INDEPENDENCE HOLDING CO
Form 10-Q
August 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X]

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended **June 30, 2007**

[ ]

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from: ________ to _________

Commission File Number: **0-10306**

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**58-1407235**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT **06902**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(203) 358-8000**

NOT APPLICABLE

Former name, former address and former fiscal year, if changed since last report.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ] Accelerated Filer [X] Non-Accelerated Filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Class	Outstanding at August 7, 2007
Common stock, $ 1.00 par value	**15,184,648 Shares**

INDEPENDENCE HOLDING COMPANY

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Copies of the Company s SEC filings can be found on its website at www.independenceholding.com.

Forward-Looking Statements

Certain statements in this document are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, cash flows, plans, objectives, future performance and business of the Company. In this context, forward-looking statements often address the Company s expected future business and financial performance, and often (but not always) contain words such as expect, anticipate, intend, plan, believe, seek, or will. Forward-looking statements by their na matters that are, to differing degrees, uncertain. With respect to the Company, particular uncertainties that could adversely or positively affect its future results include, but are not limited to, economic conditions in the markets in which the Company operates, new federal or state governmental regulation, the Company s ability effectively to operate, integrate and leverage any past or future strategic acquisition, and other factors which can be found in the Company s news releases and filings with the Securities and Exchange Commission. These uncertainties may cause the Company s actual future results to be materially different than those expressed in its forward-looking statements. The Company does not undertake to update its forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1.

Financial Statements

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS:		
Investments:		
Short-term investments	$ 718	$ 9,910
Securities purchased under agreements to resell	15,929	68,849
Fixed maturities	686,841	665,340
Equity securities	90,776	60,043
Other investments	46,810	55,034
Total investments	841,074	859,176
Cash and cash equivalents	17,104	17,543
Due from securities brokers	1,423	660
Investment in American Independence Corp. ("AMIC")	40,722	39,942
Deferred acquisition costs	55,865	55,021
Due and unpaid premiums	60,288	23,860
Due from reinsurers	126,128	111,476
Premium and claim funds	48,451	51,244
Notes and other receivables	16,294	13,994
Goodwill	51,567	46,603
Other assets	47,680	40,165
Total assets	$ 1,306,596	$ 1,259,684

LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Insurance reserves-health	$ 199,829	$ 175,048
Insurance reserves-life and annuity	250,056	252,860
Funds on deposit	385,400	387,757
Unearned premiums	20,903	19,982
Policy claims-health	7,548	7,407
Policy claims-life	11,242	6,799
Other policyholders' funds	18,329	18,299
Due to securities brokers	1,775	-
Due to reinsurers	49,447	38,109
Accounts payable, accruals and other liabilities	73,375	69,127
Debt	15,000	15,000
Junior subordinated debt securities	38,146	38,146
Total liabilities	1,071,050	1,028,534
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-
Common stock $1.00 par value, 20,000,000 shares authorized; 15,322,223 and 15,293,862 shares issued, respectively; 15,195,427 and 15,175,467 shares outstanding, respectively	15,322	15,294
Paid-in capital	98,734	97,873
Accumulated other comprehensive loss	(13,774)	(9,302)
Treasury stock, at cost, 126,796 and 118,395 shares, respectively	(2,408)	(2,237)
Retained earnings	137,672	129,522
Total stockholders' equity	235,546	231,150
Total liabilities and stockholders' equity	$ 1,306,596	$ 1,259,684

The accompanying notes are an integral part of these consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
REVENUES:				
Premiums earned:				
Health	$ 69,120	$ 60,411	$ 141,942	$ 115,784
Life and annuity	11,024	10,879	22,689	21,794
Net investment income	12,421	11,402	24,455	23,333
Fee income	10,346	7,702	20,533	15,113
Net realized investment gains	582	50	1,002	467
Equity income from AMIC	562	183	1,097	359
Other income	1,066	842	2,474	1,459
	105,121	91,469	214,192	178,309
EXPENSES:				
Insurance benefits, claims and reserves:				
Health	48,220	39,794	96,861	77,090
Life and annuity	12,421	12,827	26,059	25,711
Selling, general and administrative expenses	34,407	31,665	70,874	58,814
Amortization of deferred acquisitions costs	2,809	2,671	5,300	5,189
Interest expense on debt	1,062	928	2,118	1,831
	98,919	87,885	201,212	168,635
Income before income taxes	6,202	3,584	12,980	9,674

Income tax expense		2,273		1,218		4,449		3,279
Net income	$	3,929	$	2,366	$	8,531	$	6,395
Basic income per common share	**$**	.26	$	.16	$	.56	$	.44
Weighted average shares outstanding		15,193		14,862		15,187		14,679
Diluted income per common share	$	.26	$	.16	$	.56	$	.43
Weighted average diluted shares outstanding		15,336		15,178		15,341		15,003

The accompanying notes are an integral part of these consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2007	**2006**
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	$ 8,531	$ 6,395
Adjustments to reconcile net income to net change in cash from operating activities:		
Amortization of deferred acquisition costs	5,300	5,189
Net realized investment gains	(1,002)	(467)
Equity income from AMIC and other equity method investments	(1,292)	(768)
Depreciation and amortization	2,245	1,218
Share-based compensation expenses	797	708
Deferred tax expense	674	706
Other	548	647
Changes in assets and liabilities:		
Net sales of trading securities	338	334
Change in insurance liabilities	24,063	(1,879)
Deductions from (additions to) deferred acquisition costs, net	(4,793)	(1,437)
Change in net amounts due from and to reinsurers	(3,314)	2,925
Change in premium and claim funds	2,793	(3,341)
Change in income tax liability	(699)	(2,820)
Change in due and unpaid premiums	(36,428)	499
Change in other assets	(4,204)	(2,414)
Change in other liabilities	4,310	(4,228)
Net change in cash from operating activities	(2,133)	1,267

CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Change in net amount due from and to securities brokers	1,012	(2,508)
Net proceeds of short-term investments	9,193	8,178
Net (purchases) sales of securities under resale and repurchase agreements	52,920	19,945
Sales of equity securities	33,092	33,852
Purchases of equity securities	(63,273)	(37,547)
Sales of fixed maturities	136,345	91,632
Maturities and other repayments of fixed maturities	33,693	25,228
Purchases of fixed maturities	(199,847)	(125,133)
Sales of other investments	10,334	3,602
Additional investments in other investments, net of distributions	(1,914)	(2,151)
Cash paid in acquisitions of companies, net of cash acquired	(8,385)	(20,950)
Cash (paid) received in purchases of policy blocks	-	(224)
Change in notes and other receivables	(2,108)	(3,658)
Other	(56)	(1,683)
Net change in cash from investing activities	1,006	(11,417)
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	-	2,500
Repurchases of common stock	(180)	(60)
Exercises of common stock options	131	1,782
Excess tax benefits from exercise of stock options	25	1,109
Proceeds of investment-type insurance contracts	1,092	7,520
Dividends paid	(380)	(353)
Net change in cash from financing activities	688	12,498
Net change in cash and cash equivalents	(439)	2,348
Cash and cash equivalents, beginning of year	17,543	12,659
Cash and cash equivalents, end of period	$ 17,104	$ 15,007

The accompanying notes are an integral part of these consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1.

Significant Accounting Policies and Practices

(A)

Business and Organization

Independence Holding Company, a Delaware corporation ("IHC"), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"); and (ii) its marketing and administrative companies, including Insurers Administrative Corporation (IAC), managing general underwriters ("MGUs") in which it owns a significant voting interest, Health Plan Administrators, Inc. (HPA), GroupLink, Inc. (GroupLink), IHC Health Solutions, Inc. (IHC Health Solutions) and Community America Insurance Services, Inc. (CAIS). These companies are sometimes collectively referred to as the "Insurance Group," and IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." The Company also owns a 48% equity interest in American Independence Corp. ("AMIC"), which owns Independence American Insurance Company (Independence American) and several MGUs.

Geneve Corporation, a diversified financial holding company, and its affiliated entities held approximately 54% of IHC's outstanding common stock at June 30, 2007.

(B)

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and include the accounts of IHC and its consolidated subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. generally

accepted accounting principles requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. IHC s annual report on Form 10-K as filed with the Securities and Exchange Commission should be read in conjunction with the accompanying consolidated financial statements.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods have been included. The consolidated results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results to be anticipated for the entire year.

(C)

Reclassifications

Certain amounts in prior years' Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2007 presentation.

(D)

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and

Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 would create a fair value option of accounting for qualifying financial assets and liabilities under which an irrevocable election could be made at inception to measure such assets and liabilities initially and subsequently at fair value, with all changes in fair value reported in earnings. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The adoption of SFAS 159 is optional. The Company is in the process of analyzing the effects of adoption of SFAS 159 on the Company s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155), which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring in fiscal years beginning after September 15, 2006. The adoption of SFAS 155 did not have a material impact on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109" ("Interpretation 48"), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The recognition threshold is based on a determination of whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. Interpretation 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of Interpretation 48 is reported as an adjustment to retained earnings as of the beginning of the year of adoption. The amount of the cumulative-effect adjustment is the difference between the net amount of assets and liabilities recognized in the balance sheet prior to the application of Interpretation 48 and the net amount of assets and liabilities recognized as a result of applying Interpretation 48. The adoption of Interpretation 48 on January 1, 2007 did not have a material impact on the Company's consolidated financial statements and the Company believes there are no significant tax positions that would require disclosure under Interpretation 48. The Internal Revenue Service is currently auditing our 2003 and 2004 consolidated income tax returns. It is anticipated that this examination will be completed within the next twelve months. Management believes that it has made adequate provision for all income tax uncertainties, such that the outcome of any unresolved issues or claims will not result in a material change to our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material effect on the Company s consolidated financial statements.

In September 2005, the AICPA's Accounting Standards Executive Committee issued Statement of Position 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). SOP 05-1 provides guidance on

accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments". SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. A replacement contract that is substantially changed will be accounted for as an extinguishment of the replaced contract resulting in a release of the unamortized deferred acquisition costs, unearned revenue, and deferred sales inducements associated with the replaced contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The adoption of SOP 05-1 did not have a material impact on the Company's consolidated financial statements.

Note 2.

American Independence Corp.

AMIC is an insurance holding company engaged in the insurance and reinsurance business as a result of its acquisition of First Standard Holdings Corp. ("FSHC") from the Company in November 2002. AMIC does business with the Insurance Group, including reinsurance treaties under which, in 2006, Standard Security Life and Madison National Life ceded to Independence American an average of 22% of their medical stop-loss business, 10% of certain of their fully insured health business and 20% of their New York Statutory Disability business. IHC owned 48% of AMIC's outstanding common stock at June 30, 2007 and December 31, 2006, which was purchased in various transactions from 2002 through 2005. IHC accounts for its investment in AMIC under the equity method. At June 30, 2007 and December 31, 2006, IHC's investment in AMIC had a total carrying value of $45,192,000 and $44,412,000, respectively, including goodwill of $4,470,000 at both dates. This goodwill represents the excess of IHC's cost over the underlying equity in AMIC's net assets at the respective purchase dates. At June 30, 2007 and December 31, 2006, based on the closing market price of AMIC's common stock, the fair value of the AMIC shares owned by IHC was approximately $44,800,000 and $43,866,000, respectively.

For the three months ended June 30, 2007 and 2006, IHC recorded $562,000 and $183,000, respectively, of equity income from its investment in AMIC, representing IHC's proportionate share of income based on its ownership interests during those periods. IHC's equity income for the six months ended June 30, 2007 and 2006 was $1,097,000 and $359,000, respectively. AMIC paid no dividends on its common stock in the three-month and six-month periods ended June 30, 2007 and 2006.

IHC and its subsidiaries earned $180,000 and $117,000 for the quarters ended June 30, 2007 and 2006, respectively, and $380,000 and $256,000 for the six months ended June 30, 2007 and 2006, respectively, from service agreements with AMIC and its subsidiaries. These are reimbursements to IHC and its subsidiaries, at agreed upon rates including an overhead factor, for management services provided by IHC and its subsidiaries, including accounting, legal, compliance, underwriting and claims. The Company ceded premiums to AMIC of $20,054,000 and $13,574,000 for the three months ended June 30, 2007 and 2006, respectively, and $36,155,000 and $27,248,000 for the six months ended June 30, 2007 and 2006, respectively. Benefits to policyholders on business ceded to AMIC were $13,977,000

and $9,449,000, in the second quarter of 2007 and 2006, respectively, and $25,132,000 and $18,766,000 for the six months ended June 30, 2007 and 2006, respectively. Additionally, AMIC subsidiaries market, underwrite and provide administrative services (including premium collection, medical management and claims adjudication) for a substantial portion of the medical stop-loss business written by the insurance subsidiaries of IHC. IHC recorded net commission expense of $1,024,000 and $1,269,000 in the second quarter of 2007 and 2006, respectively, and $2,074,000 and $2,585,000 for the six months ended June 30, 2007 and 2006, respectively, for these services. The Company also contracts for several types of insurance coverage (e.g. directors and officers and professional liability converge) jointly with AMIC. The cost of this coverage is allocated between the Company and AMIC according to the type of risk, and

IHC s portion is recorded in Selling, General and Administrative Expenses.

Included in the Company s Consolidated Balance Sheets at June 30, 2007 and December 31, 2006, respectively, are the following balances arising from transactions in the normal course of business with AMIC and its subsidiaries: Due from reinsurers $17,299,000 and $15,324,000; Other assets $7,277,000 and $5,971,000; and Other liabilities $384,000 and $518,000.

Note 3.

Income Per Common Share

Included in the diluted income per share calculations are 143,000 and 316,000 shares for the three months ended June 30, 2007 and 2006, respectively, and 154,000 and 324,000 shares for the six months ended June 30, 2007 and 2006, respectively, from the assumed exercise of options and vesting of restricted stock, using the treasury stock method. Net income does not change as a result of the assumed dilution.

Note 4.

Investments

The following tables summarize, for all securities in an unrealized loss position at June 30, 2007 and December 31, 2006, respectively, the aggregate fair value and gross unrealized loss by length of time those securities had continuously been in an unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2007	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(In thousands)			
Corporate securities	$ 87,373	$ 2,623	$ 191,376	$ 11,480	$ 278,749	$ 14,103
CMO and ABS [1]	80,056	811	78,059	3,133	158,115	3,944
U.S. Government obligations	19,931	33	35,957	1,679	55,888	1,712
Agency MBS [2]	23,982	384	17,209	862	41,191	1,246
GSE [3]	35,200	624	43,609	2,332	78,809	2,956

States and political subdivisions	23,845	806	5,533	323	29,378	1,129
Total fixed maturities	270,387	5,281	371,743	19,809	642,130	25,090
Common stock	5,094	577	-	-	5,094	577
Preferred stock	48,555	1,395	2,565	177	51,120	1,572
Total temporarily impaired securities	$ 324,036	$ 7,253	$ 374,308	$ 19,986	$ 698,344	$ 27,239

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2006	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Corporate securities	$ 115,055	$ 2,255	$ 194,932	$ 7,896	$ 309,987	$ 10,151
CMO and ABS [1]	55,126	430	73,582	2,289	128,708	2,719
U.S. Government obligations	-	-	60,566	2,398	60,566	2,398
Agency MBS [2]	-	-	19,447	481	19,447	481
GSE [3]	9,250	121	47,494	1,696	56,744	1,817
States and political subdivisions	14,303	20	5,615	254	19,918	274
Total fixed maturities	193,734	2,826	401,636	15,014	595,370	17,840
Common stock	4,664	312	-	-	4,664	312
Preferred stock	7,216	40	2,607	135	9,823	175
Total temporarily impaired securities	$ 205,614	$ 3,178	$ 404,243	$ 15,149	$ 609,857	$ 18,327

(1)

Collateralized mortgage obligations (CMO) and asset-backed securities (ABS).

(2)

Mortgage-backed securities (MBS).

(3)

Government-sponsored enterprises (GSE) which are the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Federal Home Loan Banks. GSEs are private enterprises established and chartered by the Federal Government.

The Company reviews its investment securities regularly and determines whether other-than- temporary impairments have occurred. If a decline in fair value is judged by management to be other- than-temporary, a loss is recognized by a charge to the Consolidated Statements of Operations, establishing a new cost basis for the security. The factors

considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; whether the issuer of a debt security has remained current on principal and interest payments; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. For securities within the scope of Emerging Issues Task Force Issue 99-20, such as purchased interest-only securities, an impairment loss is recognized when there has been a decrease in expected cash flows combined with a decline in the security's fair value below cost. Based on management s review of the portfolio, which considered these factors, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2007 and December 31, 2006. For the three months and six months ended June 30, 2007, the Company did not record any realized losses for other-than-temporary impairments.

Substantially all of the unrealized losses at June 30, 2007 and December 31, 2006 relate to investment grade securities and are attributable to changes in market interest rates subsequent to purchase. There were no securities with unrealized losses that were individually significant dollar amounts at June 30, 2007 and December 31, 2006. At June 30, 2007 and December 31, 2006, a total of 102 and 76 securities, respectively, were in a continuous unrealized loss position for less than 12 months and 80 and 76 securities, respectively, had continuous unrealized losses for 12 months or longer. For fixed maturities, there are no securities past due or securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment.

Note 5.

Other Investments

The Company had invested $8,288,000 at December 31, 2006 in Dolphin Limited Partnership A ("DLP-A"), a domestic feeder fund for Dolphin Limited Partnership I L.P., a Delaware limited partnership. The Company liquidated its investment in DLP-A in February 2007. The Company's net investment income includes $46,000 for the two months ended February 28, 2007 and $(166,000) and $400,000 for the three and six months ended June 30, 2006, respectively, for its proportionate share of net income of DLP-A.

Note 6.

Acquisitions

The Company completed the following acquisitions in 2007. The results of operations of the acquired companies are included in IHC's Consolidated Financial Statements from the respective acquisition dates. Pro forma results of operations for the three months and six months ended June 30, 2006, as though these acquisitions had been completed at the beginning of such period, have not been presented since the effect of the acquisitions was not material.

CA Marketing and Management Services, LLC

In January 2007, IHC Health Holdings Corp. ("IHC Health Holdings"), a wholly owned subsidiary of IHC, acquired 100% of the outstanding membership interests in CA Marketing and Management Services, LLC ("CAM") for a total purchase price of $3,500,000. Immediately thereafter, CAM was merged into IHC Health Solutions, Inc., a wholly owned subsidiary of IHC Health Holdings. The Company recorded goodwill of $640,000 and other intangible assets of $2,860,000 primarily for the fair value of agent and management services relationships, which is being amortized over a weighted average period of 9.06 years. CAM was previously 100% owned by a senior officer of IHC. The Audit Committee of the Board of Directors of IHC unanimously approved the transaction, and upon recommendation by the Audit Committee, it was unanimously approved by the Board of Directors.

Actuarial Management Corporation

Effective April 2, 2007, the Company acquired 100% of the outstanding shares of capital stock of Actuarial Management Corporation ("AMC") for a total purchase price of $5,000,000. The Company recorded goodwill of $4,324,000 and other intangible assets of $800,000, primarily for the fair value of customer relationships, which is being amortized over a weighted average period of 5.7 years. AMC is currently responsible for all actuarial aspects of the Company's fully insured health business. AMC was previously owned by an individual who became a senior

officer of IHC prior to the acquisition.

Majestic Underwriters LLC

The Company purchased an additional 10.3% interest in Majestic Underwriters LLC ("Majestic"), effective as of June 30, 2007 and pursuant to terms set forth in the Limited Liability Company Agreement of Majestic, thereby increasing its controlling interest in the medical stop-loss MGU to 62.3%. The interest was purchased from an officer of Majestic for a total purchase price of $649,000 and was settled on July 2, 2007. In addition, AMIC holds a 23.0% interest in Majestic and the remaining 14.7% of minority interest is owned by a current senior officer of the MGU.

Note 7.

Goodwill and Other Intangible Assets

At June 30, 2007 and December 31, 2006, the Company had goodwill of $51,567,000 and $46,603,000, respectively, and other intangible assets (included in other assets in the Consolidated Balance Sheets) of $17,825,000 and $13,984,000 (which includes $1,308,000 capitalized software classified in Fixed Assets at December 31, 2006), respectively. The change in the carrying amount of goodwill and other intangible assets for the six months of 2007 is as follows (in thousands):

		Goodwill		Other Intangible Assets
Balance at December 31, 2006	$	46,603	$	13,984
CAM acquisition		640		2,860
AMC acquisition		4,324		800
Capitalized software development		-		1,664
Amortization expense		-		(1,483)
Balance at June 30, 2007	$	51,567	$	17,825

Note 8.

Share-Based Compensation

Effective January 1, 2006, under the modified prospective method, the Company adopted the provisions of SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which revises SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and its related interpretations (APB 25). SFAS 123R applies to all awards granted after its effective date and to modifications, repurchases or cancellations of existing awards after that date. Additionally, under the modified prospective method of adoption, the Company recognizes compensation expense for the portion of outstanding awards on the adoption date for which the requisite service period has not yet been rendered based on the grant-date fair value of those awards.

Total share-based compensation expense was $357,000 and $372,000 for the three months ended June 30, 2007 and 2006, respectively, and $797,000 and $708,000 for the six months ended June 30, 2007 and 2006, respectively. Related tax benefits of $142,000 and $148,000 were recognized for the three months ended June 30, 2007 and 2006, respectively, and $318,000 and $282,000 for the six months ended June 30, 2007 and 2006, respectively.

Under the terms of the Company s stock-based compensation plans, option exercise prices are equal to the quoted market price of the shares at the date of grant; option terms range from five to ten years; and vesting periods are three years for employee options. The Company may also grant shares of restricted stock. These shares are valued at the quoted market price of the shares at the date of grant, and have a three year vesting period. There were 1,004,397 shares available for future option or restricted-stock grants under the shareholder-approved plans at June 30, 2007. Substantially, all of these available shares relate to the Company s 2006 Stock Incentive Plan that was approved by shareholders in June 2006.

The Company s stock option activity for the six months ended June 30, 2007 is as follows:

	Shares Under Option	Weighted- Average Exercise Price	
December 31, 2006	858,351	$	17.03
Granted	32,000		21.49
Exercised	(11,800)		11.08
June 30, 2007	878,551		17.27

The following table summarizes information regarding outstanding and exercisable options as of June 30, 2007:

		Outstanding		Exercisable
Number of options		878,551		673,214
Weighted average exercise price per share	$	17.27	$	16.07
Aggregate intrinsic value for all options	$	3,830,000	$	3,743,000
Weighted average contractual term remaining		2.2 years		1.6 years

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model. The weighted average grant-date fair-value of options granted during the first six months of 2007 and 2006 was $6.51 and $7.25 per share, respectively. The assumptions set forth in the table below were used to value the stock options granted during the six month period ended June 30:

		2007		2006
Weighted-average risk-free interest rate		4.44%		4.93%
Annual dividend rate per share	$	.05	$	.05
Weighted-average volatility factor of the Company's common stock		30.3%		32.1%
Weighted-average expected term of options		4.5 years		4.5 years

Compensation expense of $211,000 and $287,000 was recognized in the three months ended June 30, 2007 and 2006, respectively, and $484,000 and $575,000 in the six months ended June 30, 2007 and 2006, respectively, for the portion of the grant-date fair value of stock options vesting during that period.

The total intrinsic value of options exercised during the three month periods ended June 30, 2007 and 2006 was $104,000 and $3,767,000, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 was $127,000 and $4,071,000, respectively. Cash proceeds received from those options exercised during the three months ended June 30, 2007 and 2006 were $114,000 and $1,705,000, respectively. Cash proceeds received from those options exercised during the six months ended June 30, 2007 and 2006 were $131,000 and $1,782,000, respectively.

The Company issued 7,050 and 49,325 restricted stock awards during the six months ended June 30, 2007 and 2006, respectively, with weighted-average grant-date fair values of $20.67 and $22.20 per share, respectively. The total fair value of restricted stock that vested during the first six months of 2007 and 2006 was $372,000 and $26,000, respectively. Restricted stock expense was $99,000 and $86,000, for the three months ended June 30, 2007 and 2006, respectively and $192,000 and $133,000 for the six months ended June 30, 2007 and 2006, respectively.

The following table summarizes restricted stock activity for the six months ended June 30, 2007:

	No. of Shares		Weighted-Average Grant-Date Fair Value
December 31, 2006	50,325	$	22.11
Granted	7,050		20.67
Vested	(16,906)		22.07
Forfeited	(1,660)		22.69
June 30, 2007	38,809		21.88

As of June 30, 2007, there was $1,326,000 and $727,000 of total unrecognized compensation expense related to non-vested options and non-vested restricted stock awards, respectively, which will be recognized over the remaining requisite weighted-average service periods of 1.0 years and 1.9 years, respectively.

Note 9.

Income Taxes

The provision for income taxes shown in the Consolidated Statements of Operations was computed based on the Company's estimate of the effective tax rate expected to be applicable for the current fiscal year.

The deferred income tax benefit for the six months ended June 30, 2007 allocated to stockholders' equity (principally for net unrealized gains on investment securities) was $2,550,000, representing the increase in the related net deferred tax asset to $7,688,000 at June 30, 2007 from $5,138,000 at December 31, 2006

Note 10.

Supplemental Disclosures of Cash Flow Information

Cash payments for income taxes were $4,138,000 and $4,195,000 for the six months ended June 30, 2007 and 2006, respectively. Cash payments for interest were $2,016,000 and $1,709,000 for the six months ended June 30, 2007 and 2006, respectively.

Note 11.

Comprehensive Income (Loss)

The components of comprehensive income (loss) include (i) net income or loss reported in the Consolidated Statements of Operations, and (ii) certain amounts reported directly in stockholders equity, principally the after-tax net unrealized gains and losses on securities available for sale (net of deferred acquisition costs). The comprehensive income (loss) for the three months and six months ended June 30, 2007 and 2006 is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 3,929	$ 2,366	$ 8,531	$ 6,395
Unrealized gains (losses) arising during the period, net of income taxes	(6,989)	(6,581)	(4,472)	(14,909)
Comprehensive income (loss)	$ (3,060)	$ (4,215)	$ 4,059	$ (8,514)

Note 12.

Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Information by business segment for the three months and six months ended June 30, 2007 and 2006 is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenues:				
Medical Stop-Loss [(A)]	$ 41,867	$ 42,038	$ 83,726	$ 79,127
Fully Insured Health [(B)]	26,441	14,646	56,324	28,904
Group disability, life, annuities and DBL [(C)]	14,147	13,205	28,438	26,318
Individual life, annuities and other	15,770	15,959	32,350	31,352
Credit Life and disability	5,583	5,595	11,255	11,057
Corporate	731	(24)	1,097	1,084
	104,539	91,419	213,190	177,842
Net realized investment gains	582	50	1,002	467
	$ 105,121	$ 91,469	$ 214,192	$ 178,309
Income Before Income Taxes:				
Medical Stop-Loss [(A)]	$ 3,556	$ 2,896	$ 8,103	$ 6,662
Fully Insured Health[(B)] [(D)]	(815)	(379)	(358)	127
Group disability, life, annuities and DBL [(C)]	1,618	1,204	2,953	1,706
Individual life, annuities and other	2,627	2,563	5,894	4,685
Credit Life and disability	239	(202)	(597)	(350)
Corporate	(543)	(1,620)	(1,899)	(1,792)
	6,682	4,462	14,096	11,038
Net realized investment gains and losses	582	50	1,002	467
Interest expense	(1,062)	(928)	(2,118)	(1,831)
	$ 6,202	$ 3,584	$ 12,980	$ 9,674

(A)

The amount includes equity income from AMIC of $348,000 and $183,000 for the three months ended June 30, 2007 and 2006, respectively and $680,000 and $359,000 for the six months ended June 30, 2007 and 2006, respectively.

(B)

The amount includes equity income from AMIC of $174,000 and $340,000 for the three months and six months ended June 30, 2007, respectively. In 2006, the equity income from AMIC in this line of business was insignificant.

(C)

The amount includes equity income from AMIC of $40,000 and $77,000 for the three months and six months ended June 30, 2007, respectively. In 2006, the equity income from AMIC in this line of business was insignificant.

(D)

The Fully Insured Health segment includes amortization of intangible assets recorded as a result of purchase accounting for the recent acquisitions. Total amortization expense was $723,000 and $394,000 for the three months ended June 30, 2007 and 2006, respectively, and $1,386,000 and $737,000 for the six months ended June 30, 2007 and 2006, respectively. Amortization expense for the other segments is insignificant.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of Independence Holding Company ("IHC") and its subsidiaries (collectively, the "Company") should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company and the related Notes thereto appearing in our annual report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the Securities and Exchange Commission, and our unaudited Consolidated Financial Statements and related Notes thereto appearing elsewhere in this quarterly report.

Overview

Independence Holding Company, a Delaware corporation (NYSE: IHC), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"); and (ii) its marketing and administrative companies, including Insurers Administrative Corporation (IAC), managing general underwriters in which it owns a significant voting interest (Affiliated MGUs), Health Plan Administrators, Inc. (HPA), GroupLink Inc. (GroupLink), IHC Health Solutions, Inc. (IHC Health Solutions), and Community America Insurance Services Inc. (CAIS). These companies are sometimes collectively referred to as the "Insurance Group," and IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." The Company also owns a 48% equity interest in American Independence Corp. (NASDAQ:AMIC) which owns Independence American Insurance Company (Independence American) and several MGUs.

While management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions as to whether or not to increase the Company's retention in a core line, expand into new products, acquire an entity or a block of business, or otherwise change the Company's business model. Management's assessment of trends in healthcare and morbidity, with respect to medical stop-loss, fully insured medical, disability and DBL; mortality rates with respect to life insurance; and changes in market conditions in general play a significant role in determining the rates charged, deductibles and attachment points quoted, and the percentage of business retained. The Company believes that the acquisition of Actuarial Management Corp. (AMC) in the second quarter of 2007 will further enable it to make these assessments. The Company seeks transactions that permit it to leverage its vertically integrated organizational structure by generating fee income from production and administrative operating companies as well as risk income for its carriers and profit commissions. Management has always focused on managing costs of its operations and providing its insureds with the best cost containment tools available.

The following is a summary of key performance information and events:

- Net income per share increased 62.5% to $.26 per share, diluted, or $3.9 million, for the three months ended June 30, 2007, and 30.2% to $.56 per share, diluted, or $8.5 million for the six months ended June 30, 2007, over the comparable three-month and six-month periods in 2006;

- Consolidated investment yields of 5.6% and 5.5% for the three months and six months ended June 30, 2007 compared to 5.2% and 5.3% for the comparable periods in 2006;

- Revenues of $105.1 million and $214.2 million for the three months and six months ended June 30, 2007, respectively, representing increases of 14.9% and 20.1% over the respective three-month and six-month periods in 2006; primarily due to an increase in revenues from the Fully Insured Health segment and an increase in assumed premiums in the Medical Stop-Loss segment;

- Book value of $15.50 per common share; a 1.8% increase from December 31, 2006;

- Acquired CA Marketing and Management Services, LLC and merged this company with IHC Health Solutions, Inc. ("IHC Health Solutions") as of January 2, 2007;

- Effective April 2, 2007, acquired Actuarial Management Corporation ("AMC"); and

- Effective June 30, 2007, increased the Company's controlling interest in Majestic Underwriters LLC ("Majestic"), a medical stop-loss MGU, to 62.3% with the purchase of an additional 10.3% interest from a retired senior officer.

The following is a summary of key performance information by segment:

- Income before taxes from the Medical Stop-Loss segment increased $.7 million for the three months ended June 30, 2007 and $1.4 million for the six months ended June 30, 2007, compared to the same periods in 2006 due to a combination of an increase in assumed premiums and a decrease in the Net Loss Ratio (defined as insurance benefits, claims and reserves divided by (premiums earned less underwriting expenses):

  ○

The Net Loss Ratio for the medical stop-loss line of business for the three months and six months ended June 30, 2007 was 97.4% and 94.3%, respectively, compared to 97.8% and 95.1% for the three months and six months ended June 30, 2006; respectively;

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The Fully Insured Health segment reported a loss before taxes of $.8 million and $.4 million for the three months and six months ended June 30, 2007, respectively, as compared to a loss before taxes of $.4 million and income before taxes of $.1 million for the three months and six months ended June 30, 2006, respectively.

○

Premiums earned from this segment have increased $8.6 million and $21.1 million, respectively, for the three months and six months ended June 30, 2007 over the comparable periods in 2006. Included in the six-month results of 2007 is $1.3 million of adverse development on premiums earned in 2006 on certain fully insured programs and an increase of $.7 million of amortization expense from purchase accounting related to acquisitions.

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Income before taxes from the Group disability, life annuities and DBL segment increased $.4 million for the three months ended June 30, 2007 and $1.3 million for the six months ended June 30, 2007, primarily due to lower loss ratios and improved experience;

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Income before taxes from the Individual life, annuities and other segment remained flat for the three months ended June 30, 2007, and increased $1.2 million for the six months ended June 30, 2007, compared to the prior year as a result of an increase in other income primarily due to adjustments in settlement of a reinsurance agreement;

- Income before taxes from the Credit life and disability segment increased $.4 million for the three months ended June 30, 2007. For the six months ended June 30,2007 the loss before taxes increased $.2 million, primarily due to higher death and disability claims;

- Loss before taxes from the Corporate segment decreased $1.1 million for the three months ended June 30, 2007 primarily due to higher partnership income in the second quarter of 2007, and increased $.1 million for the six months ended June 30, 2007;

- Net realized investment gains of $.6 million and $.1 for the second quarter ended June 30, 2007 and 2006, respectively, and $1.0 million and $.5 million for the six months ended June 30, 2007 and 2006, respectively; and

- Premiums by principal product for the three months and six months 2007 and 2006 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Gross Direct and Assumed Earned Premiums:	**2007**	**2006**	**2007**	**2006**
Medical Stop-Loss	$ 69,718	$ 70,993	$ 137,477	$ 133,293
Fully Insured Health	55,966	17,111	110,439	36,061
Group disability, life, annuities and DBL	20,338	19,543	40,542	40,421
Individual, life, annuities and other	7,727	8,369	15,914	16,404
Credit life and disability	5,690	5,616	11,359	11,116
	$ 159,439	$ 121,632	$ 315,731	$ 237,295

	Three Months Ended June 30,		Six Months Ended June 30,	
Net Premiums Earned:	**2007**	**2006**	**2007**	**2006**
Medical Stop-Loss	$ 40,115	$ 39,987	$ 80,243	$ 75,350
Fully Insured Health	16,099	7,502	35,956	14,946
Group disability, life, annuities and DBL	11,431	10,810	22,971	21,675
Individual, life, annuities and other	7,072	7,655	14,561	14,995
Credit life and disability	5,427	5,336	10,900	10,612
	$ 80,144	$ 71,290	$ 164,631	$ 137,578

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles ("GAAP"). The preparation of the Consolidated Financial Statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. A summary of the Company's significant accounting policies and practices is provided in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Management has identified the accounting policies related to *Insurance Premium Revenue Recognition and Policy Charges, Insurance Reserves, Deferred Acquisition Costs,* and *Investments* as those that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements and this Management's Discussion and Analysis. A full discussion of these policies is included under the heading, Critical Accounting Policies in Item 7 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2006. During the six months ended June 30, 2007, there were no additions to or changes in the critical accounting policies disclosed in the 2006 Form 10-K.

Results of Operations for the Three Months Ended June 30, 2007 Compared to the Three Months Ended June 30, 2006

Net income was $3.9 million, or $.26 per share, diluted, for the three months ended June 30, 2007, an increase of $1.5 million compared to net income of $2.4 million, or $.16 per share, diluted, for the three months ended June 30, 2006. The Company's income before taxes increased $2.6 million to $6.2 million for the three months ended June 30, 2007 from $3.6 million for the three months ended June 30, 2006. Information by business segment for the three months ended June 30, 2007 and 2006 is as follows:

June 30, 2007 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General And Administrative	Total
Medical Stop-Loss	$ 40,115	971	348	433	27,871	-	10,440	$ 3,556
Fully Insured Health	16,099	156	174	10,012	12,158	48	15,050	(815)
Group disability, life, annuities and DBL	11,431	2,588	40	88	8,863	62	3,604	1,618
Individual life, annuities and other	7,072	7,830	-	868	9,608	1,501	2,034	2,627
Credit life and disability	5,427	145	-	11	2,141	1,198	2,005	239
Corporate	-	731	-	-	-	-	1,274	(543)
Sub total	$ 80,144	$12,421	$ 562	$ 11,412	$60,641	$ 2,809	$ 34,407	6,682
Net realized investment gains								582
Interest expense								(1,062)
Income before income taxes								6,202
Income taxes								(2,273)
Net income								$ 3,929

June 30, 2006 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General And Administrative	Total
Medical Stop-Loss	$ 39,987	1,012	183	856	28,469	-	10,673	$ 2,896
Fully Insured Health	7,502	35	-	7,109	4,231	13	10,781	(379)
Group disability, life, annuities and DBL	10,810	2,283	-	112	7,772	42	4,187	1,204
Individual life, annuities and other	7,655	7,856	-	448	9,681	1,405	2,310	2,563
Credit life and disability	5,336	232	-	27	2,468	1,211	2,118	(202)
Corporate	-	(16)	-	(8)	-	-	1,596	(1,620)
Sub total	$ 71,290	$ 11,402	$ 183	$ 8,544	$ 52,621	$ 2,671	$ 31,665	4,462
Net realized investment gains								50
Interest expense								(928)
Income before income taxes								3,584
Income taxes								(1,218)
Net income								$ 2,366

Premiums Earned

Total premiums earned grew $8.8 to $80.1 million in the second quarter of 2007 from $71.3 million in the comparable period of 2006. The increase is primarily due to the Fully Insured Health segment which had an $8.6 million increase in premiums in the second quarter of 2007 compared to the second quarter of 2006, comprised of a $5.9 million increase in small group premiums as a result of the acquisition of a block of business which transitioned to the Company's paper in the third quarter of 2006, a $.9 million increase in short-term medical premiums, a $.6 million increase in dental premiums primarily due to new business, and a $1.2 million increase due to new vision and limited medical products in 2007. Premiums earned by the other segments for the second quarter of 2007 were relatively comparable to the same period in 2006.

Net Investment Income

Total net investment income increased $1.0 million primarily due to slightly higher yields on the bond portfolio and higher partnership income in the second three months of 2007 compared to the same period in 2006, slightly offset by lower investable assets due to the acquisition of CAM and AMC. The overall investment yield was 5.6% and 5.2% in the second quarter of 2007 and 2006, respectively.

Net Realized Investment Gains

Net realized investment gains in the second quarter of 2007 increased $.5 million over the comparable period in 2006. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale, as well as trading securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period.

Equity Income

Equity income from AMIC in the second quarter of 2007 increased $.4 million compared to the second quarter of 2006 due to higher income earned by AMIC, as a result of new marketing relationships at AMIC in 2007 and improved medical stop-loss results.

Fee Income and Other Income

Fee income increased $2.6 million to $10.3 million in the second quarter of 2007 from $7.7 million in the second quarter of 2006 primarily due to an increase in administrative fees in the Fully Insured Health segment of $1.4 million earned by IAC in addition to $.9 million of fees earned by IHC Health Solutions, Inc. and AMC as a result of their acquisitions by the Company in 2007.

Total other income increased $.3 million in the second quarter of 2007 to $1.1 million from $.8 million in the second quarter of 2006 primarily due to adjustments in 2007 in settlement of a reinsurance agreement.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves increased $8.0 million. The increase is mainly due to: (i) an increase of $8.0 million in the Fully Insured Health segment primarily due to the increase in volume and adverse development of $.4 million related to the 2006 year as described below; (ii) an increase of $1.1 million in the Group segment primarily due to higher loss ratios in the group disability lines of business; (iii) a decrease of $.6 million in the Medical Stop-Loss segment primarily resulting from a decrease in Net Loss

Ratios to 97.4% in the second quarter of 2007 as compared to 97.8% for the second quarter of 2006; and (iv) a $.5 million decrease in all other lines.

The adverse development in our Fully Insured Health segment is largely related to overestimating the value of certain new initiatives started in 2006 intended to manage and reduce claims costs, including medical care management services to insureds, negotiation of out-of-network claims, and auditing provider bills ("Cost Containment Program") and underestimating in 2006 the seasonality patterns that are a result of an increasing percent of the business having high deducible health plans (HDHPs). Although this cost containment program did have a positive impact on the results of the small group major medical line, in the first six months of 2007 the Company determined that the impact was not as large as it had anticipated when setting reserves in 2006. HDHPs have fewer claims in the first quarter of a plan year and higher claims in the last quarter of the plan year. Primarily as a result of these two factors during 2006, the Company believed that its small group block of business had significantly better loss ratios than have now been determined.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs was relatively unchanged.

Interest Expense on Debt

Interest expense increased $.2 million, primarily due to a $2.5 million increase in outstanding debt under a line of credit from $12.5 million to $15.0 million during the third quarter of 2006. The interest rate paid on that line was 6.65% in 2007 compared to 3.96% in 2006. In addition, the interest rate on $12.4 million of floating rate junior subordinated debt averaged 9.4% in the second quarter of 2007 as compared to 9.0% in the second quarter of 2006.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses increased $2.7 million in the second quarter of 2007 as compared to the second quarter of 2006. The increase is primarily due to (i) a $4.3 million increase in commission and administrative expenses associated with the operation of the Fully Insured Health segment, primarily due to (a) $1.8 million from the acquisitions of CAM and AMC in 2007; (b) an overall increase in operating costs of $2.2 million (reported as SGA expense as described below); and (c) an increase of $.3 million in amortization expense as a result of purchase accounting; (ii) a $.6 million decrease in the Group segment; (iii) a $.3 million decrease in the Individual and other segment; and (iv) a $.3 million decrease in other corporate expenses.

The higher operating expenses in our fully insured line is largely attributable to (i) the costs of development and implementation for the new fully insured programs being initiated in 2006 and 2007 and (ii) higher costs of implementing new administration systems. Costs associated with new programs include product development, pricing, product filing and staffing, and are often incurred during a three to twelve month period prior to the effective date of the first policy sold.

Income Taxes

Income tax expense increased $1.1 million to $2.3 million for the quarter ended June 30, 2007 from $1.2 million for the second quarter of 2006 primarily due to the increase in pre-tax income in 2007. The effective tax rates were 36.6% and 34.0% for the second quarter of 2007 and 2006, respectively. The increase in the effective tax rate is primarily due to less dividend received deductions and less tax exempt interest in the second quarter of 2007 compared to the same period in 2006.

Results of Operations for the Six Months Ended June 30, 2007 Compared to the Six Months Ended June 30, 2006

Net income was $8.5 million, or $.56 per share, diluted, for the six months ended June 30, 2007, an increase of $2.1 million compared to net income of $6.4 million, or $.43 per share, diluted, for the six months ended June 30, 2006. The Company's income before taxes increased $3.3 million to $13.0 million for the six months ended June 30, 2007 from $9.7 million for the six months ended June 30, 2006. Information by business segment for the six months ended June 30, 2007 and 2006 is as follows:

June 30, 2007 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General And Administrative	Total
Medical Stop-Loss	$ 80,243	1,889	680	914	54,754	-	20,869	$ 8,103
Fully Insured Health	35,956	268	340	19,760	25,911	137	30,634	(358)
Group disability, life, annuities and DBL	22,971	5,182	77	208	17,529	70	7,886	2,953
Individual life, annuities and other	14,561	15,681	-	2,108	19,349	2,712	4,395	5,894
Credit life and disability	10,900	338	-	17	5,377	2,381	4,094	(597)
Corporate	-	1,097	-	-	-	-	2,996	(1,899)
Sub total	$ 164,631	24,455	$ 1,097	$ 23,007	$ 122,920	$ 5,300	$ 70,874	14,096
Net realized investment gains								1,002
Interest expense								(2,118)
Income before income taxes								12,980
Income taxes								(4,449)
Net income								$ 8,531

June 30, 2006 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General And Administrative	Total
Medical Stop-Loss	$ 75,350	1,782	359	1,636	52,589	-	19,876	$ 6,662
Fully Insured Health	14,946	65	-	13,893	8,738	76	19,963	127
Group disability, life, annuities and DBL	21,675	4,418	-	225	16,993	81	7,538	1,706
Individual life, annuities and other	14,995	15,581	-	776	19,498	2,636	4,533	4,685
Credit life and disability	10,612	403	-	42	4,983	2,396	4,028	(350)
Corporate	-	1,084	-	-	-	-	2,876	(1,792)
Sub total	$ 137,578	$ 23,333	$ 359	$16,572	$102,801	$ 5,189	$ 58,814	11,038
Net realized investment gains								467
Interest expense								(1,831)
Income before income taxes								9,674
Income taxes								(3,279)
Net income								$ 6,395

Premiums Earned

Total premiums earned grew $27.0 million to $164.6 million in the first six months of 2007 from $137.6 million in the comparable period of 2006. The increase is primarily due to: (i) the Fully Insured Health segment which increased $21.1 million in the first six months of 2007 compared to the first six months of 2006 (comprised of a $14.4 million increase in small group premiums as a result of the acquisition of a block of business which transitioned to the Company's paper in the third quarter of 2006, a $3.6 million increase in short-term medical premiums, a $.9 million increase in dental premiums primarily due to new business, and a $2.2 million increase due to new vision and limited medical products in 2007); and (ii) the Medical Stop-Loss segment which increased $4.8 million primarily due to an increase in assumed business.

Net Investment Income

Total net investment income increased $1.2 million primarily due to slightly higher yields on the bond portfolio in the first six months of 2007 compared to the same period in 2006, slightly offset by lower investable assets due to the acquisitions of CAM and AMC. The overall investment yield was 5.5% and $5.3% in the first six months of 2007 and 2006, respectively.

Net Realized Investment Gains

Net realized investment gains increased $.5 million in the first six months of 2007 compared to the same period in 2006. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale, as well as trading securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period.

Equity Income

Equity income from AMIC increased $.7 million in the first six months of 2007 compared to 2006 due to higher income earned by AMIC, as a result of new marketing relationships at AMIC in 2007 and improved medical stop-loss results.

Fee Income and Other Income

Fee income increased $5.4 million to $20.5 million in the first six months of 2007 from $15.1 million in the first six months of 2006 primarily due to an increase in administrative fees in the Fully Insured Health segment of $3.4 million earned by IAC in addition to $1.5 million of fees earned by IHC Health Solutions, Inc. and AMC as a result of their acquisitions by the Company in 2007.

Total other income increased $1.0 million in the first six months of 2007 to $2.5 million from $1.5 million in the first six months of 2006 primarily due to adjustments in 2007 in settlement of a reinsurance agreement.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves increased $20.1 million. The increase is due to: (i) an increase of $17.2 million in the Fully Insured Health segment primarily due to the increase in volume and adverse development of $1.3 million related to the 2006 year as described above; and (ii) an increase of $2.2 million in the Medical Stop-Loss segment primarily resulting from increased premiums offset by a decrease in Net Loss Ratios to 94.3% in the first six months of 2007 as compared to 95.1% for the first

six months of 2006.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs was relatively unchanged.

Interest Expense on Debt

Interest expense increased $.3 million, primarily due to a $2.5 million increase in outstanding debt under a line of credit from $12.5 million to $15.0 million during the third quarter of 2006. The interest rate paid on that line was 6.65% in 2007 compared to 3.96% in 2006. In addition, the interest rate on $12.4 million of floating rate junior subordinated debt averaged 9.3% in the first six months of 2007 as compared to 8.7% in the first six months of 2006.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses increased $12.1 million in the first six months of 2007 as compared to the first six months of 2006. The increase is primarily due to (i) an $10.6 million increase in commission and administrative expenses associated with the operation of the Fully Insured Health segment, primarily due to (a) $1.6 million of increased commissions due to the higher volume of business; (b) $2.7 million from the acquisition of CAM and AMC; (c) an overall increase in operating costs of $5.6 million (reported as SGA expense, as previously described); and (d) a $.7 million increase in amortization expense as a result of purchase accounting; and (ii) a $1.0 million increase in commissions and other general expenses in the Medical Stop-Loss segment due to higher volume.

Income Taxes

Income tax expense increased $1.1 million to $4.4 million for the six months ended June 30, 2007 from $3.3 million for the first six months of 2006 primarily due to the increase in pre-tax income in 2007. The effective tax rates were 34.3% and 33.9% for the first six months of 2007 and 2006, respectively.

LIQUIDITY

Insurance Group

The Insurance Group normally provides cash flow from: (i) operations; (ii) the receipt of scheduled principal payments on its portfolio of fixed maturities; and (iii) earnings on investments. Such cash flow is partially used to fund liabilities for insurance policy benefits. These liabilities represent long-term and short-term obligations. The Company reported a net use of cash from operations of $2.1 million primarily due to an increase in due and unpaid premiums.

Corporate

Corporate derives its funds principally from: (i) dividends from the Insurance Group; (ii) management fees from its subsidiaries; and (iii) investment income from Corporate liquidity. Regulatory constraints historically have not affected the Company's consolidated liquidity, although state insurance laws have provisions relating to the ability of the parent company to use cash generated by the Insurance Group.

BALANCE SHEET

Total investments and cash and cash equivalents decreased $18.5 million during the six months ended June 30, 2007 largely due to $8.4 million in cash used for acquisitions and an increase of $8.1 million in unrealized losses on available for sale securities, partially offset by a $1.0 million decrease in amounts due from and to brokers.

The Company had net receivables from reinsurers of $76.7 million at June 30, 2007. Substantially all of the business ceded to such reinsurers is of short duration. All of such receivables are either due from the Company's affiliate, Independence American, highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at June 30, 2007.

Major factors that affect the Projected Net Loss Ratio assumption in reserving for medical stop-loss relate to: (i) frequency and severity of claims; (ii) changes in medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, the impact of new medical technology and changes in medical treatment protocols; and (ii) the adherence by the MGUs that produce and administer this business to the Company's underwriting guidelines. Changes in these underlying factors are what determine the reasonably likely changes in the Projected Net Loss Ratio.

The Company's health reserves by segment are as follows (in thousands):

	Total Health Reserves				
	June 30, 2007		December 31, 2006		
Medical Stop-Loss	$ 84,096		$ 86,265		
Fully Insured Health	37,295		14,526		
Group Disability	68,695		64,786		
Credit A&H	7,331		7,426		
Individual A&H and Other	9,960		9,452		
	$ 207,377	8,373		9,097	17,470

See the discussion of our retirement plan contributions in the Compensation Discussion and Analysis section of this proxy statement.

(3) Messrs. Halbert and Hollingsworth are employees of Contran and provide their executive officer services to us pursuant to our ISA with Contran. The amounts shown in the table as salary compensation for them represent the portion of the fees we paid to Contran pursuant to the ISA attributable to the services each of them rendered to us. The ISA charges disclosed for Contran employees who perform executive officer services to us and our subsidiaries are based on various factors described in the Compensation Discussion and Analysis section of this proxy statement. Our management development and compensation committee considers the factors described in the Compensation Discussion and Analysis section of this proxy statement in determining whether to recommend that our board of directors approve the aggregate proposed ISA fee with Contran. As discussed in the Compensation Discussion and Analysis section of this proxy statement, our management development and compensation committee does not consider any ISA charge from Contran to any other publicly held parent or sister company of ours, although such charge is separately reviewed by the management development and compensation committee of the applicable company.

(4) Through July 2009, Waterloo paid in Canadian dollars Mr. Boland's salary and the 2009 contributions to his account under Waterloo's defined contribution plan. Upon his relocation to Michigan from Canada in August 2009, our U.S. operations paid in U.S. dollars his salary through July 2011, his 2009 and 2010 bonuses; his 2009, 2010 and 2011 matching contributions to his account under our 401(k) Plan and the contributions to his account under the CompX Capital Accumulation Pension Plan, a defined contribution plan. In July 2011, Mr. Boland returned to Canada. Upon his return to Canada, Waterloo paid in Canadian dollars his salary from August 2011, his 2011 bonus and the contributions to his account under Waterloo's defined contribution plan. We report in U.S. dollars the Canadian dollar compensation he received based on an average exchange rate of US$1.0120 per CN$1.00 for 2011 and US$0.8798 per CN$1.00 for 2009.

(5) As shown below, all other compensation for Mr. Boland consisted of the following payments:

- our reimbursement of certain expenses he incurred relocating from Michigan to Canada in 2009 and back to Canada in 2011;
- Waterloo's contribution to Mr. Boland's account under the Registered Pension Plan for Employees of Waterloo Furniture Components Ltd., a defined contribution plan, for the 2009 plan year through July 2009 while he was employed in Canada and for the 2011 plan year beginning in July 2011 upon his return to Canada;
- 2009, 2010 and 2011 matching contribution to his account under our 401(k) Plan for his employment in the U.S.; and
    - a contribution to his account for 2009, 2010 and 2011 under the CompX Capital Accumulation Pension Plan, a defined contribution plan for his employment in the U.S.

Named Executive Officer	Year	Reimburse-ment of Relocation Expenses	Waterloo Registered Pension Plan Contributions	Employer's 401(k) Plan Matching Contributions	Employer's Capital Accumulation Pension Plan Contributions	Total
Corey J. Boland	2011	$9,067	$3,979	$5,314	$19,714	$38,074
	2010	-0-	-0-	11,454	19,398	30,852
	2009	11,350	4,727	1,686	3,181	20,944

See the discussion of our retirement plan contributions in the Compensation Discussion and Analysis section of this proxy statement.

2011 Grants of Plan-Based Awards. In 2011, we did not grant any stock, stock options or other plan-based awards to our named executive officers.

No Outstanding Equity Awards at December 31, 2011. At December 31, 2011, none of our named executive officers held outstanding stock options to purchase shares of our common stock (or common stock of our parent or subsidiary companies), held any rights to such shares that were subject to vesting restrictions or held any equity incentive awards for such shares.

Option Exercises and Stock Vested. During 2011, no named executive officer exercised any stock options or held any stock subject to vesting restrictions.

Pension Benefits. We do not have any defined benefit pension plans in which our named executive officers participate.

Nonqualified Deferred Compensation. We do not owe any nonqualified deferred compensation to our named executive officers.

Director Compensation. Our directors who are not employees of us or our subsidiaries are entitled to receive compensation for their services as directors. Our current directors who received such compensation in 2011 were Serena S. Connelly, Norman S. Edelcup, Edward J. Hardin, Ann Manix, Glenn R. Simmons and Steven L. Watson. Effective July 1, 2011, our board of directors increased the annual retainers paid to our nonemployee directors. The table below reflects the annual rates of the retainers for 2011 for our nonemployee directors and committee members before and after July 1, 2011 and the aggregate amount paid during 2011 at such annual rates.

	2011 First Six-Month Director Retainers		2011 Second Six-Month Director Retainers	
	Annual Rate	Paid	Annual Rate	Paid
Each nonemployee director	$20,000	$10,000	$25,000	$12,500
Chairman of our audit committee and any member of our audit committee whom the board identified as an “audit committee financial expert” (provided that if one person served in both capacities only one such retainer was paid)	$20,000	$10,000	$30,000	$15,000
Other members of our audit committee	$10,000	$5,000	$15,000	$7,500
Members of our other committees	$2,000	$1,000	$5,000	$2,500

Additionally, our nonemployee directors receive a fee of $1,000 per day for attendance at meetings of the board of directors or its committees and at an hourly rate (not to exceed $1,000 per day) for other services rendered on behalf of our board of directors or its committees. If a nonemployee director dies while serving on our board of directors, his designated beneficiary or estate will be entitled to receive a death benefit equal to the annual retainer then in effect. We reimburse our nonemployee directors for reasonable expenses incurred in attending meetings and in the performance of other services rendered on behalf of our board of directors or its committees.

On the day of each annual stockholder meeting, each of our nonemployee directors elected on that date receives a grant of shares of our class A common stock as determined by the following formula based on the closing price of a share of our class A common stock on the date of such meeting.

Range of Closing Price Per Share on the Date of Grant	Shares of Class A Common Stock to Be Granted
Under $5.00	2,000
$5.00 to $9.99	1,500
$10.00 to $20.00	1,000
Over $20.00	500

The following table provides information with respect to compensation our nonemployee directors earned for their 2011 director services provided to us.

2011 DIRECTOR COMPENSATION (1)

Name	Fees Earned or Paid in Cash (2)	Stock Awards (3)	All Other Compensation (4)	Total
Serena S. Connelly(5)	$15,500	$13,450	$ -0-	$28,950
Norman S. Edelcup	57,000	13,450	-0-	70,450
Edward J. Hardin (6)	41,000	13,450	-0-	54,450
Ann Manix (6)	44,500	13,450	-0-	57,950
Glenn R. Simmons (6)	26,500	13,450	28,600	68,550
Steven L. Watson (6)	26,500	13,450	84,500	124,450

(1) Certain non-applicable columns have been omitted from this table.

(2) Represents cash retainers and meeting fees the nonemployee director earned for director services he or she provided to us in 2011.

(3) Represents the value of 1,000 shares of our class A common stock we granted to each of these nonemployee directors on May 25, 2011. For the purposes of this table, we valued these stock awards at the $13.45 closing price per share of such shares on their date of grant, consistent with the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 718.

(4) Represents the portion of the annual charge we paid in 2011 to Contran under our ISA with Contran attributable to the nondirector services each of Messrs. Simmons and Watson provided to us under the ISA.

(5) Ms. Connelly was first elected to our board of directors on May 25, 2011.

(6) As of December 31, 2011, the following nonemployee directors held the following stock options exercisable for shares of our class A common stock, all of which stock options were granted for director services:

Name	Aggregate Number of Shares Underlying Outstanding Stock Options Held by Such Director at December 31, 2011
Edward J. Hardin	2,000
Ann Manix	2,000
Glenn R. Simmons	1,200
Steven L. Watson	2,000

These stock options expire May 14, 2012.

In 2011, Ms. Manix and Mr. Glenn Simmons exercised stock options to purchase the following number of shares of our class A common stock and realized the following amounts upon such exercises:

Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (a)
Ann Manix	2,000	$4,491
Glenn R. Simmons	800	$1,992

(a) The value realized is based on the difference between the closing sale price per share of the underlying CompX class A common stock on the day of the exercise and the exercise price per share consistent with the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 718.

Compensation Policies and Practices as They Relate to Risk Management. We believe that the risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on us. In reaching this conclusion, we considered the following:

- other than stock grants to our nonemployee directors, we do not grant equity awards to our employees, officers or other persons who provide services to us under our ISA with Contran, which mitigates taking excessive or inappropriate risk for short-term gain that might be rewarded by equity compensation;
- our executive officers employed by us are eligible to receive incentive bonus payments that are determined on a discretionary basis and do not guarantee an executive officer a particular level of bonus based on the achievement of a specified performance or financial target, which also mitigates taking excessive or inappropriate risk for short-term gain;
- our other key employees are eligible to receive bonuses based on the achievement of a specified performance or financial target based on our business plan for the year, but the chance of such employees undertaking actions with excessive or inappropriate risk for short-term gain in order to achieve such bonuses is mitigated because:
  - o our executive officers, who are responsible for establishing and executing such business plan, are not eligible to receive bonuses based on the business plan, but instead are only eligible for the discretionary-based bonuses described above; and
  - o there exist ceilings for these bonuses regardless of the actual level of our financial performance achieved;
- our officers and other persons who provide services to us under our ISA with Contran do not receive compensation from us directly and are employed by Contran, one of our parent corporations, which aligns such officers and persons with the long-term interests of our stockholders;
- since we are a controlled company, as previously discussed, management has a strong incentive to understand and perform in the long-term interests of our stockholders; and
- our experience is that our employees are appropriately motivated by our compensation policies and practices to achieve profits and other business objectives in compliance with our oversight of material short and long-term risks.

For a discussion of our compensation policies and practices for our executive officers, please see the Compensation Discussion and Analysis section of this proxy statement.

Compensation Consultants. Neither our board of directors, management development and compensation committee nor management has engaged any compensation consultants.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act requires our executive officers, directors and persons who own more than 10% of a registered class of our equity securities to file reports of ownership with the SEC, the AMEX and us. Based solely on the review of the copies of such forms and representations by certain reporting persons, we believe that for 2011 our executive officers, directors and 10% stockholders, except as described below, complied with all applicable filing requirements under section 16(a). Due to an unintentional oversight by his staff, Mr. Harold C. Simmons filed a Form 4 that reported one late transaction by his wife. Ms. Manix filed a Form 4 that reported two late transactions.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Related Party Transaction Policy. As set forth in our code of business conduct and ethics, from time to time, we engage in transactions with affiliated companies. In addition, certain of our executive officers and directors serve as executive officers and directors of affiliated companies. With respect to transactions between or involving us and one or more of our affiliates, it is not a violation of the code if the transaction, in our opinion, is no less favorable to us than could be obtained from unrelated parties, or the transaction, in the absence of stockholder ratification or approval by our independent directors, is fair to all companies involved. Furthermore, the code provides that:

- directors and officers owe a duty to us to advance our legitimate interests when the opportunity to do so arises; and

- they are prohibited from (a) taking for themselves personally opportunities that properly belong to us or are discovered through the use of our property, information or position, (b) using corporate property, information or position for improper personal gain and (c) competing with our interests.

Our executive officers are responsible for applying this policy to related parties. No specific procedures are in place, however, that govern the treatment of transactions among us and our related entities, although we and such entities may implement specific procedures as appropriate for particular transactions. Provided, in our judgment, the standard set forth in the code of business conduct and ethics is satisfied, we believe, given the number of companies affiliated with Contran, that related party transactions with our affiliates, in many instances (such as achieving economies of scale), are in our best interest. In certain instances, our executive officers may seek the approval or ratification of such transactions by our independent directors, but there is no quantified threshold for seeking this approval.

Relationships with Related Parties. As set forth under the Security Ownership section of this proxy statement, Harold C. Simmons, through Contran, may be deemed to control us. We and other entities that may be deemed to be controlled by or related to Mr. Simmons sometimes engage in the following:

- intercorporate transactions, such as guarantees, management, expense and insurance sharing arrangements, tax sharing agreements, 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

- 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 an equity interest in another related party.

We periodically consider, review and evaluate and understand that Contran and related entities periodically consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant and restrictions under indentures and other agreements, it is possible that we might be a party to one or more of such transactions in the future. In connection with these activities, we may consider issuing additional equity securities or

incurring additional indebtedness. Our acquisition activities have in the past and may in the future include participation in acquisition or restructuring activities conducted by other companies that may be deemed to be related to Harold C. Simmons.

Certain directors or executive officers of Contran, Keystone, Kronos Worldwide, NL, TIMET or Valhi also serve as our directors or executive officers. Such relationships may lead to possible conflicts of interest. These possible conflicts of interest may arise under circumstances in which such companies may have adverse interests. In such an event, we implement such procedures as are appropriate for the particular transaction.

Intercorporate Services Agreements. As discussed elsewhere in this proxy statement, we and certain related companies have entered into ISAs. Under the ISAs, employees of one company provide certain services, including executive officer services, to the other company on an annual fixed fee basis. The services rendered under the ISAs may include executive, management, financial, internal audit, accounting, tax, legal, insurance, real estate management, environmental management, risk management, treasury, aviation, human resources, technical, consulting, administrative, office, occupancy and other services as required from time to time in the ordinary course of the recipient's business. The fees paid pursuant to the ISAs are generally based upon an estimated percentage of the time devoted by employees of the provider of the services to the business of the recipient and the employer's cost related to such employees, which includes the expense for the employees' compensation and an overhead component that takes into account other employment related costs. Generally, each of the ISAs renews on a quarterly basis, subject to the termination by either party pursuant to a written notice delivered 30 days prior to the start of the next quarter. Because of the number of companies related to Contran and us, we believe we benefit from cost savings and economies of scale gained by not having certain management, financial, legal, tax, real estate and administrative staffs duplicated at each company, thus allowing certain individuals to provide services to multiple companies. With respect to a publicly held company that is a party to an ISA, the ISA and the related aggregate annual charge are approved by the independent directors of the company after receiving the recommendation from the company's management development and compensation committee as well as the concurrence of the chief financial officer. See the Compensation of our Named Executive Officers Employed by Contran part of the Compensation Discussion and Analysis section in this proxy statement for a more detailed discussion on the procedures and considerations taken by our independent directors in approving the aggregate 2011 ISA fee charged by Contran to us.

The services of Harold C. Simmons provided to us under our ISA with Contran include consultation and advice to our chief executive officer and our other senior management concerning major strategic corporate matters. Such matters may include acquisitions or dispositions of certain assets (including investments) or operations, strategic business plans, business reorganizations and restructurings, financing and other capital raising initiatives, legal and litigation strategies, tax planning strategies and other matters. For financial reporting and income tax purposes, the ISA fee is expensed as incurred on a quarterly basis.

In 2011, we paid Contran fees of $3.4 million for its services under the ISA between Contran and us, including $1.0 million for the services of Harold C. Simmons. Because Contran has implemented a limit of $1.0 million on any individual's charge to a publicly held company, the aggregate ISA fee we paid to Contran in 2011 that was attributable to the services of Harold C. Simmons was limited to such $1.0 million amount. See the Compensation of our Named Executive Officers Employed by Contran subsection of the Compensation Discussion and Analysis section in this proxy statement for further information regarding this $1.0 million limit. In 2012, we expect to pay Contran fees of approximately $3.7 million for its services under this ISA, including $1.0 million for the services of Harold C. Simmons. We also pay director fees and expenses directly to Messrs. Glenn Simmons and Watson and Ms. Connelly for their services as our directors.

Risk Management Program. We and Contran participate in a combined risk management program. Pursuant to the program, Contran and certain of its subsidiaries and related entities, including us and certain of our subsidiaries and related entities, as a group purchase insurance policies and risk management services. The program apportions its costs among the participating companies. Tall Pines and EWI provide for or broker the insurance policies. Tall Pines purchases reinsurance for substantially all of the risks it underwrites. EWI also provides claims and risk management services and, where appropriate, engages certain third-party risk management consultants. Tall Pines is a captive insurance company wholly owned by Valhi. EWI is a reinsurance brokerage and risk management company wholly

owned by NL. Tall Pines purchases reinsurance from third-party insurance carriers with an A.M. Best Company rating of generally at least an "A-" (excellent) for substantially all of the risks it underwrites. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker.

With respect to certain of such jointly owned insurance 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 or related companies, including us, have entered into a loss sharing agreement under which any uninsured loss is shared by those companies 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 justify the risks associated with the potential for any uninsured loss.

During 2011, we paid Tall Pines and EWI in the aggregate approximately $1.3 million. This amount principally represents payments for insurance premiums, which include premiums or fees paid to Tall Pines and commissions or fees paid to EWI. This amount also includes payments to insurers or reinsurers through EWI for the reimbursement of claims within our applicable deductible or retention ranges that such insurers and reinsurers paid to third parties on our behalf, as well as amounts for claims and risk management services and various other third-party fees and expenses incurred by the program. In our opinion, the program's allocations of its costs among us and our related entities are reasonable. We believe the amounts that we and our subsidiaries paid for the combined risk management program are less than the costs we would have incurred had we entirely used unrelated third parties for the services the program provided. We expect that these relationships with Tall Pines and EWI will continue in 2012. Because we believe there is no conflict of interest regarding our participation in the combined risk management program, our audit committee received a report regarding this program but we did not ask our independent directors to approve it.

Tax Matters. We and our qualifying subsidiaries are members of the consolidated U.S. federal tax return of which Contran is the parent company, which we refer to as the "Contran Tax Group." As a member of the Contran Tax Group and pursuant to certain tax sharing agreements or policies, each of the members and its qualifying subsidiaries compute provisions for U.S. income taxes on a separate company basis using tax elections made by Contran. Pursuant to the tax sharing agreements or policies and using tax elections made by Contran, each of the parties makes payments or receives payments in amounts it would have paid to or received from the U.S. Internal Revenue Service had it not been a member of the Contran Tax Group but instead had been a separate taxpayer. Refunds are generally limited to amounts previously paid under the respective tax sharing agreement or policy. We and our qualifying subsidiaries are also a part of consolidated tax returns filed by Contran in certain U.S. state jurisdictions. The terms of the applicable tax sharing agreements or policies also apply to state payments to these jurisdictions.

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 group for all periods in which we are included in the group. Under our tax agreement with NL, NL agrees 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.

Under certain circumstances, tax regulations could require Contran to treat items differently than we would have treated them on a stand-alone basis. In such instances, accounting principles generally accepted in the United States of America require us to conform to Contran's tax elections. In 2011, pursuant to our tax sharing agreement and policies with NL, we made a net cash payment to NL of approximately $3.7 million. Because the calculation of our tax payments or refunds is determined pursuant to applicable tax law, we believe there is no conflict of interest regarding our tax sharing agreement and policies with NL. Consequently, our independent directors received a report regarding such tax sharing agreement and policies but were not asked to approve our tax agreement or policies or the resulting payments or refunds for income taxes.

Loan from TFMC. In October 2007, we on a net basis purchased and/or cancelled approximately 2.7 million shares of our class A common stock formerly held directly or indirectly by TFMC for $19.50 per share paid in the form of a consolidated promissory note pursuant to a stock purchase agreement between us and TFMC and a merger agreement among CompX Group, Inc., our former parent in which NL and TFMC were the sole stockholders, and CompX KDL

LLC, our former wholly owned subsidiary. The price per share was determined based on our open market purchases of our class A common stock around the time of the approval of these transactions. The stock purchase agreement and the merger agreement were approved by the independent directors of us and TIMET.

Pursuant to such transactions, among other things, we issued a consolidated unsecured term loan promissory note to TFMC in the original principal amount of $52,580,190 that:

- matures on September 30, 2014;
- bears interest at an annual rate of LIBOR plus 1.00%;
- requires quarterly principal payments of $250,000 and quarterly interest payments;
- does not have prepayment penalties; and
- is subordinated to our credit agreement with Wells Fargo Bank, National Association.

In September 2009, the terms of the promissory note were amended to defer the required quarterly principal and interest payments until on or after March 31, 2011. During 2011, we paid approximately $0.5 million of interest and $20 million of principal (including a prepayment of $15 million of principal) under this note. The largest amount of principal that we owed to TFMC under this note was approximately $42.2 million during 2011 and the principal balance at December 31, 2011 was approximately $22.2 million.

Purchase of Note from NL. On May 13, 2011 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:

- 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
- 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 was due no later than October 2011. The promissory note was 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 were 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 had the right to demand, and we so demanded, repayment of up to $15.0 million due under the promissory note from one of the developer’s equity partners, which right was not subordinated to the developer’s senior indebtedness. In addition, NL provided us a guarantee for any amounts due but unpaid under the promissory note. In order to complete the purchase of the promissory note, on May 10, 2010 we entered into an amendment to our revolving $37.5 million credit agreement with Wells Fargo Bank, National Association and Comerica Bank. 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. In October 2011, we collected in full the $15 million principal amount due to us under the promissory note. We received interest income in the aggregate amount of approximately $0.6 million, approximately $0.4 million of which was received in 2011, paid on the outstanding principal amount of the note. The purchase of the note was approved by our independent directors.

Related Party Loans for Cash Management Purposes. From time to time, loans and advances are made between us and various related parties pursuant to term and demand notes. These loans and advances are entered into principally for cash management purposes pursuant to our cash management program. When we loan funds to related parties, the lender is generally able to earn a higher rate of return on the loan than the lender would earn if the funds were invested in other instruments. While certain of such loans may be of a lesser credit quality than cash equivalent instruments

otherwise available to us, we believe that we have evaluated the credit risks involved, and that those risks are reasonable and reflected in the terms of the applicable loans. When we borrow from related parties, we are generally able to pay a lower rate of interest than we would pay if we borrowed from unrelated parties.

In February 2010, we entered into an unsecured revolving demand promissory note with NL pursuant to which, as amended, we agreed to loan NL up to $8.0 million. As amended, our loans to NL under this note bear interest at the prime rate less 0.75%, with all principal due on demand on or after March 31, 2013 (and in any event no later than December 31, 2013), with interest payable quarterly. Any principal NL borrows from us under this note is solely at our discretion. During 2011, there was no outstanding principal outstanding under this note. Because this note was for cash management purposes, our independent directors received periodic reports regarding our loan to NL, but we did not ask our independent directors to approve it.

Simmons Family Matters. In addition to the services he provides under our ISA with Contran as discussed under the Intercorporate Services Agreements section above, certain family members of Harold C. Simmons also provide services to us through Contran pursuant to this ISA. In 2011, L. Andrew Fleck (a step-son of Harold C. Simmons) provided certain real property management services to us pursuant to this ISA. The portion of the fees we paid to Contran in 2011 pursuant to this ISA attributable to the services of Mr. Fleck was less than $120,000. See the Intercorporate Services Agreements section above for a more detailed discussion on the procedures and considerations taken by our independent directors in approving the aggregate 2011 ISA fee Contran charged us. As disclosed in the 2011 Director Compensation Table in this proxy statement:

- Mr. Glenn Simmons (a brother of Harold Simmons) also provided us nondirector services under our ISA with Contran and received compensation in cash and stock from us for his services as one of our directors in 2011; and

- Ms. Serena S. Connelly (the daughter of Harold Simmons) received compensation in cash and stock from us for her services as one of our directors in 2011.

We expect similar compensation expenses and ISA charges regarding Messrs. Glenn Simmons and Fleck and Ms. Connelly for 2012.

AUDIT COMMITTEE REPORT

Our audit committee of the board of directors is comprised of Norman S. Edelcup, Edward J. Hardin and Ann Manix. The audit committee operates under a written charter adopted by the board of directors. All members of our audit committee meet the independence standards established by the board of directors and the AMEX and promulgated by the SEC under the Sarbanes-Oxley Act of 2002. The audit committee charter is available on our website at www.compx.com under the corporate section.

Our management is responsible for, among other things, preparing our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or "GAAP," establishing and maintaining internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) and evaluating the effectiveness of such internal control over financial reporting. Our independent registered public accounting firm is responsible for auditing our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and for expressing an opinion on the conformity of the financial statements with GAAP. Our audit committee assists the board of directors in fulfilling its responsibility to oversee management's implementation of our financial reporting process. In its oversight role, our audit committee reviewed and discussed the audited financial statements with management and with PwC, our independent registered public accounting firm for 2011. Our audit committee also reviewed and discussed our internal control over financial reporting with management and with PwC.

Our audit committee met with PwC and discussed any issues deemed significant by our independent registered public accounting firm, including the matters required to be discussed pursuant to the auditing standards of the Public Company Accounting Oversight Board. PwC has provided to our audit committee written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and our audit committee discussed with PwC the firm's independence. Our audit committee also concluded that PwC's provision of other permitted non-audit services to us and our related entities is compatible with PwC's independence.

Based upon the foregoing considerations, our audit committee recommended to the board of directors that our audited financial statements be included in our 2011 Annual Report on Form 10-K for filing with the SEC.

Members of our audit committee of the board of directors respectfully submit the foregoing report.

Norman S. Edelcup	Edward J. Hardin	Ann Manix
Chairman of our Audit Committee	Member of our Audit Committee	Member of our Audit Committee

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM MATTERS

Independent Registered Public Accounting Firm. PwC served as our independent registered public accounting firm for the year ended December 31, 2011. Our audit committee has appointed PwC to review our quarterly unaudited condensed consolidated financial statements to be included in our Quarterly Report on Form 10-Q for the first quarter of 2012. We expect PwC will be considered for appointment to:

- review our quarterly unaudited condensed consolidated financial statements to be included in our Quarterly Reports on Form 10-Q for the second and third quarters of 2012 and the first quarter of 2013; and
- audit our annual consolidated financial statements for the year ending December 31, 2012.

Representatives of PwC are not expected to attend the annual meeting.

Fees Paid to PricewaterhouseCoopers LLP. The following table shows the aggregate fees that our audit committee has authorized and PwC has billed or is expected to bill to us for services rendered for 2010 and 2011. Additional fees for 2011 may subsequently be authorized and paid to PwC, in which case the amounts disclosed below for fees paid to PwC for 2011 would be adjusted to reflect such additional payments in our proxy statement relating to next year's annual stockholder meeting. In this regard, we have similarly adjusted the audit fees shown for 2010 from the amounts disclosed in our 2011 proxy statement.

Type of Fees	2010	2011
	(in thousands)	
Audit Fees (1)	$635	$717
Audit-Related Fees (2)	9	9
Tax Fees (3)	9	9
All Other Fees	-0-	-0-
Total	$653	$735

(1) Fees for the following services:

(a) audits of consolidated year-end financial statements for each year;
(b) reviews of the unaudited quarterly financial statements appearing in Forms 10-Q for each of the first three quarters of each year;
(c) consents and/or assistance with registration statements filed with the SEC;
(d) normally provided statutory or regulatory filings or engagements for each year; and
(e) the estimated out-of-pocket costs PwC incurred in providing all of such services, for which PwC is reimbursed.

Our 2011 amount for audit fees includes $25,000 we incurred as a result of our July 2011 acquisition of Mediamounts Ltd.

(2) Fees for assurance and related services reasonably related to the audit or review of financial statements for each year. These services included accounting consultations and attest services concerning financial accounting and reporting standards and advice concerning internal control over financial reporting.

(3) Permitted fees for tax compliance, tax advice and tax planning services.

Preapproval Policies and Procedures. For the purpose of maintaining the independence of our independent registered public accounting firm, our audit committee has adopted policies and procedures for the preapproval of audit and other permitted services the firm provides to us or any of our subsidiaries. We may not engage the firm to render any audit or other permitted service unless the service is approved in advance by our audit committee pursuant to the committee's amended and restated preapproval policy. Pursuant to the policy:

- the committee must specifically preapprove, among other things, the engagement of our independent registered public accounting firm for audits and quarterly reviews of our financial statements, services associated with certain regulatory filings, including the filing of registration statements with the SEC, and services associated with potential business acquisitions and dispositions involving us; and

- for certain categories of other permitted services provided by our independent registered public accounting firm, the committee may preapprove limits on the aggregate fees in any calendar year without specific approval of the service.

These other permitted services include:

- audit-related services, such as certain consultations regarding accounting treatments or interpretations and assistance in responding to certain SEC comment letters;

- audit-related services, such as certain other consultations regarding accounting treatments or interpretations, employee benefit plan audits, due diligence and control reviews;

- tax services, such as tax compliance and consulting, transfer pricing, customs and duties and expatriate tax services; and

- assistance with corporate governance matters and filing documents in foreign jurisdictions not involving the practice of law.

The policy also lists certain services for which the independent auditor is always prohibited from providing us under applicable requirements of the SEC or the Public Company Accounting Oversight Board.

Pursuant to the policy, our audit committee has delegated preapproval authority to the chairman of the committee or his designee to approve any fees in excess of the annual preapproved limits for these categories of other permitted services provided by our independent registered public accounting firm. The chairman must report any action taken pursuant to this delegated authority at the next meeting of the committee.

For 2011, our audit committee preapproved all of PwC's services provided to us or any of our subsidiaries in compliance with our amended and restated preapproval policy without the use of the SEC's de minimis exception to such preapproval requirement.

PROPOSAL 2
2012 DIRECTOR STOCK PLAN

Background. The CompX International, Inc. 1997 Long-Term Incentive Plan expires on February 13, 2013. The 2012 plan allows for many different types of equity and performance-based compensation (such as, without limitation, cash, stock options, stock appreciation rights, restricted or unrestricted stock and performance awards) that can be awarded to our key employees, or other key individuals who perform services for us, including, without limitation, directors who are not our employees. Our management development and compensation committee administers the 1997 plan and since 2002 has only authorized grants of our class A common stock to our directors under the plan. As a result, our board of directors authorized the replacement of the 1997 plan with a new 2012 Director Stock Plan that only allows for grants of our class A common stock to our directors. Our board of directors adopted the 2012 plan on February 22, 2012 and it will be effective if and when the stockholders approve it at the 2012 annual meeting of our stockholders to be held on May 30, 2012. If the 2012 Director Stock Plan is approved by our stockholders, our board of directors has authorized the termination of the 1997 plan on June 15, 2012. The text of the 2012 Director Stock Plan is attached as Exhibit A to this proxy statement. The description of the 2012 plan in this proxy statement is

qualified in its entirety by reference to the complete text of the plan in Exhibit A.

Description of the 2012 Director Stock Plan

Purpose. The purpose of the 2012 Director Stock Plan is to replace the 1997 Long-Term Incentive Plan with a plan that is limited to grants of our class A common stock to our directors and to continue to advance our interests and those of our stockholders by providing incentives to our directors to contribute to our strategic and long-term performance objectives and growth.

Grants and Eligible Persons. The 2012 Director Stock Plan provides solely for grants of shares of our class A common stock to our directors. These grants of our class A common stock are issued free of restrictions on transfer (other than restrictions imposed by federal or state securities laws, as applicable) and free of forfeiture conditions. We currently have seven directors and have recommended the re-election of each director at the 2012 annual meeting of our stockholders.

Grant Conditions. The committee administering the 2012 plan, or the board of directors if it chooses to administer the plan, shall, from time to time, designate written specified performance goals for a given performance period based on the closing price per share of our class A common stock on the AMEX (or other market quotation system on which such shares are listed or traded) or any performance period that shall serve as a condition to a grant of shares of our class A common stock to a director.

Administration. Generally, a committee of the board of directors consisting of two or more individuals administers the 2012 Director Stock Plan. The 2012 plan provides that the management development and compensation committee is the initial committee to administer the plan. If the board of directors chooses, it may administer the 2012 plan. The 2012 plan requires that the members of the committee administering the plan satisfy certain independence requirements so that the members are:

- "nonemployee directors" as defined in Rule 16b-3 promulgated by the SEC under Section 16 of the Securities Exchange Act; and

- "outside directors" as defined under regulations promulgated by the U.S. Department of Treasury under Section 162(m) of the Internal Revenue Code of 1986.

Members of the committee must also meet any applicable independence requirements of any stock exchange or other market quotation system on which shares of our class A common stock are listed or traded. The SEC Rule 16b-3 requirements exempt grants to our executive officers from certain liabilities associated with short-swing trading in our class A common stock within any six-month period. Compliance with the Section 162(m) treasury regulations allow us to deduct fully the compensation paid to a covered employee, such as our chief executive officer and the three other most highly compensated executive officers named in the compensation tables in our annual proxy statements. Members of the committee or board of directors administering the 2012 plan would be eligible to receive grants of class A common stock under the plan.

The committee or board of directors administering the 2012 plan determines the directors to whom it grants shares of our class A common stock and the timing and number of shares of such grants. In addition, the committee or board of directors administering the plan can construe and interpret the plan and any grant under the plan and make all other determinations deemed necessary or advisable for the administration of the plan.

Number of Shares Subject to the 2012 Director Stock Plan. The 2012 plan reserves a maximum of 200,000 shares of our class A common stock, subject to certain adjustments. The shares of our class A common stock to be issued under the plan may be either newly issued shares, treasury shares, reacquired shares or any combination of the three.

Annual Limit on 2012 Awards to an Individual. The shares of our class A common stock that may be granted to any one director in any calendar year under the 2012 plan shall not exceed 10,000 shares.

Adjustments in Shares of Class A Common Stock. Under the 2012 Director Stock Plan, if any change in the outstanding shares of our class A common stock occurs by reason of an extraordinary or unusual event (such as stock splits, stock dividends, recapitalizations or mergers), the committee or board of directors administering the plan may, in its discretion, make equitable adjustments to the maximum number of shares of our class A common stock available for grants under the plan or to any director under the plan in any calendar year.

Effectiveness of Rights as Stockholders. In all events, a director has no rights as a stockholder with respect to a grant of shares of class A common stock under the 2012 plan until the date of issuance of the stock certificate representing such shares. Except when the committee or board of directors administering the plan exercises its discretion to make an equitable adjustment for an extraordinary event described in the previous subsection, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such stock certificate is issued.

Termination. The 2012 Director Stock Plan terminates upon the adoption of a resolution by our board of directors terminating this plan or when no more shares of our class A common stock are authorized to be issued under the plan.

Plan Amendment or Suspension. Our board of directors may amend or suspend the 2012 Director Stock Plan at any time. Except in certain circumstances, no amendment shall adversely affect in a material manner any right of any recipient of a grant under the plan without such recipient's written consent.

Registration of CompX Class A Common Stock under the 2012 Director Stock Plan. We intend to register the issuance of the shares of our class A common stock under the 2012 Director Stock Plan with the SEC.

Federal Income Tax Consequences. The following is a summary of the principal current federal income tax consequences of grants of shares of our class A common stock under 2012 Director Stock Plan. It does not describe all federal tax consequences under the plan, nor does it describe state, local or foreign tax consequences.

Grants of Class A Common Stock. Since there will be no restrictions on the shares of our class A common stock granted to a director under the 2012 Director Stock Plan, the receipt of such shares under the plan by a director will generally be subject to tax at ordinary income rates for the fair market value of the shares on the date of grant. We will send the director a Form 1099-MISC reporting as miscellaneous income the fair market value of the grant, which form may also report any other miscellaneous compensation the director received from us in that calendar year, such as the cash fees we paid the director. Generally, we will be entitled to a corresponding federal income tax deduction at the same time and in the same amount as the ordinary income a director recognizes as a result of a stock grant under the plan.

Plan Benefits. Since the grants of our class A common stock to our directors under the 2012 Director Stock Plan are at the discretion of the committee or board of directors administering the plan, the number of shares of our class A common stock and the director recipients of such shares are presently indeterminable.

However, it is anticipated that the management development and compensation committee will administer the plan and adopt the same formula for stock grants to our nonemployee directors under the 2012 Director Stock Plan as the committee used in 2011 under the 1997 plan. For a description of the formula the committee has historically used to grant shares of our class A common stock to our nonemployee directors, see the Director Compensation section in this proxy statement. The following table sets forth the number of shares of our class A common stock granted in 2011 and the value of such shares on the date of grant for the following person or groups.

Name of Person or Group (1)	Date of Grant	Number of Shares of Class A Common Stock (2)	Grant Date Value of Shares of Class A Common Stock (2)
Glenn R. Simmons Chairman of the Board	May 25, 2011	1,000	$13,450

All current executive officers as a group (10 persons)	May 25, 2011	1,000	$13,450
All current directors who are not executive officers as a group (5 persons)	May 25, 2011	5,000	$67,250

(1) Certain rows in the table regarding certain CompX officers and employees have been omitted because such officers and employees will not be eligible to receive grants of stock under the 2012 Director Stock Plan and did not receive such grants of class A common stock in 2011. The shares awarded to Mr. Glenn R. Simmons were in connection with his services to us as a member of our board of directors. He is the only executive officer to receive a grant of shares of our class A common stock in 2011 because he is the only nonemployee director who is an executive officer of ours. No other executive officer of ours received a grant of shares of our class A common stock in 2011.

(2) These amounts represent the value of the 1,000 shares of our class A common stock we granted to each of our nonemployee directors on May 25, 2011. For the purposes of this table, we valued these stock awards at the $13.45 closing price per share of such shares on their date of grant consistent with the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 718.

Vote Required. The affirmative votes of the majority of the shares present in person or represented by proxy at the 2012 annual meeting and entitled to vote will be the requisite vote to approve the 2012 Director Stock Plan. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a negative vote for this proposal. Broker/nominee non-votes will not be counted as entitled to vote and will have no affect on this proposal.

As already disclosed, NL is the direct holder of 86.8% of the outstanding shares of our combined class A and B common stock as of the record date and has indicated its intention to have its shares of our common stock represented at the meeting and to vote such shares FOR the approval of the 2012 Director Stock Plan. If NL attends the meeting in person or by proxy and votes as indicated, the meeting will have a quorum present and the stockholders will approve the 2012 Director Stock Plan.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” APPROVAL OF THE 2012 DIRECTOR STOCK PLAN.

PROPOSAL 3
NONBINDING ADVISORY RESOLUTION ON NAMED EXECUTIVE OFFICER COMPENSATION

Background. Pursuant to Section 14A of the Securities Exchange Act, a publicly held company is required to submit to its stockholders a nonbinding advisory vote to approve the compensation of its named executive officers, commonly known as a “Say-on-Pay” proposal. On May 25, 2011, our stockholders approved, on a nonbinding advisory basis, an annual Say-on-Pay. The next nonbinding stockholder advisory vote on a Say-on-Pay proposal will be at our 2013 annual meeting of stockholders and the next nonbinding stockholder advisory vote on the frequency of a Say-on-Pay proposal will be at our 2017 annual meeting of stockholders.

Say-on-Pay Proposal. This proposal affords our stockholders the opportunity to submit a nonbinding advisory vote on our named executive officer compensation. The Compensation Discussion and Analysis section, the tabular disclosure regarding our named executive officer compensation and the related disclosure in this proxy statement describe our named executive officer compensation and the compensation decisions made by our management and our management development and compensation committee of the board of directors with respect to our named executive officers. This proposal is not intended to address any specific element of compensation of our named executive officers as described in this proxy statement, but the compensation of our named executive officers in general. Our board of directors requests that each stockholder cast a nonbinding advisory vote to adopt the following resolution:

RESOLVED, that, by the affirmative vote of the majority of the holders of our outstanding class A and B shares of common stock, voting together as a single class, present in person or represented by proxy at the 2012 annual meeting and entitled to vote thereon, the stockholders of CompX International Inc. approve, on a nonbinding advisory basis, the compensation of its executive officers named in the 2011 Summary Compensation Table in the 2012 annual meeting proxy statement of CompX International Inc. as such compensation is disclosed in the proxy statement pursuant to the executive compensation disclosure rules of the U.S. Securities and Exchange Commission, which disclosure includes the compensation discussion and analysis, the compensation tables and any related disclosure in the proxy statement.

Effect of the Proposal. The Say-on-Pay proposal is nonbinding and advisory. Our stockholders' approval or disapproval of this proposal will not require our board of directors, its management development and compensation committee or our management to take any action regarding our executive compensation practices.

Vote Required. Because this proposal is a nonbinding advisory vote, there is no minimum requisite vote to approve the Say-on-Pay proposal. The proposed resolution provides that the affirmative vote of the majority of the holders of our outstanding class A and B shares of common stock, voting together as a single class, present in person or represented by proxy at the annual meeting and entitled to vote will be the requisite vote to adopt the resolution and approve the compensation of our named executive officers as such compensation is disclosed in this proxy statement. Accordingly, abstentions will be counted as represented and entitled to vote and will therefore have the effect of a negative vote. Broker/nominee non-votes will not be counted as entitled to vote and will have no affect on this proposal.

As already disclosed, NL is the direct holder of 86.8% of the outstanding shares of our combined class A and B common stock as of the record date and has indicated its intention to have its shares of our common stock represented at the meeting and to vote such shares FOR the Say-on-Pay proposal and adoption of the resolution that approves the compensation of our named executive officers as described in this proxy statement. If NL attends the meeting in person or by proxy and votes as indicated, the meeting will have a quorum present and the stockholders will adopt the resolution and approve the nonbinding advisory Say-on-Pay proposal.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE SAY-ON-PAY PROPOSAL AS SET FORTH IN THE NONBINDING ADVISORY RESOLUTION APPROVING OUR NAMED EXECUTIVE OFFICER COMPENSATION AS DISCLOSED IN THIS PROXY STATEMENT.

OTHER MATTERS

The board of directors knows of no other business that will be presented for consideration at the annual meeting. If any other matters properly come before the meeting, the persons designated as agents in the enclosed proxy card will vote on such matters in their discretion.

2011 ANNUAL REPORT ON FORM 10-K

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 is included as part of the annual report furnished to our stockholders with this proxy statement and may also be accessed on our website at www.compx.com.

STOCKHOLDERS SHARING THE SAME ADDRESS

Stockholders who share an address and hold shares through a brokerage firm or other nominee may receive only one copy of the proxy materials. This procedure, referred to as householding, reduces the volume of duplicate information stockholders receive and reduces mailing and printing expenses. A number of brokerage firms have instituted householding. You should notify your brokerage firm or other nominee if:

- you no longer wish to participate in householding and would prefer to receive separate proxy materials; or
- you receive multiple copies of the proxy materials at your address and would like to request householding of our communications.

REQUEST COPIES OF THE 2011 ANNUAL REPORT AND THIS PROXY STATEMENT

To obtain copies of our 2011 annual report to stockholders or this proxy statement without charge, please mail your request to the attention of A. Andrew R. Louis, corporate secretary, at CompX International Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697, or call him at 972.233.1700.

CompX International Inc.

Dallas, Texas
April 27, 2012

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Exhibit A
CompX International Inc.

2012 Director Stock Plan

Section 1. Purpose. The purpose of this Plan is to advance the interests of CompX and its stockholders by providing incentives to its directors to contribute to the strategic and long-term performance objectives and growth of CompX.

Section 2. Definitions. The following terms shall have the meanings indicated:

(a) "Board" shall mean the board of directors of CompX.

(b) "Class A Common Shares" shall mean shares of class A common stock, par value $0.01 per share, of CompX and stock of any other class into which such shares may thereafter be changed.

(c) "Code" shall mean the Internal Revenue Code of 1986, as it now exists or may be amended from time to time, and the rules and regulations promulgated thereunder, as they may exist or may be amended from time to time.

(d) "Committee" shall mean a committee of the Board, if any, designated by the Board to administer this Plan that is comprised of not fewer than two directors and shall initially mean the management, development and compensation committee of the Board. The membership of the Committee or any successor committee (i) shall consist of "nonemployee directors" (as defined in Rule 16b-3) and meet any other applicable requirements so as to comply at all times with the applicable requirements of Rule 16b-3, (ii) shall consist of "outside directors" (as defined in Treasury Regulation §1.162-27(e)(3)(i) or any successor regulation) and meet any other applicable requirements so as to comply at all times with the applicable requirements of Section 162(m) and (iii) shall meet any applicable requirements of any stock exchange or other market quotation system on which Class A Common Shares are listed or traded. References to the Committee hereunder shall include the Board where appropriate.

(e) "Company" shall mean CompX and any parent or privately held subsidiary of CompX.

(f) "CompX" shall mean CompX International Inc., a Delaware corporation and any of its privately held subsidiaries.

(g) "Effective Date" shall mean May 30, 2012.

(h) "Exchange Act" shall mean the Securities Exchange Act of 1934, as it now exists or may be amended from time to time, and the rules promulgated thereunder, as they may exist or may be amended from time to time.

(i) "Director" shall mean a member of the board of directors of CompX at such time.

(j) "Grant" shall mean a grant of Class A Common Shares to a Director under this Plan.

(k) "Plan" shall mean this CompX International Inc. 2012 Director Stock Plan, as it may be amended from time to time.

(l) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the U.S. Securities and Exchange Commission under the Exchange Act and any successor rule.

(m) “Section 162(m)” shall mean §162(m) of the Code, any rules or regulations promulgated thereunder, as they may exist or may be amended from time to time, or any successor to such section.

(n) "Treasury Regulation" shall mean a final, proposed or temporary regulation of the U.S. Department of Treasury under the Code and any successor regulation.

Section 3. Administration. Unless the Board shall designate itself, this Plan shall be administered by the Committee.

The Committee has all the powers vested in it by the terms of this Plan. Such powers shall include the exclusive authority to select the Directors to receive Grants under this Plan, and to determine the number of Class A Common Shares granted, the time of the Grants to be made to each Director selected and the terms and conditions (if any) associated with the Grants. The Committee is authorized to interpret this Plan and to make any other determinations that it deems necessary or desirable for the administration of this Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Grant in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of this Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Committee may act only by a majority of its members, except that the members thereof may authorize any one or more of their members or any officer of CompX to execute and deliver documents or to take any other ministerial action on behalf of the Committee with respect to Grants.

No member of the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him or her, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute. In addition to all other rights of indemnification and reimbursement to which a member of the Committee and an officer of the Company may be entitled, the Company shall indemnify and hold harmless each such member or officer who was or is a party or is threatened to be made a party to any threatened, pending or completed proceeding or suit in connection with the performance of duties under this Plan against expenses (including reasonable attorneys' fees), judgments, fines, liabilities, losses and amounts paid in settlement actually and reasonably incurred by him or her in connection with such proceeding or suit, except for his or her own willful misconduct or as expressly provided otherwise by statute. Expenses (including reasonable attorneys' fees) incurred by such a member or officer in defending any such proceeding or suit shall be paid by the Company in advance of the final disposition of such proceeding or suit upon receipt of a written affirmation by such member or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of such member or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Company as authorized in this Section.

Section 4. Grants of Class A Common Shares under this Plan.

(a) Maximum Number of Shares that May be Issued. There may be issued under this Plan an aggregate of not more than 200,000 Class A Common Shares, subject to adjustment as provided in Section 5. Class A Common Shares issued pursuant to this Plan may be either authorized but unissued shares, treasury shares or any combination thereof. The number of Class A Common Shares that may be issued to a Director under this Plan may not exceed 10,000 shares in any calendar year.

(b) Conditions for Receipt of Grant. Entitlement to a Grant shall be conditioned upon achieving specified Company performance goals for a given performance period based on the closing price per share on the NYSE Amex Exchange (or any other stock exchange or market quotation system on which Class A Common Shares are listed or traded) for the period specified by the Committee. The Committee shall, from time to time, designate the performance goals, which shall be documented in writing, and, for any performance period, must be established no later than ninety (90) days after the commencement of such performance period.

(c) Rights with Respect to Class A Common Shares and Other Securities. Except as provided in Section 5, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether

in cash, securities, other property or other forms of consideration, or any combination thereof) for which the record date is prior to the date such stock certificate or other instrument of ownership, if any, is issued. In all events, a Director who receives a Grant shall have no rights as a stockholder with respect to such Class A Common Shares represented by such Grant until the issuance to him or her of a stock certificate representing such shares.

Section 5. Dilution and Other Adjustments. In the event of any change in the outstanding Class A Common Shares by reason of any stock split, stock dividend or other extraordinary or unusual event, if the Committee shall determine, in its discretion, that such change equitably requires an adjustment to the maximum number of Class A Common Shares available for issuance (i) under this Plan or (ii) to any one Director under this Plan in any one calendar year, such adjustments may be made by the Committee and shall be final, conclusive and binding for all purposes of this Plan.

Section 6. Miscellaneous Provisions.

(a) No fractional shares may be delivered under a Grant, but in lieu thereof a cash or other adjustment shall be made as determined by the Committee in its discretion.

(b) Determinations made by the Committee under this Plan need not be uniform and may be made selectively among Directors, whether or not such Directors are similarly situated. Such determinations shall include the right to exercise discretion to reduce prior to its grant date the amount of a Grant made to any Director; provided, however, the exercise of discretion shall not have the effect of increasing any Grant that is payable to any Director.

(c) No Director or other person shall have any claim or right with respect to this Plan, the Class A Common Shares reserved for issuance under this Plan or in any Grant, contingent or otherwise, until the Class A Common Shares represented by such Grant shall have been delivered to the recipient and all the terms, conditions and provisions of this Plan and the Grant applicable to such recipient (and each person claiming under or through him or her) have been met.

(d) No Class A Common Shares shall be issued hereunder with respect to any Grant unless counsel for CompX shall be satisfied that such issuance will be in compliance with applicable law and any applicable rules of any stock exchange or other market quotation system on which Class A Common Shares are listed or traded.

(e) It is the intent of CompX that this Plan comply in all respects with Rule 16b-3 and Section 162(m) with respect to Grants, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with Rule 16b-3 or Section 162(m), such provision shall be deemed null and void with respect to Grants granted to executive officers of CompX to the extent required to permit such Grants to comply with Rule 16b-3 and Section 162(m).

(f) The expenses of this Plan shall be borne by CompX; provided, however, CompX may recover from a Director or his or her heirs or assigns any and all damages, fees, expenses and costs incurred by CompX arising out of any actions taken by a Director in breach of this Plan.

(g) By accepting any Grant or other benefit under this Plan, each Director and each person claiming under or through him or her shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under this Plan by CompX, the Board or the Committee.

(h) The appropriate officers of CompX shall cause to be filed any reports, returns or other information regarding Grants hereunder of any Class A Common Shares issued pursuant hereto as may be required by applicable law and any applicable rules of any stock exchange or other market quotation system on which Class A Common Shares are listed or traded.

(i) The validity, construction, interpretation, administration and effect of this Plan, and of its rules and regulations, and rights relating to this Plan and to Grants under this Plan, shall be governed by the substantive laws, but not the choice of law rules, of the state of Delaware.

(j) Records of CompX shall be conclusive for all purposes under this Plan or any Grant, unless determined by the Committee to be incorrect.

(k) If any provision of this Plan or any specific Grant is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Plan, the specific Grant or any other Grant, but such provision shall be fully severable, and this Plan, such specific Grant and any other Grant, as applicable, shall be construed and enforced as if the illegal or invalid provision had never been included in this Plan, the specific Grant or any other Grant, as applicable.

(l) The terms of this Plan shall govern all Grants under this Plan and in no event shall the Committee have the power to authorize a Grant under this Plan that is contrary to any of the provisions of this Plan.

Section 7. Plan Amendment or Suspension. This Plan may be amended or suspended in whole or in part at any time from time to time by the Board. No amendment of this Plan shall adversely affect in a material manner any right of any person with respect to any Grant previously granted without such person's written consent.

Section 8. Plan Termination. This Plan shall terminate upon the earlier of the following dates or events to occur:

(a) upon the adoption of a resolution of the Board terminating this Plan; or

(b) when no more Class A Common Shares are authorized to be issued under this Plan.

No termination of this Plan shall materially alter or impair any of the rights or obligations of any person, without his or her consent, under any Grant previously granted under this Plan.

Section 9. Effective Date. This Plan shall be effective, and Grants awarded under this Plan, on or after the Effective Date.

ADOPTED BY THE BOARD:	February 22, 2012
APPROVED BY THE STOCKHOLDERS:	May 30, 2012
EFFECTIVE DATE:	May 30, 2012

EXECUTED to evidence this CompX International Inc. 2012 Director Stock Plan adopted by the Board on February 22, 2012 and the stockholders of CompX on May 30, 2012.

CompX International Inc.

By:
A. Andrew R. Louis, Vice President and Secretary

CompX International Inc.
Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2697

Important Notice Regarding the Availability of Proxy Materials for the
Annual Stockholder Meeting to Be Held on May 30, 2012.

The proxy statement and annual report to stockholders (including CompX's Annual Report on Form 10-K for the fiscal year
ended December 31, 2011) are available atwww.compx.com/annualmeeting.

Dear Stockholder:

CompX International Inc. encourages you to take advantage of new and convenient ways by which you can vote your shares. You can vote your shares electronically through the internet or by telephone. This eliminates the need to return this proxy card.

Your electronic or telephonic vote authorizes the agents named on this proxy card to vote in the same manner as if you marked, signed, dated and returned this proxy card. If you vote your shares electronically or telephonically, do not mail back this proxy card.

Your vote is important. Thank you for voting.

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy — CompX International Inc.

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF COMPX INTERNATIONAL INC.
FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 30, 2012

The undersigned hereby appoints David A. Bowers, Darryl R. Halbert and A. Andrew R. Louis, and each of them, proxy for the undersigned, with full power of substitution, to vote on behalf of the undersigned at the 2012 Annual Meeting of Stockholders (the "Meeting") of CompX International Inc., a Delaware corporation ("CompX"), to be held at

CompX's corporate offices at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas on Wednesday, May 30, 2012, at 10:00 a.m. (local time), and at any adjournment or postponement of the Meeting, all of the shares of class A and B common stock, par value $0.01 per share, of CompX standing in the name of the undersigned or that the undersigned may be entitled to vote on the proposals set forth, and in the manner directed, on this proxy card.

THIS PROXY AUTHORIZATION MAY BE REVOKED AS SET FORTH IN THE PROXY STATEMENT THAT ACCOMPANIED THIS PROXY CARD.

The agents named on this proxy card, if this card is properly executed, will vote in the manner directed on this card. If this card is properly executed but no direction is given with respect to the election of one or more nominees named on the reverse side of this card or any of the other proposals, the agents will vote "FOR" each such nominee for election as a director and, as applicable, "FOR" proposals 2 and 3. To the extent allowed by applicable law, the agents will vote in their discretion on any other matter that may properly come before the Meeting and any adjournment or postponement thereof.

PLEASE SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE.

SEE REVERSE SIDE.

CompX International Inc.
IMPORTANT ANNUAL MEETING INFORMATION
Electronic Voting Instructions

You can vote by Internet or telephone!
Available 24 hours a day, 7 days a week!

Instead of mailing your proxy card, you may choose one of the two voting methods outlined below to instruct how the agents named on this proxy card should vote your shares.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxy instructions submitted by the Internet or telephone must be received by 12:01 a.m., Central Time, on May 30, 2012.

Vote by Internet
· Go to www.investorvote.com/CIX
· Or scan the QR code with your smartphone
· Follow the steps outlined on the secured website.

Vote by telephone
- Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada any time on a touch tone telephone.
- Follow the instructions provided by the recorded message

Using a black ink pen, mark yourx votes with an X as shown in this example. Please do not write outside the designated areas.

Annual Meeting Proxy Card

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A Proposals — The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.

1. Director Nominees:

	For	Withhold		For	Withhold		For	Withhold
01 – David A. Bowers	¨	¨	02 – Serena S. Connelly	¨	¨	03 – Norman S.	¨	¨

04 – Edward J. Hardin	¨	¨	05 – Ann Manix	¨	¨	Edelcup 06 – Glenn R. Simmons	¨	¨
07 – Steven L. Watson	¨	¨						

	For	Against	Abstain		For	Against	Abstain
2. 2012 Director Stock Plan	¨	¨	¨	3. Nonbinding advisory vote approving named executive officer compensation	¨	¨	¨

4. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Meeting and any adjournment or postponement thereof

B Non-Voting Items

Change of Address - Please print new address below.

C Authorized Signatures – This section must be completed for your vote to be counted. – Date and Sign Below

NOTE: Please sign exactly as the name that appears on this card. Joint owners should each sign. When signing other than in an individual capacity, please fully describe such capacity. Each signatory hereby revokes all proxies heretofore given to vote at said Meeting and any adjournment or postponement thereof.

Date (mm/dd/yyyy) – Please print date below.	Signature 1 – Please keep signature within the box	Signature 2 – Please keep signature within the box
/ /		