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COMPX INTERNATIONAL INC

Form 10-K

March 16, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 - For the fiscal year ended December 31, 2005

Commission file number 1-13905

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

Delaware	57-0981653
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(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
5430 LBJ Freeway, Suite 1700, Dallas, Texas	75240-2697
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(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(972) 448-1400
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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
-----	-----
Class A common stock (\$ .01 par value per share)	New York Stock Exchange

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

None.

Indicate by check mark:

If the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No X

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

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

If disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No X

Whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the

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Act). Large accelerated filer Accelerated filer Non-accelerated filer  
X .

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

The aggregate market value of the 2.0 million shares of voting stock held by nonaffiliates of CompX International Inc. as of June 30, 2005 (the last business day of the Registrant's most recently completed second fiscal quarter) approximated \$34 million.

As of January 31, 2006, 5,234,280 shares of Class A common stock were outstanding.

### Documents incorporated by reference

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

## PART I

### ITEM 1. BUSINESS

#### General

CompX International Inc. (NYSE: CIX) is a leading manufacturer of precision ball bearing slides, security products and ergonomic computer support systems used in office furniture, computer-related applications and a variety of other industries. The Company's products are principally designed for use in medium to high-end product applications, where design, quality and durability are critical to the Company's customers. The Company believes that it is among the world's largest producers of precision ball bearing slides, security products consisting of cabinet locks and other locking mechanisms and ergonomic computer support systems. In 2005, precision ball bearing slides, security products and ergonomic computer support systems accounted for approximately 42%, 43% and 15% of net sales related to continuing operations, respectively.

On January 24, 2005 the registrant 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 proceeds of approximately \$22.6 million. At December 31, 2004, the assets and liabilities of Thomas Regout are classified as "held for sale" and accordingly the results of operations have been classified as "discontinued operations" for all periods presented. See Note 10 to the Consolidated Financial Statements. In August 2005, the Company completed the acquisition of a component product business for aggregate cash consideration of \$7.3 million, net of cash acquired. See Note 2 to the Consolidated Financial Statements.

At December 31, 2005, CompX is 83% owned by CompX Group, Inc., a majority owned subsidiary of NL Industries, Inc. (NYSE: NL). NL owns 82% of CompX Group,

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and Titanium Metals Corporation (NYSE: TIE) ("TIMET") owns the remaining 18% of CompX Group. At December 31, 2005, (i) NL and TIMET own an additional 2% and 3%, respectively, of CompX directly, (ii) Valhi, Inc. (NYSE: VHI) holds, directly or through a subsidiary, approximately 83% of NL's outstanding common stock and approximately 39% of TIMET's outstanding common stock and (iii) Contran Corporation holds, directly or through subsidiaries, approximately 92% 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.

The Company maintains a website on the internet with the address of [www.compx.com](http://www.compx.com). Copies of this Annual Report on Form 10-K for the year ended December 31, 2005 and copies of the Company's Quarterly Reports on Form 10-Q for 2005 and 2006 and any Current Reports on Form 8-K for 2005 and 2006, and any amendments thereto, are or will be available free of charge as soon as reasonably practical after they are filed with the Securities and Exchange Commission ("SEC") at such website. Additional information regarding the Company, including the Company's Audit Committee Charter, the Company's Code of Business Conduct and Ethics and the Company's Corporate Governance Guidelines, may also be found at this website. The Company will also provide to anyone without charge copies of such documents upon written request to the Company. Such requests should be directed to the attention of the Corporate Secretary at the Company's address on the cover page of this Form 10-K.

The general public may also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549, and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer, and the SEC maintains an internet website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Annual Report on Form 10-K relating to matters that are not historical facts, including, but not limited to, statements found in this Item 1 - "Business," Item 1A - "Risk Factors," Item 3 - "Legal Proceedings," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk," 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 Annual Report and those described from time to time in materials filed with the Company's other filings with the SEC. 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,

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- 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 comply with covenants contained in 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.

### Industry Overview

Currently, approximately 43% of the Company's products are sold to the office furniture manufacturing industry while the remainder are sold for use in other products, such as vending equipment, electromechanical enclosures, recreational transportation, computers and related equipment, banking equipment, refrigerators, tool boxes and other non-office furniture applications. In 2004, the office furniture industry began to recover from a multi-year contraction marked by consistently negative growth rates. Consequently, CompX's historical sales growth has been negatively affected. See Item 6 - "Selected Financial Data" and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations." However, CompX's management believes that its emphasis on new product development and sales of its products to non-office furniture markets result in the potential for higher rates of growth and diversification of risk than the office furniture industry as a whole.

### Products

CompX manufactures and sells components in three major product lines: precision ball bearing slides, security products and ergonomic computer support systems.

Sales for the respective product lines in 2003, 2004 and 2005 are as follows:

Years ended December 31

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	2003 ----	2004 ----
		(\$ in thousands)
Precision ball bearing slides	\$ 69,709	\$ 78,522
Security products	76,155	75,872
Ergonomic computer support systems	28,102	28,237
	-----	-----
	\$173,966	\$182,631
	=====	=====

The Company's precision ball bearing slides are sold under the CompX Precision Slides, CompX Waterloo, Waterloo Furniture Components, CompX DurISlide and CompX Dynaslide brand names; the Company's security products are sold under the CompX Security Products, National Cabinet Lock, Fort Lock, Timberline Lock, Chicago Lock, STOCK LOCKS, KeSet and TuBar brand names; and the ergonomic computer support systems are sold under the CompX ErgonomX brand name. The Company believes that its brand names are well recognized in the industry.

Precision ball bearing slides. CompX manufactures a complete line of precision ball bearing slides for use in office furniture, computer-related equipment, tool storage cabinets, imaging equipment, file cabinets, desk drawers, automated teller machines, refrigerators and other applications. These products include CompX's patented Integrated Slide Lock in which a file cabinet manufacturer can reduce the possibility of multiple drawers being opened at the same time, the adjustable patented Ball Lock which reduces the risk of heavily-filled drawers, such as auto mechanic tool boxes, from opening while in movement, and the Self-Closing Slide, which is designed to assist in closing a drawer and is used in applications such as bottom mount freezers. Precision ball bearing slides are manufactured to stringent industry standards and are designed in conjunction with original equipment manufacturers ("OEMs") to meet the needs of end users with respect to weight support capabilities, ease of movement and durability.

Security products. The Company believes that it is a North American market leader in the manufacture and sale of cabinet locks and other locking mechanisms. CompX provides security products to various industries including institutional furniture, banking, industrial equipment, recreational vehicles, vending and computer. The Company's products can also be found in various applications including ignition systems, office furniture, vending and gaming machines, parking meters, electrical circuit panels, storage compartments, security devices for laptop and desktop computers as well as mechanical and electronic locks for the toolbox, medical and other industries. Some of these products may include CompX's KeSet high security system, which has the ability to change the keying on a single lock 64 times without removing the lock from its enclosure and its patented high security TuBar locking system.

The Company manufactures disc tumbler locking mechanisms at all of its security products facilities, which mechanisms provide moderate security and generally represent the lowest cost lock to produce. CompX also manufactures pin tumbler locking mechanisms, including its KeSet, ACE II and TuBar brand locks, which mechanisms are more costly to produce and are used in applications requiring higher levels of security. CompX Security Products' innovative eLock electronic lock provides stand alone security and audit trail capability for drug storage and other valuables through the use of a proximity card, magnetic stripe, or keypad credentials. A substantial portion of the Company's sales consist of products with specialized adaptations to individual manufacturers' specifications. CompX, however, also has a standardized product line suitable for many customers. This standardized product line is offered through a North

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American distribution network through the Company's STOCK LOCKS distribution program as well as to factory centers and to large OEMs.

Ergonomic computer support systems. CompX is a leading manufacturer and innovator in ergonomic computer support systems and accessories. Unlike similar products targeting the residential market, which are more price sensitive with less emphasis on the overall value of products and service, the CompX line consists of more highly engineered products designed to provide ergonomic benefits for business and other sophisticated users.

Ergonomic computer support systems include articulating computer keyboard support arms (designed to attach to desks in the workplace and home office environments to alleviate possible strains and stress and maximize usable workspace), CPU storage devices (which minimize adverse effects of dust and moisture) and a number of complementary accessories, including ergonomic wrist rest aids, mouse pad supports and flat screen computer monitor support arms. These products include CompX's Leverlock, which is designed to make the adjustment of an ergonomic keyboard arm easier. In addition, the Company offers its engineering and design capabilities for the design and manufacture of products on a proprietary basis for key customers.

### Sales, Marketing and Distribution

CompX sells components to OEMs and to distributors through a dedicated sales force. The majority of the Company's sales are to OEMs, while the balance represents standardized products sold through distribution channels.

Sales to large OEM customers are made through the efforts of factory-based sales and marketing professionals and engineers working in concert with field salespeople and independent manufacturers' representatives. Manufacturers' representatives are selected based on special skills in certain markets or relationships with current or potential customers.

A significant portion of the Company's sales are made through distributors. The Company has a significant market share of cabinet lock sales to the locksmith distribution channel. CompX supports its distributor sales with a line of standardized products used by the largest segments of the marketplace. These products are packaged and merchandised for easy availability and handling by distributors and the end users. Based on the Company's successful STOCK LOCKS inventory program, similar programs have been implemented for distributor sales of ergonomic computer support systems and, to some extent, precision ball bearing slides. The Company also operates a small tractor/trailer fleet associated with its Canadian facilities to provide an industry-unique service response to major customers for those Canadian manufactured products.

The Company does not believe it is dependent upon one or a few customers, the loss of which would have a material adverse effect on its operations. Sales to the Company's ten largest customers accounted for approximately 44% in 2003 and 43% in each of 2004 and 2005. In 2003, sales to the Company's largest customer was less than 10% of the Company's total sales. In 2004 and 2005, one customer accounted for 11% and 10% of sales, respectively. In each of 2003, 2004 and 2005, eight of the Company's top ten customers were located in the United States.

### Manufacturing and Operations

At December 31, 2005, CompX operated eight manufacturing facilities related to its continuing operations: six in North America (two in Illinois and one in each of Canada, South Carolina, Wisconsin and Michigan) and two in Taiwan. Precision ball bearing slides are manufactured in the facilities located in Canada, Michigan and Taiwan. Security products are manufactured in the facilities located in South Carolina and Illinois. Ergonomic products are

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manufactured in the facility located in Canada. Other component products are manufactured at the Wisconsin facility acquired in 2005. The Company owns all of these facilities except for one of the Taiwan facilities, which is leased. See also Item 2 - "Properties." CompX also leases a distribution center in California. CompX believes that all of its facilities are well maintained and satisfactory for their intended purposes.

### Raw Materials

Coiled steel is the major raw material used in the manufacture of precision ball bearing slides and ergonomic computer support systems. Plastic resins for injection molded plastics are also an integral material for ergonomic computer support systems. Purchased components and zinc are the principal raw materials used in the manufacture of security products. These raw materials are purchased from several suppliers and are readily available from numerous sources.

The Company occasionally enters into raw material arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not commit the Company to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified volume purchase levels. This allows the Company to stabilize raw material purchase prices, provided that the specified minimum monthly purchase quantities are met. Materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. Due to the competitive nature of the markets served by the Company's products, it is often difficult to recover such increases in raw material costs through increased product selling prices or raw material surcharges. Consequently, overall operating margins can be affected by such raw material cost pressures.

### Competition

The markets in which CompX participates are highly competitive. The Company competes primarily on the basis of product design, including ergonomic and aesthetic factors, product quality and durability, price, on-time delivery, service and technical support. The Company focuses its efforts on the middle and high-end segments of the market, where product design, quality, durability and service are placed at a premium.

The Company competes in the precision ball bearing slide market primarily on the basis of product quality and price with two large manufacturers and a number of smaller domestic and foreign manufacturers. The Company's security products compete with a variety of relatively small domestic and foreign competitors. The Company competes in the ergonomic computer support systems market primarily on the basis of product quality, features and price with one major producer and a number of smaller domestic manufacturers, and primarily on the basis of price with a number of foreign manufacturers. Although the Company believes that it has been able to compete successfully in its markets to date, price competition from foreign-sourced product continues to intensify and there can be no assurance that the Company will be able to continue to successfully compete in all existing markets in the future.

### Patents and Trademarks

The Company holds a number of patents relating to its component products, certain of which are believed to be important to CompX and its continuing business activity. The Company's patents generally have a term of 20 years, and have remaining terms ranging from less than 3 years to 18 years at December 31, 2005. CompX's major trademarks and brand names, including CompX, CompX Precision Slides, CompX Security Products, CompX Waterloo, CompX ErgonomX, National Cabinet Lock, KeSet, Fort Lock, Timberline Lock, Chicago Lock, ACE II, TuBar, STOCK LOCKS, ShipFast, Waterloo Furniture Components Limited, CompX DurISlide

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and CompX Dynaslide, are protected by registration in the United States and elsewhere with respect to the products CompX manufactures and sells. The Company believes such trademarks are well recognized in the component products industry.

### International Operations

The Company has substantial operations and assets located outside the United States, principally slide and ergonomic product operations in Canada and slide product operations in Taiwan. The majority of the Company's 2005 non-U.S. sales are to customers located in Canada. Foreign operations are subject to, among other things, currency exchange rate fluctuations. The Company's results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. Political and economic uncertainties in certain of the countries in which the Company operates may expose the Company to risk of loss. The Company does not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar event. The Company cannot predict, however, whether events of this type in the future could have a material effect on its operations. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item 7A - "Quantitative and Qualitative Disclosures About Market Risk" and Note 1 to the Consolidated Financial Statements.

### Environmental Matters

The Company's operations are subject to federal, state, local and foreign laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, discharge, disposal and remediation of and exposure to hazardous and non-hazardous substances, materials and wastes ("Environmental Laws"). The Company's operations also are subject to federal, state, local and foreign laws and regulations relating to worker health and safety. The Company believes that it is in substantial compliance with all such laws and regulations. The costs of maintaining compliance with such laws and regulations have not significantly impacted the Company to date, and the Company has no significant planned costs or expenses relating to such matters. There can be no assurance, however, that compliance with future laws and regulations will not require the Company to incur significant additional expenditures or that such additional costs would not have a material adverse effect on the Company's business, consolidated financial condition, results of operations or liquidity.

### Employees

As of December 31, 2005, the Company employed approximately 1,230 employees, including 750 in the United States, 330 in Canada and 150 in Taiwan. Approximately 70% of the Company's employees in Canada are represented by a labor union covered by a collective bargaining agreement which provides for annual wage increases from 1% to 2.5% over the term of the contract. A new collective bargaining agreement was ratified in December 2005 that expires in January 2009. Wage increases for these Canadian employees historically have also been in line with overall inflation indices. The Company believes that its labor relations are satisfactory.

### Item 1A. RISK FACTORS

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

We sell many of our products in mature and highly competitive industries



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and face price pressures in the markets in which we operate, which may result in reduced earnings or operating losses. Each of the markets we serve is highly competitive, with a number of competitors offering similar products. We focus our efforts on the middle- and high-end segment of the market, where product design, quality and durability are the primary competitive factors. Some of our competitors may be able to drive down prices for our products because their costs are lower than our costs, especially those located in Asia. In addition, some of our competitors' financial, technological and other resources may be greater than our resources, and such competitors may be better able to withstand changes in market conditions. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Further, consolidation of our competitors or customers in any of the industries in which we compete may result in reduced demand for our products. In addition, in some of our businesses new competitors could emerge by modifying their existing production facilities so they could manufacture products that compete with our products. The occurrence of any of these events could result in reduced earnings or operating losses.

Sales for certain of our products, principally precision slides and ergonomic products, are concentrated in the office furniture industry which has in the past experience significant changes in demand that could result in reduced earnings or operating losses for the Company. Sales of our products to the office furniture manufacturing industry accounted for approximately 57%, 51% and 43% for 2003, 2004 and 2005, respectively. The future growth, if any, of the office furniture industry will be affected by a variety of macroeconomic factors, such as service industry employment levels, corporate cash flows and non-residential commercial construction, as well as industry factors such as corporate reengineering and restructuring, technology demands, ergonomic, health and safety concerns and corporate relocations. There can be no assurance that current or future economic or industry trends will not materially adversely affect our business.

CompX's failure to enter into new markets would result in the continued significant impact of fluctuations in demand within the office furniture manufacturing industry on our operating results. In an effort to reduce our dependence on the office furniture market for certain products and to increase our participation in other markets, we have been devoting resources to identifying new customers and developing new applications for those products in markets outside of the office furniture industry, such as home appliances and tool boxes. Developing these new applications for its products involves substantial risk and uncertainties due to our limited experience with customers and applications in these markets as well as facing competitors who are already established in these markets. We may not be successful in developing new customers or applications for our products outside of the office furniture industry. Significant time may be required for such development and uncertainty exists as to the extent to which we will face competition in this regard.

Our development of new products as well as innovative features for current products is critical to sustaining and growing our sales. Historically, our ability to provide value-added custom engineered products that address requirements of technology and space utilization has been a key element of our success. The introduction of new products and features requires the coordination of the design, manufacturing and marketing of such products with potential customers. The ability to implement such coordination may be affected by factors beyond our control. While we will continue to emphasize the introduction of innovative new products that target customer-specific opportunities, there can be no assurance that any new products we introduce will achieve the same degree of success that we have achieved with our existing products. Introduction of new products typically requires us to increase production volume on a timely basis while maintaining product quality. Manufacturers often encounter difficulties in increasing production volumes, including delays, quality control problems and shortages of qualified personnel. As we attempt to introduce new products in the

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future, there can be no assurance that we will be able to increase production volume without encountering these or other problems, which might, on our financial condition or results of operations.

We have in the past and intend to in the future pursue a growth strategy through acquisitions which could negatively affect operating results if the acquired businesses are not successful. Our ability to successfully grow through acquisitions will depend on many factors, including, among others, our ability to identify suitable growth opportunities and to successfully integrate acquired businesses. There can be no assurance that we will anticipate all of the changing demands that expanding operations will impose on our management and management information systems. Any failure by us to adapt our systems and procedures to those changing demands could have a material adverse effect on our results of operations and financial condition.

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

As a global business, we are exposed to local business risks in different countries, which could result in operating losses. We conduct some of our businesses in several jurisdictions outside of the United States and are subject to risks normally associated with international operations, which include trade barriers, tariffs, exchange controls, national and regional labor strikes, social and political risks, general economic risks, seizures, nationalizations, compliance with a variety of foreign laws, including tax laws, and the difficulty in enforcing agreements and collecting receivables through foreign legal systems. We could also be adversely affected by any restriction that limits our ability to repatriate our foreign profits back to the United States.

We may incur losses from fluctuations in currency exchange rates. We operate businesses in Taiwan and Canada. A significant portion of the products produced at these locations are shipped to the U.S. and have product prices denominated in U.S. dollars. Therefore, we are exposed to risks related to the need to convert U.S. dollars that we receive for these products into the currencies required to pay for the raw material and operating expenses of the manufacturing facility, all of which could result in future losses depending on fluctuations in foreign currency exchange rates.

If our patents are declared invalid or our trade secrets become known to competitors, our ability to compete may be adversely affected. Protection of our proprietary processes and other technology is important to our competitive position. Consequently, we rely on judicial enforcement for protection of our patents, and our patents may be challenged, invalidated, circumvented or rendered unenforceable. Furthermore, if any pending patent application filed by us does not result in an issued patent, or if patents are issued to us but such patents do not provide meaningful protection of our intellectual property, then the use of any such intellectual property by our competitors could result in

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decreasing our cash flows. Additionally, our competitors or other third parties may obtain patents that restrict or preclude our ability to lawfully produce or sell our products in a competitive manner, which could have the same effects.

We also rely on certain unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. Although it is our practice to enter into confidentiality agreements to protect our intellectual property, because these confidentiality agreements may be breached, such agreements may not provide sufficient protection for our trade secrets or proprietary know-how, or adequate remedies may not be available in the event of an unauthorized use or disclosure of such trade secrets and know-how. In addition, others could obtain knowledge of such trade secrets through independent development or other access by legal means.

Loss of key personnel or our ability to attract and retain new qualified personnel could hurt our businesses and inhibit our ability to operate and grow successfully. Our success in the highly competitive markets in which we operate will continue to depend to a significant extent on the leadership teams of our businesses and other key management personnel. We generally do not have binding employment agreements with any of these managers. This increases the risks that we may not be able to retain our current management personnel and we may not be able to recruit qualified individuals to join our management team, including recruiting qualified individuals to replace any of our current personnel that may leave in the future.

Our relationships with our union employees could deteriorate. At December 31, 2005, we employed approximately 1,230 persons worldwide in our various businesses, 230 of which are subject to a collective bargaining arrangement which expires in January 2009. We may not be able to negotiate labor agreements with respect to these employees on satisfactory terms or at all. If our employees were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations or higher ongoing labor costs.

We are subject to many environmental and safety regulations with respect to our operating facilities that may result in unanticipated costs or liabilities. Most of our facilities are subject to extensive laws, regulations, rules and ordinances relating to the protection of the environment, including those governing the discharge of pollutants in the air and water and the generation, management and disposal of hazardous substances and wastes or other materials. We may incur substantial costs, including fines, damages and criminal penalties or civil sanctions, or experience interruptions in our operations for actual or alleged violations or compliance requirements arising under environmental laws. Our operations could result in violations under environmental laws, including spills or other releases of hazardous substances to the environment. Some of our operating facilities are in densely populated urban areas or in industrial areas adjacent to other operating facilities. In the event of an accidental release, we could incur material costs as a result of addressing such an event and in implementing measures to prevent such incidents. Given the nature of our business, violations of environmental laws may result in restrictions imposed on our operating activities or substantial fines, penalties, damages or other costs, including as a result of private litigation.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

### ITEM 2. PROPERTIES

The Company's principal executive offices are located in approximately 1,000 square feet of leased space at 5430 LBJ Freeway, Dallas, Texas 75240. The following table sets forth the location, size, business operating segment and

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general product types produced for each of the Company's facilities. Size  
Business (square Facility Name Segment Location feet) Products Produced

### Owned Facilities:

Waterloo	PS/ERG	Kitchener, Ontario	276,000	Sli Pro
Byron Center	PS	Byron Center, MI	143,000	Sli
National	SP	Mauldin, SC	198,000	Sec
Fort	SP	River Grove, IL	100,000	Sec
Timberline	SP	Lake Bluff, IL	25,000	Sec
Dynaslide	PS	Taipei, Taiwan	48,000	Sli
Dynaslide	PS	Taipei, Taiwan	18,000	War
Neenah	SP	Neenah, WI	44,000	Oth

### Leased Facilities:

Thomas Regout	*	Maastricht, the Netherlands	270,000	Sli
Dynaslide	PS	Taipei, Taiwan	25,000	Sli
Distribution Center	SP/ERG	Rancho Cucamonga, CA	12,000	Pro

PS - Precision Slides business segment SP - Security Products business segment  
ERG - Ergonomics business segment \* - Discontinued operation

The Waterloo, Byron Center, National and Fort facilities are ISO-9001 registered. The Dynaslide and Neenah facilities are ISO-9002 registered. The Company believes that all its facilities are well maintained and satisfactory for their intended purposes.

The business operated at the Thomas Regout facility was disposed of, including the leased facility, on January 24, 2005 and is classified as "discontinued operations" for all periods presented.

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2005.

PART II

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

The Company's Class A common stock is listed and traded on the New York Stock Exchange (symbol: CIX). As of January 31, 2006, there were approximately 20 holders of record of CompX Class A common stock. The following table sets forth the high and low closing sales prices per share for CompX Class A common stock for 2004 and 2005 and dividends paid per share during such periods. On January 31, 2006, the closing price per share of CompX Class A common stock was \$17.60.

	High ----	Low ---
Year ended December 31, 2004		
First Quarter	\$13.90	\$ 6.35
Second Quarter	16.95	13.00
Third Quarter	17.60	13.97
Fourth Quarter	16.82	14.90
Year ended December 31, 2005		
First Quarter	\$18.05	\$16.15
Second Quarter	16.98	14.45
Third Quarter	19.15	15.38
Fourth Quarter	17.46	15.01

The Company suspended its regular quarterly dividend during the second quarter of 2003 and reinstated its regular quarterly dividend during the fourth quarter of 2004. However, the declaration and payment of future dividends and the amount thereof, if any, is discretionary and is dependent upon the Company's results of operations, financial condition, cash requirements for its businesses, contractual requirements and restrictions and other factors deemed relevant by the Board of Directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which might be paid.

ITEM 6. SELECTED FINANCIAL DATA

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

The Company's operations are comprised of a 52 or 53-week fiscal year. Excluding 2004, each of the years 2001 through 2005 consisted of a 52-week year. 2004 was a 53-week year.

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		Years ended December 31,		
	2001	2002	2003	2004
	----	----	----	----
		(\$ in millions, except per share)		
Income Statement Data				
Net sales	\$179.7	\$166.7	\$174.0	\$182.0
Operating income	\$ 12.6	\$ 6.1	\$ 8.8	\$ 15.0
Provision for income taxes	\$ 6.4	\$ 3.0	\$ 3.4	\$ 7.0
Income from continuing operations	\$ 8.8	\$ 0.9	\$ 5.8	\$ 9.0
Discontinued operations	(1.7)	(0.3)	(4.5)	(12.0)
	-----	-----	-----	-----
Net income (loss)	\$ 7.1	\$ .6	\$ 1.3	\$ (3.0)
	=====	=====	=====	=====
Basic and diluted earnings (loss) per share				
Continuing operations	\$ .58	\$ .06	\$ .38	\$ .60
Discontinued operations	(.11)	(.02)	(.30)	(.80)
	-----	-----	-----	-----
	\$ .47	\$ .04	\$ .08	\$ (.20)
	=====	=====	=====	=====
Cash dividends per share	\$ .50	\$ .50	\$ .125	\$ .125
Weighted average common shares Outstanding	15.1	15.1	15.1	15.1
Balance Sheet Data (at year end):				
Cash and other current assets	\$ 94.9	\$ 71.3	\$ 80.2	\$ 78.0
Total assets	222.9	200.1	210.7	186.0
Current liabilities	24.5	22.2	24.5	26.0
Long-term debt, including current maturities	49.1	31.0	26.0	0.0
Stockholders' equity	143.0	142.0	154.4	155.0
Cash Flow Data				
Net cash provided by operating activities	\$ 27.7	\$ 16.9	\$ 24.4	\$ 30.0
Net cash used by investing activities	(2.7)	(12.7)	(8.2)	(3.0)
Net cash used by financing activities	(1.8)	(25.5)	(7.3)	(27.0)

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

#### Executive Summary

The Company reported operating income of \$19.1 million in 2005 compared to operating income of \$15.4 million in 2004 and \$8.8 million in 2003. As more fully described below, the Company's operating income increased from 2004 to 2005 as the favorable effect of higher sales in 2005 and the Company's ongoing focus on reducing costs more than offset the negative impact of relative changes in foreign currency exchange rates. The Company's operating income increased from 2003 to 2004 due primarily to the higher sales in 2004 and improved margins in 2004 through cost reduction efforts.

Fluctuations in foreign currency exchange rates positively impacted sales in 2005 as compared to 2004 by \$1.5 million, but negatively impacted operating income by \$2.3 million. Fluctuations in foreign currency exchange rates positively impacted sales in 2004 as compared to 2003 by \$2.5 million, but negatively impacted operating income by \$.9 million. The impact on net sales is primarily due to the strengthening Canadian dollar in relation to the U.S. dollar. The impact on operating income is primarily from the Company's Canadian operations, where the majority of net sales are denominated in U.S. dollars while the majority of expenses are denominated in Canadian dollars.

Cash provided by operating activities was \$20.0 million in 2005 compared to \$30.2 million in 2004 primarily due to changes in tax liabilities as a result of the improvement in taxable income in 2004 and 2005.

#### Critical Accounting Policies and Estimates

The accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventory reserves, the recoverability of other long-lived assets (including goodwill and other intangible assets) and the realization of deferred income tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from previously-estimated amounts under different assumptions or conditions.

The Company believes the critical financial statement judgment risks of its business are attributable to four primary areas:

- o Will customer accounts receivable on the books be collected at full book value?
- o Will inventory on hand be sold with a sufficient mark up to cover the cost to produce and ship the product?
- o Will future cash flows of the Company be sufficient to recover the net book value of long-lived assets?
- o Will future taxable income be sufficient to utilize recorded deferred income tax assets?

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The Company believes the following critical accounting policies affect its more significant judgments and estimates, as noted above, used in the preparation of its consolidated financial statements and are applicable to all of the Company's operating segments:

- o Allowance for uncollectible accounts receivable. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company takes into consideration the current financial condition of the customers, the age of outstanding balances and the current economic environment when assessing the adequacy of the allowances. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, increased allowances may be required.
- o Inventory reserves. The Company provides reserves for estimated obsolescence or unmarketable inventories equal to the difference between the cost of inventory and the estimated net realizable value using assumptions about future demand for its products and market conditions. The Company also considers the age and the quantity of inventory on hand in estimating the reserve. If actual market conditions are less favorable than those projected by management, increased inventory reserves may be required.
- o Net book value of long-lived assets. The Company recognizes an impairment charge associated with its long-lived assets, including property and equipment, goodwill and other intangible assets, whenever it determines that recovery of the long-lived asset is not probable. The determination is made in accordance with applicable GAAP requirements associated with the long-lived asset, and is based upon, among other things, estimates of the amount of future net cash flows to be generated by the long-lived asset and estimates of the current fair value of the asset. Adverse changes in estimates of future net cash flows or estimates of fair value could result in an inability to recover the carrying value of the long-lived asset, thereby possibly requiring an impairment charge to be recognized in the future.

Under applicable GAAP (SFAS No. 142, Goodwill and other Intangible Assets), goodwill is required to be reviewed for impairment at least on an annual basis. Goodwill will also be reviewed for impairment at other times during each year when impairment indicators, as defined, are present. No goodwill impairments were deemed to exist as a result of the Company's annual impairment review completed during the third quarter of 2005, as the estimated fair value of each such reporting unit exceeded the net carrying value of the respective reporting unit. See Notes 1 and 4 to the Consolidated Financial Statements. The estimated fair values of these three reporting units are determined based on discounted cash flow projections. Significant judgment is required in estimating such cash flows. Such estimated cash flows are inherently uncertain, and there can be no assurance that such operations will achieve the future cash flows reflected in its projections. In December 2004, the Company's Thomas Regout operations met the criteria under GAAP to be classified as "held for sale" and thus was required to be measured at the lower of its carrying amount or estimated fair value less cost to sell. At such time, the Company recognized a \$14.4 million impairment of the goodwill related to such operations, as the carrying amount of the net assets exceeded the estimated fair value less cost to sell of the operations. The disposal of such operations was completed in January 2005, and therefore the Company no longer reports goodwill attributable to such operations at December 31, 2005. See Note 10 to the Consolidated Financial Statements.



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Under applicable GAAP (SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets), property and equipment is not assessed for impairment unless certain impairment indicators, as defined, are present. During 2005, no impairment indicators were present with respect to the Company's property and equipment.

- o Deferred income tax assets. The Company records a valuation allowance to reduce its deferred income tax assets to the amount that is believed to be realizable under the "more-likely-than-not" recognition criteria. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. It is possible that in the future the Company may change its estimate of the amount of the deferred income tax assets that would "more-likely-than-not" be realized. This would result in an adjustment to the deferred income tax asset valuation allowance that would either increase or decrease, as applicable, reported net income in the period the change in estimate is made.

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

### Results of Operations

The Company's operating segments are defined as components of its operations about which separate financial information is available that is regularly evaluated by the chief operating decision maker in determining how to allocate resources and in assessing performance. The Company currently has three operating segments - Security Products, Precision Slides and Ergonomics. The Security Products segment, with manufacturing facilities in South Carolina and Illinois, manufactures locking mechanisms and other security products for sale to the office furniture, banking, vending, computer and other various industries. In August 2005, CompX completed the acquisition of a component products business. The results of the component products business acquired, which are not material, are included with the Security Products segment in the tables that follow. The Precision Slides segment, with facilities in Canada, Michigan and Taiwan, manufactures and distributes a complete line of precision ball bearing slides for use in office furniture, computer-related equipment, tool storage cabinets and other applications. The Ergonomics segment manufactures and distributes ergonomic computer support systems for office furniture from a facility in Canada that it shares with the Precision Slides segment. Prior to 2004, the Company had aggregated the Precision Slides and Ergonomics operating segments into a single reportable segment, CompX Waterloo, because of the integrated facility used by the two businesses and the similar

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economic characteristics, customer types, production processes, and distribution methods. During the fourth quarter of 2004, the Company began to measure the ergonomics business as a separate operating unit and develop appropriate allocations relating to certain shared expenses in order to disaggregate the 2004 operating results. Disaggregated information is not available for the year ended December 31, 2003 due to the impracticality of allocating certain historical expenses that are shared between the two segments. Therefore, aggregated segment amounts are reported for Precision Slides/ Ergonomics for all periods presented as well as the disaggregated information for 2004 and 2005.

### Net sales and operating income

	Years ended December 31,	
	2004	2005
	(In millions)	
Net sales:		
Precision Slides	\$ 78.5	\$ 77.8
Security Products	75.9	80.8
Ergonomics	28.2	27.7
	-----	-----
Total net sales	\$182.6	\$186.3
	=====	=====
Operating income:		
Precision Slides	\$ 1.9	\$ 4.0
Security Products	9.5	11.2
Ergonomics	4.0	3.9
	-----	-----
Total operating income	\$ 15.4	\$ 19.1
	=====	=====
Operating income margin:		
Precision Slides	2%	5%
Security Products	13%	14%
Ergonomics	14%	14%
Total operating income margin	8%	10%

	Years ended December 31,			% Change
	2003	2004	2005	2003 - 2004
	----	----	----	-----
(In millions)				

Net sales:  
Precision Slides/

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Ergonomics	\$ 97.8	\$106.7	\$105.5	9%
Security Products	76.2	75.9	80.8	(