

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 2005-05-02 | Period of Report: 2005-03-31  
SEC Accession No. 0001049606-05-000009

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FILER

**COMPX INTERNATIONAL INC**

CIK: 1049606 | IRS No.: 570981653 | State of Incorporation: DE | Fiscal Year End: 1231  
Type: 10-Q | Act: 34 | File No.: 001-13905 | Film No.: 05791177  
SIC: 3420 Cutlery, handtools & general hardware

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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 March 31, 2005                      Commission file number 1-13905  
-----

-----  
COMPX INTERNATIONAL INC.  
-----

(Exact name of Registrant as specified in its charter)

Delaware

57-0981653

-----  
(State or other jurisdiction of  
organization) Identification No.)

-----  
(IRS Employer

5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697

-----  
(Address of principal executive offices)      (Zip Code)

Registrant's telephone number, including area code:                      (972) 448-1400  
-----

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes      No --- X

Number of shares of common stock outstanding on April 25, 2005:

Class A: 5,195,780

Class B: 10,000,000

COMPX INTERNATIONAL INC.

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COMPX INTERNATIONAL INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

ASSETS	December 31, 2004	March 31, 2005
	-----	-----
Current assets:		(Unaudited)
<S>	<C>	<C>
Cash and cash equivalents	\$ 16,803	\$ 30,405
Accounts receivable, net	19,212	21,606
Receivables from affiliates	635	1,234
Refundable income taxes	57	222
Inventories	20,782	20,838
Prepaid expenses and other	790	628
Deferred income taxes	1,447	1,609
Assets held for sale	17,957	-
	-----	-----
Total current assets	77,683	76,542
	-----	-----
Other assets:		
Goodwill	29,012	29,106
Other intangible assets	1,703	1,646
Note receivable	-	4,179
Assets held for sale	10,964	-
Other	195	218
	-----	-----
Total other assets	41,874	35,149
	-----	-----
Property and equipment:		
Land	4,713	8,168
Buildings	26,877	27,076
Equipment	104,041	103,921
Construction in progress	2,299	3,841
	-----	-----
	137,930	143,006
Less accumulated depreciation	71,808	74,253
	-----	-----
Net property and equipment	66,122	68,753
	-----	-----
	\$185,679	\$180,444
	=====	=====

</TABLE>

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COMPX INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

<TABLE> <CAPTION> LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2004	March 31, 2005
	-----	-----
Current liabilities:		(Unaudited)
<S>	<C>	<C>
Accounts payable and accrued liabilities	\$ 17,704	\$ 18,125
Income taxes	2,687	947
Liabilities related to assets held for sale	4,998	-
	-----	-----
Total current liabilities	25,389	19,072
	-----	-----
Noncurrent liabilities:		
Long-term debt	85	75
Deferred income taxes	4,949	4,992
	-----	-----
Total noncurrent liabilities	5,034	5,067
	-----	-----
Stockholders' equity:		
Preferred stock	-	-
Class A common stock	52	52
Class B common stock	100	100
Additional paid-in capital	108,828	109,019
Retained earnings	38,523	38,359
Accumulated other comprehensive income		
- currency translation	7,753	8,775
	-----	-----
Total stockholders' equity	155,256	156,305
	-----	-----
	\$185,679	\$180,444
	=====	=====

</TABLE>

Commitments and contingencies (Note 1)

See accompanying notes to consolidated financial statements.

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COMPX INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF INCOME

Three months ended March 31, 2004 and 2005

(In thousands, except per share data)

(Unaudited)

<TABLE> <CAPTION>	2004	2005
	----	----
<S>	<C>	<C>
Net sales	\$43,576	\$46,843
Cost of goods sold	35,175	36,560
	-----	-----
Gross margin	8,401	10,283

Selling, general and administrative expense	6,067	6,122
	-----	-----
Operating income	2,334	4,161
Other general corporate income, net	603	161
Interest expense	(209)	(69)
	-----	-----
Income from continuing operations before income taxes	2,728	4,253
Provision for income taxes	1,173	2,041
	-----	-----
Income from continuing operations	1,555	2,212
Discontinued operations, net of tax	5	(477)
	-----	-----
Net income	\$ 1,560	\$ 1,735
	=====	=====
Basic and diluted earnings (loss) per common share:		
Continuing operations	\$ .10	\$ .14
Discontinued operations	.00	(.03)
	-----	-----
	\$ .10	\$ .11
	=====	=====
Cash dividends per share	\$ -	\$ .125
	=====	=====
Shares used in the calculation of basic and diluted earnings per share	15,125	15,216
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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COMPX INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31, 2004 and 2005

(In thousands)

(Unaudited)

<TABLE>		
<CAPTION>		
	2004	2005
	----	----
<S>	<C>	<C>
Net income	\$ 1,560	\$1,735
	-----	-----
Other comprehensive income (loss), net of tax: Currency translation adjustment:		
Arising during the period	(1,439)	358
Disposal of business unit	-	739
	-----	-----
	(1,439)	1,097
Unrealized loss on cash flow hedges	-	(75)
	-----	-----
Total other comprehensive income	(1,439)	1,022
	-----	-----
Comprehensive income	\$ 121	\$2,757
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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COMPX INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, 2004 and 2005

(In thousands)  
(Unaudited)

	2004	2005
	----	----
<b>Cash flows from operating activities:</b>		
<S>	<C>	<C>
Net income	\$ 1,560	\$ 1,735
Depreciation and amortization	3,746	2,707
Deferred income taxes:		
Continuing operations	(562)	66
Discontinued operations	-	(187)
Other, net	102	877
Change in assets and liabilities:		
Accounts receivable	(1,964)	(2,341)
Inventories	1,782	(46)
Accounts payable and accrued liabilities	(2,266)	605
Accounts with affiliates	50	178
Income taxes	1,038	(1,734)
Other, net	(122)	87
	-----	-----
Net cash provided by operating activities	3,364	1,947
	-----	-----
<b>Cash flows from investing activities:</b>		
Capital expenditures	(609)	(5,146)
Proceeds from disposal of assets held for sale	-	18,094
Cash of disposed business unit	-	(4,006)
Other, net	10	6
	-----	-----
Net cash provided (used) by investing activities	(599)	8,948
	-----	-----
<b>Cash flows from financing activities:</b>		
Indebtedness:		
Additions	252	-
Principal payments	(12,064)	(10)
Deferred financing costs paid	(28)	(28)
Dividends	-	(1,899)
Issuance of common stock	-	191
	-----	-----
Net cash used by financing activities	(11,840)	(1,746)
	-----	-----
<b>Cash and cash equivalents - net change from:</b>		
Operating, investing and financing activities	(9,075)	9,149
Currency translation	(286)	219
Cash and cash equivalents at beginning of period	21,726	21,037
	-----	-----
Cash and cash equivalents at end of period	\$ 12,365	\$ 30,405
	=====	=====
<b>Supplemental disclosures:</b>		
Cash paid for:		
Interest	\$ 252	\$ 55
Income taxes	521	2,834
<b>Noncash investing and financing activities:</b>		
Note receivable	\$ -	\$ 4,179

</TABLE>

## COMPX INTERNATIONAL INC.

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three months ended March 31, 2005

(In thousands)

(Unaudited)

	Common Stock		Additional paid-in capital	Retained Earnings	Accumulated other comprehensive income (loss)-		Total stockholders' equity
	Class A	Class B			Currency translation	Hedging Derivatives	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2004	\$52	\$100	\$108,828	\$38,523	\$7,678	\$ 75	\$155,256
Net income	-	-	-	1,735	-	-	1,735
Other comprehensive income, net	-	-	-	-	1,097	(75)	1,022
Cash dividends	-	-	-	(1,899)	-	-	(1,899)
Issuance of common stock	-	-	191	-	-	-	191
Balance at March 31, 2005	\$52	\$100	\$109,019	\$38,359	\$8,775	\$ -	\$156,305

See accompanying notes to consolidated financial statements.

## COMPX INTERNATIONAL INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Basis of presentation:

The consolidated balance sheet of CompX International Inc. and Subsidiaries (collectively, the "Company") at December 31, 2004 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at March 31, 2005 and the consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the interim periods ended March 31, 2004 and 2005 have been prepared by the Company, without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") has been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Annual Report").

Basic earnings per share of common stock is based upon the weighted average number of common shares actually outstanding during each period. Diluted earnings per share of common stock includes the impact of outstanding dilutive stock options.

Commitments and contingencies are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the 2004 Annual

Report.

At March 31, 2005, CompX Group, Inc., a majority-owned subsidiary of NL Industries, Inc. (NYSE: NL) owned 83% of the Company's outstanding common stock. NL owns 82.4% of CompX Group, and a wholly owned subsidiary of Titanium Metals Corporation (NYSE:TIE) ("TIMET") owns the remaining 17.6% of CompX Group. At March 31, 2005, (i) the wholly owned subsidiary of TIMET owns an additional 2% of CompX directly, (ii) Valhi, Inc. holds, directly or through a subsidiary, approximately 83% of NL's outstanding common stock and approximately 43% of TIMET's outstanding common stock and (iii) Contran Corporation holds, directly or through subsidiaries, approximately 91% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of such companies and the Company.

Stock options. As disclosed in the 2004 Annual Report, the Company accounts for stock-based employee compensation related to stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion ("APBO") No. 25, Accounting for Stock Issued to Employees, and its various interpretations. See Note 10. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is greater than or equal to the market price on the grant date. Compensation cost recognized by the Company related to stock options in accordance with APBO No. 25 was not significant during the first three months of 2004 or 2005.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of

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Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation to stock-based employee compensation related to stock options for all options granted on or after January 1, 1995.

<TABLE>

<CAPTION>

	Three months ended March 31,	
	2004	2005
	----	----
	(In thousands)	
<S>	<C>	<C>
Net income, as reported	\$1,560	\$ 1,735
Deduct: Total stock-based employee compensation expense related to stock options determined under fair value based method for all awards, net of related tax effects	(136)	(34)
	-----	-----
Pro forma net income	\$1,424	\$ 1,701
	=====	=====
Earnings per share - basic and diluted:		
As reported	\$ .10	\$ .11
	=====	=====
Pro forma	\$ .09	\$ .11
	=====	=====

</TABLE>

Note 2 - Business segment information:

<TABLE>

<CAPTION>

	Three months ended March 31,	
	2004	2005
	----	----
	(In thousands)	
Net sales:		
<S>	<C>	<C>
Security Products	\$18,764	\$18,544
Precision Slides	18,251	21,101
Ergonomics	6,561	7,198
	-----	-----
Total net sales	\$43,576	\$46,843
	=====	=====
Operating income (loss):		
Security Products	\$ 2,187	\$ 2,720
Precision Slides	(586)	413
Ergonomics	733	1,028
	-----	-----



Total operating income	2,334	4,161
Interest expense	(209)	(69)
Other general corporate income, net	603	161
	-----	-----
Income from continuing operations before income taxes	\$ 2,728	\$ 4,253
	=====	=====

</TABLE>

Note 3 - Inventories:

<TABLE>

<CAPTION>

	December 31, 2004	March 31, 2005
	-----	-----
	(In thousands)	
	<C>	<C>
Raw materials	\$ 4,514	\$ 4,774
Work in process	9,019	9,776
Finished products	7,184	6,214
Supplies	65	74
	-----	-----
	\$20,782	\$20,838
	=====	=====

</TABLE>

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Note 4 - Accounts payable and accrued liabilities:

<TABLE>

<CAPTION>

	December 31, 2004	March 31, 2005
	-----	-----
	(In thousands)	
	<C>	<C>
Accounts payable	\$ 6,392	\$ 7,468
Accrued liabilities:		
Employee benefits	7,987	6,964
Professional fees	730	666
Insurance	448	511
Taxes other than on income	399	393
Sales rebates	291	612
Other	1,457	1,511
	-----	-----
	\$17,704	\$18,125
	=====	=====

</TABLE>

Note 5 - Indebtedness:

<TABLE>

<CAPTION>

	December 31, 2004	March 31, 2005
	-----	-----
	(In thousands)	
	<C>	<C>
Capital lease obligations	\$127	\$117
Less current portion	42	42
	----	----
	\$ 85	\$ 75
	====	====

</TABLE>

Note 6 - Other general corporate income (expense), net:

<TABLE>

<CAPTION>

	Three months ended March 31,	
	2004	2005
	-----	-----
	(In thousands)	
	<C>	<C>

<S>

Interest income	\$ 427	\$ 176
Currency exchange transactions, net	143	(54)
Other, net	33	39
	-----	-----
	\$ 603	\$ 161
	=====	=====

</TABLE>

Note 7 - Provision for income taxes:

<TABLE>  
<CAPTION>

	Three months ended March 31,	
	2004	2005
	----	----
	(In thousands)	
<S>	<C>	<C>
Expected tax expense	\$ 955	\$1,489
Non-U.S. tax rates	(31)	(78)
Incremental U.S. tax on earnings of foreign subsidiaries	189	572
State income taxes	27	72
Other, net	33	(14)
	-----	-----
	\$1,173	\$2,041
	=====	=====

</TABLE>

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Note 8 - Currency forward exchange contracts:

Certain of the Company's sales generated by its non-U.S. operations are denominated in U.S. dollars. The Company periodically uses 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. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does the Company currently anticipate entering into such contracts for trading or speculative purposes in the future. Derivatives used to hedge forecasted transactions and specific cash flows associated with foreign currency denominated financial assets and liabilities which meet the criteria for hedge accounting are designated as cash flow hedges. Consequently, the effective portion of gains and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings. Contracts that do not meet the criteria for hedge accounting are marked-to-market at each balance sheet date with any resulting gain or loss recognized in income currently as part of net currency transactions. At March 31, 2005, the Company held a series of contracts to manage such exchange rate risk to exchange an aggregate of U.S. \$2.5 million for Canadian dollars at exchange rates of Cdn. \$1.20 to Cdn. \$1.23 per U.S. dollar. Such contracts matured through May 2005. The exchange rate was Cdn. \$1.21 per U.S. dollar at March 31, 2005. The estimated fair value of such contracts is not material at March 31, 2005.

Note 9 - Discontinued operations:

As discussed in the 2004 Annual Report, in December 2004 the Company's board of directors committed to a formal plan to dispose of its Thomas Regout operations in The Netherlands. Such operations met all of the criteria under GAAP to be classified as an asset held for sale at December 31, 2004, and accordingly the results of operations of Thomas Regout have been classified as discontinued operations for all periods presented. The Company has not reclassified its Consolidated Statements of Cash Flows to reflect discontinued operations or assets held for sale. In classifying the net assets of the European Thomas Regout operations as an asset held for sale, the Company concluded that the carrying amount of the net assets of such operations exceeded the estimated fair value less costs to sell of such operations, and accordingly in the fourth quarter of 2004 the Company recognized a \$14.4 million impairment charge to write-down its investment in the European Thomas Regout operations to its estimated net realizable value. Such charge represented an impairment of goodwill.

In January 2005, the Company completed the sale of its Thomas Regout operations in Europe for net proceeds of approximately \$22.3 million. The net proceeds consisted of approximately \$18.1 million in cash and a note receivable in the principal amount of \$4.2 million. The note receivable bears interest at a fixed rate of 7% and is payable over four years. The note receivable is collateralized by a secondary lien on the assets sold and is subordinated to certain third-party debt of the purchaser. Accordingly, the Company no longer includes the results of operations of the European Thomas Regout operations

subsequent to December 31, 2004 in its consolidated financial statements. The net proceeds from the January 2005 sale of the European Thomas Regout operations were approximately \$860,000 less than the net realizable value estimated at the time of the goodwill impairment charge (primarily due to higher expenses associated with the disposal of the Thomas Regout operations), and discontinued operations in the first quarter of 2005 includes a charge related to such differential (\$477,000, net of income tax benefit) was recognized in the first quarter of 2005. Such charge represents an additional impairment of goodwill.

During the first quarter of 2004, the European Thomas Regout operations reported net sales of \$9.9 million, operating income of \$400,000, interest expense of \$400,000 and a nominal amount of net income.

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Note 10 - Accounting principles not yet implemented:

Inventory costs. The Company will adopt SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, for inventory costs incurred on or after January 1, 2006. SFAS No. 151 requires that the allocation of fixed production overhead costs to inventory shall be based on normal capacity. Normal capacity is not defined as a fixed amount; rather, normal capacity refers to a range of production levels expected to be achieved over a number of periods under normal circumstances, taking into account the loss of capacity resulting from planned maintenance shutdowns. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of idle plant or production levels below the low end of normal capacity, but instead a portion of fixed overhead costs is charged to expense as incurred. Alternatively, in periods of production above the high end of normal capacity, the amount of fixed overhead costs allocated to each unit of production is decreased so that inventories are not measured above cost. SFAS No. 151 also clarifies existing GAAP to require that abnormal freight and wasted materials (spoilage) are to be expensed as incurred. The Company believes its production cost accounting already complies with the requirements of SFAS No. 151, and the Company does not expect adoption of SFAS No. 151 will have a material effect on its consolidated financial statements.

Stock options. As permitted by regulations of the Securities and Exchange Commission ("SEC"), the Company will adopt SFAS No. 123R, Share-Based Payment, as of January 1, 2006. SFAS No. 123R, among other things, eliminates the alternative in existing GAAP to use the intrinsic value method of accounting for stock-based employee compensation under APBO No. 25. Upon adoption of SFAS No. 123R, the Company will generally be required to recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with the cost recognized over the period during which an employee is required to provide services in exchange for the award (generally, the vesting period of the award). No compensation cost will be recognized in the aggregate for equity instruments for which the employee does not render the requisite service (generally, the instrument is forfeited before it has vested). The grant-date fair value will be estimated using option-pricing models (e.g. Black-Scholes or a lattice model). Under the transition alternatives permitted under SFAS No. 123R, the Company will apply the new standard to all new awards granted on or after January 1, 2006, and to all awards existing as of December 31, 2005 which are subsequently modified, repurchased or cancelled. Additionally, as of January 1, 2006, the Company will be required to recognize compensation cost for the portion of any non-vested award existing as of December 31, 2005 over the remaining vesting period. Because the number of non-vested awards as of December 31, 2005 with respect to options granted by the Company is not expected to be material, the effect of adopting SFAS No. 123R is not expected to be significant in so far as it relates to existing stock options. Should the Company, however, either grant a significant number of options or modify, repurchase or cancel existing options in the future, the effect on the Company's consolidated financial statements could be material.

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

Overview

The Company reported income from continuing operations of \$2.2 million in the first quarter of 2005 compared to income of \$1.6 million for the first quarter of 2004. The overall improvement is primarily the result of the favorable impact of cost reduction initiatives undertaken over the last several years as well as those initiated in the current period.

Results of Operations

<TABLE>  
<CAPTION>

Three months ended

	March 31,		% Change
	2004	2005	
	(In millions)		
Net sales:			
<S>	<C>	<C>	<C>
Security Products	\$18,764	\$18,544	(1)%
Precision Slides	18,251	21,101	16%
Ergonomics	6,561	7,198	10%
	-----	-----	
Total net sales	\$43,576	\$46,843	7%
	=====	=====	
Operating income (loss):			
Security Products	\$ 2,187	\$ 2,720	24%
Precision Slides	(586)	413	n.m.
Ergonomics	733	1,028	40%
	-----	-----	
Total operating income	\$ 2,334	\$ 4,161	78%
	=====	=====	

</TABLE>

n.m. = not meaningful

Currency. CompX has substantial operations and assets located outside the United States (in Canada and Taiwan). A portion of CompX's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar and the New Taiwan dollar. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of CompX's foreign 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. The effects of fluctuations in currency exchange rates affect the Precision Slides and Ergonomics segments, and do not materially affect the Security Products segment. During the first quarter of 2005, currency exchange rate fluctuations did not significantly impact comparisons with 2004.

Net sales. Net sales increased \$3.2 million, or 7%, to \$46.8 million in the first quarter of 2005 from \$43.6 million in the first quarter of 2004 due primarily to an increase in selling prices for certain products across all segments.

Cost of goods sold. The Company's cost of goods sold increased 4% in the first quarter of 2005 compared to 2004 while net sales increased 7% during the same period. The Company's gross margin percentage increased from 19% in the 2004 period to 22% in the 2005 period. This improvement resulted from the

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favorable impact of the cost reduction initiatives undertaken over the last several years as well as those initiated in the current period. Gross margin comparisons were also favorably impacted by selling price increases on certain Precision Slides and Ergonomics products and relative changes in product mix at Security Products in the first quarter of 2005 as compared to the first quarter of 2004.

Selling, general, and administrative expense. As a percentage of net sales, selling, general, and administrative expense was 14% of net sales in 2004 and 13% in 2005.

Operating income. Operating income in the first quarter of 2005 increased to \$4.2 million compared to \$2.3 million for the first quarter of 2004. As a percentage of net sales, operating income increased to 9% for the first quarter of 2005 from 5% for the first quarter of 2004 due to the improvement in gross margins discussed above.

Other general corporate income (expense), net. The components of other general corporate income (expense), net are summarized in Note 6 to the Consolidated Financial Statements, and primarily include interest income, currency exchange transaction gains and losses, and gains and losses on disposals of other assets. Currency exchange transactions, net were approximately \$200,000 lower in the first quarter of 2005 compared to the first quarter of 2004 due to less volatility in intra-quarter currency exchange rates in 2005.

Interest expense. Interest expense declined in the first quarter of 2005 compared to the first quarter of 2004 due primarily to lower average levels of

outstanding debt.

Provision for income taxes. The principal reasons for the difference between CompX's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 7 to the Consolidated Financial Statements. Income tax rates vary by jurisdiction (country, county and/or state), and relative changes in the geographic mix of CompX's pre-tax earnings can result in fluctuations in the effective income tax rate.

As disclosed in the 2004 Annual report, CompX became a member of Contran's consolidated U.S. federal income tax group (the "Contran Tax Group") in October 2004. As a member of the Contran Tax Group, CompX computes its provision for income taxes on a separate company basis, using the tax elections made by Contran. One such election is whether to claim a deduction or a tax credit against U.S. taxable income with respect to foreign income taxes paid. During the first quarter of 2004, and prior to CompX becoming a member of the Contran Tax Group, CompX was able to claim a tax credit with respect to foreign income taxes paid. During the first quarter of 2005, CompX is not claiming a credit with respect to foreign income taxes paid but instead is claiming a tax deduction, since Contran has elected to claim a tax deduction for such items. This has resulted in an increase in the Company's effective income tax rate in the first quarter of 2005 as compared to the same period in 2004.

Discontinued operations. See Note 9 to the Consolidated Financial Statements.

Accounting principles not yet implemented. See Note 10 to the Consolidated Financial Statements.

Outlook. While demand has stabilized across most product segments, certain customers are seeking lower cost Asian sources as alternatives to the Company's products. CompX believes the impact of this will be mitigated through ongoing

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initiatives to expand both new products and new market opportunities. Asian sourced competitive pricing pressures are expected to continue to be a challenge as Asian manufacturers, particularly those located in China, gain market share. The Company's strategy in responding to the competitive pricing pressure has included reducing production cost through product reengineering, improvement in manufacturing processes or moving production to lower-cost facilities, including our own Asian based manufacturing facilities. The Company also has emphasized and focused on opportunities where it can provide value-added customer support services that Asian based manufacturers are generally unable to provide. The combination of the Company's cost control initiatives together with its value-added approach to development and marketing of products are believed to help mitigate the impact of pricing pressures from Asian competitors.

Additionally, the Company's cost for steel continues to be unstable due to the continued high demand and shortages in various parts of the world. While the Company has thus far been able to pass a majority of its higher raw material costs on to its customers through price increases and surcharges, there is no assurance that the Company would be able to continue to pass along any additional higher costs to its customers. The price increases and surcharges may accelerate the efforts of some of the Company's customers to find less expensive products from foreign manufacturers. The Company will continue to focus on cost improvement initiatives, utilizing lean manufacturing techniques and prudent balance sheet management in order to minimize the impact of lower sales, particularly to the office furniture industry, and to develop value-added customer relationships with an additional focus on sales of the Company's higher-margin ergonomic computer support systems to improve operating results. These actions, along with other activities to eliminate excess capacity, are designed to position the Company to expand more effectively on both new product and new market opportunities to improve Company profitability.

#### Liquidity and Capital Resources

##### Summary.

The Company's primary source of liquidity on an ongoing basis is its cash flow from operating activities, which is generally used to (i) fund capital expenditures, (ii) repay short-term indebtedness incurred primarily for working capital purposes and (iii) provide for the payment of dividends (if declared). From time-to-time, the Company will incur indebtedness, primarily for short-term working capital needs or to fund capital expenditures. From time-to-time, the Company 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.

At March 31, 2005, there were no amounts outstanding under the Company's credit facility that matures in January 2006. The Company does not expect it will be required to use any of its cash flow from operating activities generated during 2005 to repay indebtedness. The Company expects to seek a renewal of its

credit facility during the second half of 2005.

#### 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 the Company's 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 and result in trends in cash flows from operating activities generally reflecting earnings trends. However, period-to-period relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. Such changes in assets and liabilities resulted in a net use of cash of approximately \$1.5 million in the first quarter of 2004 compared to a net use of cash of \$3.3 million in the first quarter of 2005.

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Investing activities. Net cash used by investing activities totaled \$.6 million in the first quarter of 2004 and provided for \$9.0 million in the first quarter of 2005, which include the net proceeds from the sale of the Thomas Regout operations in Europe discussed below.

On January 24, 2005, CompX completed the disposition of all of the net assets of its Thomas Regout precision slide and window furnishing operations, conducted at its facility in the Netherlands, to members of Thomas Regout management for net proceeds of approximately \$22.3 million. The proceeds consisted of cash (net of costs to sell) of approximately \$18.1 million and a subordinated Note for approximately \$4.2 million. The subordinated note requires annual payments over a period of four years. Historically, the Thomas Regout European operations have not contributed significantly to net cash flows from operations. See Note 9 to the Consolidated Financial Statements.

Firm purchase commitments for capital projects not commenced at March 31, 2005 approximated \$2.5 million.

Financing activities. Net cash used by financing activities totaled \$11.8 million and \$1.7 million in the first quarter of 2004 and 2005, respectively. The Company reduced debt by \$11.8 million in the first quarter of 2004 and paid a quarterly dividend of \$1.9 million, or \$.125 per share, in the first quarter of 2005.

Provisions contained in the Company's revolving bank credit facility could result in the acceleration of such 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, which provision was waived in connection with the Company's sale of its Thomas Regout operations in Europe. Other than certain operating leases discussed in the 2004 Annual Report, neither CompX nor any of its subsidiaries are parties to any off-balance sheet financing arrangements.

Management believes that cash generated from operations and borrowing availability under the Company's credit facility, together with cash on hand, will be sufficient to meet the Company's liquidity needs for working capital, capital expenditures, debt service and dividends. To the extent that the Company's actual operating results or other developments differ from the Company's expectations, CompX's liquidity could be adversely affected.

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

#### Forward Looking Information

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this

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Quarterly Report on Form 10-Q relating to matters that are not historical facts are forward-looking statements that represent management's 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 the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these 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 Company's other filings with the Securities and Exchange Commission. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties including, but not limited to the following:

- o Future supply and demand for the Company's products,
- o Changes in costs of raw materials and other operating costs (such as energy costs),
- o General global economic and political conditions,
- o Demand for office furniture,
- o Service industry employment levels,
- o The possibility of labor disruptions,
- o Competitive products and prices, including increased competition from low-cost manufacturing sources (such as China),
- o Substitute products,
- o Customer and competitor strategies,
- o Costs and expenses associated with compliance with certain requirements of the Sarbanes-Oxley Act of 2002 relating to the evaluation of the Company's internal control over financial reporting,
- o The introduction of trade barriers,
- o The impact of pricing and production decisions,
- o Fluctuations in the value of the U.S. dollar relative to other currencies (such as the Canadian dollar and New Taiwan dollar),
- o Potential difficulties in integrating completed or future acquisitions,
- o Decisions to sell operating assets other than in the ordinary course of business,
- o Uncertainties associated with new product development,
- o Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- o The ability of the Company to renew or refinance its revolving bank credit facility,
- o The ultimate outcome of income tax audits,
- o The impact of current or future government regulations, o Possible future litigation and
- o Other risks and uncertainties.

Should one or more of these risks materialize (or the consequences of such a development worsen) or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

#### ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the SEC, means controls and other

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procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of David A. Bowers, the Company's Vice Chairman of the Board, President and Chief Executive Officer, and Darryl R. Halbert, the Company's Vice President, Chief Financial Officer and Controller, have evaluated the Company's disclosure controls and procedures as of March 31, 2005. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

Internal Control Over Financial Reporting. The Company also maintains

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, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's 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:

- o Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company.
- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

There has been no change to the Company's internal control over financial reporting during the quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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## Part II. OTHER INFORMATION

### ITEM 6. Exhibits.

#### Exhibits

31.1	Certification
31.2	Certification
32.1	Certification
32.2	Certification

The Company has retained a signed original of any of the above exhibits that contains signatures, and the Company will provide such exhibit to the Commission or its staff upon request. CompX will also furnish, without charge, a copy of its Code of Business Conduct and Ethics and its Audit Committee Charter, each as approved by the Board of Directors on February 24, 2004, upon request. Such requests should be directed to the attention of CompX's Corporate Secretary at CompX's corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

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### 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.

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(Registrant)

Date May 2, 2005  
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By /s/ Darryl R. Halbert  
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Darryl R. Halbert  
Vice President, Chief Financial Officer



and Controller

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CERTIFICATION

I, David A. Bowers, the Vice Chairman of the Board, President and Chief Executive Officer of CompX International Inc., 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)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's 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: May 2, 2005

/s/David A. Bowers

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David A. Bowers

Vice Chairman of the Board, President  
and Chief Executive Officer

CERTIFICATION

I, Darryl R. Halbert, the Vice President, Chief Financial Officer and Controller of CompX International Inc., 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)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's 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 could 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: May 2, 2005

/s/Darryl R. Halbert

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Darryl R. Halbert

Vice President, Chief Financial Officer  
and Controller

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 March 31, 2005 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, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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.

/s/David A. Bowers

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David A. Bowers  
Vice Chairman of the Board, President and Chief Executive Officer  
May 2, 2005

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.

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 March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Darryl R. Halbert, Vice President, Chief Financial Officer and Controller of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.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.

/s/Darryl R. Halbert

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Darryl R. Halbert  
Vice President, Chief Financial Officer  
and Controller  
May 2, 2005

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.