LA JOLLA PHARMACEUTICAL CO
Form 424B5
August 08, 2003

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FILED PURSUANT TO RULE 424(b)(5)
REGISTRATION NO. 333-101499

PROSPECTUS SUPPLEMENT

(To Prospectus Dated December 12, 2002)

8,150,000 Shares

La Jolla Pharmaceutical Company

Common Stock

We are selling 8,150,000 shares of common stock.

Our common stock is traded on the Nasdaq National Market under the symbol LJPC. On August 6, 2003, the last reported sale price of our common stock on the Nasdaq Nation Market was $3.09 per share.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$2.75	$22,412,500
Underwriting Discount	$0.165	$ 1,344,750
Proceeds to La Jolla Pharmaceutical Company (before expenses)	$2.585	$21,067,750

The underwriter is offering the shares of our common stock as described under the heading Underwriting beginning on page S-16. The shares will be ready for delivery on or about August 12, 2003.

PACIFIC GROWTH EQUITIES, LLC

Sole Underwriter

The date of this prospectus supplement is August 7, 2003

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You should rely only on the information contained or incorporated by reference in this document. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as the information that we have previously filed with the Securities and Exchange Commission and incorporated by reference, is accurate only as of the date of the applicable document. The descriptions set forth in this prospectus supplement replace and supplement, where inconsistent, the description of the general terms and provisions set forth in the accompanying prospectus.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering. A description of our capital stock is contained in this prospectus supplement. This prospectus supplement, with the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, may add, update or change information in the accompanying prospectus. If information in this prospectus supplement, or the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, is inconsistent with the accompanying prospectus, this prospectus supplement, or the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, will apply and will supersede the information in the accompanying prospectus.

Please read and consider all information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus together with the additional information described under the section entitled Where You Can Find More Information and Incorporation by Reference in this prospectus supplement and the section entitled Risk Factors in this prospectus supplement before you make an investment decision.

This prospectus supplement and the accompanying prospectus do not constitute an offer or solicitation by anyone in any jurisdiction in which an offer or solicitation is not authorized or in which the person making an offer or solicitation is not qualified to do so, or to anyone to whom it is unlawful to make an offer or solicitation.

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SUMMARY

This is only a summary of the offering. It may not contain all of the information that may be important to you. To fully understand the investment you are contemplating, you should read this prospectus supplement, the prospectus and the detailed information incorporated into them by reference before you decide to make an investment. Unless the context otherwise requires, the terms we, us, and our refer to La Jolla Pharmaceutical Company, a Delaware corporation.

The Company

La Jolla Pharmaceutical Company is a biopharmaceutical company focused on the research and development of highly specific therapeutic products for the treatment of certain life-threatening antibody-mediated diseases. These diseases, including autoimmune conditions such as lupus erythematosus (lupus) and antibody-mediated thrombosis, are caused by abnormal B cell production of antibodies that attack healthy tissues. Current treatments for these autoimmune disorders address only symptoms of the disease, or nonspecifically suppress the normal operation of the immune system, which often results in severe, negative side effects and hospitalization. We believe that our drug candidates, called Toleragens®, will treat the underlying cause of many antibody-mediated diseases without these severe, negative side effects.

Corporate Information

We are incorporated in the State of Delaware. Our principal executive offices are located at 6455 Nancy Ridge Drive, San Diego, California 92121 and our telephone number is (858) 452-6600.

Recent Developments

On February 18, 2003, we announced initial results from our Phase 3 clinical trial of Riquent™, our clinical drug candidate for the treatment of lupus renal disease. Although the trial did not reach statistical significance for its primary endpoint, time to renal flare, the Phase 3 trial results demonstrated that lupus patients treated with Riquent had significantly lower levels of antibodies to double-stranded DNA (dsDNA) than patients treated with a placebo. Data from the Phase 3 and Phase 2/3 studies demonstrated that lupus patients with sustained reductions in antibodies to dsDNA experienced fewer renal flares. In these two studies, two and four times as many Riquent-treated patients had sustained reductions compared with placebo-treated patients.

On May 5, 2003, we announced that, based upon our discussions with the United States Food and Drug Administration (the FDA), we plan to complete a New Drug Application (NDA) for Riquent around the end of 2003. Further discussions with the FDA will be needed to clarify whether any additional supportive information or studies will be required to support the approval of the NDA. We also are currently meeting with European regulatory authorities to discuss potential next steps for Riquent in Europe. There can be no guarantee that meetings with the regulatory agencies can be held in a timely manner, or at all, or that our meetings with them will result in our being able to continue to develop Riquent in an economically viable manner. If for any reason our development efforts as to Riquent are terminated, it would have a material adverse effect on our business and future prospects.

In addition to closing our Riquent-related clinical trials, in May 2003 we reduced the size of our organization by 24 positions, including certain management positions. We expect to realize the benefit of the cost savings from these actions beginning in the third quarter of 2003.

On June 17, 2003, we announced the health-related quality of life results from our Phase 3 clinical trial of Riquent which demonstrated that lupus patients with sustained reductions in antibodies to dsDNA reported improved health-related quality of life and had a lower risk of Major SLE (systemic lupus erythematosus) flare compared with patients who did not have sustained reductions. Major SLE flare includes new or increased treatment with high-dose corticosteroids and/or cyclophosphamide or other immunosuppressive drugs, hospitalization, or death due to lupus. Similar results were also seen in our

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Phase 2/3 trial. These results support the pathogenicity or disease-causing ability of antibodies to dsDNA in lupus patients.

On July 24, 2003, we announced that, based upon recent discussions with the FDA, we may pursue an accelerated approval for Riquent under the Subpart H regulation. Under Subpart H, drugs in development for serious, life-threatening diseases with an unmet medical need can be approved on an accelerated basis if the FDA determines that the effect of the drug on a surrogate endpoint is reasonably likely to predict clinical benefit and that a post-marketing clinical trial can be successfully completed following drug approval which confirms the clinical benefit. As previously announced, in our Phase 3 and Phase 2/3 trials, patients treated with Riquent had significantly reduced levels of antibodies to dsDNA compared with patients treated with placebo. We believe that data from our clinical trials and the relevant medical literature would support the use of antibodies to dsDNA as a surrogate endpoint that would be reasonably likely to predict clinical benefit. We are currently in discussions with the FDA about the design and timing of a post-marketing clinical trial. The FDA will make the determination of approvability and the conditions of the approval after it has reviewed our NDA.

The Offering

Common stock offered by us:	8,150,000 shares
Shares outstanding after the offering:	50,808,694 shares
Use of proceeds:	We estimate that our net proceeds from this offering will be approximately $20.9 million, after deducting the underwriting discount and estimated offering expenses. We intend to use the net proceeds from this offering to fund the continued development of Riquent and as further described in this prospectus supplement under the heading Use of Proceeds.
Risk factors:	See the Risk Factors section and other information included in this prospectus supplement and the prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Nasdaq National Market symbol:	LJPC

The number of shares outstanding after the offering is based on 42,658,694 shares of common stock outstanding as of July 31, 2003 and excludes 6,993,972 shares of common stock reserved at June 30, 2003 for issuance upon exercise of outstanding options under our equity incentive plans.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. Before purchasing the common stock offered hereby, you should carefully consider the risk factors set forth below, as well as the other information included in this prospectus supplement, the prospectus and the information incorporated by reference in them. Some of these factors have affected our financial condition and operating results in the past or are currently affecting us. All of these factors could affect our future financial condition or operating results. If any of the following risks actually occurs, our business could be harmed. If that happens, the trading price of our common stock could decline, and you may lose all or part of your investment.

I. Risk Factors Relating To La Jolla Pharmaceutical And The Industry In Which We Operate

If the continued development of Riquent is significantly delayed because of the results of our Phase 3 clinical trial, our business and financial condition will be adversely affected and it may be difficult or impossible for us to survive.

The data from our Phase 3 clinical trial of Riquent indicated that treatment with Riquent did not increase length of time to renal flare, the primary endpoint, in a statistically significant manner when compared with placebo. As a result, our ability to obtain regulatory clearance to market Riquent either in the United States or in Europe is uncertain, and we may be required to conduct additional clinical trials to demonstrate the safety and efficacy of Riquent. The uncertainty regarding the future development of Riquent caused by the Phase 3 trial results may negatively affect our ability to raise necessary additional funding in the future. If the continued development of Riquent is significantly delayed for any reason, and if we are unable to timely raise additional funding, we may not have the financial resources to continue research and development of Riquent, LJP 1082 or any other potential drug candidates, and it may be difficult or impossible for us to survive.

Our drug candidates may not perform well in clinical trials. Without successful clinical trials, we will not be able to market or sell any products.

In order to sell our products that are under development, we must first receive regulatory approval. To obtain regulatory approval, we must conduct clinical trials and toxicology studies that demonstrate that our drug candidates are safe and effective. Positive results from previous trials and studies of Riquent and LJP 1082 may not be observed in future trials and studies. If Riquent and LJP 1082 are ultimately not found to be safe and effective, we would be unable to obtain regulatory approval to manufacture, market and sell these drugs. Because Riquent is our only drug candidate for which we have completed a Phase 3 clinical trial, and because there is no guarantee that we would be able to develop an alternate drug candidate, our inability to commercialize Riquent would have a severe negative effect on our business, and we may not have the financial resources to continue research and development of Riquent, LJP 1082 or any other potential drug candidates.

Results from our clinical trials may not be sufficient to obtain clearance to market Riquent or our other drug candidates in the United States or Europe on a timely basis, or at all.

Our drug candidates are subject to extensive government regulations related to development, clinical trials, manufacturing and commercialization. The process of obtaining United States Food and Drug Administration (FDA) and other regulatory approvals is costly, time consuming, uncertain and subject to unanticipated delays. The FDA and foreign regulatory authorities have substantial discretion in the approval process. The FDA and foreign regulatory authorities may not agree that we have demonstrated that Riquent or LJP 1082 are safe and effective after we complete our clinical trials. The FDA may refuse to approve an application for approval of a drug candidate if it believes that applicable regulatory criteria are not satisfied, and, although we expect to submit a New Drug Application around the end of this year, we can provide no assurances that the application will be accepted.

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Even if the results of future clinical trials are positive, the FDA and foreign regulatory authorities may require us to design and conduct additional studies to further demonstrate the safety and efficacy of our drugs, which may result in significant expense and delay. The FDA and foreign regulatory authorities may require new or additional clinical trials because of inconclusive results from earlier clinical trials, including the Phase 3 trial of Riquent, a possible failure to conduct clinical trials in complete adherence to FDA good clinical practice standards and similar standards of foreign regulatory authorities, the identification of new clinical trial endpoints, or the need for additional data regarding the safety or efficacy of our drug candidates. Moreover, if the FDA or foreign regulatory authorities grant regulatory approval of a drug candidate, the approval may be limited to specific indications or patient populations, or limited with respect to its distribution, including to specified facilities or physicians with special training or experience. The imposition of any of these restrictions or other restrictions on the marketing and use of Riquent could adversely affect any future sales of Riquent. It is possible that the FDA or foreign regulatory authorities may not ultimately approve Riquent, LJP 1082 or our other drug candidates for commercial sale in any jurisdiction, even if future clinical results are positive. In addition, even if a drug candidate is approved, it is possible that a subsequent issue regarding its safety or efficacy would require us to remove the drug from the market.

Because Riquent is our only drug candidate for which we have completed a Phase 3 clinical trial, and because there is no guarantee that we would be able to develop an alternate drug candidate, our inability to obtain regulatory approval of Riquent would have a severe negative effect on our business, and we may not have the financial resources to continue research and development of Riquent, LJP 1082 or any other potential drug candidates.

We may be unsuccessful in obtaining accelerated approval for Riquent under the Subpart H regulations.

Although we may pursue accelerated FDA approval for Riquent under the Subpart H regulation, there can be no assurance that reductions in levels of antibodies to double-stranded DNA (dsDNA) will be deemed by the FDA as a surrogate endpoint that is reasonably likely to predict clinical benefit, that we will be able to agree with the FDA about the design and timing of a post-marketing clinical trial, or that we will be able to successfully complete any post-marketing clinical trial. The success of any future clinical trial that we may be required to conduct as part of a Subpart H approval process will depend, in part, on our ability to locate and enroll patients meeting the criteria specified for such a trial. Even if the FDA approves Riquent under Subpart H, if we fail to successfully complete a post-marketing clinical trial, the FDA would have the authority to remove Riquent from the market. Because Riquent is our only drug candidate for which we have completed a Phase 3 clinical trial, and because there is no guarantee that we would be able to develop an alternate drug candidate, our inability to obtain or maintain regulatory approval of Riquent would have a severe negative effect on our business, and we may not have the financial resources to continue research and development of Riquent, LJP 1082 or any other potential drug candidates.

We will need additional funds to support our operations and may need to reduce operations, sell stock or assets, enter into collaborative agreements or merge with another entity to continue operations.

Our operations to date have consumed substantial capital resources, and we may expend substantial amounts of capital resources for additional research, product development, pre-clinical testing and clinical trials of drug candidates. If we ultimately receive favorable clinical results and regulatory approval for our drug candidates, we may also devote substantial additional capital resources to establish commercial-scale manufacturing capabilities and to market and sell potential products. We will need to raise additional funds to finance our future operations. Our future capital requirements will depend on many factors, including:

our ability to obtain regulatory approval for Riquent,

continued scientific progress in our research and development programs,

the size and complexity of our research and development programs,

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the scope and results of pre-clinical testing and clinical trials,

the time and costs involved in applying for regulatory approvals,

the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims,

competing technological and market developments,

our ability to establish and maintain collaborative research and development arrangements,

our need to establish commercial manufacturing capabilities, and

our ability to develop effective marketing and sales programs.

We expect to incur substantial losses each year for at least the next several years as we continue our planned research, clinical development, manufacturing and marketing activities. If we ultimately receive regulatory approval for Riquent, LJP 1082 or our other drug candidates, our manufacturing, marketing and sales activities are likely to substantially increase our expenses and our need for working capital. We anticipate that our existing cash, investments and interest earned thereon plus the proceeds that we expect to receive from the shares of common stock that we are offering pursuant to this prospectus supplement will be sufficient to fund our operations as currently planned into the fourth quarter of 2004, assuming that we do not engage in any significant clinical trial or commercialization activities. However, the amounts expended by us may vary significantly, and it is possible that our cash requirements will exceed current projections and that we will therefore need additional financing sooner than currently expected. In the future, it is possible that we will not have adequate resources to support continuation of our business activities.

We actively seek additional funding, including through public and private financings and collaborative arrangements. Our choice of financing alternatives may vary from time to time depending on various factors, including the market price of our securities, conditions in the financial markets and the interest of other entities in strategic transactions with us. There can be no guarantee that additional financing will be available on favorable terms, if at all, whether through issuance of securities, collaborative arrangement, or otherwise. If adequate funds are not available, we may be required to delay, scale back or eliminate one or more of our research and development programs or obtain funds through arrangements with collaborative partners or others that require us to relinquish rights to our technologies or potential products. We also may be required to merge with another entity to continue our operations. Any one of these outcomes could have a negative impact on our ability to develop products or achieve profitability if our products are brought to market. If, and to the extent, we obtain additional funding through sales of securities, your investment in us will be diluted, and dilution can be particularly substantial when the price of our common stock is low.

If we are to obtain regulatory approval of Riquent, the FDA must also approve our manufacturing facilities and processes.

In addition to demonstrating the safety and efficacy of Riquent in clinical trials, we must also obtain FDA approval of our manufacturing facilities in order to obtain FDA approval for the commercial use of Riquent. As part of the approval process, we must validate our manufacturing facilities and processes to the satisfaction of the FDA. Although we have initiated the process of validating and obtaining FDA approval of our facilities and processes, we have never operated an FDA-approved manufacturing facility. If we are unable to obtain the necessary approvals, the FDA will not approve Riquent for commercial use even if future clinical trials are successful.

Our blood test to measure the binding affinity for Riquent has not been validated by independent laboratories and may require regulatory approval as part of the Riquent approval process.

In 1998, we developed a blood test that we believe can identify the lupus patients who are most likely to respond to Riquent. The blood test is designed to measure the strength of the binding between Riquent and a patient s antibodies. This affinity assay was used to identify the patients who were included in the

efficacy analysis of the Phase 3 trial of Riquent. Independent laboratories have not validated the assay, and the results of the affinity assay observed in our clinical trials of Riquent may not be observed in the broader lupus patient population. In addition, regulatory agencies will likely require that the assay be reviewed, and it may be required to be approved, as part of the approval process of Riquent. The testing laboratory conducting the assay may also require additional regulatory approval. If additional regulatory approval of the testing laboratory is required, the approval and possible commercialization of Riquent may be delayed.

The technology underlying our products is uncertain and unproven.

All of our product development efforts are based on unproven technologies and therapeutic approaches that have not been widely tested or used. To date, no products that use our technology have been commercialized. Riquent and LJP 1082 have not been proven to be safe and effective in humans, and the technology on which they are based has been used only in our pre-clinical tests and clinical trials. Application of our technology to antibody-mediated diseases other than lupus and antibody-mediated thrombosis is in earlier research stages. Clinical trials of Riquent and LJP 1082 may be viewed as a test of our entire approach to developing therapies for antibody-mediated diseases. If Riquent or LJP 1082 does not work as intended, or if the data from our clinical trials indicates that Riquent or LJP 1082 is not safe and effective, the applicability of our technology for treating antibody-mediated diseases will be highly uncertain. As a result, there is a significant risk that our therapeutic approaches will not prove to be successful, and there can be no guarantee that our drug discovery technologies will result in any commercially successful products.

Future clinical trials may be delayed or halted.

Future clinical trials of Riquent or LJP 1082, trials of drugs related to these drugs, or clinical trials of other drug candidates may be delayed or halted. During the development of Riquent, our Phase 2/ 3 clinical study, in collaboration with Abbott Laboratories, was terminated before planned patient enrollment was completed. Future trials may be delayed or halted for various reasons, including:

the products are not effective,

patients experience severe side effects during treatment,

patients do not enroll in the studies at the rate we expect, or

supplies of drug product are not sufficient to treat the patients in the studies.

If any future trials are delayed or halted we may incur significant additional expenses, which could have a severe negative effect on our business.

We have a history of losses and may not become profitable.

We have incurred operating losses each year since our inception in 1989 and had an accumulated deficit of approximately $177.0 million as of June 30, 2003. We expect to incur substantial losses each year for at least the next several years as we seek regulatory approval, conduct additional clinical trials of our drug candidates, and continue our research, clinical development, and manufacturing and marketing activities. In addition, assuming we ultimately receive favorable clinical results and FDA approval for Riquent, LJP 1082 or our other drug candidates, we will be required to develop commercial manufacturing capabilities and sales and marketing programs which may result in substantial additional losses. To achieve profitability we must, among other matters, complete the development of our products, obtain all necessary regulatory approvals and establish commercial manufacturing, marketing and sales capabilities. The amount of losses and the time required by us to reach sustained profitability are highly uncertain and we may never achieve profitability. We do not expect to generate revenues from the sale of Riquent, if approved, or our other products, if any, for several years, and we may never generate product revenues.

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The size of the market for our potential products is uncertain.

We estimate that the number of people who suffer from lupus in the United States and Europe is approximately 1,000,000 and that those with renal impairment, which Riquent is designed to treat, is approximately 300,000. With respect to antibody-mediated thrombosis, which LJP 1082 is designed to treat, we estimate that there are approximately 1,000,000 to 2,000,000 patients in the United States and Europe. For example, within the estimated antibody-mediated thrombosis patient population, antiphospholipid antibodies contributed to approximately 10% of the approximate 4,000,000 strokes in 2002. However, there is limited information available regarding the actual size of these patient populations. In addition, it is uncertain whether the results from previous or future clinical trials of our drug candidates will be observed in broader patient populations, and the number of patients who may benefit from our drug candidates may be significantly smaller than the estimated patient populations. Furthermore, management of patients with renal disease by specialists other than nephrologists and immunologists is likely to reduce our ability to access patients who may benefit from Riquent.

Our drugs may not achieve market acceptance.

Even if Riquent or our other drug candidates receive regulatory approval, patients and physicians may not readily accept our proposed methods of treatment. In order for Riquent or our other drug candidates to be commercially successful, we will need to increase the awareness and acceptance of our drug candidates among physicians, patients and the medical community. Riquent is designed to be administered intravenously. It is possible that providers and patients may resist an intravenously administered therapeutic. In addition, if we are unable to manufacture drugs at an acceptable cost, physicians may not readily prescribe drugs that we may manufacture due to cost-benefit considerations when compared to other methods of treatment. If we are unable to achieve market acceptance for approved products, our revenues and potential for profitability will be negatively affected.

We lack experience in marketing products for commercial sale.

In order to commercialize any drug candidate approved by the FDA, we must either develop marketing and sales programs or enter into marketing arrangements with others. If we cannot do either of these successfully, we will not generate meaningful sales of any products that may be approved. If we develop our own marketing and sales capabilities, we will be required to employ a sales force, establish and staff a customer service department, and create or identify distribution channels for our drugs. We will compete with other companies that have experienced and well-funded marketing and sales operations. In addition, if we establish our own sales and distribution capabilities, we may experience delays and expenditures and have difficulty in gaining market acceptance for our drug candidates. We currently have no marketing arrangements with others. There can be no guarantee that, if we desire to, we will be able to enter into any marketing agreements on favorable terms, if at all, or that any such agreements will result in payments to us. If we enter into co-promotion or other marketing and sales arrangements with other companies, any revenues that we may receive will be dependent on the efforts of others. There can be no guarantee that these efforts will be successful.

Our limited manufacturing capabilities and experience could result in shortages of products for testing and future sale, and our revenues and profit margin could be negatively affected.

Substantial capital investment in the expansion and build-out of our manufacturing facilities will be required to enable us to manufacture Riquent, if approved, in significant commercial quantities. We have limited manufacturing experience, and we may be unable to successfully transition to commercial production. In addition, we have never operated an FDA-approved manufacturing facility, and we will be required to manufacture Riquent pursuant to applicable FDA good manufacturing practices. Our inexperience could result in manufacturing delays or interruptions and higher manufacturing costs. This could negatively affect our ability to introduce products into the market on a timely and competitive basis. In addition, the subsequent sales of our products and our profit margins may be negatively affected.

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We may enter into arrangements with contract manufacturing companies to expand our own production capacity in order to meet demand for our products, or to attempt to improve manufacturing efficiency. If we choose to contract for manufacturing services and encounter delays or difficulties in establishing relationships with manufacturers to produce, package or distribute our finished products, or the contract manufacturers are unable to meet our needs, the introduction of our products into the market and the subsequent sales of these products would be negatively affected, and our profit margins and our ability to develop and deliver products on a timely and competitive basis may be negatively affected.

Our suppliers may not be able to provide us with sufficient quantities of materials that we may need to manufacture our products.

We rely on outside suppliers to provide us with specialized chemicals and reagents that we use to manufacture our drugs. In order to manufacture Riquent, LJP 1082 and our other drug candidates in sufficient quantities for our clinical trials and possible commercialization, our suppliers will be required to provide us with an adequate supply of chemicals and reagents. Our ability to obtain these chemicals and reagents is subject to the following risks:

- our suppliers may not be able to increase their own manufacturing capabilities in order to provide us with a sufficient amount of material for our use,
- some of our suppliers may be required to obtain FDA or other regulatory approvals of their manufacturing facilities or processes, and they may be delayed or unable to do so,
- the materials that our suppliers use to manufacture the chemicals and reagents which they provide us may be costly or in short supply, and
- there may be a limited number of suppliers that are able to provide us with the chemicals or reagents that we use to manufacture our drugs.

If we are unable to obtain sufficient quantities of chemicals or reagents, the introduction of any products into the market and the subsequent sales of any products would be negatively affected, and our profit margins and our ability to develop and deliver products on a timely and competitive basis may be negatively affected.

We may not earn as much income as we hope due to possible changes in healthcare reimbursement policies.

The continuing efforts of government and healthcare insurance companies to reduce the costs of healthcare may reduce the amount of income that we can generate from sales of future products. For example, in certain foreign markets, pricing and profitability of prescription drugs are subject to government control. In the United States, we expect that there will continue to be a number of federal and state proposals to implement similar government controls. In addition, an increasing emphasis on managed care in the United States will continue to put pressure on drug manufacturers to reduce prices. Cost control initiatives could reduce the revenue that we receive for any products we may develop and sell in the future.

Our success in developing and marketing our drug candidates depends significantly on our ability to obtain patent protection for Riquent, LJP 1082 and any other developed products. In addition, we will need to successfully preserve our trade secrets and operate without infringing on the rights of others.

We depend on patents and other unpatented intellectual property to prevent others from improperly benefiting from products or technologies that we may have developed. As of December 31, 2002, we owned 98 issued patents and 93 pending patent applications covering various technologies and drug candidates including Riquent and LJP 1082. However, there can be no assurance that any additional patents will be issued, that the scope of any patent protection will be sufficient, or that any current or future issued patent will be held valid if subsequently challenged. There is a substantial backlog of biotechnology patent applications at the United States Patent and Trademark Office that may delay the

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review and issuance of any patents. The patent position of biotechnology firms like ours is highly uncertain and involves complex legal and factual questions, and no consistent policy has emerged regarding the breadth of claims covered in biotechnology patents or the protection afforded by these patents. Currently, we have a number of patent applications pending in the United States relating to our technology, as well as foreign counterparts to some of our United States patent applications. We intend to continue to file applications as believed appropriate for patents covering both our products and processes. There can be no assurance that patents will be issued from any of these applications, or that the scope of any issued patents will protect our technology.

We do not necessarily know if others, including competitors, have patents or patent applications pending that relate to compounds or processes that overlap or compete with our intellectual property. We are aware of one family of United States patents that contain claims covering subject matter that may conflict with some of our key patents and patent applications, and that may affect our ability to manufacture and sell our products in the future. If the United States Patent and Trademark Office or any foreign counterpart issues or has issued patents containing competitive or conflicting claims, and if these claims are valid, the protection provided by our existing patents or any future patents that may be issued could be significantly reduced, and our ability to prevent competitors from developing products or technologies identical or similar to ours could be negatively affected. In addition, there can be no guarantee that we would be able to obtain licenses to these patents on commercially reasonable terms, if at all, or that we would be able to develop or obtain alternative technology. Our failure to obtain a license to a technology or process that may be required to develop or commercialize one or more of our drug candidates may have a material adverse effect on our business. In addition, we may have to incur significant expenses in defending or enforcing our patents.

We also rely on unpatented intellectual property such as trade secrets and improvements, know-how, and continuing technological innovation. While we seek to protect these rights, it is possible that:

others, including competitors, will develop inventions relevant to our business,

our binding confidentiality agreements will be breached, and we will not have adequate remedies for such a breach, or

our trade secrets will otherwise become known or be independently discovered by competitors.

We could incur substantial costs in defending suits brought against us by others for infringement of intellectual property rights or in prosecuting suits that we might bring against others to protect our intellectual property rights.

Our research and development and operations depend in part on key employees. Losing these employees would have a negative effect on our product development and operations.

We are highly dependent on the principal members of our scientific and management staff, the loss of whose services would delay the achievement of our research and development objectives. This is because our key personnel, including Steven Engle, Dr. Matthew Linnik, Dr. Paul Jenn and Dr. Andrew Wiseman, have been involved in the development of Riquent, LJP 1082 and other drug candidates for several years and have unique knowledge of our drug candidates and of the technology on which they are based. In addition, we will be required to rely on other key members of our senior management team, including Bruce Bennett, Dr. Kenneth Heilbrunn, and William Welch, to assist us with growth and expansion into areas requiring additional expertise, such as clinical trials, regulatory approvals, manufacturing, marketing and sales. We expect that we will continue to require additional management personnel, and that our existing management personnel will be required to develop additional expertise.

Retaining our current personnel and recruiting additional personnel will be critical to our success.

Retaining our current key personnel and recruiting additional qualified personnel to perform research and development, clinical development, manufacturing, marketing and sales will be critical to our success. Because competition for experienced scientific, clinical, manufacturing, marketing and sales personnel

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among numerous pharmaceutical and biotechnology companies and research and academic institutions is intense, we may not be able to attract and retain these people. If we cannot attract and retain qualified people, our ability to conduct necessary clinical trials and to develop and sell our products may be negatively affected because, for instance, the trials may not be conducted properly, or the manufacturing or sales of our products may be delayed. In addition, we rely upon consultants and advisors to assist us in formulating our research and development, clinical, regulatory, manufacturing, marketing and sales strategies. All of our consultants and advisors have outside employment and may have commitments or consulting or advisory contracts with other entities that may limit their ability to contribute to our business.

Our freedom to operate our business or profit fully from sales of our products may be limited if we enter into collaborative agreements.

We may seek to collaborate with pharmaceutical companies to gain access to their research, drug development, manufacturing, marketing, sales and financial resources. However, we may not be able to negotiate arrangements with any collaborative partners on favorable terms, if at all. Any collaborative relationships that we enter into may include restrictions on our freedom to operate our business or may limit the sales of our products. If a collaborative arrangement is established, the collaborative partner may discontinue funding any particular program or may, either alone or with others, pursue alternative technologies or develop alternative drug candidates for the diseases we are targeting. Competing products, developed by a collaborative partner or to which a collaborative partner has rights, may result in the collaborative partner withdrawing support as to all or a portion of our technology.

Without collaborative arrangements, we must fund our own research, development, manufacturing, marketing and sales activities, which would accelerate the depletion of our cash and require us to develop our own manufacturing, marketing and sales capabilities. Therefore, if we are unable to establish and maintain collaborative arrangements and if other sources of cash are not available, we could experience a material adverse effect on our ability to develop products and, if developed and approved, to manufacture, market and sell them successfully.

Because a number of companies compete with us, many of which have greater resources than we do, and because we face rapid changes in technology in our industry, we cannot be certain that our products will be accepted in the marketplace or capture market share.

Competition from domestic and foreign biotechnology companies, large pharmaceutical companies and other institutions is intense and is expected to increase. A number of companies and institutions are pursuing the development of pharmaceuticals in our targeted areas, many of which are very large, and have financial, technical, sales and distribution and other resources substantially greater than ours. The greater resources of these competitors could enable them to develop competing products more quickly than we are able to, and to market any competing product more quickly or effectively so as to make it extremely difficult for us to develop a share of the market for our products. These competitors also include companies that are conducting clinical trials and pre-clinical studies for the treatment of lupus and thrombosis. Our competitors may develop or obtain regulatory approval for products more rapidly than we do. Also, the biotechnology and pharmaceutical industries are subject to rapid changes in technology. Our competitors may develop and market technologies and products that are more effective or less costly than those being developed by us, or that would render our technology and proposed products obsolete or noncompetitive.

An interruption in the operation of our sole manufacturing facility could disrupt our operations.

We have only one drug manufacturing facility. A significant interruption in the operation of this facility, whether as a result of a natural disaster or other causes, could significantly impair our ability to manufacture drugs for our clinical trials or possible commercialization.

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The use of Riquent, LJP 1082 and other potential products in clinical trials, as well as the sale of any approved products, may expose us to lawsuits resulting from the use of these products.

The use and possible sale of Riquent, LJP 1082 and other potential products may expose us to legal liability and generate negative publicity if we are subject to claims that our products harmed people. These claims might be made directly by patients, pharmaceutical companies, or others. We currently maintain $10.0 million of product liability insurance for claims arising from the use of our products in clinical trials. However, product liability insurance is becoming increasingly expensive, and there can be no guarantee that we will be able to maintain insurance or that insurance can be acquired at a reasonable cost, in sufficient amounts, or with broad enough coverage to protect us against possible losses. Furthermore, it is possible that our financial resources would be insufficient to satisfy potential product liability or other claims. A successful product liability claim or series of claims brought against us could negatively impact our business and financial condition.

We face environmental liabilities related to certain hazardous materials used in our operations.

Due to the nature of our manufacturing processes, we are subject to stringent federal, state and local laws governing the use, handling and disposal of certain materials and wastes. We may have to incur significant costs to comply with environmental regulations if and when our manufacturing increases to commercial volumes. Current or future environmental laws may significantly affect our operations because, for instance, our production process may be required to be altered, thereby increasing our production costs. In our research activities, we use radioactive and other materials that could be hazardous to human health, safety or the environment. These materials and various wastes resulting from their use are stored at our facility pending ultimate use and disposal. The risk of accidental injury or contamination from these materials cannot be eliminated. In the event of such an accident, we could be held liable for any resulting damages, and any such liability could exceed our resources. Although we maintain general liability insurance, we do not specifically insure against environmental liabilities.

II. Risk Factors Related Specifically To Our Stock

Our common stock price is volatile and may decline even if our business is doing well.

The market price of our common stock has been and is likely to continue to be highly volatile. Market prices for securities of biotechnology and pharmaceutical companies, including ours, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. The following factors, among others, can have a significant effect on the market price of our securities:

our clinical trial results,

actions or decisions by the FDA and other comparable agencies,

announcements of technological innovations or new therapeutic products by others, or us,

developments in patent or other proprietary rights,

public concern as to the safety of drugs discovered or developed by us or others,

future sales of significant amounts of our common stock by existing stockholders,

developments concerning potential agreements with collaborators,

comments by securities analysts and general market conditions, and

government regulation.

The realization of any of the risks described in these Risk Factors could have a negative effect on the market price of our common stock.

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In the future, our stock may be removed from listing on the Nasdaq quotation system and may not qualify for listing on any stock exchange, in which case it may be difficult to find a market in our stock.

If our stock is no longer traded on a national trading market, it may be more difficult for you to sell shares that you own, and the price of the stock may be negatively affected. Currently, our securities are traded on the Nasdaq National Market. Nasdaq has several continued listing requirements, including a minimum-trading price. Previously, we have received notice from Nasdaq that our stock price fell below this minimum trading price. Although we have since come back into compliance with this Nasdaq requirement, it is possible that we will fall out of compliance with this and/or other Nasdaq continued listing criteria at some point in the future. Failure to comply with any one of several Nasdaq requirements may cause our stock to be removed from listing on Nasdaq. Should this happen, we may not be able to secure listing on other exchanges or quotation systems. This would have a negative effect on the price and liquidity of our stock.

Future sales of our stock by existing stockholders could negatively affect the market price of our stock and make it more difficult for us to sell stock in the future.

Sales of our common stock in the public market, or the perception that such sales could occur, could result in a drop in the market price of our securities and make it more difficult for us to complete future equity financings on acceptable terms, if at all. We have outstanding the following shares of common stock:

Approximately 50,736,346 shares (including the shares offered hereby) of common stock that have been issued in registered offerings or are otherwise freely tradable in the public markets.

Approximately 72,348 shares of common stock are currently eligible for resale in the public market pursuant to SEC Rule 144.

As of June 30, 2003, there were an aggregate of 6,993,972 shares of common stock that may be issued on the exercise of outstanding stock options granted under our various stock option plans at a weighted average exercise price of $4.75 per share.

We have in effect registration statements under the Securities Act of 1933, as amended (the Securities Act), registering approximately 9,200,000 shares of common stock reserved under our incentive stock option and employee stock purchase plans. Approximately 143,900 shares of common stock that may be issued on the exercise of outstanding stock options will be available for public resale under SEC Rule 144 pursuant to Rule 701 under the Securities Act.

Pursuant to a registration statement on Form S-3 filed on December 10, 2002, we registered an aggregate amount of $125,000,000 of our common stock for issuance from time to time. After giving effect to the offering of common stock under this prospectus supplement, we may offer up to an aggregate amount of $102,587,500 of our common stock under the registration statement in the future.

We cannot estimate the number of shares of common stock that may actually be resold in the public market because this will depend on the market price for our common stock, the individual circumstances of the sellers and other factors. We also have a number of institutional stockholders that own significant blocks of our common stock. If these stockholders sell significant portions of their holdings in a relatively short time, for liquidity or other reasons, the market price of our common stock could drop significantly.

Anti-takeover devices may prevent changes in our management.

We have in place several anti-takeover devices, including a stockholder rights plan, which may have the effect of delaying or preventing changes in our management or deterring third parties from seeking to acquire significant positions in our common stock. For example, one anti-takeover device provides for a board of directors that is separated into three classes, with their terms in office staggered over three year periods. This has the effect of delaying a change in control of our board of directors without the

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cooperation of the incumbent board. In addition, our bylaws require stockholders to give us written notice of any proposal or director nomination within a specified period of time prior to the annual stockholder meeting, establish certain qualifications for a person to be elected or appointed to the board of directors during the pendency of certain business combination transactions, and do not allow stockholders to call a special meeting of stockholders.

We may also issue shares of preferred stock without further stockholder approval and upon terms that our board of directors may determine in the future. The issuance of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding stock, and the holders of such preferred stock could have voting, dividend, liquidation and other rights superior to those of holders of our common stock.

We do not pay dividends and this may negatively affect the price of our stock.

We have not paid any cash dividends since our inception and do not anticipate paying any cash dividends in the foreseeable future. The future price of our common stock may be negatively affected by the fact that we have not paid dividends.

DESCRIPTION OF CAPITAL STOCK

The following is a description of our capital stock. The following summary of our amended and restated certificate of incorporation, amended and restated bylaws, and rights plan does not describe the certificate, the bylaws, or the rights plan entirely. We urge you to read our certificate, bylaws, and rights plan which are incorporated by reference herein. See Where You Can Find More Information and Incorporation by Reference on page S-17. On the date of this prospectus supplement, our authorized capital stock consists of 100,000,000 shares of common stock, $0.01 par value per share, and 8,000,000 shares of preferred stock, $0.01 par value per share.

Common Stock

Voting Rights. Holders of our common stock are entitled to one vote per share on all matters to be voted upon by our stockholders. The vote of the holders of a majority of the stock represented at a meeting at which a quorum is present is generally required to take stockholder action, unless a greater vote is required by law or specifically required by our certificate of incorporation or bylaws. Special stockholder meetings may be called only by the board of directors, the chairman of the board or the president. Our certificate provides that our stockholders may not act by written consent. In addition, our bylaws include an advance notice procedure with regard to the nomination, other than by or at the direction of the board of directors, of candidates for election as directors and with regard to matters to be brought before an annual meeting or special meeting of stockholders.

Dividends and Other Rights. Holders of our common stock are entitled to receive, as when and if declared by the board of directors from time to time, such dividends and other distributions in cash, stock or property from our assets or funds legally available for such purposes subject to any dividend preferences that may be attributable to preferred stock that may be authorized. In the event of our liquidation, dissolution or winding up, after all liabilities and the holders of each series of preferred stock, if any, have been paid in full, the holders of our common stock are entitled to share ratably in all remaining assets available for distribution. Our common stock has no preemptive, subscription, redemption or conversion rights. There are no sinking fund provisions applicable to our common stock. All outstanding shares of our common stock are, and all shares of our common stock outstanding on the closing of this offering will be, fully paid and non-assessable.

Classified Board of Directors. Our certificate of incorporation and bylaws provide for a classified board of directors. Our board is classified into three classes, each as nearly equal in number as possible. At each annual meeting, the successors to the class of directors whose term expire at that meeting are elected for a term of office to expire at the third succeeding annual meeting after their election or until their

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successors have been duly elected and qualified. Delaware law provides that, unless the certificate of incorporation provides otherwise, directors serving on a classified board of directors may be removed only for cause. Our certificate of incorporation does not provide otherwise. Therefore, our directors may only be removed for cause. The affirmative vote of the holders of 75% or more of the total voting power of all outstanding shares of voting stock would be required to amend our certificate or bylaws to remove the classified board provisions.

Rights Plan. Each outstanding share of our common stock is accompanied by a right to purchase our preferred stock, our common stock or the common stock of a successor company pursuant to the terms of a rights agreement. Please refer to the discussion entitled La Jolla Pharmaceutical Company Rights Plan below.

Delaware Takeover Statute. We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation s voting stock. Delaware law, the existence of our Rights Agreement, and the provisions of our certificate and bylaws may have the effect of deterring hostile takeovers or delaying changes in control of our management, which could depress the market price of our common stock.

Transfer Agent. American Stock Transfer & Trust Company is the Transfer Agent and Registrar for the shares of our common stock.

Preferred Stock

Our board of directors has the authority, without further action by stockholders, to issue up to 8,000,000 shares of preferred stock in one or more series and to fix the powers, designations, rights, preferences, privileges, qualifications, and restrictions thereof, including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preferences and sinking fund terms, any or all of which may be greater than the rights of our common stock. Our board of directors, without further stockholder approval, can issue preferred stock with voting, conversion, and other rights that could adversely affect the voting power and other rights of the holders of common stock. The issuance of preferred stock in certain circumstances may have the effect of delaying, deferring or preventing a change in control of La Jolla Pharmaceutical Company, may discourage bids for our common stock at a premium over the market price of the common stock, and may adversely affect the market price of our common stock. As of the date of this prospectus supplement, there are no shares of our preferred stock outstanding.

We have filed a certificate of designation with the Secretary of State of the State of Delaware which designates 100,000 shares of preferred stock as Series A Junior Participating Preferred Stock in connection with our stockholder rights plan, as described below. We refer to our Series A Junior Participating Preferred Stock as our Series A Preferred Shares. Except to the extent that a right to purchase our Series A Preferred Shares accompanies each share of our common stock, no shares of our preferred stock are covered by this prospectus supplement.

La Jolla Pharmaceutical Company Rights Plan

On November 19, 1998, our board of directors authorized and declared a dividend of one right for each share of our common stock. On December 3, 1998, we entered into a Rights Agreement with American Stock Transfer & Trust Company, as Rights Agent, and filed a Certificate of Designation with the State of Delaware regarding our Series A Preferred Shares. The Company paid the rights dividend to the holders of record of common stock as of the close of business on December 18, 1998. Common stock certificates issued after December 18, 1998, and prior to the Distribution Date (as defined in the Rights

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Agreement), contain a notation incorporating the Rights Agreement by reference. The Rights Agreement was amended as of July 21, 2000 to eliminate the concept of continuing directors in response to a clarification of Delaware law and to amend the definition of an acquiring person. Currently, there are no separate rights certificates. Each right is attached to each share of our common stock and trades automatically with the common stock. Rights will not be separable from common stock or exercisable, unless specified events described in the Rights Agreement occur. Upon the occurrence of the events described in the Rights Agreement, the rights will separate from the common stock and may thereafter become exercisable to purchase additional securities.

DILUTION

The net tangible book value of our common stock on June 30, 2003 was $27.9 million, or approximately $0.65 per share, based on 42,658,694 shares outstanding. Net tangible book value per share represents the amount of our total tangible assets, less our total liabilities, divided by the total number of shares of our common stock outstanding. Dilution in net tangible book value per share to new investors represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the net tangible book value per share of our common stock immediately afterwards. Without taking into account any other changes in net tangible book value after June 30, 2003, other than to give effect to the sale of 8,150,000 shares of common stock offered by us at a public offering price of $2.75 per share and after deducting the underwriting discount and estimated offering expenses payable by us, our net tangible book value would have been $48.8 million, or approximately $0.96 per share based on 50,808,694 shares outstanding. This represents an immediate increase in net tangible book value of $0.31 per share to existing stockholders and an immediate dilution in net tangible book value of $1.79 per share to new investors.

Public offering price per share		$2.75
Net tangible book value per share as of June 30, 2003	$0.65	
Increase per share attributable to new investors	0.31	
As adjusted net tangible book value per share after the offering		0.96
Dilution in net tangible book value per share to new investors		$1.79

This table excludes 6,993,972 shares of common stock issuable upon exercise of stock options outstanding as of June 30, 2003, at a weighted average exercise price of $4.75 per share (4,272,406 were exercisable as of June 30, 2003 and the balance become exercisable in the future based upon continued employment) and any shares that we may issue in the future pursuant to the registration statement of which this prospectus supplement forms a part.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the shares of our common stock offered by us will be approximately $20.9 million, after deducting the underwriting discount and estimated offering expenses. We intend to use the net proceeds we receive to fund the continued research and development of our potential products, including the funding of any future trials of Riquent and LJP 1082 and any related regulatory submissions, to expand and validate our existing facilities, processes and infrastructures, and for other general corporate purposes. The amounts and timing of expenditures may vary significantly depending on several factors, including the progress of our research and development efforts, the results of our clinical trials, the time and costs of obtaining regulatory approvals, our future capital expenditures, our need to develop commercial marketing and sales capabilities, and our ability to generate revenues in the future.

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UNDERWRITING

We have entered into an underwriting agreement with Pacific Growth Equities, LLC with respect to the shares being offered by this prospectus supplement. Subject to the terms and conditions stated in the underwriting agreement, we have agreed to sell to Pacific Growth Equities, LLC, as underwriter, and Pacific Growth Equities, LLC has agreed to purchase from us, 8,150,000 shares of our common stock.

The underwriting agreement provides that the obligation of the underwriter to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriter is obligated to purchase all of the shares of common stock offered hereby if any of the shares are purchased.

The underwriter proposes to offer the shares of common stock at the public offering price set forth on the cover page of this prospectus supplement. If all of the shares are not sold by the underwriter at the initial offering price, the underwriter may change the public offering price and other selling terms. In connection with the sale of the shares of common stock offered hereby, the underwriter will be deemed to have received compensation in the form of underwriting discounts.

We and our directors and executive officers have agreed, subject to certain limited exceptions, not to, without the prior written consent of the underwriter, directly or indirectly, offer, pledge, sell, contract to sell, grant any option to purchase, grant any security interest, hypothecate, or otherwise dispose of any shares of our common stock or other capital stock or any securities convertible into, derivative of or exercisable or exchangeable for or any rights to purchase or acquire our common stock, owned directly or indirectly, for a period of 90 days after the date of this prospectus supplement. The foregoing will not prohibit us from issuing our equity securities pursuant to our equity incentive plans existing or authorized on the date of this prospectus supplement.

The following table shows the underwriting discounts and commissions that we will pay in connection with this offering.

Per Share	$ 0.165
Total	$1,344,750

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

We estimate that the total expenses of this offering, not including the underwriting discount, will be $175,000 and will be payable by us.

The underwriter has performed investment banking and advisory services for us from time to time for which it has received customary fees and expenses. The underwriter may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business.

The underwriter has advised us that it may make short sales of our common stock in connection with this offering. Short sales involve the sale by the underwriter of a greater number of shares than it is required to purchase in the offer. The underwriter must close out any such short position by purchasing shares in the open market. A short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the shares in the open market prior to the completion of the offering.

The underwriter has advised us that, pursuant to Regulation M under the Securities Act, it may engage in transactions, including stabilizing bids, that may have the effect of stabilizing or maintaining the market price of the shares of our common stock at a level above that which might otherwise prevail in the open market. A stabilizing bid is a bid for or the purchase of shares of common stock on behalf of the underwriter for the purpose of fixing or maintaining the price of common stock. Purchases to cover short positions and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that

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might otherwise exist in the open market. The underwriter has advised us that stabilizing bids and open market purchases may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

LEGAL MATTERS

Gibson, Dunn & Crutcher LLP of Orange County, California will issue an opinion with respect to the validity of the issuance of the shares of common stock being issued hereby. Certain legal matters will be passed upon for the underwriter by Howard, Rice, Nemerovski, Canady, Falk & Rabkin, A Professional Corporation of San Francisco, California.

EXPERTS

The consolidated financial statements of La Jolla Pharmaceutical Company as of and for the year ended December 31, 2002 have been incorporated by reference herein in reliance upon the report of Ernst and Young LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION AND

INCORPORATION BY REFERENCE

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any document we file at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain copies from the SEC s public reference room by mail at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the public reference room. Our SEC filings are also available to the public from the SEC s web site at http://www.sec.gov. Information about La Jolla Pharmaceutical Company is also available to the public from our website at http://www.ljpc.com.

The SEC allows us to incorporate by reference the information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede information in this prospectus supplement. We incorporate by reference the documents listed below and any future filings we make with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, until this offering is completed:

1. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2002;

2. Our Proxy Statement filed on April 11, 2003 for our 2003 Annual Meeting of Stockholders;

3. Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003;

4. Our Current Reports on Form 8-K, filed on February 18, February 24, March 4, March 13, April 1, April 10, May 5, June 3, June 17, June 19, July 24, and August 1, 2003;

5. The description of our common stock contained in our Registration Statements on Form 8-A, filed on June 2, 1994, December 4, 1998, and January 26, 2001; and

6. All documents we file with the SEC pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this prospectus supplement and prior to the termination of the offering of the shares offered by this prospectus supplement.

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You may request a copy of any or all of the information incorporated by reference in this prospectus supplement at no cost by writing or telephoning us at the following address or telephone number:

Corporate Secretary

La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121
(858) 452-6600

You should rely only on the information contained in this prospectus supplement. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus supplement is accurate as of any date other than the date on the front of this prospectus supplement.

FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus supplement that are based on our management s beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations and statements preceded by, followed by, or that include the words believes, expects, anticipates, intends, plans, estimates or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statements. Except as may be required by law, we do not have any intention or obligation to update forward-looking statements after we distribute this prospectus supplement. These statements appear in a number of places in this prospectus supplement and include statements regarding our intentions, plans, strategies, beliefs or current expectations and those of our directors or our officers with respect to, among other matters:

the results of our clinical trials,

our financial prospects,

our financing plans,

trends affecting our financial condition or operating results,

our strategies for growth, operations, and product development and commercialization, and

conditions or trends in or factors affecting the biotech industry.

You should understand that a number of factors could cause our results to differ materially from those expressed in the forward-looking statements. The information incorporated by reference or provided in this prospectus supplement identifies important factors that could cause such differences. Those factors include, among others, the high cost and uncertainty of technology and drug development, which can result in loss of profitability and long delays in getting products to market.

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PROSPECTUS

$125,000,000

La Jolla Pharmaceutical Company

Common Stock

This prospectus is a part of a registration statement that we filed with the Securities and Exchange Commission utilizing a shelf registration process. Under this shelf registration process, we may sell our common stock described in this prospectus in one or more offerings. Each time we sell securities, we will provide specific terms of the offering in a supplement to this prospectus. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in any of our securities. This prospectus may not be used to consummate a sale of securities unless accompanied by the applicable prospectus supplement.

The aggregate public offering price of all securities sold under this prospectus will not exceed $125,000,000.

Our common stock is traded on the Nasdaq National Market under the symbol LJPC.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 2.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 12, 2002

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No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained or incorporated by reference herein is correct as of any time subsequent to the date of such information.

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Our principal executive offices are located in leased space at 5430 LBJ Freeway, Dallas, Texas 75240. The following table sets forth the location, size, business operating segment and general product types produced for each of our operating facilities.

Facility Name	Business Segment	Location	Size (square feet)	Products Produced/ Distributed
Owned Facilities:				
Waterloo(1)	FC	Kitchener, Ontario	276,000	Slides/ergonomic products
Durislide(1)	FC	Byron Center, MI	143,000	Slides
National (1)	SP	Mauldin, SC	198,000	Security products
Dynaslide(2)	FC	Taipei, Taiwan	45,500	Slides
Custom(2)	MC	Neenah, WI	95,000	Marine products
Grayslake(1)	SP/MC	Grayslake, IL	120,000	Security products/ marineproducts
Leased Facilities:				
Dynaslide	FC	Taipei, Taiwan	36,000	Slides

Dynaslide	FC	Taipei, Taiwan	22,000	Slides
Distribution Center	SP/FC/MC	Rancho Cucamonga, CA	11,500	Security products/ ergonomic products/ marine products

FC – Furniture Components business segment
SP – Security Products business segment
MC – Marine Components business segment
(1) ISO-9001 registered facilities
(2) ISO-9002 registered facilities

We believe all of our facilities are well maintained and satisfactory for their intended purposes.

ITEM 3. LEGAL PROCEEDINGS

We are involved, from time to time, in various environmental, contractual, product liability, patent (or intellectual property) and other claims and disputes incidental to our business. See Note 13 to the Consolidated Financial Statements. While we currently believe that the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity, we expect to incur costs defending against such claims during the short-term that are likely to be material.

ITEM 4. RESERVED

PART II

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

Common Stock and Dividends. Our Class A common stock is listed and traded on the NYSE Amex LLC (symbol: CIX). As of February 25, 2011, there were approximately 17 holders of record of CompX Class A common stock. We transferred the trading of our Class A common stock from the New York Stock Exchange to the NYSE Amex on January 24, 2011. The following table sets forth the high and low closing sales prices per share for our Class A common stock for the periods indicated, according to Bloomberg, and dividends paid during each period. On February 25, 2011, the closing price per share of our Class A common stock was $15.00.

	High	Low	Dividends paid
Year ended December 31, 2009			
First Quarter	$5.82	$4.70	$ .125
Second Quarter	6.53	4.82	.125
Third Quarter	8.03	5.50	.125
Fourth Quarter	8.00	6.80	.125
Year ended December 31, 2010			
First Quarter	$9.30	$7.19	$ .125
Second Quarter	14.75	9.21	.125
Third Quarter	13.80	9.14	.125
Fourth Quarter	12.12	9.67	.125
January 1, 2011 through February 25, 2011	$11.50	$15.05	$ -

We paid regular quarterly dividends of $.125 per share during 2009 and 2010. In March of 2011, our board of directors declared a first quarter 2011 dividend of $.125 per share, to be paid on March 24, 2011 to CompX stockholders of record as of March 14, 2011. However, declaration and payment of future dividends and the amount thereof, if any, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual requirements and restrictions and other factors deemed relevant by our board of directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which we might pay. In this regard, our revolving bank credit facility places certain restrictions on the payment of dividends. We are limited to a $.125 per share quarterly dividend, not to exceed an aggregate of $8.0 million in any calendar year.

Performance Graph. Set forth below is a line graph comparing the yearly change in our cumulative total stockholder returns on our Class A common stock against the cumulative total return of the Russell 2000 Index and an index of a self-selected peer group of companies for the period from December 31, 2005 through December 31, 2010. The peer group index is comprised of The Eastern Company and Leggett & Platt Inc. The graph shows the value at December 31 of each year assuming an original investment of $100 at December 31, 2005 and reinvestment of dividends.

	December 31,					
	2005	2006	2007	2008	2009	2010
CompX International Inc.	$100	$130	$97	$38	$59	$93
Russell 2000 Index	100	118	117	77	98	124
Peer Group	100	108	82	75	107	126

Equity compensation plan information. We have an equity compensation plan, approved by our stockholders, which provides for the discretionary grant to our employees and directors of, among other things, options to purchase our Class A common stock and stock awards. As of December 31, 2010, there were 18,000 options outstanding to purchase an equivalent number of shares of our Class A common stock, and approximately 980,820 shares of our Class A common stock were available for future grants or issuances. We do not have any equity compensation plans that were not approved by our stockholders. See Note 8 to the Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

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

Our fiscal year end is always the Sunday closest to December 31, and our operations are reported on a 52 or 53-week fiscal year. 2009 was a 53-week year, all other years shown are 52-week years.

	Years ended December 31,				
	2006	2007	2008	2009	2010
	($ in millions, except per share data)				
Statements of Operations Data:					
Net sales	$190.1	$177.7	$165.5	$116.1	$135.3
Gross margin	46.5	45.2	40.3	23.8	36.0
Operating income (loss)	20.3	15.6	6.2 (1)	(4.0)(2)	9.3 (2)
Provision (benefit) for income taxes	9.7	6.9	7.2	(3.1)	5.7 (3)
Net income (loss)	$11.7	$9.0	$(3.1)	$(2.0)	$3.1
Diluted Earnings Per Share Data:					
Income (loss) from Continuing operations	$.76	$.61	$(.25)	$(.16)	$.25
Cash dividends	$.50	$.50	$.50	$.50	$.50
Weighted average common shares outstanding	15.3	14.8	12.4	12.4	12.4
Balance Sheet Data (at year end):					
Cash and other current assets	$76.2	$68.2	$59.5	$55.1	$65.4
Total assets	192.0	187.7	163.4	154.0	160.1
Current liabilities	17.8	18.9	17.0	14.6	20.1
	-	50.0	43.0	42.2	45.2

Long-term debt and note payable to affiliate, including current maturities					
Stockholders' equity	153.7	104.1	91.3	85.0	83.9
Statements of Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$27.4	$11.9	$15.7	$15.3	$13.0
Investing activities	(19.3)	(12.4)	(5.1)	(2.1)	(17.1)
Financing activities	(8.8)	(11.7)	(14.2)	(7.1)	(3.2)

(1) Includes a $9.9 million goodwill impairment charge related to our Marine Components segment. See Note 4 to our Consolidated Financial Statements.
(2) Includes litigation expense of $4.6 million in 2009 and $2.4 million in 2010. See Note 13 to our Consolidated Financial Statements.
(3) Includes a $1.9 million provision for deferred income taxes on pre-2005 undistributed earnings of our Taiwanese subsidiary. See Note 7 to our Consolidated Financial Statements.

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

Business Overview

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

Operating Income Overview

We reported operating income of $9.3 million in 2010 compared to an operating loss of $4.0 million in 2009 and operating income of $6.2 million in 2008. Our 2008 results include a $9.9 million goodwill impairment charge related to our Marine Components segment. See Note 4 to the Consolidated Financial Statements. The comparison between 2010 and 2009 was primarily impacted by:

- the positive impact of higher sales in 2010 from an increase in customer order rates across all of our business segments due to improved economic conditions in North America;
- improved margins in 2010 due to an increase in utilization of production capacity and improved coverage of fixed manufacturing costs from the above noted higher sales;
- the positive impact of lower litigation expense in 2010; and
- the negative impact of relative changes in foreign currency exchange rates in 2010.

In an effort to provide investors with additional information regarding our 2008 results of operations as determined by accounting principles generally accepted in the United States of America (“GAAP”), we have disclosed below our operating income, excluding the impact of the goodwill impairment charge, which is a non-GAAP measure that is used by our management to assess the performance of our operations. We believe the disclosure of operating income, exclusive of the goodwill impairment charge, provides useful information to investors because it allows investors to analyze the performance of our operations in the same way that our management assesses performance.

	Year Ended December 31, 2008 (Dollars in thousands)

Operating income (GAAP)	$	6,186
Goodwill impairment charge		9,881
Operating income excluding goodwill impairment charge (Non-GAAP)	$	16,067

We reported an operating loss of $4.0 million in 2009 compared to operating income of $16.1 million in 2008, excluding the 2008 goodwill impairment charge. The comparison between 2009 and 2008 was primarily impacted by:

- the negative effects of lower order rates in 2009 from our customers as a result of unfavorable economic conditions in North America,
- reduced coverage of overhead and fixed manufacturing costs from the resulting under-utilization of production capacity in 2009,
- legal expense associated with certain patent related litigation in 2009, and
- a 2009 write-down on assets held for sale.

These items were partially offset by the positive effects of cost reductions in 2009 implemented in response to lower sales.

Results of Operations - 2010 Compared to 2009 and 2009 Compared to 2008

	Years ended December 31,			%Change	
	2008	2009	2010	2008-09	2009-10
	(Dollars in millions)				
Net sales	$ 165.5	$ 116.1	$ 135.3	(30 %)	17 %
Cost of goods sold	125.2	92.3	99.3	(26 %)	8 %
Gross margin	40.3	23.8	36.0	(41 %)	51 %
Operating costs and expenses	24.2	22.5	23.8	(7 %)	6 %
Goodwill impairment	9.9	-	-	n.m.	-
Litigation expense	-	4.6	2.4	n.m.	(48 %)
Asset held for sale write-downs	-	0.7	0.5	n.m.	(29 %)
Operating income (loss)	$ 6.2	$ (4.0)	$ 9.3	(165 %)	333 %
Percent of net sales:					
Cost of goods sold	76 %	80 %	73 %		
Gross margin	24 %	20 %	27 %		
Operating costs and expenses	15 %	19 %	18 %		
Goodwill impairment	6 %	-	-		
Legal expenses	-	4 %	2 %		
Asset held for sale write-down	-	1 %	-		
Operating income (loss)	4 %	(3 %)	7 %		

n.m. - not meaningful

Net Sales. Net sales increased approximately $19.2 million in 2010 as compared to 2009 principally due to an increase in order rates from our customers resulting from improved economic conditions in North America. Our Furniture

Components, Security Products and Marine Components segments accounted for approximately 57%, 34% and 9%, respectively, of the total increase in sales year over year. Furniture Components sales was a greater percentage of the total increase because this segment experienced a greater contraction in demand during the economic downturn in 2009, resulting in a greater relative increase as customer demand began to return. The Marine Components segment accounted for a smaller percentage of the total increase due to the smaller sales volume associated with that segment.

Net sales decreased approximately $49.4 million in 2009 as compared to 2008 principally due to lower order rates from our customers resulting from unfavorable economic conditions in North America. Our Furniture Components, Security Products and Marine Components segments accounted for approximately 57%, 32% and 11%, respectively, of the total decrease in sales year over year.

Costs of Goods Sold and Gross Margin. Cost of goods sold increased from 2009 to 2010 primarily due to increased sales volumes. As a percentage of sales, gross margin increased in 2010 from the prior year. The increase in gross margin percentage is primarily due to improved coverage of overhead and fixed manufacturing costs from higher sales volume and the related efficiency gains.

Cost of goods sold decreased from 2008 to 2009 primarily due to decreased sales volumes. As a percentage of sales, gross margin decreased in 2009 from the prior year. The decrease in gross margin percentage is primarily due to reduced coverage of overhead and fixed manufacturing costs from lower sales volume and the related under-utilization of capacity, partially offset by a net $4.8 million in fixed manufacturing cost reductions implemented in response to lower sales.

Operating Costs and Expenses. Operating costs and expenses consists primarily of sales and administrative related personnel costs, sales commissions and advertising expenses directly related to product sales and administrative costs relating to business unit and corporate management activities, as well as gains and losses on plant, property and equipment and currency transaction gains and losses. As a percentage of net sales, operating costs and expenses decreased 1% in 2010 compared to 2009 primarily due to selling, general and administrative costs increasing at a slower rate than sales volumes.

While operating costs and expenses were reduced by $1.7 million from 2008 to 2009 in response to lower sales, it increased as a percentage of net sales due to the significant reduction in sales volumes.

Goodwill Impairment. In 2008, we recorded a goodwill impairment charge of $9.9 million for our Marine Components reporting unit. See Note 4 to the Consolidated Financial Statements.

Litigation Expense. We recorded lower patent litigation expenses relating to Furniture Components in 2010 compared to 2009, primarily due to the timing of litigation proceedings. See Note 13 to the Consolidated Financial Statements.

Assets Held for Sale Write-down. In 2009 and 2010, we recorded a write-down on assets held for sale of $717,000 and $500,000, respectively, relating to certain facilities held for sale that are no longer in use. See Note 9 to the Consolidated Financial Statements.

Operating Income. The comparison of operating income for 2010 to 2009 was primarily impacted by:

- a $12.2 million improvement in gross margin in 2010 due to higher sales and continued control of fixed manufacturing costs, resulting in an increase in utilization of production capacity and improved coverage of fixed manufacturing costs;
- the positive impact of $2.2 million in lower litigation expense in 2010; and
- the negative $1.8 million impact of relative changes in foreign currency exchange rates in 2010.

Excluding the 2008 goodwill impairment charge discussed above, the comparison of operating income for 2009 to 2008 was primarily impacted by:

- a negative impact of approximately $21.2 million relating to lower order rates from many of our customers resulting from unfavorable economic conditions in North America in 2009,
- approximately $4.6 million of patent litigation expenses in 2009 relating to Furniture Components, and
- a write-down on assets held for sale of approximately $717,000.

The above decreases were primarily offset by:

- a $3.8 million reduction in fixed manufacturing expenses in 2009 (excluding depreciation) in response to the lower sales volume,
-

a $1.7 million reduction in lower operating costs and expenses in 2009 in response to the lower sales volume, and

- $900,000 in lower depreciation expense in 2009 due to a reduction in capital expenditures for shorter lived assets over the last several years in response to lower sales.

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 other currencies, principally the Canadian dollar and the New Taiwan dollar. Most 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. In addition to the impact of the translation of sales and expenses over time, our non-U.S. operations also generate currency transaction gains and losses which primarily relate to the difference between the currency exchange rates in effect when non-local currency sales or operating costs are initially accrued and when such amounts are settled with the non-local currency.

Overall, fluctuations in currency exchange rates had the following effects on our Furniture Component segment's net sales and operating income:

	2009 vs 2010 (in thousands)				
	Transaction gains/(losses)			Translation gain/loss-impact of rate changes	Total currency impact 2009 vs 2010
	2009	2010	Change		
Impact on:					
Net Sales	$-	$-	$-	$ 999	$ 999
Operating income	(236)	(354)	(118)	(1,645)	(1,763)

	2008 vs 2009 (in thousands)				
	Transaction gains/(losses)			Translation gain/loss-impact of rate changes	Total currency impact 2008 vs 2009
	2008	2009	Change		
Impact on:					
Net Sales	$-	$-	$-	$ (848)	$ (848)
Operating income	679	(236)	(915)	907	(8)

The positive impact on sales in 2010 as compared to 2009 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 sales in 2009 as compared to 2008 relates to sales denominated in non-U.S. dollar currencies translated into lower U.S. dollar sales due to a weakening of the local currency in relation to the U.S. dollar.

The negative impact on operating income in 2010 as compared to the prior year 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. The net impact on operating income of changes in currency rates from 2008 to 2009 was not significant.

General

Our profitability primarily depends on our ability to utilize our production capacity effectively, which is affected by, among other things, the demand for our products and our ability to control our manufacturing costs, primarily comprised of labor costs and materials. The materials used in our products consist of purchased components and raw materials some of which are subject to fluctuations in the commodity markets such as coiled steel, zinc, copper, plastic resin and stainless steel. Total material costs represented approximately 50% of our cost of sales in

2010, with commodity related raw materials accounting for approximately 17% of our cost of sales. Worldwide raw material costs increased significantly in 2008 and then declined in 2009 and began increasing in the second half of 2010. We occasionally enter into commodity related raw material supply arrangements to mitigate the short-term impact of future increases in commodity related raw material costs. While these arrangements do not necessarily commit us to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified volume purchase levels. This allows us to stabilize commodity related raw material purchase prices to a certain extent, provided the specified minimum purchase quantities are met. We enter into such arrangements for zinc and coiled steel. We expect commodity related raw material prices to increase in 2011 in conjunction with higher demand as a result of the expected improvement in the world wide economy. Materials purchased on the spot market are sometimes subject to unanticipated and sudden price increases. We generally seek to mitigate the impact of fluctuations in raw material costs on our margins through improvements in production efficiencies or other operating cost reductions. In the event we are unable to offset raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or raw material surcharges due to the competitive nature of the markets served by our products. Consequently, overall operating margins may be affected by raw material cost pressures.

Other non-operating income, net

As summarized in Note 11 to the Consolidated Financial Statements, "other non-operating income, net" primarily includes interest income. Interest income increased approximately $302,000 in 2010 compared to 2009 primarily due to the higher interest earned on the $15 million note receivable purchased in May 2010 which carried an average interest rate of 3.15% during 2010. Interest income in 2009 compared to 2008 decreased $350,000 due to lower interest rates on lower invested cash balances.

Interest expense

Interest expense was comparable from 2009 to 2010 as there was minimal change to our outstanding principal balance on our note payable to affiliate as well as minimal fluctuation in the corresponding interest rate. The average interest rate at December 31, 2010 was 1.34% compared to 1.92% at December 31, 2009 and was offset slightly by increased borrowing on our revolving credit facility. We averaged $3.1 million outstanding on our revolving credit facility (interest rate of 3.5% at December 31, 2010) during 2010. Interest expense decreased approximately $1.3 million in 2009 compared to 2008 as the result of a lower average interest rate on the outstanding principal amount of the above referenced note payable (4.55% at December 31, 2008 compared to 1.92% at December 31, 2009). We expect 2011 interest expense to be comparable to 2010.

Provision for income taxes

As a member of the group of companies consolidated for U.S. federal income tax purposes with Contran, the parent of our consolidated U.S. federal income tax group, we compute our provision for income taxes on a separate company basis, using the tax elections made by Contran. Our separate company basis income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of our pre-tax earnings can result in fluctuations in the effective income tax rate. Generally, the effective tax rate on income derived from our U.S. operations, including the effect of U.S. state income taxes, is lower than the effective tax rate on income derived from our non-U.S. operations, in part due to the deferred tax on all of our foreign earnings as they are deemed to be not permanently reinvested and an election for each of the last three years to not claim a credit with respect to foreign income taxes paid but instead to claim a tax deduction, consistent with the elections of Contran.

Prior to the first quarter of 2010, we had not recognized a deferred tax liability related to incremental income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary, as those earnings were deemed to be permanently reinvested. We are required to reassess the permanent reinvestment conclusion on an ongoing basis to determine if our intentions have changed. At the end of March 2010, and based primarily upon changes in our cash management plans, we determined that all of the undistributed earnings of our Taiwanese subsidiary can no longer be considered permanently reinvested in Taiwan. Accordingly, in the first quarter of 2010 we recognized an aggregate $1.9 million provision for

deferred income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary. Consequently, all of the undistributed earnings of our non-U.S. operations are now considered to be not permanently reinvested.

Our effective income tax rate increased from 61% in 2009 to 65% in 2010, primarily as a result of the above mentioned $1.9 million provision for deferred income taxes in 2010 related to undistributed earnings of our Taiwanese subsidiary. We currently expect our effective income tax rate for 2011 to be lower than our effective rate for 2010.

Excluding the 2008 goodwill impairment charge, our effective income tax rate increased from 51% in 2008 to 61% in 2009. The increase in our effective income tax rate was primarily due to a higher percentage of our results being sourced from Canada and as noted above, the taxes on these results are not claimed as a credit on our U.S. tax return.

Segment Results

The key performance indicator for our segments is the level of their operating income (see discussion below). For additional information regarding our segments refer to Note 2 to the Consolidated Financial Statements.

	Years ended December 31,			% Change	
	2008	2009	2010	2008 – 2009	2009 – 2010
		(In millions)			
Net sales:					
Security Products	$77.1	$61.4	$68.0	(20 %)	11 %
Furniture Components	76.4	48.2	59.1	(37 %)	23 %
Marine Components	12.0	6.5	8.2	(46 %)	26 %
Total net sales	$165.5	$116.1	$135.3	(30 %)	17 %
Gross margin:					
Security Products	$21.7	$17.8	$21.6	(18 %)	21 %
Furniture Components	16.1	6.5	13.5	(60 %)	108 %
Marine Components	2.5	(0.5)	0.9	(120 %)	280 %
Total gross margin	$40.3	$23.8	$36.0	(41 %)	51 %
Operating income (loss):					
Security Products	$12.7	$9.7	$13.1	(24 %)	35 %
Furniture Components	9.2	(4.7)	3.4	(151 %)	172 %
Marine Components	(10.4)	(3.0)	(1.4)	71 %	53 %
Corporate operating expenses	(5.3)	(6.0)	(5.8)	(13 %)	3 %
Total operating income (loss)	$6.2	$(4.0)	$9.3	(165 %)	333 %

Operating income margin:						
Security Products	16	%	16	%	19	%
Furniture Components	12	%	(10	%)	6	%
Marine Components	(87	%)	(46	%)	(17	%)
Total operating income margin	4	%	(3	%)	7	%

Security Products. Security Products net sales increased 11% to $68.0 million in 2010 compared to $61.4 million in 2009. The increase in sales is primarily due to an increase in order rates across most of our customers resulting from improved economic conditions in North America. Gross margin and operating income percentages increased in 2010 compared to 2009 due to the positive impact of (i) a $4.0 million increase in variable contribution primarily as a result of higher sales and improved production efficiencies directly resulting from the higher sales, and (ii) improved leverage of fixed manufacturing costs (which increased only $264,000) and selling, general and administrative costs (which increased only $381,000) on higher sales.

Security Products net sales decreased 20% to $61.4 million in 2009 compared to $77.1 million in 2008. The decrease in sales is primarily due to lower customer order rates from most of our customers resulting from unfavorable economic conditions in North America. Gross margin percentage increased slightly (less than 1%) in 2009 compared to 2008 and operating income percentage was comparable at 16% for the same periods. The comparable gross margin and operating income percentages were achieved despite the significant decrease in sales due to the positive impact of (i) a $2.1 million reduction in fixed manufacturing costs implemented in response to lower sales, (ii) a $1.6 million improvement in variable contribution margin through a combination of sales price increases implemented at the beginning of 2009 in response to cost increases experienced in 2008 and a more favorable product mix and (iii) a $900,000 reduction in selling, general and administrative costs in response to lower sales which were partially offset by reduced fixed costs coverage from lower sales and the related under-utilization of capacity.

Furniture Components. Furniture Components net sales increased 23% to $59.1 million in 2010 from $48.2 million in 2009, primarily due to an increase in customer order rates across most customers resulting from improved economic conditions in North America. Gross margin percentage increased approximately 10% in 2010 compared to 2009. Operating income increased from a loss of $4.7 million in 2009 to income of $3.4 million in 2010. The increases in the gross margin percentage and operating income are primarily the result of (i) a $6.6 million increase in variable contribution primarily as a result of higher sales and improved production efficiencies directly resulting from the higher sales, (ii) improved leverage of fixed manufacturing costs due to the significant increase in sales and continued control of costs, and (iii) lower selling, general and administrative costs primarily due to a $2.2 million decrease in litigation expense which was partially offset by limited cost increases in response to the higher sales and the negative impact of changes in currency exchange rates. See Note 13 to the Consolidated Financial Statements.

Furniture Components net sales decreased 37% to $48.2 million in 2009 from $76.4 million in 2008, primarily due to lower order rates from most of our customers resulting from unfavorable economic conditions in North America. Gross margin percentage decreased approximately 8% in 2009 compared to 2008. Operating income decreased to a loss of $4.7 million in 2009 as compared to income of $9.2 million in 2008. The decreases in the gross margin percentage and operating income are primarily the result of approximately $2.3 million in reduced fixed manufacturing cost coverage from lower sales and the related under-utilization of capacity combined with approximately $4.6 million of patent litigation expenses recorded in selling, general and administrative expense partially offset by reduced fixed manufacturing costs of approximately $2.4 million and reduced selling, general and administrative expenses of approximately $1.2 million in response to lower sales. See Note 13 to the Consolidated Financial Statements.

Marine Components. Marine Components net sales increased 26% in 2010 as compared to 2009 primarily due to an increase in customer order rates resulting from improved economic conditions in North America. As a result of the improved labor efficiency and coverage of overhead and fixed cost from the higher sales, gross margin percentage increased approximately 20% from 2009 to 2010. Consequently, the operating loss decreased to $1.4 in 2010 as compared to a loss of $3.0 million in 2009.

Marine Components net sales decreased 46% in 2009 as compared to 2008 primarily due to a dramatic overall downturn in the marine industry. Gross margin decreased to a loss in 2009 as compared to 2008. The 2008 operating loss for the Marine Components segment includes a goodwill impairment charge of approximately $9.9 million. Excluding the goodwill impairment charge, our operating loss increased approximately $2.5 million in 2009 as compared to 2008. The decrease in gross margin and increase in operating loss are the result of reduced coverage of fixed costs from lower sales volume, partially offset by reduced fixed manufacturing costs of approximately $270,000 and reduced selling, general and administrative expenses of approximately $610,000 in response to lower sales.

Outlook

Demand for our products increased compared to the prior year as conditions in the overall economy improved during 2010. While changes in market demand are not within our control, we are focused on the areas we can impact. Staffing levels are continuously being evaluated in relation to sales order rates that may result in headcount adjustments, to the extent possible, to match staffing levels with demand. We expect our continuous lean manufacturing and cost improvement initiatives to positively impact our productivity and result in an efficient infrastructure that we are leveraging as sales improve. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, expand into new markets and develop new product features in order to mitigate the impact of changes in demand as well as broaden our sales base.

In addition to challenges with overall demand, volatility in the cost of commodity raw materials is ongoing. The cost of these raw materials began to increase during 2010 as compared to the end of 2009 and we currently expect these costs to continue to be volatile during 2011. We generally seek to mitigate the impact of fluctuations in commodity raw material costs on our margins through improvements in production efficiencies or other operating cost reductions as well as occasionally executing larger quantity tactical spot buys of these raw materials, which may result in higher inventory balances for a period of time. In the event we are unable to offset commodity raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or surcharges due to the competitive nature of the markets served by our products. Consequently, overall operating margins may be affected by commodity raw material cost pressures.

As discussed in Note 13 to the Consolidated Financial Statements, we have been involved in certain patent infringement litigation, which has in the past resulted in us incurring significant litigation expense. With regard to the litigation discussed in Note 13 where we were the defendant, we have received a favorable court ruling and dismissal of the patent infringement claims and do not expect to incur any significant additional costs relating to this litigation. With regard to the litigation where we received a favorable judgment for patent infringement against a competitor, we may incur costs during 2011 that could be material relating to the competitor appealing the judgment.

The U.S. dollar weakened in 2010 in comparison to the Canadian dollar and the New Taiwan dollar, which are the primary currencies of our non-US operations. We currently expect the U.S. dollar to continue to weaken during 2011 or remain below the rates that were in effect in 2010, which will likely have a negative impact on our 2011 results in comparison to 2010. When practical, we will seek to mitigate the negative impact of changes in currency exchange rates on our results by entering into currency hedging contracts. However, such strategies can not fully mitigate the negative impact of changes in currency exchange rates.

Liquidity and Capital Resources

Summary.

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

Consolidated cash flows.

Operating activities. Trends in cash flows from operating activities, excluding changes in assets and liabilities, for the last three years have generally been similar to the trends in our earnings. Depreciation and amortization expense decreased in 2010 compared to 2009, and in 2009 compared to 2008 due lower capital expenditure requirements in recent years as a result of lower customer demand. See Notes 1 and 4 to the Consolidated Financial Statements.

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, year-to-year relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. Cash provided by operating activities was $13.0 million in 2010 compared to $15.3 million in 2009. This $2.3 million decline in cash provided by operating activities is primarily the net result of:

- Improved operating results in 2010 of approximately $12.7 million (exclusive of the noncash asset held for sale write-downs of $717,000 in 2009 and $500,000 in 2010, and the impact of lower depreciation and amortization expense in 2010 of approximately $533,000);
- Lower net cash provided by relative changes in our inventories, receivables, payables and non-tax related accruals of $14.3 million in 2010;
- Lower cash paid for income taxes in 2010 of approximately $578,000 due to timing of payments; and
- Lower cash paid for interest in 2010 of $968,000 due to the 2010 deferral of interest on our note payable to affiliate until March 2011.

Cash provided by operating activities was $15.3 million in 2009 compared to $15.7 million in 2008. The cash provided by operating activities in 2009 was comparable to 2008 despite the significant decrease in operating results excluding the impact of the goodwill impairment. Comparable cash provided by operating activities in 2009 as compared to 2008 is primarily the net result of:

- Lower operating results in 2009 of approximately $20.4 million (exclusive of the $9.9 million goodwill impairment charge in 2008 and the $717,000 asset held for sale write-down in 2009, and the impact of lower depreciation and amortization expense in 2009 of approximately $1.0 million);
- Higher net cash provided by relative changes in our inventories, receivables, payables and non-tax related accruals of $10.8 million in 2009;
- Lower cash paid for income taxes in 2009 of $6.2 million due to lower earnings in 2009;
- Lower cash paid for interest in 2009 of $1.0 million due to lower interest rates; and
- Higher adjustments to the provision for inventory reserves in 2009 of approximately $827,000 due to an increase in obsolete inventory resulting from reduced demand.

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, our average days sales outstanding increased from December 31, 2009 to December 31, 2010 across all of our segments. In absolute terms, accounts receivable increased by $2.9 million in 2010 as compared to 2009. The increase in our average days sales outstanding was the result of accounts receivable returning to a more normal relationship to sales in 2010 due to the improvement in the overall economic environment. For comparative purposes, we have provided 2008 numbers below.

Days Sales Outstanding:	December 31, 2008	December 31, 2009	December 31, 2010
Security Products	39 Days	34 Days	40 Days
Furniture Components	43 Days	40 Days	44 Days
Marine Components	43 Days	33 Days	34 Days
Total	41 Days	37 Days	41 Days

As shown below, our average number of days in inventory increased from December 31, 2009 to December 31, 2010 with the exception of Security Products which decreased by 4 days. In addition, inventory increased by $2.2 million in 2010 as compared to 2009. The overall increase in days in inventory was the result of an increase in inventory in response to the increase in customer demand in 2010. The variability in days in inventory among our segments primarily relates to the complexity of the production processes and therefore the length of time it takes to produce end products. For comparative purposes, we have provided 2008 numbers below.

Days in Inventory:	December 31, 2008	December 31, 2009	December 31, 2010
Security Products	77 Days	77 Days	73 Days
Furniture Components	53 Days	44 Days	58 Days
Marine Components	180 Days	109 Days	143 Days
Total	70 Days	64 Days	70 Days

Investing activities. Net cash used by investing activities totaled $5.1 million, $2.1 million, and $17.1 million for the years ended December 31, 2008, 2009 and 2010, respectively. Capital expenditures have primarily emphasized improving our manufacturing facilities and investing in manufacturing equipment, which utilizes new technologies and increases automation of the manufacturing process to provide for increased productivity and efficiency.

In 2008, we collected payments of $1.3 million related to the sale of our European Thomas Regout operations, that was sold in 2005, which required annual payments over a period of four years. In 2009, we received our final payment totaling approximately $948,000, of which $261,000 related to principal and the remaining $687,000 related to interest that had accrued over the four-year period.

Capital expenditures for 2011 are estimated at approximately $5.4 million compared to capital expenditures of $2.1 million in 2010 and $2.3 million in 2009. Our capital expenditures in 2009 and 2010 were limited to expenditures required to meet expected customer demand and properly maintain our facilities. Capital spending for 2011 is expected to be funded through cash on hand and cash generated from operations and relates to expenditures required to meet expected customer demand and properly maintain our facilities.

In February 2010, we entered into an unsecured demand promissory note with NL whereby we agreed to loan NL up to $8 million. Our loans to NL will bear interest at the prime rate less .75%, with all principal due on demand on or after March 31, 2012 (and in any event no later than December 31, 2012), with interest payable quarterly. The amount of our outstanding loans to NL at any time is at our discretion. No amounts were outstanding as of December 31, 2010. See Note 12 to the Consolidated Financial Statements.

In May of 2010, we purchased from NL and one of its subsidiaries, for $15.0 million in cash, all of their right, title, and interest in (i) a subordinated secured mortgage note receivable dated October 15, 2008 and in the original principal amount of $15.0 million executed by Sayreville Seaport Associates, L.P., a Delaware limited partnership, and originally payable to NL and its subsidiary, and (ii) certain other documents related to the note receivable. We purchased the promissory note for our investment purposes. The promissory note bears interest at LIBOR plus 2.75%, payable monthly. All principal is due no later than October 2011. The promissory note is collateralized by a real estate developer’s ground lease on certain real property, formerly owned by NL and its subsidiary and taken

from them in condemnation proceedings, and all improvements to the property performed by the developer. Both the promissory note and our lien on the property are subordinated to certain senior indebtedness of the developer. In the event the developer has not repaid the promissory note at its stated maturity, we have the right to demand repayment of up to $15.0 million due under the promissory note from one of the developer's equity partners, and such right is not subordinated to the developer's senior indebtedness. In addition, NL has provided a guarantee for any amounts due but unpaid under the promissory note. In order to complete the purchase of the promissory note, we entered into an amendment to our revolving $37.5 million Credit Agreement on May 10, 2010. The amendment enabled us to borrow $5.0 million under the Credit Agreement, which we utilized along with $10.0 million of existing cash to complete the purchase. The purchase was also approved by the independent members of our board of directors. See Note 6 to the Consolidated Financial Statements.

Financing activities. Net cash used by financing activities totaled $14.2 million, $7.1 million, and $3.2 million in 2008, 2009 and 2010, respectively. Cash dividends paid totaled $6.2 million ($.50 per share) in each of 2008, 2009, and 2010.

In 2008, we prepaid approximately $7.0 million toward our promissory note payable to Timet Finance Management Company ("TFMC"). See Notes 8 and 11 to the Consolidated Financial Statements.

In 2008, we also repurchased approximately 126,000 shares of our Class A common stock in market transactions for an aggregate of $1.0 million. See Note 8 to the Consolidated Financial Statements.

At December 31, 2010, there was $3.0 million outstanding under our $37.5 million revolving credit facility that matures in January 2012. In May of 2010, we borrowed $5 million under the credit facility to partially fund the purchase of the promissory note receivable discussed above and in Note 12 to the Consolidated Financial Statements. Although our bank credit facility has a remaining capacity of $34.5 million, only $28 million is available to borrow as of the end of December 2010 due to limitations imposed by debt covenant restrictions. As of the first quarter of 2011, we expect the full unused capacity of the facility to become available to us, as such debt covenant limitations are expected to become inapplicable. In addition, in February 2011 we repaid all of the $3.0 million which was outstanding at December 31, 2010 on the revolving credit facility.

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

Off balance sheet financing arrangements. Other than certain operating leases discussed in Note 13 to the Consolidated Financial Statements, neither we nor any of our subsidiaries or affiliates are parties to any off-balance sheet financing arrangements.

Other

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

affected.

We periodically evaluate our 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, repurchase shares of our common stock, modify our dividend policy or take a combination of such steps to manage our liquidity and capital resources. In the normal course of business, we may review opportunities for acquisitions, joint ventures or other business combinations in the component products industry. In the event of any such transaction, we may consider using available cash, issuing additional equity securities or increasing our indebtedness or that of our subsidiaries.

Contractual obligations. As more fully described in the notes to the Consolidated Financial Statements, we are a party to various debt, lease and other agreements that contractually and unconditionally commit us to pay certain amounts in the future. See Notes 6 and 12 to the Consolidated Financial Statements. The following table summarizes such contractual commitments as of December 31, 2010 by the type and date of payment.

	Payments due by period				
	Total	2011	2012–2013	2014-2015	2016 and after
			(In thousands)		
Note and interest payable to affiliate	$45,056	$2,414	$3,037	$39,605	$-
Long-term debt, including interest	3,116	105	3,011		
Operating leases	672	413	259	-	-
Purchase obligations	16,476	16,476	-	-	-
Income taxes	1,994	1,994	-	-	-
Fixed asset acquisitions	664	664	-	-	-
Total contractual cash obligations	$67,978	$22,066	$6,307	$39,605	$-

The timing and amount shown for our commitments related to indebtedness, operating leases and fixed asset acquisitions are based upon the contractual payment amount and the contractual payment date for those commitments. The amounts shown for interest on indebtedness are based upon the December 31, 2010 interest rates on outstanding indebtedness, and assumes such interest rates remain unchanged through the maturity date of the indebtedness. The timing and amount shown for purchase obligations, which consist of all open purchase orders and contractual obligations (primarily commitments to purchase raw materials) is also based on the contractual payment amount and the contractual payment date for those commitments. The amount shown for income taxes is the consolidated amount of income taxes payable at December 31, 2010, which is assumed to be paid during 2011. Fixed asset acquisitions include firm purchase commitments for capital projects.

Commitments and contingencies. See Note 13 to the Consolidated Financial Statements.

Recent accounting pronouncements. There have been no recent accounting pronouncements affecting our consolidated financial statements for the year ended December 31, 2010.

Critical Accounting Policies and Estimates

We have based the accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" upon our Consolidated Financial Statements. We prepared our Consolidated Financial Statements in accordance with GAAP. In preparing our Consolidated Financial Statements, we are required 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, we evaluate our estimates, including those related to inventory reserves, the recoverability of long-lived assets (including goodwill and other intangible assets) and the realization of deferred income tax assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Our actual future results might differ from previously-estimated amounts under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements and are applicable to all of our operating segments:

- Goodwill – Our goodwill totaled $31.5 million at December 31, 2010. We perform a goodwill impairment test annually in the third quarter of each year. Goodwill is also evaluated for impairment at other times whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The estimated fair values of our three reporting units are determined using Level 3 inputs of a discounted cash flow technique since Level 1 inputs of market prices are not available at the reporting unit level. If the fair value is less than the book value, the asset is written down to the estimated fair value.

  Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans. However, different assumptions and estimates could result in materially different findings which could result in the recognition of a material goodwill impairment.

  No goodwill impairments were deemed to exist as a result of our annual impairment review completed during the third quarter of 2010, as the estimated fair value of each reporting unit was substantially in excess of the net carrying value of the respective reporting unit. See Notes 1 and 4 to the Consolidated Financial Statements.

- Long-lived assets – We assess property and equipment for impairment only when circumstances (as specified in ASC 360-10-35, Property, Plant, and Equipment) indicate an impairment may exist. Our determination is based upon, among other things, our estimates of the amount of future net cash flows to be generated by the long-lived asset (Level 3 inputs) and our estimates of the current fair value of the asset. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

  Due to management's approval of a restructuring plan for our Furniture Components reporting unit in November of 2010, which includes moving precision slide production from our Byron Center, Michigan facility to other precision slide manufacturing facilities within our Furniture Components unit, we evaluated the long lived assets for our Byron Center facility. As of December 31, 2010, we concluded no impairments were present. However, if our future cash flows from operations less capital expenditures were to drop significantly below our current expectations, it is reasonably likely we would conclude an impairment was present.

No other long-lived assets in our other reporting units were tested for impairment during 2010 because there were no circumstances indicating an impairment may exist.

- Income taxes – We recognize deferred taxes for future tax effects of temporary differences between financial and income tax reporting. While we have 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 we may change our estimate of the amount of the deferred income tax assets that would more-likely-than-not be realized in the future resulting 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 was made.

  We reevaluate at the end of each reporting period whether or not some or all of the undistributed earnings of our foreign subsidiaries are not permanently reinvested (as that term is defined in GAAP). At the end of March 2010, and based primarily upon changes in our cash management plans, we determined that all of the undistributed earnings of our Taiwanese subsidiary can no longer be considered permanently reinvested in Taiwan. Accordingly, in the first quarter of 2010 we recognized an aggregate $1.9 million provision for deferred income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary. Consequently, all of the undistributed earnings of our non-U.S. operations are now considered to be not permanently reinvested. While we may have currently concluded that all of the undistributed earnings are not 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 our foreign subsidiaries, could result in a conclusion that some or all of the undistributed earnings are permanently reinvested. If our prior conclusions change, we would be required to derecognize a previously recognized deferred income tax liability in an amount equal to the estimated incremental U.S. income tax and withholding tax liability related to the amount of undistributed earnings considered to be permanently reinvested.

  We record a reserve for uncertain tax positions in accordance with the provisions of ASC Topic 740, Income Taxes, for tax positions where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. Our reserve for uncertain tax positions is nil for each of 2008, 2009, and 2010.

- Accruals - We record accruals for environmental, legal and other contingencies and commitments when estimated future expenditures associated with the contingencies become probable, and we can reasonably estimate the amounts of the future expenditures. However, new information may become available to us, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount we are required to accrue for such matters (and, therefore, a corresponding decrease or increase of our reported net income in the period of such change.)

- Assets Held for Sale - Our assets held for sale at December 31, 2010, consist of a facility in River Grove, Illinois and land in Neenah, Wisconsin. These two properties (primarily land, buildings and building improvements) were formerly

used in our operations. During the third quarter of 2010, and as weak economic conditions continued longer than expected, we obtained an independent appraisal for the River Grove facility (the most significant of these two properties). Based on this appraisal, we recorded a write-down of $500,000 during the third quarter of 2010 to reduce the carrying value of the asset to its estimated fair value less cost to sell. This charge is included in corporate operating expense. During the fourth quarter of 2010, we obtained an independent appraisal for the Neenah land. Based on this appraisal, the carrying value of the asset approximates the fair value less cost to sell and therefore no adjustment to the carrying value was deemed necessary. The combined carrying value of these two properties is $2.4 million at December 31, 2010. The appraisals represent a Level 2 input as defined by ASC 820-10-35. Both properties are being actively marketed. However, due to the current state of the commercial real estate market, we can not be certain of the timing of the disposition of the assets. If we continue to experience difficulty in disposing of the assets at or above their carrying value, we may have to record additional write-downs of the assets in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. We are exposed to market risk from changes in interest rates, currency exchange rates and raw materials prices.

Interest rates. We are exposed to market risk from changes in interest rates, primarily related to indebtedness. At December 31, 2009 and 2010, all of our outstanding indebtedness was comprised of variable-rate instruments. The following table presents principal amounts, interest rates and fair value for our outstanding indebtedness at December 31, 2009 and 2010. See Note 6 to our Consolidated Financial Statements.

	Amount				
Indebtedness	Carrying value	Fair value	Interest rate		Maturity date
	(In thousands)				
December 31, 2010:					
Variable-rate indebtedness -					
Promissory note to TIMET	$42,230	$42,230	1.3	%	2014
Revolving credit facility	3,000	3,000	3.5	%	2012
Total	$45,230	$45,230			
December 31, 2009:					
Variable-rate indebtedness -					
Promissory note to TIMET	$42,230	$42,230	1.3	%	2014

All of our debt is at variable interest rates. We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in interest rates. As of December 31, 2010 the analysis indicated that such rate movements would not have a material effect on our financial results from operations or cash flows. However, actual gains or losses in the future may differ materially from our analysis based on changes in the timing and amount of interest rate movement.

Currency exchange rates. We are exposed to market risk arising from changes in currency exchange rates as a result of manufacturing and selling our products outside the United States (principally Canada and Taiwan). A portion of our sales generated from our non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar and the New Taiwan dollar. In addition, a substantial portion of our sales generated from our non-U.S. operations are denominated in the U.S. dollar. Most materials, labor and other production costs for these non-U.S. operations are primarily denominated in local currencies. As a result, the translated U.S. dollar value 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.

As previously noted certain of our sales generated by our Canadian operations are denominated in U.S. dollars. Consequently, we periodically enter into forward currency contracts to mitigate the financial statement impact of changes in currency exchange rates. At each balance sheet date, outstanding forward currency contracts are marked-to-market with any resulting gain or loss recognized in income currently unless the contract is designated as a hedge upon which the mark-to-market adjustment is recorded in other comprehensive income. We had no forward currency contracts outstanding at December 31, 2009 or December 31, 2010.

Raw materials. We will occasionally enter into commodity related raw material supply arrangements to mitigate the short-term impact of future increases in commodity related raw material costs. Otherwise, we generally do not have long-term supply agreements for our raw material requirements because either we believe the risk of unavailability of those raw materials is low and we believe the price to be stable or because long-term supply agreements for those materials are generally not available. We do not engage in commodity raw material hedging programs.

Other. The above discussion includes forward-looking statements of market risk which assumes hypothetical changes in market prices. Actual future market conditions will likely differ materially from such assumptions. Accordingly, such forward-looking statements should not be considered to be our projections of future events, gains or losses. Such forward-looking statements are subject to certain risks and uncertainties some of which are listed in “Business-General.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this Item is contained in a separate section of this Annual Report. See "Index of Financial Statements" (page F-1).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We maintain a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information 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 its principal executive officer and its principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of David A. Bowers, 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 December 31, 2010. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of the date of such evaluation.

Scope of Management Report on Internal Control Over Financial Reporting. We also maintain a system of 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

accounting principles generally accepted in the United States of America ("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 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 consolidated financial statements.

Section 404 of the Sarbanes-Oxley Act of 2002, requires us to include a management report on internal control over financial reporting in the Annual Report on Form 10-K for the year ended December 31, 2010. Under the rules of the SEC, our independent registered public accounting firm is not required to, and therefore has not, audited our internal control over financial reporting as of December 31, 2010.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our evaluation of the effectiveness of our internal control over financial reporting is based upon the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (commonly referred to as the "COSO" framework). Based on our evaluation under that framework, our management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report. See "Scope of Management's Report on Internal Control Over Financial Reporting" above.

Changes in Internal Control Over Financial Reporting. There has been no change to our system of internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our system of internal control over financial reporting.

Certifications. For 2010 and prior years, our chief executive officer is required to annually file a certification with the New York Stock Exchange ("NYSE"), certifying our compliance with the corporate governance listing standards of the NYSE. During 2010, our chief executive officer filed such annual certification with the NYSE, indicating we were in compliance with such listed standards. Our chief executive officer and chief financial officer are also required to, among other things, quarterly file a certification with the SEC regarding the quality of our public disclosures, as required by Section 302 of the Sarbanes-Oxley Act of 2002. We have filed the certifications for the quarter ended December 31, 2010 as exhibits 31.1 and 31.2 to this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report ("Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to our Proxy Statement. See also Note 12 to the Consolidated Financial Statements.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to our Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) and (c) Financial Statements

The consolidated financial statements listed on the accompanying Index of Financial Statements (see page F-1) are filed as part of this Annual Report.

All financial statement schedules have been omitted either because they are not applicable or required, or the information that would be required to be included is disclosed in the notes to the consolidated financial statements.

(b) Exhibits

We have retained a signed original of any of these exhibits that contain signatures, and we will provide such exhibits to the Commission or its staff. Included as exhibits are the items listed in the Exhibit Index. We, upon request, will furnish a copy of any of the exhibits listed below upon payment of $4.00 per exhibit to cover our costs of furnishing the exhibits. Instruments defining the rights of holders of long-term debt issues which do not exceed 10% of consolidated total assets will be furnished to the Commission upon request. We, upon request, will also furnish, without charge, a copy of our Code of Business Conduct and Ethics, as adopted by the board of directors on February 24, 2004, 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.

Item No.	Exhibit Item
3.1	Restated Certificate of Incorporation of Registrant – incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-1 (File No. 333-42643).
3.2	Amended and Restated Bylaws of Registrant, adopted by the Board of Directors October 24, 2007 – incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed October 30, 2007 (File No 1-13905).
10.1	Intercorporate Services Agreement between the Registrant and Contran Corporation effective as of January 1, 2004 – incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-13905).
10.2*	CompX International Inc. 1997 Long-Term Incentive Plan – incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-1 (File No. 333-42643).

10.3	Tax Sharing Agreement between the Registrant, NL Industries, Inc. and Contran Corporation dated as of October 5, 2004 – incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 (File No.1-13905).
10.4	Form of Subordination Agreement among the Registrant, TIMET Finance Management Company, CompX Security Products Inc., CompX Precision Slides Inc., CompX Marine Inc., Custom Marine Inc., Livorsi Marine Inc., Wachovia Bank, National Association as administrative agent for itself, Compass Bank and Comerica Bank – incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on October 22, 2007 (File No. 1-13905).

Item No.	Exhibit Item (continued)
10.5	First Amendment to Subordination Agreement dated as of the September 21, 2009 by TIMET Finance Management Company and Wachovia Bank, National Association – incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on September 24, 2009 (File No. 1-13905).
10.6	Amended and Restated Subordinated Term Loan Promissory Note dated September 21, 2009 in the original principal amount of $42,230,190 payable to the order of TIMET Finance Management Company by the Registrant – incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on September 24, 2009 (File No. 1-13905).
10.7	Agreement Regarding Shared Insurance among the Registrant, Contran Corporation, Keystone Consolidated Industries, Inc., Kronos Worldwide, Inc., NL Industries, Inc., Titanium Metals Corporation, and Valhi, Inc. dated October 30, 2003 – incorporated by reference to Exhibit 10.12 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-13905).
10.8	$50,000,000 Credit Agreement between the Registrant and Wachovia Bank, National Association, as Agent and various lending institutions dated December 23, 2005 – incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-13905.)
10.9	First Amendment to Credit Agreement dated as of October 16, 2007 among the Registrant, CompX Security Products Inc., CompX Precision Slides Inc., CompX Marine Inc., Custom Marine Inc., Livorsi Marine Inc., Wachovia Bank, National Association for itself and as administrative agent for Compass Bank and Comerica Bank - incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on October 22, 2007 (File No. 1-13905).
10.10	Second Amendment to Credit Agreement dated as of January 15, 2009 among the Registrant, CompX Security Products Inc., CompX Precision Slides Inc., CompX Marine Inc., Custom Marine Inc., Livorsi Marine Inc., Wachovia Bank, National Association for itself and as administrative agent for Compass Bank and Comerica

Bank - incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on January 21, 2009 (File No. 1-13905).

10.11 Third Amendment to Credit Agreement dated as of September 21, 2009 by and among the Registrant, CompX Security Products Inc., CompX Precision Slides Inc., CompX Marine Inc., Custom Marine Inc., Livorsi Marine Inc., Wachovia Bank, National Association and Comerica Bank - incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on September 24, 2009 (File No. 1-13905).

10.12 Fourth Amendment to Credit Agreement dated as of May 10, 2010 among the Registrant, CompX Security Products Inc., CompX Precision Slides Inc., CompX Marine Inc., Custom Marine Inc., Livorsi Marine, Inc., Wells Fargo Bank, National Association, as successor-by-merger to Wachovia Bank, National Association and Comerica Bank – incorporated by reference to Exhibit 10.10 of the Registrant's Current Report on Form 8-K filed on May 19, 2010 (File No. 1-13905).

10.13** First Amended and Restated unsecured Revolving Demand Promissory Note dated December 31, 2010 between the Registrant and NL Industries, Inc.

Item No.	Exhibit Item (continued)
10.14	Mortgage Note, dated October 15, 2008 executed by Sayreville Seaport Associates, L.P. and payable to the order of NL Industries, Inc. and NL Environmental Management Services, Inc. – incorporated by reference to Exhibit 10.13 of the Registrant's Current Report on Form 8-K filed on May 19, 2010 (File No. 1-13905).
10.15	Leasehold Mortgage, Assignment, Security Agreement and Fixture Filing dated October 15, 2008 executed by Sayreville Seaport Associates, L.P. in favor of NL Industries, Inc. and NL Environmental Management Services, Inc. – incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on May 19, 2010 (File No. 1-13905).
10.16	Intercreditor, Subordination and Standstill Agreement, dated October 15, 2008 executed by NL Industries, Inc., NL Environmental Management Services, Inc., Bank of America, N.A. on behalf of itself and the other financial institutions, and acknowledged and consented to by Sayreville Seaport Associates, L.P. and J. Brian O'Neill – incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on May 19, 2010 (File No. 1-13905).
10.17	Multi-Party Agreement dated October 15, 2008 among Sayreville Seaport Associates, L.P., Sayreville Seaport Associates Acquisition Company, LLC, OPG Participation, LLC, J. Brian O'Neill, NL Industries, Inc., NL Environmental Management Services, Inc., The Prudential Insurance Company of America and Sayreville PRISA II LLC – incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on May 19, 2010 (File No. 1-13905).
10.18	Guaranty Agreement dated October 15, 2008 executed by J. Brian O'Neill in favor of NL Industries, Inc. and NL Environmental Management Services, Inc. – incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K filed on May 19, 2010 (File No. 1-13905).
10.19	Bill of Sale, Assignment and Assumption Agreement dated May 13, 2010 between the NL Industries, Inc., NL Environmental Management Services, Inc. and the

Registrant – incorporated by reference to Exhibit 10.11 of the Registrant's Current Report on Form 8-K filed on May 19, 2010 (File No. 1-13905).

Item No.	Exhibit Item (continued)
21.1**	Subsidiaries of the Registrant.
23.1**	Consent of PricewaterhouseCoopers LLP.
31.1**	Certification
31.2**	Certification
32.1**	Certification

* Management contract, compensatory plan or agreement.

** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 2, 2011 By: /s/ David A. Bowers
David A. Bowers
Vice Chairman of the Board,
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Glenn R. Simmons Glenn R. Simmons	Chairman of the Board	March 2, 2011
/s/ David A. Bowers David A. Bowers	Vice Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 2, 2011
/s/ Darryl R. Halbert Darryl R. Halbert	Vice President, Chief Financial Officer and Controller (Principal Financial and Accounting Officer)	March 2, 2011
/s/ Norman S. Edelcup Norman S. Edelcup	Director	March 2, 2011
/s/ Edward J. Hardin Edward J. Hardin	Director	March 2, 2011
/s/ Ann Manix Ann Manix	Director	March 2, 2011

/s/ Steven L. Watson Steven L. Watson	Director	March 2, 2011

Annual Report on Form 10-K

Items 8 and 15(a)

Index of Financial Statements

All financial statement schedules have been omitted either because they are not applicable or required, or the information that would be required to be included is disclosed in the notes to the consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CompX International Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of CompX International Inc. and its Subsidiaries at December 31, 2009 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP
Dallas, Texas
March 2, 2011

COMPX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

ASSETS	December 31, 2009	2010
Current assets:		
Cash and cash equivalents	$20,788	$13,919
Accounts receivable, less allowance for doubtful accounts of $481 and $389	11,690	14,601
Receivables from affiliates	1,487	53
Refundable income taxes	1,844	4
Inventories	16,266	18,424
Prepaid expenses and other current assets	1,132	993
Deferred income taxes	1,928	2,366
Promissory note receivable	-	15,000
Total current assets	55,135	65,360
Other assets:		
Goodwill	30,949	31,452
Other intangible assets	1,408	840
Assets held for sale	2,800	2,415
Other	119	102
Total other assets	35,276	34,809
Property and equipment:		
Land	12,051	12,646
Buildings	39,201	39,934
Equipment	120,574	123,725
Construction in progress	1,180	965
	173,006	177,270
Less accumulated depreciation	109,370	117,367
Net property and equipment	63,636	59,903
Total assets	$154,047	$160,072

COMPX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2009	2010
Current liabilities:		
Current maturities of note payable to affiliate	$-	$1,000
Accounts payable and accrued liabilities	14,567	16,182
Interest payable to affiliate	-	876
Income taxes payable to affiliates and other	-	1,087
Income taxes	15	907
Total current liabilities	14,582	20,052
Noncurrent liabilities:		
Long-term debt	42,230	44,230
Deferred income taxes and other	11,897	11,895
Interest payable to affiliate	311	-
Total noncurrent liabilities	54,438	56,125
Stockholders' equity:		
Preferred stock, $.01 par value; 1,000 shares authorized, none issued	-	-
Class A common stock, $.01 par value; 20,000,000 shares authorized; 2,370,307 and 2,375,307 shares issued and outstanding	24	24
Class B common stock, $.01 par value; 10,000,000 shares authorized, issued and outstanding	100	100
Additional paid-in capital	54,928	54,982
Retained earnings	19,621	16,486
Accumulated other comprehensive income	10,354	12,303
Total stockholders' equity	85,027	83,895
Total liabilities and stockholders’ equity	$154,047	$160,072

Commitments and contingencies (Note 13)

See accompanying Notes to Consolidated Financial Statements.

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COMPX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Years Ended December 31,		
	2008	2009	2010
Net sales	$165,502	$116,125	$135,264
Cost of goods sold	125,248	92,345	99,273
Gross margin	40,254	23,780	35,991
Selling, general and administrative expense	24,818	26,722	25,786
Goodwill impairment	9,881	-	-
Assets held for sale write-down	-	717	500
Other operating income (expense):			
Currency transaction gains (losses), net	679	(236)	(354)
Disposition of property and equipment	(48)	(141)	(20)
Operating income (loss)	6,186	(4,036)	9,331
Other non-operating income, net	240	45	379
Interest expense	(2,362)	(1,060)	(914)
Income (loss) before income taxes	4,064	(5,051)	8,796
Provision (benefit) for income taxes	7,165	(3,058)	5,744
Net income (loss)	$(3,101)	$(1,993)	$3,052
Basic and diluted earnings (loss) per common share	$(.25)	$(.16)	$.25
Cash dividends per share	$.50	$.50	$.50
Basic and diluted shares	12,386	12,367	12,373

See accompanying Notes to Consolidated Financial Statements.

COMPX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Years Ended December 31,		
	2008	2009	2010
Net income (loss)	$(3,101)	$(1,993)	$3,052
Other comprehensive income (loss), net of tax:			
Currency translation adjustment	(2,718)	1,998	1,949
Impact from cash flow hedges, net	126	(126)	-
Total other comprehensive income (loss), net	(2,592)	1,872	1,949
Comprehensive income (loss)	$(5,693)	$(121)	$5,001

See accompanying Notes to Consolidated Financial Statements.

COMPX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2008	2009	2010
Cash flows from operating activities:			
Net income (loss)	$(3,101)	$(1,993)	$3,052
Depreciation and amortization	9,231	8,209	7,676
Goodwill impairment	9,881	-	-
Deferred income taxes	(45)	(2,093)	(756)
Provision for inventory reserves	195	1,022	556
Assets held for sale write-down	-	717	500
Other, net	327	458	174
Change in assets and liabilities:			
Accounts receivable	2,441	5,318	(2,669)
Inventories	389	5,878	(2,482)
Accounts payable and accrued liabilities	(2,810)	(356)	1,700
Accounts with affiliates	(1,531)	(15)	2,520
Income taxes	1,047	(2,778)	2,704
Other, net	(307)	899	44
Net cash provided by operating activities	15,717	15,266	13,019
Cash flows from investing activities:			
Capital expenditures	(6,791)	(2,321)	(2,120)
Purchase of promissory note receivable	-	-	(15,000)
Note receivable from affiliate:			
Advances	-	-	(9,000)
Collections	-	-	9,000
Proceeds from disposal of assets held for sale	250	-	-
Proceeds from sale of fixed assets	127	-	-
Cash collected on note receivable	1,306	261	-
Net cash used in investing activities	(5,108)	(2,060)	(17,120)
Cash flows from financing activities:			
Borrowings under long-term debt	-	-	5,000
Repayment of long-term debt	-	-	(2,000)
Repayment of loan from affiliate	(7,000)	(750)	-
Dividends paid	(6,181)	(6,184)	(6,187)
Treasury stock acquired	(1,006)	-	-
Other, net	(56)	(133)	(28)

Net cash used in financing activities	(14,243)	(7,067)	(3,215)
Net increase (decrease)	$(3,634)	$6,139	$(7,316)

See accompanying Notes to Consolidated Financial Statements.

COMPX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Years Ended December 31,		
	2008	2009	2010
Cash and cash equivalents:			
Net increase (decrease) from -			
Operating, investing and financing activities	$(3,634)	$6,139	$(7,316)
Effect of exchange rate on cash	(354)	238	447
Balance at beginning of year	18,399	14,411	20,788
Balance at end of year	$14,411	$20,788	$13,919
Supplemental disclosures:			
Cash paid for:			
Interest	$2,278	$1,246	$278
Income taxes	8,062	1,819	1,241
Noncash investing and financing activities:			
Accrual for capital expenditures	$511	$101	$159

See accompanying Notes to Consolidated Financial Statements.

COMPX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2008, 2009 and 2010

(In thousands)

	Common stock		Additional paid-in	Retained	Accumulated other comprehensive income		Treasury	Total stockholders'
	Class A	Class B	Capital	earnings	Currency translation	Hedging derivatives	stock	equity
Balance at December 31, 2007	$25	$100	$55,824	$37,080	$11,074	$-	$-	$104,103
Net loss	-	-	-	(3,101)	-	-	-	(3,101)
Other comprehensive income	-	-	-	-	(2,718)	126	-	(2,592)
Cash dividends	-	-	-	(6,181)	-	-	-	(6,181)
Issuance of common stock and other, net	-	-	54	-	-	-	-	54
Treasury stock:								
Acquired	-	-	-	-	-	-	(1,006)	(1,006)
Retired	(1)	-	(1,005)	-	-	-	1,006	-
Balance at December 31, 2008	24	100	54,873	27,798	8,356	126	-	91,277
Net loss	-	-	-	(1,993)	-	-	-	(1,993)
Other comprehensive income	-	-	-	-	1,998	(126)	-	1,872
Cash dividends	-	-	-	(6,184)	-	-	-	(6,184)
Issuance of common stock and other, net	-	-	55	-	-	-	-	55
Balance at December 31, 2009	24	100	54,928	19,621	10,354	-	-	85,027

Net income	-	-	-	3,052	-	-	-	3,052
Other comprehensive income	-	-	-	-	1,949	-	-	1,949
Cash dividends	-	-	-	(6,187)	-	-	-	(6,187)
Issuance of common stock and other, net	-	-	54	-	-	-	-	54
Balance at December 31, 2010	$24	$100	$54,982	$16,486	$12,303	$-	$-	$83,895

See accompanying Notes to Consolidated Financial Statements.

COMPX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

Note 1 - Summary of significant accounting policies:

Organization. We (NYSE: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at December 31, 2010. We manufacture and sell component products (security products, precision ball bearing slides, ergonomic computer support systems and performance marine components). At December 31, 2010, (i) Valhi, Inc. holds approximately 83% of NL's outstanding common stock and (ii) subsidiaries of Contran Corporation hold approximately 94% 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 these companies and us.

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

Management estimates. In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at each balance sheet date and the reported amounts of our revenues and expenses during each reporting period. Actual results may differ significantly from previously estimated amounts under different assumptions or conditions.

Principles of consolidation. Our consolidated financial statements include the accounts of CompX International Inc. and our wholly-owned subsidiaries. We eliminate all material intercompany accounts and balances.

Fiscal year. Our fiscal year end is always the Sunday closest to December 31, and our operations are reported on a 52 or 53-week fiscal year. Each of the years ended December 31, 2008 and December 31, 2010 consisted of 52 weeks. The year ended December 31, 2009 consisted of 53 weeks.

Translation of foreign currencies. We translate the assets and liabilities of our subsidiaries whose functional currency is not the U.S. dollar at year-end rates of exchange, while we translate their revenues and expenses at average exchange rates prevailing during the year. We accumulate the resulting translation adjustments in stockholders' equity as part of accumulated other comprehensive income, net of related deferred income taxes. We recognize currency transaction gains and losses in income.

Cash and cash equivalents. We classify as cash and cash equivalents bank time deposits and government and commercial notes and bills with original maturities of three months or less.

Net sales. We record sales when products are shipped and title and other risks and rewards of ownership have passed to the customer. Amounts charged to customers for shipping and handling are not material. Sales are stated net of price, early payment and distributor discounts and volume rebates. We report any tax assessed by a governmental authority that we collect from our customers that is both imposed on and concurrent with our revenue producing activities (such as sales, use, value added and excise taxes) on a net basis (meaning we do not recognize these taxes either in our revenues or in our costs and expenses.)

Accounts receivable. We provide an allowance for doubtful accounts for known and estimated potential losses rising from our sales to customers based on a periodic review of these accounts.

Inventories and cost of sales. We state inventories at the lower of cost or market, net of allowance for obsolete and slow-moving inventories. We generally base inventory costs for all inventory categories on average cost that approximates the first-in, first-out method. Inventories include the costs for raw materials, the cost to manufacture the raw materials into finished goods and overhead. Depending on the inventory's stage of completion, our manufacturing costs can include the costs of packing and finishing, utilities, maintenance and depreciation, shipping and handling, and salaries and benefits associated with our manufacturing process. We allocate fixed manufacturing overheads based on normal production capacity. Unallocated overhead costs resulting from periods with abnormally low production levels are charged to expense as incurred. As inventory is sold to third parties, we recognize the cost of sales in the same period that the sale occurs. We periodically review our inventory for estimated obsolescence or instances when inventory is no longer marketable for its intended use, and we record any write-down equal to the difference between the cost of inventory and its estimated net realizable value based on assumptions about alternative uses, market conditions and other factors.

Selling, general and administrative expenses; advertising costs. Selling, general and administrative expenses include costs related to marketing, sales, distribution, research and development and administrative functions such as accounting, treasury and finance, and includes costs for salaries and benefits, travel and entertainment, promotional materials and professional fees. We expense advertising and research development costs as incurred. Advertising costs were approximately $840,000 in 2008, $466,000 in 2009, and $369,000 in 2010.

Goodwill and other intangible assets; amortization expense. Goodwill represents the excess of cost over fair value of individual net assets acquired in business combinations. Goodwill is not subject to periodic amortization. We amortize other intangible assets, consisting principally of certain acquired patents and tradenames, using the straight line method over their estimated lives and state them net of accumulated amortization. We evaluate goodwill for impairment, annually, or when circumstances indicate the carrying value may not be recoverable. We evaluate other intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. See Note 4.

Property and equipment; depreciation expense. We state property and equipment, including purchased computer software for internal use, at cost. We compute depreciation of property and equipment for financial reporting purposes principally by the straight-line method over the estimated useful lives of 15 to 40 years for buildings and 3 to 20 years for equipment and software. We use accelerated depreciation methods for income tax purposes, as permitted. Depreciation expense was $8.6 million in 2008, $7.6 million in 2009, and $7.1 million in 2010. Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized in income

currently. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized.

We perform impairment tests when events or changes in circumstances indicate the carrying value may not be recoverable. We consider all relevant factors. We perform the impairment test by comparing the estimated future undiscounted cash flows associated with the asset to the asset's net carrying value to determine if impairment exists. See Note 9.

Employee benefit plans. We maintain various defined contribution plans in which we make contributions based on matching or other formulas. Defined contribution plan expense approximated $2.1 million in 2008, $1.5 million in 2009 and $1.9 million in 2010.

Self-insurance. We are partially self-insured for workers' compensation and certain employee health benefits and self-insured for most environmental issues. We purchase coverage in order to limit our exposure to any significant levels of workers' compensation or employee health benefit claims. We accrue self-insured losses based upon estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and our own historical claims experience.

Derivatives and hedging activities. Certain of our sales generated by our non-U.S. operations are denominated in U.S. dollars. We periodically use currency forward contracts to manage a portion of currency exchange rate market risk associated with receivables, or similar exchange rate risk associated with future sales, denominated in a currency other than the holder's functional currency. We have not entered into these contracts for trading or speculative purposes in the past, nor do we anticipate entering into such contracts for trading or speculative purposes in the future. Most of our currency forward contracts meet the criteria for hedge accounting under GAAP and are designated as cash flow hedges. For these currency forward contracts, gains and losses representing the effective portion of our hedges are deferred as a component of accumulated other comprehensive income, and are subsequently recognized in earnings at the time the hedged item affects earnings. Occasionally, we enter into currency forward contracts which do not meet the criteria for hedge accounting. For these contracts, we mark-to-market the estimated fair value of the contracts at each balance sheet date based on quoted market prices for the forward contracts, with any resulting gain or loss recognized in income currently as part of net currency transactions. The quoted market prices for the forward contracts are a Level 1 input as defined by ASC 820-10-35. We had no currency forward contracts outstanding at December 31, 2009 or at December 31, 2010.

Income taxes. We, and our parent NL, are members of the Contran Tax Group. We have been and currently are a part of the consolidated tax returns filed by Contran in certain United States state jurisdictions. As a member of the Contran Tax Group, we are jointly and severally liable for the federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. See Note 12.

As a member of the Contran Tax Group, we are a party to a tax sharing agreement which provides that we compute our provision for U.S. income taxes on a separate-company basis. Pursuant to the tax sharing agreement, we make payments to or receive payments from NL in amounts we would have paid to or received from the U.S. Internal Revenue Service or the applicable state tax authority had we not been a member of the Contran Tax Group. The separate company provisions and payments are computed using the tax elections made by Contran. Under certain circumstances, such tax elections could require Contran to treat items differently than we would on a stand alone basis, and in such instances GAAP requires us to conform to Contran’s tax election. We made net cash payments for taxes to NL of $5.2 million and $2.2 million in 2008 and 2010, respectively, and received a net refund from NL of approximately $360,000 in 2009.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including undistributed earnings of foreign subsidiaries that are not permanently reinvested. Earnings of foreign subsidiaries subject to permanent reinvestment plans aggregated $5.7 million at December 31, 2009. At December 31, 2010, we had no earnings of foreign subsidiaries subject to permanent reinvestment plans. We periodically evaluate our deferred tax assets in the various taxing jurisdictions in which we operate and adjust any related valuation allowance based on the estimate of the amount of such deferred tax assets which we believe do not meet the more-likely-than-not recognition criteria.

We record a reserve for uncertain tax positions for tax positions where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. Our reserve for uncertain tax positions was nil in each of 2008, 2009 and 2010.

Earnings per share. Basic earnings per share of common stock is computed using the weighted average number of common shares actually outstanding during each period. Diluted earnings per share of common stock includes the impact of outstanding dilutive stock options. The weighted average number of outstanding stock options excluded from the calculation of diluted earnings per share because their impact would have been antidilutive aggregated approximately 172,000 in 2008, 91,000 in 2009 and 27,000 in 2010.

Note 2 - Business and geographic segments:

Our operating segments are defined as components of our operations about which separate financial information is available that is regularly evaluated by our chief operating decision maker in determining how to allocate resources and in assessing performance. Our chief operating decision maker is Mr. David A. Bowers, our president and chief executive officer. We have three operating segments – Security Products, Furniture Components and Marine Components. The Security Products segment, with a facility in South Carolina and a facility shared with Marine Components in Illinois, manufactures locking mechanisms and other security products for sale to the office furniture, transportation, postal, banking, vending and other industries. The Furniture Components segment, with facilities in Canada, Michigan and Taiwan, manufactures and distributes a complete line of precision ball bearing slides and ergonomic computer support systems for use in office furniture, computer-related equipment, tool storage cabinets, appliances and other applications. Our Marine Components segment, with a facility in Wisconsin and a facility shared with Security Products in Illinois, manufactures and distributes marine instruments, hardware and accessories primarily for performance boats.

The chief operating decision maker evaluates segment performance based on segment operating income, which is defined as income before income taxes, and interest expense, exclusive of certain general corporate income and expense items

(primarily interest income) and certain non-recurring items (such as gains or losses on the disposition of business units and other long-lived assets outside the ordinary course of business). The accounting policies of the reportable operating segments are the same as those described in Note 1. Capital expenditures include additions to property and equipment, but exclude amounts attributable to business combinations.

Segment assets are comprised of all assets attributable to the reportable segments. Corporate assets are not attributable to the operating segments and consist primarily of cash, cash equivalents, notes receivable and assets held for sale. See Note 9. For geographic information, net sales are attributable to the place of manufacture (point of origin) and the location of the customer (point of destination); property and equipment are attributable to their physical location. At December 31, 2009 and 2010, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $32.1 million and $30.4 million, respectively. Intersegment sales are not material.

	Years ended December 31,		
	2008	2009	2010
	(In thousands)		
Net sales:			
Security Products	$77,094	$61,429	$68,006
Furniture Components	76,405	48,212	59,125
Marine Components	12,003	6,484	8,133
Total net sales	$165,502	$116,125	$135,264
Operating income:			
Security Products	$12,715	$9,714	$13,066
Furniture Components	9,205	(4,693)(b)	3,447 (b)
Marine Components	(10,456)(a)	(3,046)	(1,432)
Corporate operating expenses	(5,278)	(6,011)(c)	(5,750)(c)
Total operating income (loss)	6,186	(4,036)	9,331
Other non-operating income, net	240	45	379
Interest expense	(2,362)	(1,060)	(914)
Income (loss) before income taxes	$4,064	$(5,051)	$8,796
Depreciation and amortization:			
Security Products	$3,557	$3,560	$3,383
Furniture Components	4,583	3,475	3,191
Marine Components	1,080	1,170	1,099
Corporate depreciation	11	4	3
Total	$9,231	$8,209	$7,676
Capital expenditures:			
Security Products	$4,348	$1,361	$771
Furniture Components	1,823	1,010	1,096
Marine Components	1,131	51	271
Corporate capital expenditures	-	-	141
Total	$7,302	$2,422	$2,279

(a) We recorded a $9.9 million goodwill impairment charge for Marine Components in 2008. This represents all of the goodwill we had previously recognized for this reporting unit. See Note 4.

(b) Includes $4.6 million and $2.4 million of patent litigation expenses at December 31, 2009 and December 31, 2010, respectively. See Note 13.

(c) Corporate operating expenses include write-downs to our assets held for sale of $717,000 in 2009 and $500,000 in 2010. See Note 9.

	Years ended December 31,		
	2008	2009	2010
	(In thousands)		
Net sales:			
Point of origin:			
United States	$115,470	$84,786	$95,979
Canada	46,519	29,065	36,122
Taiwan	8,268	5,811	8,820
Eliminations	(4,755)	(3,537)	(5,657)
Total	$165,502	$116,125	$135,264
Point of destination:			
United States	$134,247	$95,974	$111,848
Canada	16,920	10,445	12,933
Other	14,335	9,706	10,483
Total	$165,502	$116,125	$135,264
Total assets:			
Security Products	$77,681	$72,210	$70,408
Furniture Components	59,238	54,512	52,761
Marine Components	15,419	12,118	11,337
Corporate and eliminations	11,064	15,207	25,566
Total	$163,402	$154,047	$160,072
Net property and equipment:			
United States	$51,327	$47,086	$42,570
Canada	8,987	9,224	9,444
Taiwan	7,115	7,326	7,889
Total	$67,429	$63,636	$59,903

Note 3 – Inventories:

	December 31,	
	2009	2010
	(In thousands)	
Raw materials:		
Security Products	$2,037	$2,174
Furniture Components	1,964	3,325
Marine Components	829	894

Total raw materials	4,830	6,393
Work-in-process:		
Security Products	4,917	5,178
Furniture Components	948	1,068
Marine Components	286	434
Total work-in-process	6,151	6,680
Finished goods:		
Security Products	1,747	1,720
Furniture Components	2,601	2,717
Marine Components	937	914
Total finished goods	5,285	5,351
Total inventories, net	$16,266	$18,424

Note 4 – Goodwill and other intangible assets:

We have assigned goodwill to each of our reporting units (as that term is defined in ASC Topic 350-20-20, Goodwill) which correspond to our operating segments. We test for goodwill impairment at the reporting unit level. In accordance with the requirements of ASC Topic 350-20-20, we review goodwill for each of our three reporting units for impairment during the third quarter of each year or when circumstances arise that indicate an impairment might be present. In determining the estimated fair value of the reporting units, we use appropriate valuation techniques, such as discounted cash flows. Such discounted cash flows are a Level 3 input as defined by ASC 820-10-35. If the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recorded.

During the third quarter of 2008, we recorded a goodwill impairment charge of $9.9 million for our Marine Components reporting unit, which represented all of the goodwill we had previously recognized for this reporting unit. We used a discounted cash flow methodology in determining the estimated fair value of our Marine Components reporting unit. The factors that led us to conclude goodwill associated with our Marine Components reporting unit was fully impaired include the continued decline in consumer spending in the marine market as well as the overall negative economic outlook, both of which resulted in near-term and longer-term reduced revenue, profit and cash flow forecasts for the Marine Components unit. While we continue to believe in the long term potential of the Marine Components reporting unit, due to the extraordinary economic downturn in the marine industry we are not currently able to foresee when the industry and our business will recover.

During 2009 due to the continued unfavorable economic trends associated with our Furniture Components reporting unit including, among other things, sales and operating income falling materially below our projections, we re-evaluated goodwill associated with this reporting unit at the first and second interim periods of 2009, along with the annual testing date in the third quarter. At each interim and annual testing date, we concluded that no impairments were present.

As operations improved in 2010, goodwill for all applicable reporting units was tested for impairment only in the third quarter of 2010, consistent with our annual testing date. No impairment was indicated as part of our 2010 annual review of goodwill.

Changes in the carrying amount of goodwill related to our operations during the past three years are presented in the table below. Goodwill was generated principally from acquisitions relating to Security Products and Furniture Components prior to 2001, and Marine Components acquisitions in August 2005 and April 2006.

	Security Products	Furniture Components	Marine Components	Total
		(In millions)		

Balance at December 31, 2007	$23.7	$ 7.2	$ 9.9	$40.8
Goodwill impairment	-	-	(9.9)	(9.9)
Changes in currency exchange rates	-	(0.1)	-	(0.1)
Balance at December 31, 2008	23.7	7.1	-	30.8
Changes in currency exchange rates	-	0.1	-	0.1
Balance at December 31, 2009	23.7	7.2	-	30.9
Changes in currency exchange rates	-	0.5	-	0.5
Balance at December 31, 2010	$23.7	$ 7.7	$ -	$31.4

Other intangible assets totaled $1.4 million and $840,000 net of accumulated amortization of $4.2 million and $4.6 million at December 31, 2009 and 2010, respectively.

Amortization of intangible assets was $591,000 in 2008, $588,000 in 2009, and $562,000 in 2010, respectively. Estimated aggregate intangible asset amortization expense for the next five years is as follows:

Years ending December 31,	Amount (In thousands)
2011	$ 400
2012	280
2013	110
2014	30
2015	10
Thereafter	10
Total	$ 840

Note 5 - Accounts payable and accrued liabilities:

	December 31,	
	2009	2010
	(In thousands)	
Accounts payable	$4,309	$4,890
Accrued liabilities:		
Employee benefits	6,003	8,345
Professional	1,805	487
Customer tooling	761	561
Insurance	601	641
Taxes other than on income	422	479
Other	666	779
Total	$14,567	$16,182

Note 6 – Long-term Debt:

	December 31,	
	2009	2010
	(In thousands)	
Revolving bank credit facility	$-	$3,000
Note payable to affiliate	42,230	42,230

Total debt	42,230	45,230
Less current maturities	-	1,000
Total long-term debt	$42,230	$44,230

Revolving bank credit facility. Our $37.5 million revolving bank credit facility matures in January 2012. We entered into an amendment to our revolving $37.5 million Credit Agreement on May 10, 2010 in order to complete the purchase of the promissory note discussed in Note 12. The amendment enabled us to borrow $5.0 million under the Credit Agreement, which we utilized along with $10.0 million of existing cash to complete the purchase. Until the end of March 2011, any outstanding borrowings are limited to the sum of 80% of our consolidated net accounts receivable, 50% of our consolidated raw material inventory, 50% of our consolidated finished goods inventory and 100% of our consolidated unrestricted cash and cash equivalents. Any amounts outstanding under the credit facility bear interest, at our option, at either the prime rate plus a margin or LIBOR plus a margin (which LIBOR plus a margin effective rate was 3.5% at December 31, 2010). The credit facility is collateralized by 65% of the ownership interests in our first-tier non-U.S. subsidiaries. The facility as amended, contains certain covenants and restrictions customary in lending transactions of this type, which among other things restricts our ability and that of our subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or transfer all or substantially all assets to, another entity. The facility also requires maintenance of specified levels of net worth (as defined). Although our bank credit facility has a remaining capacity of $34.5 million, only $28 million is available to borrow as of the end of December 2010 due to debt covenant restrictions. In the event of a change of control, as defined, the lenders would have the right to accelerate the maturity of the facility.

We were in compliance with all covenants of our revolving bank credit facility at December 31, 2010. We believe we will be able to maintain compliance with such covenants through the maturity of the facility in January 2012.

The credit facility permits us to pay dividends and/or repurchase common stock in an amount equal to the sum of $.125 per share in any calendar quarter, not to exceed $8.0 million in any calendar year.

Note payable to affiliate. In October 2007, we purchased and/or cancelled a net 2.7 million shares of our Class A common stock from Timet Finance Management Company ("TFMC"). We purchased and/or cancelled these shares for $19.50 per share, or aggregate consideration of $52.6 million, which we paid in the form of a promissory note. The promissory note, as amended, bears interest at LIBOR plus 1% (1.3% at December 31, 2010) and provides for quarterly principal repayments of $250,000 commencing in March 2011, with the balance due at maturity in September 2014. The promissory note is subordinated to our U.S. revolving bank credit agreement. See Note 6. Prior to September 2009, we made required quarterly interest payments and made quarterly principal repayments of $250,000 commencing in September 2008, and we could also make principal prepayments at any time, in any amount, without penalty. The promissory note was amended in September 2009 resulting in the deferral of interest payments until March 2011 and the postponement of the quarterly principal repayments until March 2011. We may make additional prepayments on or after March 31, 2011, subject to meeting certain conditions specified in the revolving bank credit agreement. At December 31, 2010, the principal amount outstanding under the promissory note was approximately $42.2 million and the amount of related accrued and unpaid interest was approximately $876,000. We recognized interest expense of approximately $2.2 million in 2008, $816,000 in 2009 and $565,000 in 2010 on the promissory note.

The scheduled principal repayments of the revolving bank credit facility and the promissory note are shown in the table below.

Years ending December 31,	Amount (In thousands)
2011	$ 1,000
2012	4,000
2013	1,000
2014	39,230
2015	-
Thereafter	-
Total	$ 45,230

Note 7 - Income taxes:

The components of pre-tax income, the provision for income taxes attributable to continuing operations, the difference between the provision for income taxes and the amount that would be expected using the U.S. federal statutory income tax rate of 35%, and the comprehensive provision for income taxes are presented below.

	Years ended December 31,		
	2008	2009	2010
	(In thousands)		
Components of pre-tax income (loss):			
United States	$(5,253)	$(3,063)	$4,135
Non-U.S.	9,317	(1,988)	4,661
Total	$4,064	$(5,051)	$8,796
Provision (benefit) for income taxes:			
Currently payable (refundable):			
U.S. federal and state	$3,570	$(271)	$4,889
Foreign	3,640	(694)	1,611
	7,210	(965)	6,500
Deferred income taxes (benefit):			
U.S. federal and state	117	(1,992)	(717)
Foreign	(162)	(101)	(39)
	(45)	(2,093)	(756)
Total	$7,165	$(3,058)	$5,744
Expected tax expense (benefit), at the U.S. federal statutory income tax rate of 35%	$1,422	$(1,768)	$3,079
Non-U.S. tax rates	(328)	74	(424)
Incremental U.S. tax on earnings of foreign subsidiaries	2,777	(1,092)	3,439
State income taxes and other, net	255	3	218
No income tax benefit on goodwill impairment	3,459	-	-
Impact of tax rate changes	(4)	(76)	(46)
Tax credits	(195)	(199)	(522)
Tax contingency reserve adjustments, net	(221)	-	-
Total	$7,165	$(3,058)	$5,744

The goodwill impairment charge in 2008 was not deductible for income tax purposes, and therefore we did not recognize an income tax benefit related to the

charge.

Under GAAP, we are required to recognize a deferred income tax liability with respect to the incremental U.S. (federal and state) and foreign withholding taxes that would be incurred when undistributed earnings of a foreign subsidiary are subsequently repatriated, unless management has determined that those undistributed earnings are permanently reinvested for the foreseeable future. Prior to March 31, 2010, we had not recognized a deferred income tax liability related to incremental income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary, as those earnings were deemed to be permanently reinvested. We are required to reassess the permanent reinvestment conclusion on an ongoing basis to determine if our intentions have changed. At the end of March 2010, and based primarily upon changes in our cash management plans, we determined that all of the undistributed earnings of our Taiwanese subsidiary could no longer be considered to be permanently reinvested in Taiwan. Accordingly, in the first quarter of 2010 we recognized an aggregate $1.9 million provision for deferred income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary. Consequently, all of the undistributed earnings of our non-U.S. operations are now considered to be not permanently reinvested.

The components of net deferred tax assets (liabilities) are summarized below.

	December 31,	
	2009	2010
	(In thousands)	
Tax effect of temporary differences related to:		
Inventories	$820	$1,303
Tax on unremitted earnings of non-U.S. subsidiaries	(4,464)	(5,198)
Property and equipment	(5,441)	(4,916)
Accrued liabilities and other deductible differences	238	171
Accrued employee benefits	874	893
Tax loss and credit carryforwards	4,180	472
Goodwill	(1,765)	(1,958)
Other taxable differences	(488)	(277)
Valuation allowance	(3,901)	-
Total	$(9,947)	$(9,510)
Net current deferred tax assets	1,928	2,366
Net noncurrent deferred tax liabilities	(11,875)	(11,876)
Total	$(9,947)	$(9,510)

Utilization of our net operating loss carryforwards has been limited to approximately $400,000 per tax year, and we utilized such $400,000 amount in each of 2008 and 2009. We utilized the remaining carryforward of $7,000 in 2010. At December 31, 2010, we had approximately $5.7 million of net operating loss carryforwards related to various U.S. state jurisdictions with expiration dates ranging from 2019 to 2029. We have concluded that no deferred income tax asset valuation allowance is required to be recognized with respect to such carryforwards.

We generated a $3.9 million federal income tax benefit associated with a U.S. capital loss realized in 2005. We determined based on the weight of the available evidence that realization of the benefit of the capital loss did not meet the more-likely-than-not recognition criteria. Therefore, we recognized a deferred income tax asset valuation allowance to fully offset the deferred tax asset related to the capital loss carryforward. This capital loss carryforward expired in 2010, and the associated carryforward was charged against such valuation allowance.

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 2007 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 2005 for Taiwan, and 2006 for Canada.

Note 8 – Stockholders' equity:

	Shares of common stock			
	Class A			Class B
	Issued	Treasury	Outstanding	Issued and outstanding
Balance at December 31, 2007	2,478,760	-	2,478,760	10,000,000
Issued	9,000	-	9,000	-
Reacquired	-	(126,453)	(126,453)	-
Retirement	(126,453)	126,453	-	-
Balance at December 31, 2008	2,361,307	-	2,361,307	10,000,000
Issued	9,000	-	9,000	-
Balance at December 31, 2009	2,370,307	-	2,370,307	10,000,000
Issued	5,000	-	5,000	-
Balance at December 31, 2010	2,375,307	-	2,375,307	10,000,000

Class A and Class B common stock. The shares of Class A common stock and Class B common stock are identical in all respects, except for certain voting rights and certain conversion rights in respect of the shares of the Class B common stock. Holders of Class A common stock are entitled to one vote per share. NL, which holds all of the outstanding shares of Class B common stock, is entitled to one vote per share in all matters except for election of directors, for which NL is entitled to ten votes per share. Holders of all classes of common stock entitled to vote will vote together as a single class on all matters presented to the stockholders for their vote or approval, except as otherwise required by applicable law. Each share of Class A common stock and Class B common stock have an equal and ratable right to receive dividends to be paid from our assets when, and if declared by the board of directors. In the event of the dissolution, liquidation or winding up of our operations, the holders of Class A common stock and Class B common stock will be entitled to share equally and ratably in the assets available for distribution after payments are made to our creditors and to the holders of any of our preferred stock that may be outstanding at the time. Shares of the Class A common stock have no conversion rights. Under certain conditions, shares of Class B common stock will convert, on a share-for-share basis, into shares of Class A common stock.

Share repurchases and cancellations. Prior to 2008, our board of directors authorized various repurchases of 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. 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 generally use cash on hand to acquire the shares. Repurchased shares will be added to our treasury and cancelled.

During 2008, we purchased approximately 126,453 shares of our Class A common stock in market transactions for an aggregate of $1.0 million in cash. We cancelled these treasury shares and allocated their cost to common stock at par value and additional paid-in capital. We made no treasury purchases during 2009 or 2010 and at December 31, 2010, approximately 678,000 shares were available for purchase under these authorizations.

Incentive compensation plan. The CompX International Inc. 1997 Long-Term Incentive Plan (the “Plan”) provides for the award or grant of stock options, stock appreciation rights, performance grants and other awards to employees and other individuals who provide services to us. Up to 1.5 million shares of Class A Common Stock may be issued pursuant to the Plan. Employee stock options are granted at prices not less than the market price of our stock on the date of grant, vest over five years and expire ten years from the date of grant. The following table sets forth changes in outstanding options during the past three years.

	Shares (In 000's)	Exercise price per share	Amount payable upon exercise (In 000's)	Weighted average exercise price
Outstanding at December 31, 2007	349	$12.15 – 20.00	$6,643	$19.03
Canceled	(215)	20.00	(4,300)	20.00
Outstanding at December 31, 2008	134	$12.15 – 19.25	$2,343	$17.49
Canceled	(53)	15.88 - 18.38	(936)	17.66
Outstanding at December 31, 2009	81	$12.15 – 19.25	$1,407	$17.37
Canceled	(63)	18.38 - 19.25	(1,168)	18.54
Outstanding at December 31, 2010	18	$12.15 – 14.30	$239	$13.28

Outstanding options at December 31, 2010 represent less than 1% of our total outstanding shares of common stock at that date and expire at various dates through 2012 with a weighted-average remaining term of approximately 1 year. Our market price per share at December 31, 2010 was $11.50. All of the fully-vested 18,000 outstanding options at December 31, 2010 were exercisable at prices higher than the December 31, 2010 market price per share. At December 31, 2010, an aggregate of 980,820 shares were available for future grants. Shares issued under the Plan are generally newly-issued shares. No stock options were exercised in 2008, 2009, or 2010.

Note 9 – Assets held for sale:

Our assets held for sale at December 31, 2010, consist of a facility in River Grove, Illinois and land in Neenah, Wisconsin. These two properties (primarily land, buildings and building improvements) were formerly used in our operations. During the third quarter of 2010, and as weak economic conditions continued longer than expected, we obtained an independent appraisal for the River Grove facility (the more significant of these two properties). Based on this appraisal, we recorded a write-down of $500,000 during the third quarter of 2010 to reduce the carrying value of the asset to its estimated fair value less cost to sell. This charge is included in corporate operating expense. During the fourth quarter of 2010, we obtained an independent appraisal for the land in

Neenah. Based on this appraisal, the carrying value of the asset approximates the fair value less cost to sell and therefore no adjustment to the carry value was deemed necessary. The appraisals represent a Level 2 input as defined by ASC 820-10-35. Both properties are being actively marketed. However, due to the current state of the commercial real estate market, we can not be certain of the timing of the disposition of the assets. If we continue to experience difficulty in disposing of the assets at or above their carrying value, we may have to record additional write-downs of the assets in the future.

Note 10 – Restructuring:

In November of 2010, management approved a restructuring plan for our Furniture Components segment to move precision slide production from our Byron Center, Michigan facility to our other precision slide manufacturing facilities in Kitchener, Ontario and Taipei, Taiwan. The move will reduce the number of facilities where we produce precision slides from three to two and is expected to enhance the operating efficiency of our precision slide production capacity. The move should be completed by the end of April 2011. We will continue to use the Byron Center facility, primarily as a U.S. sales and distribution center, subsequent to the move.

The move will result in the elimination of approximately 100 full time positions at the Byron Center facility with expected severance costs of approximately $190,000 to be expensed primarily in the first quarter of 2011. A significant portion of the machinery and equipment will be relocated to the facility in Kitchener, Ontario with expected move costs of approximately $700,000 to be expensed as incurred, primarily during the first quarter of 2011. The total cash expenditure associated with the relocation of the precision slide production consists principally of the severance and relocation costs. Costs incurred in 2010, and accrued amounts as of December 31, 2010 relating to the restructuring plan were not significant.

Note 11 – Other non-operating income, net:

	Years ended December 31,		
	2008	2009	2010
	(In thousands)		
Interest income	$389	$43	$345
Other income (expense), net	(149)	2	34
Total	$240	$45	$379

Note 12 - Related party transactions:

We may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions that resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. We continuously consider, review and evaluate, and understand that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that we might be a party to one or more such transactions in the future.

From time to time, we will have loans and advances outstanding between us and various related parties pursuant to term and demand notes. We generally enter into these loans and advances for cash management purposes. When we loan funds to related parties, we are generally able to earn a higher rate of return on the loan than

we would earn if we invested the funds in other instruments. While certain of these loans may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe we have evaluated the credit risks in the terms of the applicable loans. In this regard, in February 2010 we entered into an unsecured revolving demand promissory note, as amended on December 31, 2010, with NL whereby we agreed to loan NL up to $8.0 million. Our loans to NL will bear interest at the prime rate less .75%, with all principal due on demand on or after March 31, 2012 (and in any event no later than December 31, 2012), with interest payable quarterly. The principal amount we lend to NL at any time is at our discretion. As of December 31, 2010, we have no loans outstanding to NL.

On May 13, 2010 we purchased from NL and one of its wholly-owned subsidiaries, for $15.0 million in cash, all of their right, title and interest in (i) a subordinated secured mortgage note receivable dated October 15, 2008 and in the original principal amount of $15.0 million executed by Sayreville Seaport Associates, L.P., a Delaware limited partnership, and originally payable to NL and its subsidiary, and (ii) certain other documents related to the note receivable. We purchased the promissory note for our investment purposes. The promissory note bears interest at LIBOR plus 2.75%, payable monthly. All principal is due no later than October 2011. The promissory note is collateralized by a real estate developer's ground lease on certain real property, formerly owned by NL and its subsidiary and taken from them in condemnation proceedings, and all improvements to the property performed by the developer. Both the promissory note and our lien on the property are subordinated to certain senior indebtedness of the developer. In certain circumstances, including but not limited to the developer's failure to repay the promissory note at its stated maturity, we have the right to demand, and we have so demanded, repayment of up to $15.0 million due under the promissory note from one of the developer's equity partners, which right is not subordinated to the developer's senior indebtedness. The developer and the developer's equity partner have disputed our right to receive such prepayment prior to October 2011. In addition, NL has provided a guarantee for any amounts due but unpaid under the promissory note. In order to complete the purchase of the promissory note, we entered into an amendment to our revolving $37.5 million Credit Agreement on May 10, 2010. The amendment enabled us to borrow $5.0 million under the Credit Agreement, which we utilized along with $10.0 million of existing cash to complete the purchase. The purchase was also approved by the independent members of our board of directors.

Under the terms of an Intercorporate Service Agreement ("ISA") with Contran, employees of Contran perform certain management, tax planning, financial, legal and administrative services for us on a fee basis. Such fees are based upon estimates of time devoted to our affairs by individual Contran employees and the compensation of such persons. Because of the large number of companies affiliated with Contran, we believe we benefit from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. Fees pursuant to these agreements aggregated $3.1 million in 2008, $3.2 million in 2009 and $3.1 million in 2010.

Tall Pines Insurance Company ("Tall Pines") and EWI RE, Inc. ("EWI") provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including us. Tall Pines and EWI are subsidiaries of Valhi. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from the insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. The aggregate premiums we paid to Tall Pines and EWI were approximately $1.2 million in 2008, $1.1 million in 2009 and $1.1 million in 2010. These amounts principally included payments for insurance, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases

reinsurance for substantially all of the risks it underwrites. We expect that these relationships with Tall Pines and EWI will continue in 2011.

Contran and certain of its subsidiaries and affiliates, including us, purchase certain of their insurance policies as a group, with the costs of the jointly-owned policies being apportioned among the participating companies. With respect to certain of these policies, it is possible that unusually large losses incurred by one or more insureds during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of the policy period. As a result, Contran and certain of its subsidiaries and affiliates, including us, have entered into a loss sharing agreement under which any uninsured loss is shared by those entities who have submitted claims under the relevant policy. We believe the benefits in the form of reduced premiums and broader coverage associated with the group coverage for such policies justifies the risk associated with the potential for any uninsured loss.

Note 13 - Commitments and contingencies:

Legal proceedings. We are involved, from time to time, in various contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our business. On February 10, 2009, Humanscale Corporation ("Humanscale") filed a complaint with the U.S. International Trade Commission ("ITC") requesting that the ITC commence an investigation pursuant to the Tariff Act of 1930 to evaluate allegations concerning the unlawful importation of certain adjustable keyboard support products into the U.S. by our Canadian subsidiary. The products were alleged to infringe certain claims under a U.S. patent held by Humanscale. The complaint sought as relief the barring of future imports of the products into the U.S. until the expiration of the related patent in March 2011. On July 9, 2010, the ITC issued its final ruling that we had not infringed on the Humanscale patent and that the patent is invalid. Humanscale has chosen not to appeal the ITC's ruling. Humanscale also had previously filed a complaint for patent infringement in the U.S. District Court for the Eastern District of Virginia against us involving the identical patent in question in the ITC case. That claim was stayed by the Court pending the outcome of the ITC case. With the issuance of the final determination in the ITC case, Humanscale filed for dismissal of their action in the U.S. District Court which was granted in November 2010.

On March 30, 2009, we filed in the U.S. District Court for the Eastern District of Virginia a counterclaim of patent infringement against Humanscale for infringement of certain of our keyboard support patents by Humanscale's models 2G, 4G and 5G support arms. A jury trial was completed on February 25, 2010 relating to our counterclaims with the jury finding that Humanscale infringed on our patents and awarded damages to us of approximately $20 million for past royalties. The judge issued the final judgment on October 19, 2010 which confirms the jury verdict and award of damages in the amount of approximately $20 million. Humanscale has appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit. Due to the uncertain nature of the on-going legal proceedings, we have not accrued a receivable for the amount of the award.

In November 2010, the United States Patent and Trademark Office (the "USPTO") issued to Humanscale two new patents that cover designs of keyboard support mechanisms that were not at issue in our already ongoing litigation with Humanscale. In conjunction with obtaining the new patents, Humanscale filed a complaint in the U.S. District Court for the Southern District of Texas, primarily asserting that we were infringing upon the two patents. At the same time, we filed a complaint in the U.S. District Court for the Western District of Michigan seeking a declaratory judgment that our products do not infringe upon the newly issued patents and that those patents are also invalid on several grounds under the Patent and Trademark Act. We have filed a motion with the Texas court, which it has not ruled on, to dismiss Humanscale's complaint or transfer the case to the Michigan court. Humanscale filed a motion with the Michigan court to either dismiss our complaint or transfer the case to the Texas court. The Michigan court ruled against Humanscale's motion and ordered that the case be tried in Michigan. In addition, in

December 2010 we filed requests with the USPTO to reconsider certain claims of the newly issued patents, which requests were denied in February 2011; we intend to file a petition of appeal of the denials with the Commissioner of the USPTO. We deny any infringement related to the newly issued patents, and intend to defend against any such claim vigorously.

As any damages relating to patent infringement claims would only accrue after a patent has been issued, and considering the small volume of our products sold since such issuance that could be covered by the claim of infringement, liability, if any, to us from such claim of infringement would not be significant as of December 31, 2010.

While we currently believe the disposition of all claims and disputes, individually or in the aggregate, should not have a material long-term adverse effect on our consolidated financial condition, results of operations or liquidity, we may incur costs resolving such claims during the short-term that could be material.

Environmental matters and litigation. Our operations are governed by various federal, state, local and foreign environmental laws and regulations. Our policy is to comply with environmental laws and regulations at all of our plants and to continually strive to improve environmental performance in association with applicable industry initiatives. We believe that our operations are in substantial compliance with applicable requirements of environmental laws. From time to time, we may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs.

Income taxes. From time to time, we undergo examinations of our income tax returns, and tax authorities have or may propose tax deficiencies. We believe that we have adequately provided accruals for additional income taxes and related interest expense which may ultimately result from such examinations and we believe that the ultimate disposition of all such examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We have agreed to a policy with Contran and NL providing for the allocation of tax liabilities and tax payments as described in Note 1. Under applicable law, we, as well as every other member of the Contran Tax Group, are each jointly and severally liable for the aggregate federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. NL has agreed, however, to indemnify us for any liability for income taxes of the Contran Tax Group in excess of our tax liability previously computed and paid by us in accordance with the tax allocation policy.

Concentration of credit risk. Our products are sold primarily in North America to original equipment manufacturers. The ten largest customers accounted for approximately 35% of sales in 2008, 39% in 2009 and 38% in 2010. No customer accounted for more than 10% of our sales in 2008, 2009 or 2010.

Rent expense, principally for buildings, was $461,000 in 2008, $478,000 in 2009 and $464,000 in 2010. At December 31, 2010, future minimum rentals under noncancellable operating leases are shown below.

Years ending December 31,	Amount (In thousands)
2011	$ 413
2012	257
2013	2
2014	-
2015	-
Total	$ 672

Note 14 – Financial instruments:

The following table presents the carrying value and estimated fair value of our financial instruments:

	December 31, 2009		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$20,788	$20,788	$13,919	$13,919
Accounts receivable, net	11,690	11,690	14,601	14,601
Promissory note receivable	-	-	15,000	15,000
Accounts payable	4,309	4,309	4,890	4,890
Long-term debt – (including current maturities)	42,230	42,230	45,230	45,230

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. The fair values of our variable-rate promissory note receivable and long-term debt are deemed to approximate book value. The fair values of our promissory note receivable and long-term debt are Level 2 inputs as defined by ASC Topic 820-10-35.

Note 15 – Quarterly results of operations (unaudited):

	Quarter ended				
	March 31	June 30	Sept. 30	Dec. 31	
	(In millions, except per share amounts)				
2009:					
Net sales	$28.5	$29.2	$29.4	$29.0	
Gross profit	4.8	6.2	7.0	5.8	(b)
Operating loss	(0.9)	(0.9)	(0.1)	(2.0)	(a)
Net income (loss)	(0.6)	(1.6)	0.5	(0.3)	(b)
Basic and diluted earnings (loss) per share	$(.05)	$(.13)	$.04	$(.03)	
2010:					
Net sales	$32.8	$34.4	$35.7	$32.3	
Gross profit	9.1	8.9	9.7	8.3	
Operating income	1.7	2.9	3.1	1.5	(a)
Net income (loss)	(1.0)	(c) 1.7	1.7	0.6	
	$(.08)	$.14	$.13	$.05	

Basic and diluted earnings (loss) per share				

The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted-average number of shares used in the per share computations.

(a) We recorded $2.1 million and $288,000 of patent litigation expense in the fourth quarter of 2009 and 2010, respectively. See Note 13.
(b) In the fourth quarter of 2009, we recognized an inventory adjustment to correct an error in the valuation of certain of our raw material inventories at one of our locations, which negatively impacted gross profit by approximately $300,000. Net income in the fourth quarter of 2009 includes a $190,000 charge, net of income tax, or $.02 per diluted share, related to this item.
(c) Includes a $1.9 million provision for deferred income taxes on pre-2005 undistributed earnings of our Taiwanese subsidiary. See Note 7 to our Consolidated Financial Statements.