outstanding common stock and (ii) subsidiaries of Contran Corporation ("Contran") held approximately 95% 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 companies related 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 its 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, 2011 that we filed with the Securities and Exchange Commission ("SEC") on March 2, 2012 (the "2011 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, 2011 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, 2011) 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 September 30, 2012 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 2011 Consolidated Financial Statements contained in our 2011 Annual Report.

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 September 30,		Nine months ended September 30,	
	2011	2012	2011	2012
	(In thousands)			
Net sales:				
Security Products	\$ 18,077	\$18,873	\$ 54,261	\$ 56,315
Furniture Components	15,588	15,828	44,630	46,383
Marine Components	2,071	2,409	6,864	7,541
Total net sales	\$ 35,736	\$37,110	\$105,755	\$110,239
Operating income:				
Security Products	\$ 3,550	\$ 3,758	\$ 10,911	\$ 10,899
Furniture Components	711	2,708	8,351	5,804
Marine Components	(252)	(181)	(664)	(330)
Corporate operating expense	(2,530)	(1,940)	(5,221)	(5,190)
Total operating income	1,479	4,345	13,377	11,183
Other non-operating income, net	127	8	385	18
Interest expense	(218)	(139)	(617)	(441)
Income before income taxes	\$ 1,388	\$ 4,214	\$ 13,145	\$ 10,760

Intersegment sales are not material.

Furniture Components net sales in the third quarter and first nine months of 2012 include sales of approximately \$1.0 million and \$3.3 million, respectively, related to the Furniture Components ergonomics healthcare product line acquired in July 2011. Such sales were approximately \$600,000 in the third quarter of 2011. The impact on operating income for all periods presented relating to the acquisition was not significant.

As discussed in our 2011 Annual Report, potential additional cash consideration related to the Furniture Components ergonomics healthcare product line acquired in July 2011, in an amount ranging from nil to approximately \$1.5 million, was payable in the first quarter of 2013. The payment was contingent upon the achievement of certain acquired product line sales targets during 2012. The estimated fair value of such accrued consideration had been determined using a probability-weighted discounted cash flow methodology (Level 3 inputs as defined by ASC Topic 820-10-35), using a discount rate of approximately 4%. During the first nine months of 2012, the amount of the increase in accrued contingent consideration for the passage of time was not material. At September 30, 2012, we determined that it was remote that the sales target necessary for the minimum-level payout would be met and therefore the total amount of the contingent consideration liability was reversed into income. As a result, Furniture Components operating income for the third quarter and first nine months of 2012 includes approximately \$778,000 in other operating income related to such reversal.

Furniture Components operating income for the third quarter of 2011 includes \$175,000 of facility consolidation costs. Furniture Components operating income for the first nine months of 2011 includes (i) a patent litigation settlement gain of \$7.5 million, (ii) patent litigation expenses of \$227,000, and (iii) facility consolidation costs of approximately \$2.0 million, for a total net positive impact of \$5.3 million.

Corporate operating expenses include a write-down on assets held for sale of approximately \$1.1 million in the third quarter and first nine months of 2011 compared to a \$405,000 write-down on assets held for sale in the same comparative periods for 2012.

Note 3 – Accounts receivable, net:

	December 31, 2011	September 30, 2012
	(In thousands)	
Account receivable, net:		
Security Products	\$ 7,637	\$ 8,779
Furniture Components	6,208	7,715
Marine Components	802	1,036
Allowance for doubtful accounts	(401)	(318)
Total accounts receivable, net	<u>\$ 14,246</u>	<u>\$ 17,212</u>

Note 4 – Inventories, net:

	December 31, 2011	September 30, 2012
	(In thousands)	
Raw materials:		
Security Products	\$ 2,510	\$ 2,332
Furniture Components	3,314	3,651
Marine Components	933	966
Total raw materials	<u>6,757</u>	<u>6,949</u>
Work-in-process:		
Security Products	5,778	5,583
Furniture Components	1,260	1,408
Marine Components	399	486
Total work-in-process	<u>7,437</u>	<u>7,477</u>
Finished goods:		
Security Products	1,700	1,486
Furniture Components	2,994	2,780
Marine Components	690	561
Total finished goods	<u>5,384</u>	<u>4,827</u>
Total inventories, net	<u>\$ 19,578</u>	<u>\$ 19,253</u>

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2011	September 30, 2012
	(In thousands)	
Accounts payable	\$ 6,203	\$ 5,201
Accrued liabilities:		
Employee benefits	7,764	7,310
Taxes other than on income	401	764
Insurance	372	313
Customer tooling	425	249
Other	1,075	1,220
Total	<u>\$ 16,240</u>	<u>\$ 15,057</u>

[Table of Contents](#)

Note 6 – Long-term debt:

	December 31, 2011	September 30, 2012
	(In thousands)	
Revolving bank credit facility	\$ 1,955	\$ 2,035
Promissory note payable to affiliate	22,230	20,480
Total debt	24,185	22,515
Less current maturities	1,000	1,000
Total long-term debt	\$ 23,185	\$ 21,515

We repaid an aggregate of \$1.8 million on the promissory note payable to affiliate during the first nine months of 2012, including a principal prepayment of \$1.0 million. The average interest rate on the promissory note payable to affiliate as of and for the nine-month period ended September 30, 2012 was 1.5%. The average interest rate on the revolving bank credit facility for the nine month period ended September 30, 2012 was 3.6% and at September 30, 2012 the rate was 3.3%.

Note 7 – Provision for income taxes:

	Nine months ended September 30,	
	2011	2012
	(In thousands)	
Expected tax expense, at the U.S. federal statutory income tax rate of 35%	\$ 4,600	\$3,766
Non-U.S. tax rates	(899)	(742)
Incremental tax on earnings of non-U.S. companies	2,694	1,478
U.S. State income taxes, net	366	388
Non-taxable income	—	(195)
Other, net	(324)	(160)
Total income tax expense	\$ 6,437	\$4,535

In the first nine months of 2011, we recognized a \$2.1 million provision for deferred income taxes related to the undistributed earnings of our Canadian subsidiary attributable to the 2011 \$7.5 million patent litigation settlement gain.

Note 8 – Financial instruments and fair value measurements:

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure:

	December 31, 2011		September 30, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash and cash equivalents	\$ 10,081	\$ 10,081	\$ 7,030	\$ 7,030
Accounts receivable, net	14,246	14,246	17,212	17,212
Accounts payable	6,203	6,203	5,201	5,201
Long-term debt (including current maturities)	24,185	24,185	22,515	22,515

[Table of Contents](#)

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. The fair value of our variable-rate long-term debt is deemed to approximate book value and is a Level 2 input.

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.

At September 30, 2012, we held a series of contracts to exchange an aggregate of U.S. \$4.2 million for an equivalent value of Canadian dollars at an exchange rate of Cdn. \$1.03 per U.S. dollar. These contracts qualified for hedge accounting and mature through December 2012. The exchange rate was Cdn. \$0.98 per U.S. dollar at September 30, 2012. The estimated fair value of the contracts was an asset of approximately \$182,000 at September 30, 2012. At December 31, 2011, we held a series of contracts to exchange an aggregate of U.S. \$17.9 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. \$.99 to Cdn. \$1.03 per U.S. dollar. These contracts qualified for hedge accounting and mature through December 2012. The exchange rate was Cdn. \$1.02 per U.S. dollar at December 31, 2011. The estimated fair value of the contracts based on quoted market prices was a minimal liability at December 31, 2011.

Note 9 – Recent Accounting Pronouncements:

In June 2011 the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option of presenting comprehensive income as a component of the Consolidated Statement of Stockholders' Equity and instead requires comprehensive income to be presented as a component of the Consolidated Statement of Income or in a separate Consolidated Statement of Comprehensive Income immediately following the Consolidated Statement of Income. In accordance with ASU 2011-05, we now present our comprehensive income in a separate Condensed Consolidated Statement of Comprehensive Income. Additionally, ASU 2011-05 would have required us to present on the face of our financial statements the effect of reclassifications out of accumulative other comprehensive income on the components of net income and other comprehensive income. However, in December 2011 the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 defers the effective date for the requirement to present on the face of our financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. Adoption of ASU 2011-05, as amended by ASU 2011-12, did not have a material effect on our Condensed Consolidated Financial Statements.

[Table of Contents](#)

In December 2011 the FASB issued ASU 2011-11 *Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement.

This standard will be effective for annual and interim periods beginning with our first quarter 2013 report. We do not believe the adoption of this standard will have a material effect on our Consolidated Financial Statements.

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

Overview

We are a leading manufacturer of engineered components utilized in a variety of applications and industries. Through our Security Products Segment we manufacture mechanical and electronic cabinet locks and other locking mechanisms used in postal, office and institutional furniture, transportation, vending, tool storage and general cabinetry applications. Our Furniture Components Segment manufactures precision ball bearing slides and ergonomic computer support systems used in office and institutional furniture, home appliances, tool storage, healthcare and a variety of other applications. We also manufacture stainless steel exhaust systems, gauges and electronic and mechanical throttle controls for the performance boat industry through our Marine Components Segment.

We reported operating income of \$4.3 million in the third quarter of 2012 compared to \$1.5 million in the same period of 2011. Our operating income increased in the third quarter of 2012 primarily due to the net effects of:

- The positive impact of a change in product mix within our Furniture Components segment;
- Improved 2012 production efficiencies as a result of the consolidation of our precision slides manufacturing facilities;
- Other operating income recognized in 2012 as a result of the reversal of the accrued contingent consideration related to the Furniture Components ergonomics healthcare product line acquired in July 2011;
- A lower asset held for sale write-down recorded in 2012 as compared to 2011; and
- An increase in customer order rates across most business segments due to somewhat improved economic conditions in North America.

We reported operating income of \$11.2 million for the nine month period ended September 30, 2012 compared to \$13.4 million for the comparable period in 2011. Our operating income decreased for the nine month period in 2012 primarily due to the net effects of:

- A 2011 litigation settlement gain;
- 2011 relocation costs related to the consolidation of our precision slides facilities;
- The positive impact of a change in product mix within our Furniture Components segment;
- Improved 2012 production efficiencies as a result of the consolidation of our precision slides manufacturing facilities;
- An increase in customer order rates across most business segments due to somewhat improved economic conditions in North America;
- Other operating income recognized in 2012 as a result of the reversal of the accrued contingent consideration related to the Furniture Components ergonomics healthcare product line acquired in July 2011; and
- A lower asset held for sale write-down recorded in 2012 compared to 2011.

Our product offerings consist of a significantly large number of products that have a wide variation in selling price and manufacturing cost, which results in certain practical limitations on our ability to quantify the impact of changes in individual product sales quantities and selling prices on our net sales, cost of goods sold and gross profit. In addition, small variations in period-to-period net sales, cost of goods sold and gross profit can result from changes in the relative mix of our products sold.

Results of Operations

	Three months ended September 30,			
	2011	%	2012	%
(Dollars in thousands)				
Net sales	\$35,736	100%	\$37,110	100%
Cost of goods sold	27,202	76	26,948	73
Gross profit	8,534	24	10,162	27
Operating costs and expenses	5,745	16	6,190	17
Reversal of accrued contingent consideration	—	—	(778)	(2)
Assets held for sale write-down	1,135	3	405	1
Facility consolidation costs	175	—	—	—
Operating income	\$ 1,479	4%	\$ 4,345	12%

	Nine months ended September 30,			
	2011	%	2012	%
(Dollars in thousands)				
Net sales	\$105,755	100%	\$110,239	100%
Cost of goods sold	78,704	74	80,578	73
Gross profit	27,051	26	29,661	27
Operating costs and expenses	17,807	17	18,851	17
Reversal of accrued contingent consideration	—	—	(778)	(1)
Litigation settlement gain	(7,468)	(7)	—	—
Litigation expense	227	—	—	—
Assets held for sale write-down	1,135	1	405	—
Facility consolidation costs	1,973	2	—	—
Operating income	\$ 13,377	13%	\$ 11,183	10%

Net sales. Net sales increased 4% in each of the third quarter and first nine months of 2012 as compared to the same periods in 2011. Net sales increased in 2012 principally due to \$400,000 and \$2.7 million in additional ergonomic healthcare product line sales during the quarter and the nine month period, respectively, related to the Furniture Components business acquired in July 2011, and from growth in customer demand within our Security Products and Marine Components segments resulting from somewhat improved economic conditions in North America. Relative changes in selling prices did not have a material impact on net sales comparisons.

[Table of Contents](#)

Cost of goods sold and gross profit. Cost of goods sold decreased \$254,000, or 1%, in the third quarter of 2012 as compared to the third quarter of 2011, and increased \$1.9 million, or 2%, in the year-to-date period. Cost of goods sold decreased for the quarter and increased for the nine month period and as a percentage of sales decreased for both periods resulting in an increase of gross profit and gross margin primarily due to the net effects of the following items:

- the increase in sales;
- the positive impact of a change in product mix within our Furniture Components segment;
- improved production efficiencies relating to the facility consolidation including lower depreciation expense;
- lower steel raw material costs;
- a net positive impact relating to relative changes in currency exchange rates; and
- higher medical self-insurance costs.

See our segment discussion below for quantification of the impact of these items on the quarter and nine month periods.

Operating costs and expenses. Operating costs and expenses consist primarily of sales and administrative related personnel costs, sales commissions and marketing expenses, as well as gains and losses on disposals of plant, property and equipment and currency transaction gains and losses. As a percentage of net sales, operating costs and expenses were comparable for the third quarter and the nine month period of 2012 in relation to the same periods in 2011. However, currency transaction gains and losses negatively impacted the quarter and nine month comparison by \$470,000 and \$564,000, respectively.

Reversal of accrued contingent consideration. Our operating income in the third quarter and first nine months of 2012 includes approximately \$778,000 in other operating income related to the reversal of accrued contingent consideration associated with the July 2011 acquisition of a healthcare product line. See Note 2 to our Condensed Consolidated Financial Statements.

Assets held for sale write-down. During the third quarter of 2012, we recorded a write-down on assets held for sale totaling \$405,000, which is included in corporate operating expense. During the third quarter of 2011, we recorded a write-down on assets held for sale of \$1.1 million. See Note 2 to our Condensed Consolidated Financial Statements.

Litigation. We recognized a litigation settlement gain of approximately \$7.5 million in the first quarter of 2011.

Facility consolidation costs. In the third quarter and first nine months of 2011, our Furniture Components segment recorded approximately \$175,000 and \$2.0 million, respectively, in relocation costs as a result of consolidating two of our precision slides facilities.

Operating income. Operating income increased to \$4.3 million for the third quarter of 2012 compared to \$1.5 million for the third quarter of 2011. Operating income for the third quarter of 2012 increased primarily due to (i) the factors impacting cost of goods sold and gross margin, (ii) the positive impact of the \$778,000 reversal of the accrued contingent consideration, and (iii) the \$405,000 write-down on assets held for sale in the third quarter of 2012 as compared to a \$1.1 million write-down on assets held for sale in the third quarter of 2011, all of which have been discussed above.

Operating income decreased to \$11.2 million for the nine month period of 2012 compared to \$13.4 million for the nine month period of 2011. Operating income for the nine month comparative period decreased primarily due to the net effects of (i) the litigation settlement gain recorded in the first quarter of 2011, (ii) the factors impacting cost of goods sold and gross margin, (iii) facility consolidation costs incurred in 2011, (iv) the positive impact of the \$778,000 reversal of the accrued contingent

[Table of Contents](#)

consideration, and (v) the \$405,000 write-down on assets held for sale in the third quarter of 2012 as compared to a \$1.1 million write-down on assets held for sale in the third quarter of 2011.

Currency. Our Furniture Components Segment has substantial operations and assets which are all 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 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. In addition to the impact of the translation of sales and expenses over time, our non-U.S. operations also generate currency transaction gains and losses which primarily relate to the difference between the currency exchange rates in effect when non-local currency sales or operating costs are initially accrued and when such amounts are settled. Our Furniture Component segment's net sales and operating income were impacted by currency exchange rates in the following amounts as compared to the impact of currency exchange rates during the corresponding periods in the prior year:

Three months ended September 30, 2012 vs. 2011 (in thousands)					
	Transaction gains / (losses)			Translation gain/loss-impact of rate changes	Total currency impact 2012 vs. 2011
	2011	2012	Change		
Impact on:					
Net Sales	\$ —	\$ —	\$ —	\$ (50)	\$ (50)
Operating income	369	(101)	(470)	190	(280)
Nine months ended September 30, 2012 vs. 2011 (in thousands)					
	Transaction gains / (losses)			Translation gain/loss-impact of rate changes	Total currency impact 2012 vs. 2011
	2011	2012	Change		
Impact on:					
Net Sales	\$ —	\$ —	\$ —	\$ (208)	\$ (208)
Operating income	412	(152)	(564)	622	58

The negative impact on sales for both periods relates to sales denominated in non-U.S. dollar currencies translated into lower U.S. dollar sales due to a weakening of the local currency in relation to the U.S. dollar. The negative impact on operating income for the quarter primarily results from currency transaction losses in 2012 compared to gains in 2011 related to the timing of settling non-local currency denominated receivables and payables and changes in currency exchange rates. The insignificant net positive impact of changes in currency exchange rates on operating income for the nine month period results from positive currency translation gains largely offset by the negative comparative impact of currency transaction losses. The net currency transaction losses in 2012 compared to gains in 2011 related to the timing of settling non-local currency denominated receivables and payables and changes in currency exchange rates, particularly impacted by a weakening of the U.S. dollar in the latter part of the third

[Table of Contents](#)

quarter of 2012. The net currency translation gains relate to an overall stronger U.S. dollar in the nine month period of 2012 compared to 2011. This positively impacts operating income as it results in more local currency generated from U.S. dollar denominated sales of non-U.S. operations to cover the costs of non-U.S. operations which are primarily denominated in local currency.

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 7 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 the deferred tax on our foreign earnings that are not permanently reinvested and an election to not 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.

Our geographic mix of pre-tax earnings and the U.S. deferred tax related to our foreign earnings that are not permanently reinvested without offset by foreign tax credits where available are the primary reasons our effective income tax rate in 2011 and 2012 is higher than the 35% U.S. federal statutory income tax rate. In the first quarter of 2011, we recognized a \$2.1 million provision for deferred income taxes related to the undistributed earnings of our Canadian subsidiary attributable to the \$7.5 million patent litigation settlement gain. This is the primary reason our effective tax rate was higher in 2011 compared to 2012. See Notes 7 to the Condensed Consolidated Financial Statements.

Segment Results

The key performance indicator for our segments is their operating income.

	Three months ended September 30,			Nine months ended September 30,		
	2011	2012	% Change	2011	2012	% Change
(Dollars in thousands)						
Net sales:						
Security Products	\$ 18,077	\$18,873	4%	\$ 54,261	\$ 56,315	4%
Furniture Components	15,588	15,828	2%	44,630	46,383	4%
Marine Components	2,071	2,409	16%	6,864	7,541	10%
Total net sales	\$ 35,736	\$37,110	4%	\$105,755	\$110,239	4%
Gross profit:						
Security Products	\$ 5,738	\$ 6,012	5%	\$ 17,554	\$ 17,613	—
Furniture Components	2,552	3,851	51%	8,479	10,830	28%
Marine Components	244	299	23%	1,017	1,218	20%
Total gross profit	\$ 8,534	\$10,162	19%	\$ 27,050	\$ 29,661	10%
Operating income:						
Security Products	\$ 3,550	\$ 3,758	6%	\$ 10,911	\$ 10,899	—
Furniture Components	711	2,708	281%	8,351	5,804	(30)%
Marine Components	(252)	(181)	28%	(664)	(330)	50%
Corporate operating expense	(2,530)	(1,940)	23%	(5,221)	(5,190)	1%
Total operating income	\$ 1,479	\$ 4,345	194%	\$ 13,377	\$ 11,183	(16)%
Gross profit margin:						
Security Products	32%	32%		32%	31%	
Furniture Components	16%	24%		19%	23%	
Marine Components	12%	12%		15%	16%	
Total gross margin	24%	27%		26%	27%	
Operating income margin:						
Security Products	20%	20%		20%	19%	
Furniture Components	5%	17%		19%	13%	
Marine Components	(12)%	(8)%		(10)%	(4)%	
Total operating income margin	4%	12%		13%	10%	

Security Products. Security Products net sales increased 4% in the third quarter and in the first nine months of 2012 compared to the same periods last year. The increase in sales is primarily due to somewhat improved economic conditions in North America.

As a percentage of net sales, 2012 gross margin was flat for the third quarter and decreased 1 percentage points for the nine month period of 2012 as compared to the prior year. The decrease in gross margin percentage for the nine month period was primarily the result of higher medical self-insurance claims of approximately \$500,000 in 2012.

As a percentage of net sales, operating income margin was flat for the third quarter and decreased 1 percentage point for the nine months of 2012 as compared to the same periods in the prior year primarily due to the items noted above that impacted gross margin.

[Table of Contents](#)

Furniture Components. Furniture Components net sales increased 2% in the third quarter of 2012 compared to the same period last year, and increased 4% in the first nine months of 2012 in relation to the same period in the prior year. Net sales comparisons were positively impacted by incremental sales of \$400,000 and \$2.7 million in the third quarter and first nine months of 2012, respectively, relating to the July 2011 acquisition of an ergonomics healthcare component products business. This increase in sales was partially offset by a decrease in overall demand for other Furniture Components products due to a decrease in customer office furniture related projects.

As a percentage of net sales, 2012 gross margin improved approximately 8 percentage points for the third quarter and 4 percentage points for the nine month period as compared to the prior year. Approximately 5 percentage points and 1 percentage point, respectively, of the gross margin improvement for the quarter and nine month periods was primarily the result of improved product mix. Ergonomic products have a higher average gross margin percentage than precision slide products. Ergonomic products increased from 37% of Furniture Components third quarter 2011 sales to 43% of third quarter 2012 sales as a result of improved demand for ergonomic products, new releases of certain products and additional sales related to the acquired ergonomic healthcare component products business. Additionally, precision slide product sales declined \$865,000 from the third quarter of 2011 to the third quarter of 2012 as a result of a decrease in customer office furniture related projects that utilize those components. As a result of the changes that impacted the third quarter comparisons, for the nine month periods the mix of precision slides and ergonomic products changed from 61% slides and 39% ergonomics in 2011 to 57% slides and 43% ergonomics in 2012.

The remaining 3 percentage point gross margin improvements in each of the third quarter and nine month periods were the result of improved production efficiencies and lower fixed manufacturing costs derived from the facility consolidation including lower depreciation expense and lower steel raw material costs.

Furniture Components operating income for the third quarter of 2012 includes \$778,000 of other operating income related to the reversal of the accrued contingent consideration. Furniture Components operating income for the third quarter of 2011 includes \$175,000 of facility consolidation costs. Excluding the 2012 other operating income related to the reversal of the accrued contingent consideration and the 2011 facility consolidation costs, the operating income margin for the third quarter of 2012 increased by 7 percentage points compared to the third quarter of 2011 primarily due to the items noted above that impacted gross margin, partially offset by currency transaction losses.

Furniture Components operating income for the first nine months of 2012 includes \$778,000 of other operating income related to the reversal of the accrued contingent consideration. Furniture Components operating income for the first nine months of 2011 includes: (i) a patent litigation settlement gain of \$7.5 million, (ii) patent litigation expenses of \$227,000, and (iii) facility consolidation costs of approximately \$2.0 million. Excluding the 2012 other operating income related to the reversal of the accrued contingent consideration and the 2011 patent litigation settlement gain, patent litigation expenses and facility consolidation costs, operating income percentage increased 4 percentage points in the first nine months of 2012 compared to the first nine months of 2011 primarily due to the items noted above that impacted gross margin, partially offset by currency transaction losses.

[Table of Contents](#)

Marine Components. Marine Components net sales increased \$338,000 or 16%, and increased \$677,000 or 10%, for the third quarter and nine month periods in 2012 compared to the same periods in the prior year, respectively. As a percentage of net sales, gross margin for the third quarter of 2012 was flat compared to the third quarter of 2011 and improved 1 percentage point for the nine month period as compared to the prior year. Operating income margin increased for the third quarter and nine month periods of 2012 by 4 and 6 percentage points, respectively, compared to the same periods in 2011 primarily due to increased leverage of selling, general, and administrative costs as a result of the higher sales. The nine month period was favorably impacted by lower intangible amortization expense due to intangibles that became fully amortized in 2011.

Outlook. Consistent with the current state of the North American economy, overall demand from our customers continues to be subject to instability. While we experienced an increase in demand across most of our markets during the first nine months of 2012, demand from several of our significant office furniture industry customers was weak but was more than offset by an additional \$2.7 million in sales during the first nine months from the ergonomic healthcare components business acquired in July 2011. Due to the current economic situation, it is uncertain (i) whether sales to our office furniture industry customers will improve during the remainder of 2012, (ii) what the ongoing impact on sales of the acquired ergonomics components business will be or (iii) the extent that sales will grow across our other customers during the remainder of 2012. While changes in market demand are not within our control, we are focused on the areas we can impact. Staffing levels are continuously evaluated in relation to sales order rates which may result in headcount adjustments, to the extent possible, to match staffing levels with demand. We expect our continuous lean manufacturing and cost improvement initiatives, such as the 2011 consolidation of our Furniture Components facilities, to positively impact our productivity and result in a more efficient infrastructure. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, to expand into new markets and to develop new product features in order to mitigate the impact of changes in demand as well as broaden our sales base.

Volatility in the costs of commodity raw materials is ongoing. Our primary commodity raw materials are steel, brass, alloyed zinc and stainless steel, which together represent approximately 18% of our total cost of goods sold. We generally seek to mitigate the impact of fluctuations in commodity raw material costs on our margins through improvements in production efficiencies or other operating cost reductions as well as occasionally executing larger quantity strategic purchases of these raw materials, which may result in higher inventory balances for a period of time. In the event we are unable to offset commodity raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or surcharges due to the competitive nature of the markets served by our products. Additionally, significant surcharges may negatively affect our margins as they typically only recover the increased cost of the raw material without adding margin dollars resulting in a lower margin percentage. Consequently, overall operating margins may be negatively affected by commodity raw material cost pressures.

During the first nine months of 2012, the value of the U.S. dollar did not change significantly in comparison to the Canadian dollar or the New Taiwan dollar, which are the primary currencies of our non-U.S. operations. However, the U.S. dollar could weaken during the remainder of 2012, which may have a negative impact on our 2012 results in comparison to 2011. When practical, we will seek to mitigate the negative impact of changes in currency exchange rates on our results by entering into currency hedging contracts. However, such strategies cannot fully mitigate the negative

[Table of Contents](#)

impact of changes in currency exchange rates. See Note 8 to the Condensed Consolidated Financial Statements for currency hedging contracts in place at September 30, 2012.

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 operating earnings. Changes in assets and liabilities result primarily from the timing of production, sales and purchases. 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. Our cash provided by operating activities for the first nine months of 2012 decreased by \$1.9 million as compared to the first nine months of 2011 primarily due to the net effects of:

- The negative impact of lower operating income in the first nine months of 2012 of \$2.2 million (primarily as a result of a \$7.5 million litigation settlement gain recognized in the first quarter of 2011, partially offset by \$2.0 million in 2011 facility consolidation costs);
- The positive impact of lower cash paid for interest of \$1.1 million in 2012 due to the interest payment on our note payable to affiliate in March 2011 which included deferred interest from July 1, 2009 to December 31, 2010; and
- The positive impact of lower cash paid for income taxes in the first nine months of 2012 of approximately \$1.4 million due to the timing of tax payments and refunds.

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, the change in our average days sales outstanding from December 31, 2011 to September 30, 2012 varied by segment. Generally, we expect our average days sales outstanding to increase from December to September as the result of a seasonal increase in sales during the third quarter as compared to the fourth quarter. For comparative purposes, we have provided December 31, 2010 and September 30, 2011 numbers below. Overall, our September 30, 2012 days sales outstanding compared to December 31, 2011 is in line with our expectations.

<u>Days Sales Outstanding:</u>	<u>December 31, 2010</u>	<u>September 30, 2011</u>	<u>December 31, 2011</u>	<u>September 30, 2012</u>
Security Products	40 Days	39 Days	39 Days	41 Days
Furniture Components	44 Days	47 Days	38 Days	44 Days
Marine Components	34 Days	34 Days	44 Days	37 Days
Consolidated CompX	41 Days	42 Days	39 Days	42 Days

[Table of Contents](#)

As shown below, our consolidated average number of days in inventory decreased from December 31, 2011 to September 30, 2012. The decrease in days in inventory was the result of an increase in sales volume in the first nine months of 2012 without a significant change in inventory value due to our operational focus on continuously improving our inventory management. The variability in days in inventory among our segments primarily relates to the differences in the complexity of the production processes and therefore the length of time it takes to produce end products. For comparative purposes, we have provided December 31, 2010 and September 30, 2011 numbers below.

<u>Days in Inventory:</u>	<u>December 31, 2010</u>	<u>September 30, 2011</u>	<u>December 31, 2011</u>	<u>September 30, 2012</u>
Security Products	73 Days	72 Days	79 Days	67 Days
Furniture Components	58 Days	56 Days	59 Days	60 Days
Marine Components	143 Days	110 Days	114 Days	87 Days
Consolidated CompX	70 Days	67 Days	71 Days	65 Days

Investing activities. Net cash used in investing activities totaled \$3.1 million in the first nine months of 2012 compared to net cash used of \$6.5 million in the first nine months of 2011. The decrease is primarily the result of the 2011 Furniture Components ergonomics healthcare product line acquisition, offset in part by increased capital expenditures related to new Furniture Component products including the ergonomics healthcare product line mentioned above and the upgrading of our Security Products and Marine Components manufacturing and accounting systems.

Financing activities. Net cash used by financing activities was \$6.5 million in the first nine months of 2012 compared to net cash used of \$6.9 in the first nine months of 2011.

During 2012:

- we paid \$4.6 million, or \$.375 per share, in dividends, and
- we repaid \$1.8 million in principal payments on our promissory note payable to affiliate.

During 2011:

- we paid \$4.6 million, or \$.375 per share, in dividends,
- we repaid \$4.8 million in principal payments on our promissory note payable to affiliate,
- we borrowed \$5.3 million in connection with our acquisition of an ergonomics products business, and
- we repaid \$3.0 million that was outstanding under our credit facility at December 31, 2010.

See Note 6 to the Condensed Consolidated Financial Statements.

Debt obligations. At September 30, 2012, there was approximately \$2.0 million outstanding under our \$30 million revolving credit facility that matures in January 2015, and \$20.0 million outstanding under our note payable to affiliate. At September 30, 2012 we could borrow the full amount of the remaining capacity of our credit facility without violating any debt covenants. We were in compliance with all of our financial covenants at September 30, 2012.

Provisions contained in our revolving credit facility could result in the acceleration of any outstanding indebtedness prior to its stated maturity for reasons other than defaults from failing to comply with typical financial covenants. For example, our revolving credit facility allows the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. The terms of our revolving credit facility 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. Although there are no current expectations to further borrow on the revolving credit facility, lower future operating results could reduce or eliminate our amount available to borrow and restrict future dividends. See also Note 6 to the Condensed Consolidated Financial Statements.

Future cash requirements –

Liquidity. 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 capital expenditures, investment activities or reducing our outstanding stock and (iii) provide for the payment of dividends (if declared). From time-to-time, we will incur indebtedness, primarily 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.

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 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.

We believe that cash generated from operations together with cash on hand, as well as, our ability to obtain additional external financing, will be sufficient to meet our liquidity needs for working capital, capital expenditures, debt service and dividends (if declared) for both the next twelve months and five years. To the extent that our actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

Of the \$7.0 million aggregate cash and cash equivalents at September 30, 2012, \$6.0 million was held by our non-U.S. subsidiaries.

Capital Expenditures. Firm purchase commitments for capital projects in process at September 30, 2012 totaled \$1.4 million. Our 2012 capital investments are limited to those expenditures required to meet our expected customer demand and those required to properly maintain or improve our facilities and technology infrastructure.

Commitments and Contingencies. There have been no material changes in our contractual obligations since we filed our 2011 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 2011 Annual Report.

Recent accounting pronouncements –

See Note 9 to our Condensed Consolidated Financial Statements.

Critical accounting policies –

There have been no changes in the first nine months of 2012 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2011 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 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 demand for our products,
- Changes in our raw material and other operating costs (such as steel and energy costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs,
- Demand for office furniture,
- Price and product competition from low-cost manufacturing sources (such as China),
- The impact of pricing and production decisions,
- Customer and competitor strategies including substitute products,
- Uncertainties associated with the development of new product features,
- Fluctuations in the value of the U.S. dollar relative to other currencies (such as the Canadian dollar and New Taiwan dollar),
- Future litigation,
- Potential difficulties in integrating completed or future acquisitions,
- Actual demand relating to new products or products associated with an acquisition,
- Decisions to sell operating assets other than in the ordinary course of business,
- Potential difficulties in implementing new operational and accounting systems,
- 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,
- General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world),
- Operating interruptions (including, but not limited to labor disputes, hazardous chemical leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions); and
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to market risk, including foreign currency exchange rates, interest rates and security prices. There have been no material changes in these market risks since we filed our 2011 Annual Report. For a discussion of these market risk items, refer to Part I, Item 7A – “Quantitative and Qualitative Disclosure About Market Risk” in our 2011 Annual Report. See also Note 8 to the Condensed Consolidated Financial Statements.

We have substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amounts of our assets and liabilities related to our non-U.S. operations, and therefore our consolidated net assets, will fluctuate based upon changes in currency exchange rates.

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 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 September 30, 2012. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of the date of such evaluation.

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

[Table of Contents](#)

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 September 30, 2012 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 2011 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 nine months of 2012.

ITEM 6. Exhibits.

<u>Item No.</u>	<u>Exhibit Index</u>
31.1*	Certification
31.2*	Certification
32.1*	Certification
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

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, and Audit Committee Charter, each as adopted by our board of directors on February 22, 2012 and March 2, 2011 respectively, 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: November 6, 2012

By: /s/ Darryl R. Halbert
Darryl R. Halbert
Vice President, Chief Financial Officer and Controller

CERTIFICATION

I, David A. Bowers, certify that:

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

Date: November 6, 2012

By: /s/David A. Bowers

David A. Bowers

Vice Chairman of the Board, President
and Chief Executive Officer

CERTIFICATION

I, Darryl R. Halbert, certify that:

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

Date: November 6, 2012

By: /s/Darryl R. Halbert

Darryl R. Halbert

Vice President, Chief Financial Officer
and Controller

(Principal Accounting and Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of CompX International Inc. (the Company) on Form 10-Q for the period ending September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David A. Bowers, Vice Chairman of the Board, President and Chief Executive Officer of the Company and I, Darryl R. Halbert, Vice President, Chief Financial Officer and Controller of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/David A. Bowers

David A. Bowers
Vice Chairman of the Board, President and Chief
Executive Officer

By: /s/Darryl R. Halbert

Darryl R. Halbert
Vice President, Chief Financial Officer and
Controller

Date: November 6, 2012

Note: The certification the registrant furnishes in this exhibit is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.

