

COMPX INTERNATIONAL INC  
Form 10-Q  
November 02, 2007

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarter ended September 30, 2007**

**Commission file number 1-13905**

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

**Delaware**  
(State or other jurisdiction of  
Incorporation or organization)

**57-0981653**  
(IRS Employer  
Identification No.)

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

**75240-2697**  
(Zip Code)

Registrant's telephone number, including area code

**(972) 448-1400**

**Indicate by checkmark:**

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

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

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

**Number of shares of common stock outstanding on October 24, 2007:**

**Class A: 5,226,380**

**Class B: 10,000,000**

**COMPX INTERNATIONAL INC.**

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Items 1, 3, 4 and 5 of Part II are omitted because there is no information to report.

**COMPX INTERNATIONAL INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

| <b>ASSETS</b>                      | <b>December<br/>31,<br/>2006</b> | <b>September<br/>30,<br/>2007<br/>(unaudited)</b> |
|------------------------------------|----------------------------------|---|
| Current assets:                    |                                  |   |
| Cash and cash equivalents          | \$ 29,688                        | \$ 25,158   |
| Accounts receivable, net           | 19,986                           | 20,366  |
| Receivables from affiliates        | 259                              | 212   |
| Inventories, net                   | 21,733                           | 26,646  |
| Prepaid expenses and other         | 1,172                            | 1,630   |
| Deferred income taxes              | 2,050                            | 2,065   |
| Current portion of note receivable | 1,306                            | 1,306   |
| <br>Total current assets           | <br>76,194                       | <br>77,383  |
| Other assets:                      |                                  |   |
| Goodwill                           | 40,759                           | 40,720  |
| Other intangible assets            | 3,174                            | 2,711   |
| Note receivable                    | 1,567                            | 261   |
| Other                              | 644                              | 708   |
| <br>Total other assets             | <br>46,144                       | <br>44,400  |
| Property and equipment:            |                                  |   |
| Land                               | 8,826                            | 8,831   |
| Buildings                          | 35,284                           | 36,777  |
| Equipment                          | 114,207                          | 122,500   |
| Construction in progress           | 2,559                            | 11,823  |
|                                    | 160,876                          | 179,931   |
| <br>Less accumulated depreciation  | <br>91,188                       | <br>105,102                                       |
| <br>Net property and equipment     | <br>69,688                       | <br>74,829  |
| <br>Total assets                   | <br>\$ 192,026                   | <br>\$ 196,612                                    |

## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    | <b>December<br/>31,<br/>2006</b> | <b>September<br/>30,<br/>2007<br/>(unaudited)</b> |
|--|----------------------------------|---|
| Current liabilities:                           |                                  |   |
| Accounts payable and accrued liabilities       | \$ 16,842                        | \$ 20,586   |
| Income taxes payable to affiliates             | 136                              | 210   |
| Income taxes                                   | 836                              | 29  |
| Total current liabilities                      | 17,814                           | 20,825  |
| Noncurrent liabilities - deferred income taxes | 20,522                           | 17,392  |
| Stockholders' equity:                          |                                  |   |
| Preferred stock                                | -                                | -   |
| Class A common stock                           | 53                               | 52  |
| Class B common stock                           | 100                              | 100   |
| Additional paid-in capital                     | 110,106                          | 109,468   |
| Retained earnings                              | 35,353                           | 38,151  |
| Accumulated other comprehensive income         | 8,078                            | 10,624  |
| Total stockholders' equity                     | 153,690                          | 158,395   |
| Total liabilities and stockholders' equity     | \$ 192,026                       | \$ 196,612  |

Commitments and contingencies (Note 1, 6)

See accompanying Notes to Condensed Consolidated Financial Statements.

## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

|   | Three months ended<br>September 30,<br>2006 |           | Nine months ended<br>September 30,<br>2006 |            |
|---|---|-----------|--|------------|
|   | 2007  | 2007      | 2006                                       | 2007       |
|   | (unaudited)                                 |           |  |            |
| Net sales   | \$ 48,812                                   | \$ 46,389 | \$ 145,984                                 | \$ 135,169 |
| Cost of goods sold  | 35,955                                      | 35,124    | 109,150                                    | 99,921     |
| Gross margin  | 12,857                                      | 11,265    | 36,834                                     | 35,248     |
| Selling, general and administrative expense                                   | 6,673                                       | 6,596     | 19,832                                     | 19,833     |
| Other operating income (expense), net   | 28  | (399)     | (174)                                      | (1,106)    |
| Operating income  | 6,212                                       | 4,270     | 16,828                                     | 14,309     |
| Other non-operating income, net   | 268   | 223       | 843  | 778        |
| Income from continuing operations before income taxes                         | 6,480                                       | 4,493     | 17,671                                     | 15,087     |
| Provision for income taxes  | 2,675                                       | 1,677     | 7,603                                      | 6,604      |
| Income from continuing operations   | 3,805                                       | 2,816     | 10,068                                     | 8,483      |
| Discontinued operations, net of tax   | -   | -         | (500)                                      | -          |
| Net income  | \$ 3,805                                    | \$ 2,816  | \$ 9,568                                   | \$ 8,483   |
| Basic and diluted earnings (loss) per common share:                           |   |           |  |            |
| Continuing operations   | \$ .25                                      | \$ .18    | \$ .66                                     | \$ .56     |
| Discontinued operations   | -   | -         | (.03)                                      | --         |
|   | .25   | .18       | .63  | .56        |
| Cash dividends per share  | \$ .125                                     | \$ .125   | \$ .375                                    | \$ .375    |
| Shares used in the calculation of basic and diluted earnings (loss) per share | 15,260                                      | 15,277    | 15,253                                     | 15,281     |

See accompanying Notes to Condensed Consolidated Financial Statements.



## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|  | Nine months ended<br>September 30,<br>2006                      2007<br>(unaudited) |           |
|--|---|-----------|
| Cash flows from operating activities:                        |   |           |
| Net income   | \$ 9,568  | \$ 8,483  |
| Depreciation and amortization                                | 8,326   | 8,227     |
| Deferred income taxes  | 1,574   | (3,769)   |
| Other, net   | 877   | 353       |
| Change in assets and liabilities (exclusive of acquisition): |   |           |
| Accounts receivable, net                                     | (1,490)   | 561       |
| Inventories, net   | 536   | (4,390)   |
| Accounts payable and accrued liabilities                     | 748   | 1,598     |
| Accounts with affiliates                                     | (166)   | 121       |
| Income taxes   | (322)   | (1,129)   |
| Other, net   | 87  | (552)     |
| Net cash provided by operating activities                    | 19,738  | 9,503     |
| Cash flows from investing activities:                        |   |           |
| Capital expenditures   | (9,070)   | (9,836)   |
| Acquisitions, net of cash acquired                           | (9,832)   | -         |
| Cash collected on note receivable                            | 1,306   | 1,306     |
| Proceeds from sale of fixed assets                           | 45  | 48        |
| Net cash used in investing activities                        | (17,551)  | (8,482)   |
| Cash flows from financing activities:                        |   |           |
| Principal payments   | (1,516)   | -         |
| Dividends paid   | (5,715)   | (5,726)   |
| Common stock reacquired                                      | -   | (2,194)   |
| Issuance of common stock and other, net                      | (1)   | 1,445     |
| Net cash used in financing activities                        | (7,232)   | (6,475)   |
| Cash and cash equivalents – net change from:                 |   |           |
| Operating, investing and financing activities                | (5,045)   | (5,454)   |
| Currency translation   | 225   | 924       |
| Cash and cash equivalents at beginning of period             | 30,592  | 29,688    |
| Cash and cash equivalents at end of period                   | \$ 25,772   | \$ 25,158 |
| Supplemental disclosures – cash paid for:                    |   |           |

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|                                  |    |       |    |        |
|----------------------------------|----|-------|----|--------|
| Interest                         | \$ | 105   | \$ | 82     |
| Income taxes, net                |    | 6,524 |    | 11,308 |
| Non-cash investing activities:   |    |       |    |        |
| Accrual for capital expenditures | \$ | -     | \$ | 1,195  |

See accompanying Notes to Condensed Consolidated Financial Statements.

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## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Nine months ended September 30, 2007

(In thousands)

|   | Common stock |        | Additional | Retained    | Accumulated other comprehensive | Treasury | Total         | Comprehensive |
|---|--------------|--------|------------|-------------|---------------------------------|----------|---------------|---------------|
|   | Class        | Class  | paid-in    | earnings    | income-currency                 | stock    | stockholders' | income        |
|   | A            | B      | capital    | (unaudited) | translation                     |          | equity        |               |
| Balance at December 31, 2006                | \$ 53        | \$ 100 | \$ 110,106 | \$ 35,353   | \$ 8,078                        | \$ -     | \$ 153,690    |               |
| Net income                                  | -            | -      | -          | 8,483       | -                               | -        | 8,483         | \$ 8,483      |
| Other comprehensive income, net             | -            | -      | -          | -           | 2,546                           | -        | 2,546         | 2,546         |
| Change in accounting principle – FIN No. 48 | -            | -      | -          | 41          | -                               | -        | 41            | -             |
| Issuance of common stock and other, net     | -            | -      | 1,555      | -           | -                               | -        | 1,555         | -             |
| Treasury stock:                             |              |        |            |             |                                 |          |               |               |
| Acquired                                    | -            | -      | -          | -           | -                               | (2,194)  | (2,194)       | -             |
| Retired                                     | (1)          | -      | (2,193)    | -           | -                               | 2,194    | -             | -             |
| Cash dividends                              | -            | -      | -          | (5,726)     | -                               | -        | (5,726)       | -             |
| Balance at September 30, 2007               | \$ 52        | \$ 100 | \$ 109,468 | \$ 38,151   | \$ 10,624                       | \$ -     | \$ 158,395    |               |
| Comprehensive income                        |              |        |            |             |                                 |          |               | \$ 11,029     |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**COMPX INTERNATIONAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2007**

**(unaudited)**

**Note 1 - Organization and basis of presentation:**

*Organization* - We are a leading manufacturer of security products, precision ball bearing slides, ergonomic computer support systems, stainless steel exhaust systems, gauges, and throttle controls. CompX Group, Inc., owns 83% of our outstanding common stock at September 30, 2007. CompX Group, Inc. is a majority-owned subsidiary of NL Industries, Inc. (NYSE: NL). NL owns 82% of CompX Group, and Titanium Metals Corporation (NYSE: TIE) ("TIMET") owns the remaining 18% of CompX Group. At September 30, 2007, (i) NL and TIMET each own an additional 3% of us directly, (ii) Valhi, Inc. (NYSE: VHI) holds approximately 83% of NL's outstanding common stock and (iii) Contran Corporation holds, directly and through subsidiaries, approximately 93% of Valhi's outstanding common stock and approximately 32% of TIMET's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is sole trustee) or is held directly by Mr. Simmons or other persons or related companies to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of our parent companies and us. See Note 6.

*Basis of presentation* - Consolidated in this Quarterly Report are the results of CompX International Inc. and subsidiaries. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2006 that we filed with the Securities and Exchange Commission ("SEC") on March 1, 2007 (the "2006 Annual Report"), except as disclosed in Note 7. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2006 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2006) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results of operations for the interim periods ended September 30, 2007 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2006 Consolidated Financial Statements contained in our 2006 Annual Report.

Refer to our 2006 Annual Report for a discussion of commitments and contingencies.

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

**Note 2 - Business segment information:**

|   | <b>Three months ended</b> |                  | <b>Nine months ended</b> |                   |
|---|---------------------------|------------------|--------------------------|-------------------|
|   | <b>September 30,</b>      |                  | <b>September 30,</b>     |                   |
|   | <b>2006</b>               | <b>2007</b>      | <b>2006</b>              | <b>2007</b>       |
|   | <b>(In thousands)</b>     |                  |                          |                   |
| Net sales:  |                           |                  |                          |                   |
| Security Products                                     | \$ 21,247                 | \$ <b>20,869</b> | \$ 62,114                | \$ <b>60,816</b>  |
| Furniture Components                                  | 23,661                    | <b>21,725</b>    | 71,690                   | <b>61,019</b>     |
| Marine Components                                     | 3,904                     | <b>3,795</b>     | 12,180                   | <b>13,334</b>     |
| Total net sales                                       | \$ 48,812                 | \$ <b>46,389</b> | \$ 145,984               | \$ <b>135,169</b> |
| Operating income:                                     |                           |                  |                          |                   |
| Security Products                                     | \$ 4,021                  | \$ <b>3,175</b>  | \$ 11,604                | \$ <b>11,184</b>  |
| Furniture Components                                  | 3,306                     | <b>2,296</b>     | 7,848                    | <b>6,238</b>      |
| Marine Components                                     | 210                       | <b>73</b>        | 1,428                    | <b>1,190</b>      |
| Corporate operating expense                           | (1,325)                   | <b>(1,274)</b>   | (4,052)                  | <b>(4,303)</b>    |
| Total operating income                                | 6,212                     | <b>4,270</b>     | 16,828                   | <b>14,309</b>     |
| Other non-operating income, net                       | 268                       | <b>223</b>       | 843                      | <b>778</b>        |
| Income from continuing operations before income taxes | \$ 6,480                  | \$ <b>4,493</b>  | \$ 17,671                | \$ <b>15,087</b>  |

**Note 3 - Inventories, net:**

|                   | <b>December</b>       | <b>September</b> |
|-------------------|-----------------------|------------------|
|                   | <b>31,</b>            | <b>30,</b>       |
|                   | <b>2006</b>           | <b>2007</b>      |
|                   | <b>(In thousands)</b> |                  |
| Raw materials     | \$ 5,892              | \$ <b>8,048</b>  |
| Work in progress  | 8,744                 | <b>10,583</b>    |
| Finished products | 7,097                 | <b>8,015</b>     |
| Total             | \$ 21,733             | \$ <b>26,646</b> |

**Note 4 - Accounts payable and accrued liabilities:**

|                  | <b>December</b>       | <b>September</b> |
|------------------|-----------------------|------------------|
|                  | <b>31,</b>            | <b>30,</b>       |
|                  | <b>2006</b>           | <b>2007</b>      |
|                  | <b>(In thousands)</b> |                  |
| Accounts payable | \$ 6,151              | \$ <b>7,478</b>  |

|                                     |       |           |                  |
|-------------------------------------|-------|-----------|------------------|
| Accrued liabilities:                |       |           |                  |
| Employee benefits                   | 7,549 |           | <b>8,874</b>     |
| Taxes other than on income          | 302   |           | <b>948</b>       |
| Customer tooling                    | 617   |           | <b>799</b>       |
| Insurance                           | 621   |           | <b>538</b>       |
| Professional fees                   | 334   |           | <b>366</b>       |
| Reserve for uncertain tax positions | -     |           | <b>361</b>       |
| Other                               | 1,268 |           | <b>1,222</b>     |
| Total                               |       | \$ 16,842 | \$ <b>20,586</b> |

**Note 5 - Provision for income taxes:**

|  | <b>Nine months ended</b> |              |
|--|--------------------------|--------------|
|  | <b>September 30,</b>     |              |
|  | <b>2006</b>              | <b>2007</b>  |
|  | <b>(In thousands)</b>    |              |
| Expected tax expense, at the U.S. federal statutory income tax rate of 35% | \$ 6,186                 | \$ 5,280     |
| Non-U.S. tax rates   | (265)                    | (169)        |
| Incremental U.S. tax on earnings of non-U.S. subsidiaries                  | 1,532                    | 1,198        |
| Canadian tax rate change   | (159)                    | -            |
| State income taxes, net  | 460                      | 517          |
| Other, net   | (151)                    | (222)        |
| <br>Total  | <br>\$ 7,603             | <br>\$ 6,604 |

**Note 6 – Reacquired common stock:**

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

During the third quarter of 2007, we purchased approximately 114,000 shares of our Class A common stock in market transactions for an aggregate of \$2.2 million. We cancelled these treasury shares and allocated their cost to common stock at par value and additional paid-in capital. At September 30, 2007 approximately 869,500 shares were available for purchase under these repurchase authorizations.

In October 2007, our board of directors authorized the repurchase or cancellation of 2.7 million shares of our Class A common stock held by TIMET, including the Class A shares held indirectly by TIMET through its ownership interest in CompX Group. We purchased these shares for \$19.50 per share, or aggregate consideration of \$52.6 million, which we paid in the form of a consolidated promissory note. The price per share was determined based on our open market repurchases of our Class A common stock around the time the repurchase from TIMET was approved. The consolidated promissory note bears interest at LIBOR plus 1% and provides for quarterly principal repayments of \$250,000 commencing in September 2008, with the balance due at maturity in September 2014. We may make prepayments on the promissory note at any time, in any amount, without penalty. The promissory note is subordinated to our U.S. revolving bank credit agreement. The authorization for the repurchase of these Class A shares from TIMET was in addition to the share repurchase authorizations discussed above.

As a result of the repurchase of our Class A shares from TIMET and the subsequent cancellation of such shares, TIMET no longer has any direct or indirect ownership in us or CompX Group, our outstanding Class A shares were reduced by 2.7 million shares and NL's ownership interest in us increased to approximately 86%. As part of the purchase of our shares from TIMET, NL also ceased to have an ownership interest in CompX Group, and NL's ownership interest in us is now all directly held.



**Note 7 – Recent accounting pronouncement:**

On January 1, 2007, we adopted Financial Accounting Standards Board (“FASB”) FASB Interpretation (“FIN”) No. 48, *Accounting for Uncertain Tax Positions*. FIN No. 48 clarifies when and how much of a benefit we can recognize in our Consolidated Financial Statements for certain positions taken in our income tax returns under Statement of Financial Accounting Standards (“SFAS”) No. 109, *Accounting for Income Taxes*, and enhances the disclosure requirements for our income tax policies and reserves. Among other things, FIN No. 48 prohibits us from recognizing the benefits of a tax position unless we believe it is more-likely-than-not that our position would prevail with the applicable tax authorities and limits the amount of the benefit to the largest amount for which we believe the likelihood of realization is greater than 50%. FIN No. 48 also requires companies to accrue penalties and interest on the difference between tax positions taken on their tax returns and the amount of benefit recognized for financial reporting purposes under the new standard; our current income tax accounting policies comply with this aspect of the new standard. We are also required to classify any reserves we might have for uncertain tax positions in a separate current or noncurrent liability, depending on the nature of the tax position.

We accrue interest and penalties on our uncertain tax positions as a component of our provision for income taxes. At September 30, 2007 we did not have a material amount accrued for interest and penalties for our uncertain tax positions.

At September 30, 2007, we had approximately \$361,000 accrued for uncertain tax positions, which decreased by \$325,000 as a result of cash income tax payments we made during the first nine months of 2007 following the completion of certain examination procedures. Of the \$661,000 reserve we had recognized at January 1, 2007, \$702,000 was reclassified from deferred income tax liabilities (where we classified such reserves prior to our adoption of FIN 48), and the remainder was accounted for as an increase to our retained earnings in accordance with the transition provisions of the new standard. In addition, the benefit associated with approximately \$322,000 of our remaining reserve for uncertain tax positions at September 30, 2007 would, if recognized, affect our effective income tax rate. We currently estimate that the unrecognized tax benefits will decrease by approximately \$361,000 during the next 12 months due to the expiration of certain tax statutes or the completion of certain examination procedures related to one or more of our subsidiaries.

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



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

### Overview

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

We reported operating income of \$4.3 million in the third quarter of 2007 compared to \$6.2 million in the same period of 2006. Operating income was \$14.3 million for the nine-month period ended September 30, 2007 compared to \$16.8 million for the comparable period of 2006. Our operating income decreased in 2007 as compared to the same periods in 2006 as the unfavorable effect of lower sales volume for certain furniture components products resulting from competition from lower priced Asian manufacturers, the effects of lower order rates from many of our customers due to unfavorable economic conditions and the effect of relative changes in foreign currency exchange rates more than offset the favorable effects of a change in product mix and our ongoing focus on reducing costs. In addition, while we have experienced higher raw material costs, the unfavorable impact on gross margin was partially mitigated through the implementation of sales price increases across most products that were affected.

### Results of Operations

|                              | 2006       | Three months ended<br>September 30, |            |        |
|------------------------------|------------|-------------------------------------|------------|--------|
|                              |            | %                                   | 2007       | %      |
|                              |            | (Dollars in thousands)              |            |        |
| Net sales                    | \$ 48,812  | 100.0%                              | \$ 46,389  | 100.0% |
| Cost of goods sold           | 35,955     | 73.7                                | 35,124     | 75.7   |
| Gross margin                 | 12,857     | 26.3                                | 11,265     | 24.3   |
| Operating costs and expenses | 6,645      | 13.6                                | 6,995      | 15.1   |
| Operating income             | \$ 6,212   | 12.7%                               | \$ 4,270   | 9.2%   |
|                              |            | Nine months ended<br>September 30,  |            |        |
|                              |            | %                                   | 2007       | %      |
|                              |            | (Dollars in thousands)              |            |        |
| Net sales                    | \$ 145,984 | 100.0%                              | \$ 135,169 | 100.0% |
| Cost of goods sold           | 109,150    | 74.8                                | 99,921     | 73.9   |
| Gross margin                 | 36,834     | 25.2                                | 35,248     | 26.1   |
| Operating costs and expenses | 20,006     | 13.7                                | 20,939     | 15.5   |
| Operating income             | \$ 16,828  | 11.5%                               | \$ 14,309  | 10.6%  |

*Net sales.* Net sales decreased \$2.4 million, or 5%, to \$46.4 million in the third quarter of 2007 from \$48.8 million in the third quarter of 2006. Net sales decreased \$10.8 million, or 7%, to \$135.2 million for the first nine months of 2007 from \$146.0 million in the first nine months of 2006. The decreases were primarily due to lower sales of certain products to the office furniture market where Asian competitors have established selling prices at a level below which we consider would return a minimal margin as well as lower order rates from many of our customers due to unfavorable economic conditions, offset in part by the effect of sales price increases for certain products to mitigate the effect of higher raw material costs.

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*Cost of goods sold and gross margin.* Our cost of goods sold as a percentage of sales increased from 74% in the third quarter of 2006 to 76% in the third quarter of 2007. Our cost of goods sold as a percentage of sales decreased from 75% in the first nine months of 2006 to 74% in the first nine months of 2007. As a result, our gross margin percentage decreased from 26% in the third quarter of 2006 to 24% in the third quarter of 2007, and increased from 25% to 26% in the year-to-date period. The decrease in the gross margin percentage quarter-over-quarter is the result of the effect of relative changes in foreign currency exchange rates and lower sales volumes. Our gross margin percentage improved in the year-to-date period as the favorable effect of an improved product mix and the full realization in 2007 of certain cost reductions implemented during 2006 more than offset the negative effect of relative changes in foreign currency exchange rates and lower sales volumes. As mentioned above, while we have experienced higher raw material costs, we have partially mitigated any unfavorable impact to gross margin through the implementation of sales price increases across most products that were affected.

*Operating costs and expenses.* As a percentage of net sales, operating costs and expenses increased from 14% for the third quarter of 2006 to 15% for the third quarter of 2007, and increased from 14% in the first nine months of 2006 to 16% in the first nine months of 2007. The increase in operating costs and expenses in 2007 as a percentage of net sales is primarily the result of lower sales volumes, the increase in foreign exchange losses recognized in 2007 of approximately \$950,000 over 2006 due to the strengthening of the Canadian dollar in relation to the U.S. dollar as well as costs incurred relating to the move of two of our northern Illinois Security Products facilities into a new facility shared with a Marine Components operation.

*Operating income.* Operating income decreased \$1.9 million, or 31%, to \$4.3 million in the third quarter of 2007 from \$6.2 million in the third quarter of 2006. Operating income in the first nine months of 2007 decreased \$2.5 million, or 15%, to \$14.3 million compared to \$16.8 million for the first nine months of 2006. Operating income decreased in 2007 as compared to the same periods in 2006 as the unfavorable effect of lower sales volume for certain furniture components products resulting from competition from lower priced Asian manufacturers, the effect of lower order rates from many of our customers due to unfavorable economic conditions and the effect of relative changes in foreign currency exchange rates more than offset the favorable effects of a more favorable product mix and our ongoing focus on reducing costs. In addition, while we have experienced higher raw material costs, the unfavorable impact on operating income was partially mitigated through the implementation of sales price increases across most products that were affected. Although sales declined for the 2007 nine-month period compared to the same period in 2006, operating income as a percentage of net sales in 2007 declined at a lower rate compared to the net sales decline due to a more favorable product mix as well as the favorable impact of our continuous focus on reducing costs across all segments.

*Currency.* Our Furniture Components segment has substantial operations and assets located outside the United States (in Canada and Taiwan). The majority of sales generated from our non-U.S. operations are denominated in the U.S. dollar with the remainder denominated in foreign currencies, principally the Canadian dollar and the New Taiwan dollar. Most raw materials, labor and other production costs for our non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of our non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. Our Furniture Component segment's net sales were positively impacted while their operating income was negatively impacted by currency exchange rates in the following amounts as compared to the currency exchange rates in effect during the corresponding period in the prior year:

|                            | <b>Increase (decrease)</b>  |  |
|----------------------------|---|--|
|                            | <b>Three<br/>months<br/>ended<br/>September<br/>30, 2006<br/>vs. 2007</b> | <b>Nine<br/>months<br/>ended<br/>September<br/>30, 2006<br/>vs. 2007</b> |
|                            | <b>(In thousands)</b>   |  |
| Impact on net sales        | \$ 291  | \$ 307   |
| Impact on operating income | (729)   | (1,231)  |

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

*Provision for income taxes.* A tabular reconciliation between our effective income tax rates and the U.S. federal statutory income tax rate of 35% is included in Note 5 to the Condensed Consolidated Financial Statements. Our income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of our pre-tax earnings can result in fluctuations in the effective income tax rate. Generally, the effective tax rate on income derived from our U.S. operations, including the effect of U.S. state income taxes, is lower than the effective tax rate on income derived from our non-U.S. operations, in part due to an election to not claim a credit with respect to foreign income taxes paid but instead to claim a tax deduction, consistent with the election made by Contran, the parent of our consolidated U.S. federal income tax group. The election to not claim foreign tax credits is the primary reason our effective income tax rate in 2006 and 2007 is higher than the 35% U.S. federal statutory income tax rate.

Our effective income tax rate for the third quarter and the first nine months of 2007 was 37% and 44%, respectively, as compared to our effective income tax rates for the same periods in 2006, of 41% and 43%, respectively. Our provision for income taxes for the first nine months of 2006 includes a \$159,000 income tax benefit recorded in the third quarter related to the effect of the reduction in the Canadian federal income tax rate and the elimination of the federal surtax on our previously recorded net deferred income tax liability. We currently expect our effective income tax rate for the remainder of 2007 will approximate our effective income tax rate for the nine months ended September 30, 2007.



## Segment Results

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

|                             | Three months ended<br>September 30, |           |        | %          | Nine months ended<br>September 30, |       |        |
|-----------------------------|-------------------------------------|-----------|--------|------------|------------------------------------|-------|--------|
|                             | 2006                                | 2007      | Change |            | 2006                               | 2007  | Change |
|                             | (Dollars in thousands)              |           |        |            |                                    |       |        |
| Net sales:                  |                                     |           |        |            |                                    |       |        |
| Security Products           | \$ 21,247                           | \$ 20,869 | (2%)   | \$ 62,114  | \$ 60,816                          | (2%)  |        |
| Furniture Components        | 23,661                              | 21,725    | (8%)   | 71,690     | 61,019                             | (15%) |        |
| Marine Components           | 3,904                               | 3,795     | (3%)   | 12,180     | 13,334                             | 9%    |        |
| Total net sales             | \$ 48,812                           | \$ 46,389 | (5%)   | \$ 145,984 | \$ 135,169                         | (7%)  |        |
| Gross margin:               |                                     |           |        |            |                                    |       |        |
| Security Products           | \$ 6,399                            | \$ 5,750  | (10%)  | \$ 18,581  | \$ 18,477                          | (1%)  |        |
| Furniture Components        | 5,553                               | 4,565     | (18%)  | 14,979     | 12,921                             | (14%) |        |
| Marine Components           | 905                                 | 950       | 5%     | 3,274      | 3,850                              | 18%   |        |
| Total gross margin          | \$ 12,857                           | \$ 11,265 | (12%)  | \$ 36,834  | \$ 35,248                          | (4%)  |        |
| Operating income:           |                                     |           |        |            |                                    |       |        |
| Security Products           | \$ 4,021                            | \$ 3,175  | (21%)  | \$ 11,604  | \$ 11,184                          | (4%)  |        |
| Furniture Components        | 3,306                               | 2,296     | (31%)  | 7,848      | 6,238                              | (21%) |        |
| Marine Components           | 210                                 | 73        | (65%)  | 1,428      | 1,190                              | (17%) |        |
| Corporate operating expense | (1,325)                             | (1,274)   | (4%)   | (4,052)    | (4,303)                            | 6%    |        |
| Total operating income      | \$ 6,212                            | \$ 4,270  | (31%)  | \$ 16,828  | \$ 14,309                          | (15%) |        |

*Security Products.* Security Products net sales decreased 2% to \$20.9 million in the third quarter of 2007 compared to \$21.2 million in the same period last year, and decreased 2% to \$60.8 million in the first nine months of 2007 compared to \$62.1 million in the same period in the prior year. Our gross margin decreased from 30% in the third quarter of 2006 to 28% in the same period in 2007, and was 30% for each of the comparative nine month periods. Operating income for the segment decreased 21% and 4% in the quarter and nine months ended September 30, 2007 compared to the same periods in 2006. The decrease in operating income in 2007 compared to the same periods in 2006 was primarily due to lower sales volumes resulting from lower order rates from many of our customers due to unfavorable economic conditions and costs incurred relating to the move of two of our northern Illinois Security Products facilities into a new facility shared with a Marine Components operation. Move costs for the third quarter of 2007 were approximately \$600,000 and we expect to incur similar costs to complete the move in the fourth quarter.

*Furniture Components.* Furniture Components net sales declined 8% to \$21.7 million in the third quarter of 2007 compared to \$23.7 million in the same period last year, and declined 15% to \$61.0 million in the first nine months of 2007 compared to \$71.7 million in the same period in the prior year primarily due to lower sales to the office furniture industry where, for certain products Asian competitors have established selling prices at a level below which we consider would return a minimal margin and the effect of lower order rates from many of our customers due to unfavorable economic conditions. Furniture Components gross margin was 23% in the third quarter of 2006 and 21% in the third quarter of 2007. Gross margin was 21% for each of the comparative nine month periods. Operating income decreased \$1.0 million, or 31%, from \$3.3 million in the third quarter of 2006 to \$2.3 million in the third quarter of 2007 and decreased \$1.6 million, or 21%, for the comparative nine month periods due to the unfavorable effect of lower sales volumes and relative changes in currency exchange rates, partially offset by the favorable effects of cost reductions.

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*Marine Components.* Marine Components net sales decreased \$.1 million, or 3% during the third quarter of 2007 compared to the same period in 2006 due to a general slowdown of demand in the marine industry. Net sales for the comparative nine month period increased \$1.2 million, or 9%, due to the impact of a marine component acquisition in April 2006.

*Outlook.* Demand is slowing across most product segments as customers react to the condition of the overall economy which we currently expect to result in lower sales and operating income for the year as compared to 2006. Asian sourced competitive pricing pressures are expected to continue to be a challenge for us as Asian manufacturers, particularly those located in China, gain share in certain markets. We believe the impact of this environment will be mitigated through our ongoing initiatives to expand both new products and new market opportunities. Our strategy in responding to the competitive pricing pressure has included reducing production costs through product reengineering, improving manufacturing processes through lean manufacturing techniques and moving production to lower-cost facilities, including our own Asian-based manufacturing facilities. In addition, we continue to develop sources for lower cost components for certain product lines to strengthen our ability to meet competitive pricing when practical. We also emphasize and focus on opportunities where we can provide value-added customer support services that Asian-based manufacturers are generally unable to provide. As a result of pursuing this strategy, we will forego certain segment sales in favor of developing new products and new market opportunities where we believe the combination of our cost control initiatives and value-added approach will produce better results for our shareholders. We also expect raw material cost volatility to continue during the remainder of 2007, which we may not be able to fully recover through price increases or surcharges due to the competitive nature of the markets we serve.

## **Liquidity and Capital Resources**

### *Consolidated cash flows.*

*Operating activities.* Trends in cash flows from operating activities, excluding changes in assets and liabilities, have generally been similar to the trends in our operating earnings. Changes in assets and liabilities result primarily from the timing of production, sales, and purchases. Such changes in assets and liabilities generally tend to even out over time. However, period-to-period relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. Our cash provided by operating activities for the first nine months of 2007 decreased by \$10.2 million as compared to the first nine months of 2006 due primarily to:

- lower operating income of \$2.5 million,
- higher cash paid for income taxes in 2007 of \$4.8 million, and
- a \$3.2 million increase in 2007 in cash used from relative changes in assets and liabilities.

The higher amount of cash paid for income taxes was primarily the result of a higher amount of dividends we received from our non-U.S. subsidiaries in 2007 which resulted in higher U.S. income tax payments. The increase in cash used from relative changes in assets and liabilities related principally to higher raw material inventory costs and the need to carry higher inventory balances to maintain service levels during the consolidation of three northern Illinois facilities into one.

Relative changes in working capital can have a significant effect on cash flows from operating activities. Our average days sales outstanding (“DSO”) decreased from 41 days at December 31, 2006 to 40 days at September 30, 2007 due to timing of collections on the higher accounts receivable balance at the end of September. For comparative purposes, our average DSO increased from 40 days at December 31, 2005 to 43 days at September 30, 2006. Our average number of days in inventory (“DII”) was 57 days at December 31, 2006 and 69 days at September 30, 2007. The increase in days in inventory is primarily due to the higher cost of commodity raw materials at September 30, 2007 combined with lower than expected sales and the need to carry higher inventory balances to maintain service levels during the consolidation of three northern Illinois facilities into one. For comparative purposes, our average DII increased from 59 to 60 days at December 31, 2005 and September 30, 2006, respectively, primarily due to the higher



cost of commodity raw materials at September 30, 2006.

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*Investing activities.* Net cash used in investing activities totaled \$17.6 million in the first nine months of 2006 compared to \$8.5 million used in the first nine months of 2007. Net cash used in 2006 includes \$9.8 million paid for a marine component products business in April 2006.

*Financing activities.* Net cash used in financing activities totaled \$7.2 million and \$6.5 million for the nine months ended September 30, 2006 and 2007, respectively. In the first nine months of 2006, we prepaid certain indebtedness we assumed in a prior acquisition, reducing debt by \$1.5 million. In the first nine months of 2007, we purchased approximately 114,000 shares of our Class A common stock for an aggregate \$2.2 million. In addition, we paid aggregate quarterly dividends of \$5.7 million, or \$.38 per share, in each of the first nine months of 2006 and 2007.

*Other.* We believe that cash generated from operations and borrowing availability under our \$50 million revolving credit facility, together with cash on hand, will be sufficient to meet our liquidity needs for working capital, capital expenditures, debt service and dividends (if declared). To the extent that actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

Provisions contained in our revolving credit facility could result in the acceleration of outstanding indebtedness prior to its stated maturity for reasons other than defaults from failing to comply with typical financial covenants. For example, the Credit Agreement allows the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. The terms of the Credit Agreement could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside of the ordinary course of business.

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

*Future cash requirements.*

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



## Forward-Looking Information

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

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

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

We are exposed to market risk, including foreign currency exchange rates, interest rates and security prices. There have been no material changes in these market risks since we filed our 2006 Annual Report, and we refer you to the report for a complete description of these risks.

**ITEM 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.** We maintain a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of David A. Bowers, our Vice Chairman of the Board, President and Chief Executive Officer, and Darryl R. Halbert, our Vice President, Chief Financial Officer and Controller, have evaluated our disclosure controls and procedures as of September 30, 2007. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were effective as of September 30, 2007.

**Internal Control Over Financial Reporting.** We also maintain internal control over financial reporting. The term "internal control over financial reporting," as defined by regulations of the SEC, means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

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

**Changes in Internal Control Over Financial Reporting.** There has been no change to our internal control over financial reporting during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION****ITEM 1A. Risk Factors.**

There have been no material changes in the third quarter of 2007 with respect to our risk factors presented in Item 1A. in our 2006 Annual Report.

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

In August 2007, our board of directors authorized the repurchase of up to 500,000 shares of our common stock in open market transactions, including block purchases, or in privately negotiated transactions, which may include transactions with our affiliates. This authorization to repurchase these 500,000 shares is in addition to the 467,000 shares of Class A common stock available for repurchase under prior authorizations of our board of directors. We may repurchase our common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, we may terminate the program prior to its completion. We will use cash on hand to acquire the shares. Repurchased shares will be added to our treasury and cancelled. See Note 6 to the Condensed Consolidated Financial Statements.

The following table discloses certain information regarding the shares of our common stock we purchased during August and September of 2007 (there were no purchases during July of 2007). All of these purchases were made under the repurchase program in open market transactions.

| Period                                  | Total number of shares purchased | Average price paid per share, including commissions | Total number of shares purchased as part of a publicly-announced plan | Maximum number of shares that may yet be purchased under the publicly-announced plan at end of period |
|---|----------------------------------|---|---|---|
| August 1, 2007 to August 31, 2007       | 78,900                           | \$ 19.07  | 78,900  | 904,600   |
| September 1, 2007 to September 30, 2007 | 35,100                           | \$ 19.65  | 35,100  | 869,500   |
|   | 114,000                          |   | 114,000   |   |

**ITEM 6. Exhibits.**Item No.            Exhibit Index

- 31.1    Certification
- 31.2    Certification
- 32.1    Certification

We have retained a signed original of any of the above exhibits that contains signatures, and we will provide such

exhibit to the Commission or its staff upon request. We will also furnish, without charge, a copy of our Code of Business Conduct and Ethics, Corporate Governance Guidelines and Audit Committee Charter, each as adopted by our board of directors, upon request. Such requests should be directed to the attention of our Corporate Secretary at our corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

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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.**  
**(Registrant)**

Date: November 1, 2007

Darryl R. Halbert

Vice President, Chief Financial Officer and Controller

By: /s/ Darryl R. Halbert