EMERGING VISION INC
Form 10-K
March 31, 2003

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

Commission File Number 1-14128

EMERGING VISION, INC.
(Exact name of Registrant as specified in its Charter)

NEW YORK	11-3096941
(State of incorporation)	(I.R.S. Employer Identification Number)

100 Quentin Roosevelt Boulevard
Garden City, NY 11530
Telephone Number: (516) 390-2100
(Address and Telephone Number of
Principal Executive Offices)

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

None

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

Common Stock, par value $0.01 per share

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Act.

Yes No X

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2002, was $1,084,878.

Number of shares outstanding as of March 24, 2003:

29,890,620 shares of Common Stock, par value $0.01 per share

Documents incorporated by reference: None

Part I

Item 1. Business

GENERAL

Emerging Vision, Inc. (the "Registrant" and, together with its subsidiaries, hereinafter the "Company" or "Emerging") is one of the largest chains of retail optical stores and one of the largest franchise optical chains in the United States, based upon management's beliefs, domestic sales and the number of locations of Company-owned and franchised stores (collectively referred to herein as "Sterling Stores"). The Registrant was incorporated under the laws of the State of New York in January 1992 and, in July 1992, purchased substantially all of the assets of Sterling Optical Corp., a New York corporation then a debtor-in-possession under Chapter 11 of the U.S. Bankruptcy Code.

In March 2001, the Board of Directors decided that the Company should focus its efforts and resources on growing its retail optical business and, as a result, approved a plan to discontinue all other operations then being conducted by the Company. In connection with this decision, the Company completed its plan of disposal of substantially all of the net assets of Insight Laser Centers, Inc. ("Insight Laser") - which operated three laser vision correction centers in the New York metropolitan area; Insight Laser Centers N.Y.I, Inc. (the "Ambulatory Center") - owner of the assets of an ambulatory surgery center located in Garden City, New York; and the yet-to-be-developed Internet Division - which was to provide a web-based portal being designed to take advantage of business-to-business opportunities in the optical industry, for which the Company ceased further development and discontinued the operations thereof.

STORE OPERATIONS

The Company and its franchisees operate retail optical stores under the trade names "Sterling Optical," "Site For Sore Eyes," "Duling Optical," and "Singer Specs," although most stores (other than the Company's Site for Sore Eyes stores located in Northern California) operate under the name "Sterling Optical." The Company also operates VisionCare of California ("VCC"), a specialized health care maintenance organization licensed by the State of California Department of Managed Health Care, which employs licensed optometrists who render services in offices located immediately adjacent to, or within, most Sterling Stores located in California.

Most Sterling Stores offer eye care products and services such as prescription and non-prescription eyeglasses, eyeglass frames, ophthalmic lenses, contact lenses, sunglasses and a broad range of ancillary items. To the extent permitted by individual state regulations, an optometrist is employed by, or affiliated with, most Sterling Stores to provide professional eye examinations to the public. The Company fills prescriptions from these employed or affiliated optometrists, as well as from unaffiliated optometrists and ophthalmologists. Most Sterling Stores have an inventory of ophthalmic and

contact lenses, as well as on-site lab equipment for cutting and edging ophthalmic lenses to fit into eyeglass frames, which, in many cases, allows Sterling Stores to offer same-day service.

Occasionally, the Company sells the assets of certain of its Company-owned stores to qualified franchisees, and, in certain instances, realizes a profit on the conveyance of the assets of such stores. Through these sales, along with the opening of new stores by qualified franchisees, the Company seeks to create a stream of royalty payments based upon a percentage of the gross revenues of the franchised locations, and grow both the Sterling Optical and Site For Sore Eyes brand names. The Company currently derives its retail optical store revenues principally from the sale of eye care products and services at Company-owned stores, and ongoing royalty fees based upon a percentage of the gross revenues of its franchised stores.

As of December 31, 2002, there were 182 Sterling Stores in operation, consisting of 23 Company-owned stores (including 8 stores being managed by franchisees), and 159 franchised stores. The Company currently seeks to focus on expanding its franchised store operations. Sterling Stores are located in 23 states, the District of Columbia, Canada, and the U.S. Virgin Islands.

The following chart sets forth the breakdown of Sterling Stores in operation as of December 31, 2002 and 2001:

	December 31, 2002(*)	December 31, 2001
I. COMPANY-OWNED STORES:		
Company-owned stores........................	15	25
Company-owned stores managed by franchisees..	8	9
Total.................	23	34

(*)Existing store locations: California (2), Iowa (1), Minnesota (1), Nebraska (1), New York (14), North Dakota (1), Pennsylvania (1), and Wisconsin (2).

	December 31, 2002(*)	December 31, 2001
II. FRANCHISED STORES:		
Franchised stores.........................	159	168
Franchised stores managed by the Company...	-	1
Total.................	159	169

(*)Existing store locations: California (28), Colorado (1), Connecticut (1), Delaware (6), Florida (1), Illinois (2), Kentucky (2), Maryland (17), Massachusetts (1), Minnesota (1), Montana (1), Nevada (1), New Jersey (8), New York (42), North Dakota (5), Ontario, Canada (2), Pennsylvania (15), South Dakota (1), Texas (1), Virginia (8), Washington, D.C. (2), West Virginia (1), Wisconsin (10), and the U.S. Virgin Islands (2).

Sterling Stores generally range in size from approximately 1,000 square feet to 2,000 square feet, are similar in appearance and are operated under certain uniform standards and operating procedures. Many Sterling Stores are located in enclosed regional shopping malls and smaller strip centers; however, some Sterling Stores are located on the ground floor of office buildings or other commercial structures, with a limited number of Sterling Stores being housed in freestanding buildings with adjacent parking facilities. Sterling Stores are generally clustered within geographic market areas to maximize the benefit of advertising strategies and minimize the cost of supervising operations.

In response to the eyewear market becoming increasingly fashion-oriented during the past decade, most Sterling Stores carry a large selection of designer eyeglass frames. The Company continually test-markets various brands of sunglasses, ophthalmic lenses, contact lenses and ophthalmic frames. Small quantities of these items are usually purchased for selected stores that test customer response and interest. If a product test is successful, the Company attempts to negotiate a system-wide preferred vendor discount for the product in an effort to maximize system-wide sales and profits.

FRANCHISE SYSTEM

An integral part of the Company's franchise system includes providing what the Company believes to be a high level of marketing, financial, training and administrative support to its franchisees. The Company provides "grand opening" assistance for each new franchised location by consulting with its franchisees with respect to store design, fixture and equipment requirements and sources, inventory selection and sources, and marketing and promotional programs, as well as assistance in obtaining managed care contracts. Specifically, the Company's grand opening assistance helps to establish business plans and budgets, provides preliminary store designs and plan approval prior to construction of a franchised store, and provides training, an operations manual and a comprehensive business review to aid the franchisee in attempting to maximize its sales and profitability. Further, on an ongoing basis, the Company provides training through regional seminars, offers assistance in marketing and advertising programs and promotions, and consults with its franchisees as to their management and operational strategies and business plans.

Preferred Vendor Network. With the collective buying power of Company-owned and franchised Sterling Stores, the Company has established a network of preferred vendors (the "Preferred Vendors") whose products may be purchased directly by franchisees at group discount prices, thereby providing such franchisees with the opportunity for higher gross margins. Additionally, the Company negotiates and executes cooperative advertising programs with its Preferred Vendors for the benefit of all Company-owned and franchised stores.

Franchise Agreements. Each franchisee enters into a franchise agreement (the "Franchise Agreement") with the Company, the material terms of which generally are as follows:

a. Term. Generally, the term of each Franchise Agreement is ten years and, subject to certain conditions, is renewable at the option of the franchisee.

b. Initial Fees. Generally, franchisees (except for any franchisees converting their existing retail optical store to a Sterling Store (a "Converted Store"), and those entering into agreements for more than one location) must pay

the Company a non-recurring, initial franchise fee of $20,000. The Company charges each franchisee of a Converted Store a non-recurring, initial franchise fee of $10,000 per location. For each franchisee entering into agreements for more than one location, the Company charges a non-recurring, initial franchise fee of $15,000 for the second location, and $10,000 for each location in excess of two.

c. Ongoing Royalties. Franchisees are obligated to pay the Company ongoing royalties in an amount equal to a percentage (generally 8%) of the gross revenues generated by their Sterling Store. Franchisees of Converted Stores, however, pay ongoing royalties, on their store's historical average base sales, at reduced rates increasing (in most cases) from 2% to 6% for the first three years of the term of the Franchise Agreement. In addition, most of the Franchise Agreements acquired by the Company from Singer Specs, Inc. (the "Singer Franchise Agreements") provide for ongoing royalties calculated at 7% of gross revenues. Franchise Agreements entered into prior to January 1994 provide for the payment of ongoing royalties on a monthly basis, while those entered into after January 1994 provide for their payment on a weekly basis, in each case, based upon the gross revenues for the preceding period. Gross revenues generally include all revenues generated from the operation of the Sterling Store in question, excluding refunds to customers, sales taxes, a limited amount of bad debts and, to the extent required by state law, fees charged by independent optometrists.

d. Advertising Fund Contributions. Most franchisees must make ongoing contributions to an advertising fund (the "Advertising Fund") equal to a percentage of their store's gross revenues. Except for the Singer Franchise Agreements, which generally provide for contributions equal to 7% of gross revenues, for Franchise Agreements entered into prior to August 1993, the rate of contribution is generally 4% of the store's gross revenues, while Franchise Agreements entered into after August 1993 generally provide for contributions equal to 6% of the store's gross revenues. Generally, 50% of these funds are expended at the direction of each individual franchisee (for the particular Sterling Store in question), with the balance being expended on joint advertising campaigns for all franchisees located within specific geographic areas.

e. Financing. In the past, the Company has financed a majority of the acquisition price of the assets (other than inventory) of Company-owned stores sold to franchisees, to be repaid over a period of seven years, together with interest at the rate of 12% per annum. The Company generally does not finance the initial, non-recurring franchise fee or rent security deposits, which are generally required under a franchisee's sublease. The purchase price is generally based upon the historical and projected cash flow of the Sterling Store in question. However, the Company has, on occasion, financed (and may in the future finance) up to 100% of the acquisition price of a franchised store. Substantially all such financing is personally guaranteed by the franchisee (or, if a corporation, by the principals owning in excess of an aggregate of 51% thereof) and is generally secured by all of the assets of the Sterling Store in question, including subsequently acquired assets and the proceeds thereof. From time to time, certain franchisees obtain financing from third parties. In such cases, the Company generally subordinates its security interest in the assets of the franchised location to the security interests granted to the provider of such financing.

f. Termination. Franchise Agreements may be terminated if the franchisee has defaulted on its payment of monies due to the Company, or in its performance of the other terms and conditions of the Franchise Agreement. During 2002, ten franchised stores were closed, and the assets of (as well as possession of) an additional 4 franchise stores were reacquired by the Company. Substantially all of the assets located in such stores were voluntarily surrendered and transferred back to the Company in connection with the termination of the

related Franchise Agreements. In such instances, it is generally the Company's intention to re-convey the assets of such a store to a new franchisee, requiring the new franchisee to enter into the Company's then current form of Franchise Agreement.

MARKETING AND ADVERTISING

The Company's marketing strategy emphasizes professional eye examinations, competitive pricing (primarily through product promotions), convenient locations, excellent customer service, customer-oriented store design and product displays, knowledgeable sales associates, and a broad range of quality products, including privately-labeled contact lenses and lens cleaning solutions presently being offered by the Company and certain of its franchisees. Examinations by licensed optometrists are generally available on the premises of, or directly adjacent to, substantially all Sterling Stores.

The Company continually prepares and revises its in-store, point-of-purchase displays, which provide various promotional messages to customers upon their arrival at Sterling Stores. Both Company-owned and most franchised Sterling Stores participate in advertising and in-store promotions, which include visual merchandising techniques to draw attention to the products displayed in the Sterling Store in question. The Company is also continually refining its interactive web site, which further markets the "Sterling Optical" and "Site for Sore Eyes" brands in an effort to increase traffic to its stores and, in many instances, also uses direct mail advertising to reach prospective, as well as existing, consumers.

The Company annually budgets approximately 4% to 6% of system-wide sales for advertising and promotional expenditures. Generally, franchisees are obligated to contribute a percentage of their Sterling Store's gross revenues to the Company's segregated advertising fund accounts, which the Company maintains for advertising, promotional and public relations programs. In most cases, the Company permits each franchisee to direct the expenditure of approximately 50% of such contributions, with the balance being expended to advertise and promote all Sterling Stores located within the geographic area of the Sterling Store in question, and/or on national promotions and campaigns.

INSIGHT MANAGED VISION CARE

Managed care is a substantial and growing segment of the retail optical business. Under the trade name "Insight Managed Vision Care," the Company promotes the use of its Sterling Stores through the ongoing development of its managed care network. The Company, through Insight Managed Vision Care, contracts with payors (e.g. health maintenance organizations, preferred provider organizations, insurance companies, Taft-Hartley unions, and mid-sized to large companies) that offer eye care benefits to their covered participants. When Sterling Stores provide services or products to a covered participant, it is generally at a discount from the everyday advertised retail price. Typically, participants will be eligible for greater eye care benefits at Sterling Stores than those offered at eye care providers that are not participating in a managed care program. The Company believes that the additional customer traffic generated by covered participants, along with purchases by covered participants above and beyond their eye care benefits, more than offsets the reduced gross margins being realized on these sales. The Company believes that convenience of store locations and hours of operation are key factors in attracting managed care business. As the Company increases its presence within markets it has

already entered as well as expands into new markets, it believes it will be more attractive to managed care payors due to the additional Sterling Stores being operated by the Company and its franchisees.

COMPETITION

The optical business is highly competitive and includes chains of retail optical stores, superstores, individual retail outlets, the operators of web sites and a large number of individual opticians, optometrists and ophthalmologists who provide professional services and may, in connection therewith, dispense prescription eyewear. As retailers of prescription eyewear generally service local markets, competition varies substantially from one location or geographic area to another. Since 1994, certain major competitors of the Company have been offering promotional incentives to their customers and, in response thereto, the Company generally offers the same or similar incentives to its customers.

The Company believes that the principal competitive factors in the retail optical business are convenience of location, on-site availability of professional eye examinations, rapid service, quality and consistency of product and service, price, product warranties, a broad selection of merchandise and the participation in third-party, managed care provider programs. The Company believes that it competes favorably in each of these areas.

GOVERNMENT REGULATION

The Company and its operations are subject to extensive federal, state and local laws, rules and regulations affecting the health care industry and the delivery of health care, including laws and regulations prohibiting the practice of medicine and optometry by persons not licensed to practice medicine or optometry, prohibiting the unlawful rebate or unlawful division of fees and limiting the manner in which prospective patients may be solicited. The regulatory requirements that the Company must satisfy to conduct its business will vary from state to state. In particular, some states have enacted laws governing the ability of ophthalmologists and optometrists to enter into contracts to provide professional services with business corporations or lay persons, and some states prohibit the Company from computing its continuing royalty fees based upon a percentage of the gross revenues of the fees collected by affiliated optometrists. Various federal and state regulations limit the financial and non-financial terms of agreements with these health care providers; and the revenues potentially generated by the Company differ among its various health care provider affiliations.

The Company is also subject to certain regulations adopted under the Federal Occupational Safety and Health Act with respect to its in-store laboratory operations. The Company believes that it is in material compliance with all such applicable laws and regulations.

As a franchisor, the Company is subject to various registration and disclosure requirements imposed by the Federal Trade Commission and by many states in which the Company conducts franchising operations. The Company believes that it is in material compliance with all such applicable laws and regulations.

ENVIRONMENTAL REGULATION

The Company's business activities are not significantly affected by environmental regulations, and no material expenditures are anticipated in order for the Company to comply with any such environmental regulations. However, the Company is subject to certain regulations promulgated under the Federal Environmental Protection Act with respect to the grinding, tinting, edging and disposal of ophthalmic lenses and solutions, which the Company believes it is in material compliance with.

EMPLOYEES

As of March 24, 2003, the Company employed approximately 160 individuals, of which approximately 77% were employed on a full-time basis. Except for those individuals employed at Company-owned Sterling Stores located in the New York metropolitan area, and except for those individuals employed by the Registrant's wholly-owned subsidiary, Insight IPA of New York, Inc. (which solicits managed care provider agreements in the State of New York), of which there were none, no employees are covered by any collective bargaining agreement. The Company considers its labor relations with its associates to be in good standing and has not experienced any interruption of its operations due to disagreements. Additionally, the Company has an employment agreement with one of its key executives.

Item 2. Properties

The Company's headquarters, consisting of approximately 7,000 square feet, are located in an office building situated at 100 Quentin Roosevelt Boulevard, Garden City, New York 11530, under a sublease that expires in November 2006. This facility houses the Company's principal executive and administrative offices.

The Company leases the space occupied by all of its Company-owned Sterling Stores and the majority of its franchised Sterling Stores. The remaining leases for its franchised Sterling Stores are held in the names of the respective franchisees thereof.

Sterling Stores are generally located in commercial areas, including major shopping malls, strip centers, freestanding buildings and other areas conducive to retail trade. Generally, Sterling Stores range in size from 1,000 to 2,000 square feet.

Item 3. Legal Proceedings

Information with respect to the Company's legal proceedings required by Item 103 of Regulation S-K is set forth in Note 12 to the Consolidated Financial Statements included in Item 8 of this Report, and is incorporated by reference herein.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote by the Company's shareholders during the fourth quarter ended December 31, 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Registrant's Common Stock was listed on the OTC Bulletin Board under the trading symbol "ISEE.OB" as of August 23, 2001, and was previously listed on the Nasdaq National Market System. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The range of the high and low closing sales prices for the Registrant's Common Stock for each quarterly period of the last two years, is as follows:

	2002		2001	
Quarter Ended:	High	Low	High	Low
March 31	$0.14	$0.07	$0.72	$0.22
June 30	$0.11	$0.05	$0.37	$0.19
September 30	$0.10	$0.04	$0.80	$0.13
December 31	$0.10	$0.03	$0.14	$0.06

The approximate number of shareholders of record of the Company's Common Stock as of March 24, 2003, was 300.

There was one shareholder of record of the Company's Senior Convertible Preferred Stock as of March 24, 2003.

Historically, the Company has not paid dividends on its Common Stock, and has no intention to pay dividends on its Common Stock in the foreseeable future. It is the present policy of the Registrant's Board of Directors to retain earnings, if any, to finance the Company's operations and expansion.

Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following Selected Financial Data has been derived from the audited consolidated financial statements of the Company and should be read in conjunction with those statements, which are included in this Report. The consolidated financial statements have been examined and reported on by Arthur Andersen LLP, independent public accountants, with respect to the years ended December 31, 2001, 2000, 1999 and 1998. The consolidated financial statements for the year ended December 31, 2002 were audited by Miller Ellin & Company LLP, independent public accountants.

(In thousands, except

	Year Ended De		
Statement of Operations Data:	2002	2001	2000
System-wide sales (1)	$ 104,448	$ 124,589	$ 128,7
Total revenues	$ 17,425	$ 20,619	$ 23,0
Loss from continuing operations	$ (4,721)	$ (5,088)	$ (14,6
Income (loss) from discontinued operations	$ 74	$ 1,312	$ (15,5
Loss on disposal of discontinued operations	$ -	$ -	$ (8,8
Net loss	$ (4,647)	$ (3,776)	$ (38,9
Per Share Information - basic and diluted			
Loss from continuing operations	$ (0.17)	$ (0.19)	$ (2.
Income (loss) from discontinued operations	$ 0.01	$ 0.05	$ (0.
Loss on disposal of discontinued operations	$ -	$ -	$ (0.
Net loss per share	$ (0.16)	$ (0.14)	$ (3.
Weighted-average common shares outstanding	28,641	26,409	23,6
Balance Sheet Data:			
Working capital deficit	$ (4,632)	$ (1,011)	$ (3,9
Total assets	6,650	11,057	22,5
Total debt	1,494	1,299	7

Quarterly Data:

	First Quarter		Second Quarter		Third Qu
	2002	2001	2002	2001	2002
Net revenues	$ 4,802	$ 5,464	$ 3,936	$ 5,288	$ 4,807
Net loss from continuing operations	$ (533)	$ (41)	$ (397)	$ (57)	$ (1,895)
Income (loss) from discontinued operations	$ -	$ 431	$ (120)	$ 1,064	$ 287
Net income (loss)	$ (533)	$ 390	$ (517)	$ 1,007	$ (1,608)

Sterling Store Data:	(In thousands, except for		
	Year Ended Dec		
	2002	2001	2000
Company-owned stores bought, opened or reacquired	4	15	
Company-owned stores sold or closed	(14)	(10)	(
Company-owned stores at end of period	15	25	
Company-owned stores being managed by Franchisees at end of period	8	9	
Franchised stores being managed by Company at end of period	-	1	
Franchised stores at end of period	159	169	2
Average sales per store (2):			
Company-owned stores	$ 337	$ 377	$ 3
Franchised stores	$ 591	$ 564	$ 5
Average franchise royalties per franchised store (2)	$ 47	$ 43	$

(1) System-wide sales represent combined retail sales generated by Company-owned and franchised stores, as well as revenues generated by VCC.

(2) Average sales per store and average franchise royalties per franchised store are computed based upon the weighted-average number of Company-owned and franchised stores in operation, respectively, for each of the specified periods. For periods of less than a year, the averages have been annualized.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of the Company's management, as well as assumptions made by, and information currently available to, the Company's management. When used in this Report, the words "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events, are not guarantees of future performance and are subject to certain risks and uncertainties. These risks and uncertainties may include: product demand and market acceptance risks; the effect of economic conditions;

the impact of competitive products, services and pricing; product development, commercialization and technological difficulties; the outcome of current and future litigation; and other risks described elsewhere herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, or expected. The Company does not intend to update these forward-looking statements.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Net sales for Company-owned stores, including revenues generated by VCC, a specialized health care maintenance organization licensed by the State of California Department of Managed Health Care, decreased by $1,742,000, or 15.0%, to $9,906,000 for the year ended December 31, 2002, as compared to $11,648,000 for the comparable period in 2001. The decrease in net sales was a direct result of management's commitment to continue to close non-profitable Company-owned stores. There were 15 stores being operated by the Company as of December 31, 2002, compared to 25 stores as of December 31, 2001. On a same store basis (for stores that operated as a Company-owned store during the entirety of both of the years ended December 31, 2002 and 2001), comparative net sales decreased by $377,000, or 8.2%, to $4,204,000 for the year ended December 31, 2002, as compared to $4,581,000 for the comparable period in 2001. Management believes this decrease was primarily a result of the struggling U.S. economy, combined with continuing national threats that significantly impacted the New York area, in which most of our Company-owned stores operate.

Franchise royalties decreased by $1,044,000, or 13.3%, to $6,816,000 for the year ended December 31, 2002, as compared to $7,860,000 for the comparable period in 2001. This decrease was a result of the fact that there were fewer franchised stores in operation during 2002 as compared to 2001. As of December 31, 2002, there were 159 franchised stores in operation, as compared to 169 as of December 31, 2001. Additional factors driving the decrease were the struggling U.S. economy, and certain other out of the ordinary threats and incidents that took place in areas of the United States in which a large number of our franchise stores operate, including New York, Maryland, Virginia, Washington D.C., and California, which significantly affected retail traffic in those areas.

Net gains on the conveyance of Company-store assets to franchisees, and other franchise related fees (which includes initial franchise fees, renewal fees and fees related to the transfer of store ownership from one franchisee to another) decreased by $69,000, or 49.3%, to $71,000 for the year ended December 31, 2002, as compared to $140,000 for the comparable period in 2001. This decrease was a direct result of a lower amount of initial franchise, transfer and renewal fees for the year ended December 31, 2002, as compared to the comparable period in 2001. The Company did not convey the assets of any of its Company-owned stores to franchisees during 2002 or 2001.

Interest on franchise notes receivable decreased by $635,000, or 67.1%, to $312,000 for the year ended December 31, 2002, as compared to $947,000 for the comparable period in 2001. This decrease was principally due to several franchise notes maturing during 2002, along with the fact that certain of the Company's franchisees filed bankruptcy or experienced other significant personal financial difficulties, leaving them unable to fulfill their commitment under their respective promissory notes to the Company.

Other income increased by $262,000, to $320,000, for the year ended December 31, 2002, as compared to $58,000 for the comparable period in 2001. This increase was primarily a result of the sale of certain assets of the Company to third parties, along with the settlement of certain existing liabilities at lesser amounts than anticipated.

The Company's gross profit margin increased by 3.4%, to 77.0% for the year ended December 31, 2002, as compared to 73.6% for the comparable period in 2001. This increase was a result of improved inventory management and control, improved purchasing at lower average product costs, and improved discounts obtained in 2002 from certain of the Company's vendors. In the future, the Company's gross profit margin may fluctuate depending upon the extent and timing of changes in the product mix in Company-owned stores, competitive pricing, and promotional incentives.

Selling, general and administrative expenses decreased by $1,797,000, or 8.8%, to $18,564,000 for the year ended December 31, 2002, as compared to $20,361,000 for the comparable period in 2001. This decrease was primarily due to management's continuing plans to reduce administrative expenses, and to close non-profitable Company-owned stores. Included were reductions in salaries and related expenses of $2,216,000, facility and other overhead charges of $263,000, and depreciation and amortization of $863,000. These items were offset by a $1,691,000 increase in the provision for doubtful accounts related to certain franchise receivables and notes that management deemed uncollectible due to, among other reasons, certain of the Company's franchisees filing bankruptcy or experiencing other significant personal financial difficulties, leaving them unable to fulfill their financial obligations to the Company. A smaller portion of this provision related to certain managed care receivables that were deemed uncollectible.

Provision for store closings decreased by $44,000, to $920,000, for the year ended December 31, 2002, as compared to $964,000 for the comparable period in 2001. In 2002, management made the decision to close an additional 15 of its Company-owned stores. In connection therewith, the Company recorded a provision based on the estimated costs (including lease termination costs and other expenses) that will be incurred in the closing of the stores.

Non-cash charges for the issuance of warrants and induced conversions of warrants decreased by $165,000, or 100.0%, for the year ended December 31, 2002, from the comparable period in 2001. This decrease was due to the fact that there were no non-cash charges related to warrants or induced conversions during 2002. The Company does, however, have outstanding contingent warrants that become exercisable upon the achievement, by the Company, of certain predetermined EBITDA targets. Due to these contingencies, the future valuation of the contingent warrants, if and when they become exercisable, will result in charges to the Company's results of operations in future periods. The significance of these charges, if any, will be dependent upon the fair market value of the Company's common stock at the time that the respective EBITDA targets are achieved.

Loss from the operation of franchised stores managed by the Company decreased by $167,000, or 100.0%, for the year ended December 31, 2002, from the comparable period in 2001. The Company did not manage any stores on behalf of franchisees during 2002, and has no intention of doing so in the future.

Interest expense increased by $130,000, or 168.8%, to $207,000 for the year ended December 31, 2002, as compared to $77,000 for the comparable period in 2001. This increase was a direct result of interest paid, during 2002, in connection with $2,000,000 in financing arrangements obtained by the Company in January 2002.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Net sales for Company-owned stores, including revenues generated by VCC, a

specialized health care maintenance organization licensed by the State of California Department of Managed Health Care, decreased by $467,000, or 3.9%, to $11,648,000 for the year ended December 31, 2001, as compared to $12,115,000 for the comparable period in 2000. On a same store basis (for stores that operated as a Company-owned store during the entirety of both of the years ended December 31, 2001 and 2000), comparative net sales decreased by $1,043,000, or 14.5%, to $6,129,000 for the year ended December 31, 2001, as compared to $7,172,000 for the comparable period in 2000. While, on average, there were more Company-owned stores in operation during 2001 as compared to 2000, the Company experienced a decline in sales during the last quarter of 2001. Management believes that this decline was a direct result of the general economic downturn experienced as a result of the tragic events of September 11, 2001, especially in light of the fact that the nearly 50% of Company-owned stores operate in the State of New York.

Franchise royalties decreased by $1,217,000, or 13.3%, to $7,860,000 for the year ended December 31, 2001, as compared to $9,077,000 for the comparable period in 2000. This decrease was a result of the fact that there were fewer franchised stores in operation during 2001 as compared to 2000. As of December 31, 2001, there were 169 franchised stores in operation, as compared to 201 as of December 31, 2000.

Net gains and fees on the conveyance of Company-owned store assets to franchisees (which includes renewal fees and the fees related to the transfer of store ownership from one franchisee to another) decreased by $158,000, or 53.0%, to $140,000 for the year ended December 31, 2001, as compared to $298,000 for the comparable period in 2000. This decrease was due to the fact that the Company did not convey to franchisees (and thus did not realize a gain on) any assets of Company-owned stores during the year ended December 31, 2001. In 2000, however, the Company conveyed the assets of three Company-owned stores to franchisees. The $140,000 reflected for the year ended December 31, 2001 relates solely to transfer and renewal fees.

Interest on franchise notes receivable decreased by $263,000, or 21.7%, to $947,000 for the year ended December 31, 2001, as compared to $1,210,000 for the comparable period in 2000. This decrease was principally due to the fact that several franchise notes matured during 2001.

Other income decreased by $300,000, or 83.8%, to $58,000 for the year ended December 31, 2001, as compared to $358,000 for the comparable period in 2000. This decrease was primarily a result of a decrease in the amount of interest income earned by the Company, due to lower average cash balances on hand in its banks during 2001, as compared to 2000.

The Company's gross profit margin increased by 5.5%, to 73.6% for the year ended December 31, 2001, as compared to 68.1% for the comparable period in 2000. This increase was a result of improved inventory management and control, improved purchasing at lower average product costs, and better discounts obtained in 2001 from certain of the Company's vendors. In the future, the Company's gross profit margin may fluctuate depending upon the extent and timing of changes in the product mix in Company-owned stores, competitive pricing, and promotional incentives.

Selling, general and administrative expenses decreased by $11,870,000, or 36.6%, to $20,361,000 for the year ended December 31, 2001, as compared to $31,260,000 for the comparable period in 2000. This decrease was primarily due to the fact that the Company recorded increased charges of $10,260,000 for the year ended December 31, 2000, related to the Company's provision for doubtful accounts associated with accounts and notes receivable due from franchisees,

along with certain receivables from franchisees for advertising expenditures that the Company incurred on their behalf, while the Company incurred no such charges for the year ended December 31, 2001. As discussed in prior year, the increased charges in 2000 were a direct result of a change in management philosophy, policy, direction, and related courses of action resulting from a change in the Company's senior management personnel subsequent to December 31, 2000, to take back franchise stores and/or reevaluate notes receivable due from various problem franchisees. During 2001, the Company did not incur similar charges, as management more closely monitored and managed its franchise receivables and notes. Additionally, due to corporate downsizing and improved scheduling in its Company-owned stores, the Company reduced salary and related expenses by approximately $1,500,000. Finally, there was a decrease in depreciation and amortization of approximately $350,000 due to the full depreciation in the prior year of certain of the Company's property and equipment.

Provision for store closings was $964,000 for the year ended December 31, 2001. No such provision was provided for the year ended December 31, 2000. In 2001, management made the decision to close 11 of its Company-owned stores. In connection therewith, the Company recorded a provision based on the expected net proceeds, if any, to be generated from the disposition of the store's assets, as compared to the carrying value (after consideration of impairment, if any) of such store's assets and the estimated costs (including lease termination costs and other expenses) that will be incurred in the closing of the stores.

Non-cash charges for issuance of warrants and induced conversion of warrants decreased by $201,000, or 54.9%, to $165,000 for the year ended December 31, 2001, from $366,000 for the comparable period in 2000. This decrease was principally due to the fact that there were no induced conversions of warrants during 2001. The 2001 charges relate solely to the issuance of common shares in consideration for consulting services. Furthermore, the Company has outstanding contingent warrants that become exercisable upon the achievement, by the Company, of certain predetermined EBITDA targets. Due to these contingencies, the future valuation of the contingent warrants, if and when they become exercisable, will result in charges to the Company's results of operations in future periods. The significance of these charges, if any, will be dependent upon the fair market value of the Company's common stock at the time that the respective EBITDA targets are achieved.

Loss from the operation of franchised stores managed by the Company decreased by $460,000, or 73.4%, to approximately $167,000 for the year ended December 31, 2001, as compared to approximately $627,000 for the comparable period in 2000. As of December 31, 2001, there was only one store that the Company was managing on behalf of a franchisee, as opposed to the three stores the Company was managing on behalf of franchisees as of December 31, 2000.

Interest expense decreased by $355,000, or 82.2%, to $77,000 for the year ended December 31, 2001, as compared to $432,000 for the comparable period in 2000. This decrease resulted from a decrease in long-term debt during the year ended December 31, 2001, as compared to the comparable period in 2000.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2002, cash flows provided by investing activities were $1,058,000, principally due to the proceeds received on the Company's franchise notes receivable, offset, in part, by limited capital expenditures made by the Company during 2002.

For the year ended December 31, 2002, cash flows provided by financing activities were $323,000, principally due to an aggregate of $2,141,000 of proceeds from a secured note from an independent financial institution, borrowings under the Company's credit facility with Horizons Investors Corp. ("Horizons"), a related party, and a loan from one of the Company's directors. These proceeds were offset by payments made against the secured note, the credit facility, the director loan, and short-term loans made at the end of 2001from Horizons and Broadway Partners LLC ("Broadway"), also a related party.

As of December 31, 2002 (exclusive of net liabilities of discontinued operations), the Company had negative working capital of $4,424,000 and cash on hand of $664,000. During 2002, the Company used $1,817,000 of cash in its operating activities. The Company incurred a net loss from continuing operations of $4,721,000 for the year ended December 31, 2002. The primary components of this loss were related to the provision for doubtful accounts of approximately $1,829,000, along with a provision for store closings of $920,000. Additionally, a majority of the cash used in operating activities was a result of $775,000 of costs paid out related to the Company's store closure plan (Note 8), a net decrease of $430,000 in accounts payable and accrued liabilities that existed as of December 31, 2002, and $227,000 related to the prepayment of certain other business expenses, offset, in part, by a net decrease of $328,000 in franchise and other receivables, and a net decrease in inventories (due to the closure of non-profitable Company-owned stores and improved inventory management) of $290,000. Management anticipates that it will continue to make significant payments against liabilities associated with the closure of non-profitable Company-owned stores that are already reflected in the Consolidated Balance Sheet as of December 31, 2002.

The Company plans to continue to improve its cash flows during 2003 by improving store profitability through increased monitoring of store-by-store operations, closing non-profitable Company-owned stores, continuing to implement reductions of administrative overhead expenses where necessary and feasible, actively supporting development programs for franchisees, and adding new franchised stores to the system. Management believes that with the successful execution of the aforementioned plans to improve cash flows, its existing cash, the collection of outstanding receivables, and the successful completion of its shareholder rights offering (Note 14), there will be sufficient liquidity available for the Company to continue in operation through the first quarter of 2004. However, there can be no assurance that the Company will be able to successfully execute the aforementioned plans, or that it will be successful in completing its rights offering.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES

High-quality financial statements require rigorous application of high-quality accounting policies. Management believes that its policies related to revenue recognition, legal contingencies, allowances on franchise, notes and other receivables, and accruals for store closings and costs of disposal of discontinued operations are critical to an understanding of the Company's consolidated financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Debt Extinguishments and Accounting for Leases

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and

Technical Corrections." For most companies, SFAS No. 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as an extraordinary item as previously required. Extraordinary treatment will be required for certain extinguishments as provided in Accounting Principles Board ("APB") Opinion No. 30. SFAS No. 145 also amends SFAS No. 13 to require that certain modifications to capital leases be treated as a sale-leaseback, and to modify the accounting for sub-leases when the original lessee remains a secondary obligor. The Company is required to adopt the provisions of SFAS No. 145 in the first quarter of 2003.

Costs to Exit an Activity

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The requirements of SFAS No. 146 apply prospectively to activities that are initiated after December 31, 2002 and, as a result, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

Guarantee Disclosures

In November 2002, the FASB issued Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the required disclosures to be made by a guarantor in their interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN No. 45 also requires a guarantor to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken. The Company is required to adopt the disclosure requirements of FIN No. 45 for financial statements ending December 31, 2002. The Company is required to adopt and accordingly has adopted prospectively the initial recognition and measurement provisions of FIN No. 45 for guarantees issued or modified after December 31, 2002 and, as a result, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148 is not expected to have a material impact on the Company's financial position or results of operations.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, relating to consolidation of certain entities. First, FIN No. 46 will require identification of the Company's participation in variable interests entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIEs, FIN No. 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN No. 46 also sets forth certain disclosures regarding interests in VIEs that are deemed significant, even if consolidation is not required. As the Company does not participate in VIEs, it does not anticipate that the provisions of FIN No. 46 will have a material impact on its financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company presently has outstanding certain equity instruments with beneficial conversion terms. Accordingly, the Company, in the future, could incur non-cash charges to equity (as a result of the exercise of such beneficial conversion terms), which would have a negative impact on future per share calculations.

The Company is exposed to market risks from potential changes in interest rates as they relate to the Company's investments in highly liquid marketable securities and borrowings under its credit facility and term loan. The Company believes that the level of risk related to its investments and any such borrowings, is not material to the Company's financial condition or results of operations. The Company does not expect to use interest rate swaps or other instruments to hedge its borrowings under its credit facility or term loan.

Item 8. Financial Statements and Supplementary Data

TABLE OF CONTENTS

	PAGE
REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS	20-21

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets as of December 31, 2002 and 2001	22
Consolidated Statements of Operations for the Years Ended December 31, 2002, 2001 and 2000	23
Consolidated Statements of Shareholders' Equity (Deficit) for the Years Ended December 31, 2002, 2001 and 2000	24
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	25
Notes to Consolidated Financial Statements	26

Information required by schedules called for under Regulation S-X is either not applicable or is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Emerging Vision, Inc.:

We have audited the accompanying consolidated balance sheet of Emerging Vision, Inc. (a New York corporation) and subsidiaries (the "Company") as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company as of, and for the two years ended, December 31, 2001 were audited by other auditors who have ceased operations and whose report, dated April 8, 2002, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of Emerging Vision, Inc. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, the Company changed its method of accounting for goodwill in 2002, as required by the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/S/ Miller Ellin & Company LLP

New York, New York
March 28, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Emerging Vision, Inc.:

We have audited the accompanying consolidated balance sheets of Emerging Vision, Inc. (a New York corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the three years ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly,

in all material respects, the financial position of Emerging Vision, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the three years ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Melville, New York
April 8, 2002

THIS REPORT IS A COPY OF A PREVIOUSLY ISSUED ARTHUR ANDERSEN REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN. PURSUANT TO SEC RELEASE NO. 33-8070 AND RULE 437A UNDER THE SECURITIES ACT OF 1933, AS AMENDED, EMERGING VISION, INC. HAS NOT RECEIVED WRITTEN CONSENT AFTER REASONABLE EFFORT TO USE THIS REPORT. BECAUSE ARTHUR ANDERSEN LLP HAS NOT CONSENTED TO THE INCLUSION OF THEIR REPORT IN THIS REPORT, YOU WILL NOT BE ABLE TO RECOVER AGAINST ARTHUR ANDERSEN LLP UNDER SECTION 11 OF THE SECURITIES ACT FOR ANY UNTRUE STATEMENTS OF A MATERIAL FACT CONTAINED IN THE FINANCIAL STATEMENTS AUDITED BY ARTHUR ANDERSEN LLP OR ANY OMISSIONS TO STATE A MATERIAL FACT REQUIRED TO BE STATED THEREIN.

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

ASSETS

Current assets:
- Cash and cash equivalents
- Franchise receivables, net of allowance of $1,063 and $3,095, respectively
- Other receivables, net of allowance of $101 and $171, respectively
- Current portion of franchise notes receivable, net of allowance of $442 and $0, respectively
- Inventories
- Prepaid expenses and other current assets

Total current assets

Property and equipment, net
Franchise notes and other receivables, net of allowance of $1,486 and $3,326, respectively
Goodwill
Other assets

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:
- Current portion of long-term debt, net (Note 11)
- Accounts payable and accrued liabilities (Note 9)
- Accrual for store closings (Note 8)
- Related party borrowings (Notes 11 and 13)
- Net liabilities of discontinued operations

Total current liabilities

Long-term debt, net (Note 11)

Related party borrowings (Notes 11 and 13)

Franchise deposits and other liabilities

Commitments and contingencies (Note 12)

Shareholders' equity (deficit):
- Preferred stock, $0.01 par value per share; 5,000,000 shares authorized:
  - Senior Convertible Preferred Stock, $100,000 liquidation preference per share; 1 and 3 shares issued and outstanding, respectively
- Common stock, $0.01 par value per share; 150,000,000 shares authorized; 29,922,957 and 27,187,309 shares issued, respectively, and 29,740,620 and 27,004,972 shares outstanding, respectively
- Treasury stock, at cost, 182,337 shares
- Additional paid-in capital
- Accumulated deficit

Total shareholders' equity (deficit)

Total liabilities and shareholders' equity (deficit)

The accompanying notes are an integral part of these consolidated balance sheets

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	For t
	2002
Revenues:	
Net sales	$ 9,906
Franchise royalties	6,816
Net gains from the conveyance of Company-store assets to franchisees, and other franchise related fees	71
Interest on franchise notes receivable	312
Other income	320
	17,425
Costs and expenses:	

Cost of sales	2,282
Selling, general and administrative expenses	18,564
Loss from franchised stores operated under management agreements	-
Provision for store closings (Note 8)	920
Charges related to long-lived assets	173
Non-cash charges for issuance of common stock, warrants and induced conversions of warrants	-
Interest expense	207
	22,146
Loss from continuing operations before provision for income taxes	(4,721
Provision for income taxes	-
Loss from continuing operations	(4,721
Discontinued operations (Note 2):	
Income (loss) from discontinued operations	74
Loss on disposal of discontinued operations	-
Income (loss) from discontinued operations	74
Net loss	$ (4,647
Per share information - basic and diluted (Note 4):	
Loss from continuing operations	$ (0.17
Income (loss) from discontinued operations	0.01
Loss on disposal of discontinued operations	-
Net loss per share	$ (0.16
Weighted-average number of common shares outstanding - basic and diluted	28,641

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

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(In Thousands, Except Share Data)

	Series B Convertible Preferred Stock		Senior C Preferr
	Shares	Amount	Shares
BALANCE - DECEMBER 31, 1999..............................	-	$ -	21
Issuance of common shares upon induced conversion of Senior Convertible Preferred Stock................	-	-	(18)

Exercise of stock options and warrants....................	-	-	-
Issuance of common shares for consulting services..........	-	-	-
Issuance of Series B Convertible Preferred Stock...........	1,677,570	-	-
Issuance of warrants in connection with Series B Convertible Preferred Stock..................	-	-	-
Accretion of dividends on Series B Convertible Preferred Stock......................................	-	11,743	-
Issuance of common shares upon conversion of Series B Convertible Preferred Stock..........................	(1,677,570)	(11,743)	-
Issuance of common shares to franchisees..................	-	-	-
Issuance of warrants and options for consulting services...	-	-	-
Equity contribution related to extinguishment of debt to related party...............................	-	-	-
Acquisition of treasury shares............................	-	-	-
Net loss..	-	-	-
BALANCE - DECEMBER 31, 2000...............................	-	-	3
Issuance of common shares for consulting services (Note 14)	-	-	-
Acquisition of treasury shares (Note 14)..................	-	-	-
Net loss..	-	-	-
BALANCE - DECEMBER 31, 2001...............................	-	-	3
Issuance of warrrants in connection with financing arrangements (Note 11)................................	-	-	-
Exercise of stock warrants (Note 15)......................	-	-	-
Issuance of common shares upon conversion of Senior Covertible Preferred Stock (Note 14)...................	-	-	(2)
Net loss..	-	-	-
BALANCE - DECEMBER 31, 2002...............................	-	$ -	1

The accompanying notes are an integral part of these consolidated st

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) - (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(In Thousands, Except Share Data)

	Treasury Stock, at cost		Additional Paid-In	Ac
	Shares	Amount	Capital	
BALANCE - DECEMBER 31, 1999...............................	-	$ -	$ 55,023	$
Issuance of common shares upon induced conversion of Senior Convertible Preferred Stock.................	-	-	23,812	
Exercise of stock options and warrants....................	-	-	7,672	
Issuance of common shares for consulting services..........	-	-	9,798	
Issuance of Series B Convertible Preferred Stock...........	-	-	6,239	
Issuance of warrants in connection with Series B Convertible Preferred Stock............	-	-	4,379	
Accretion of dividends on Series B Convertible Preferred Stock......................................	-	-	-	
Issuance of common shares upon conversion of Series B Convertible Preferred Stock..........................	-	-	11,709	
Issuance of common shares to franchisees..................	-	-	-	
Issuance of warrants and options for consulting services....	-	-	94	

Equity contribution related to extinguishment of debt to related party..................................	-	-	727	
Acquisition of treasury shares.............................	177,001	(203)	-	
Net loss...	-	-	-	
	-------	-----	--------	-
BALANCE - DECEMBER 31, 2000	177,001	(203)	119,453	
Issuance of common shares for consulting services (Note 14)	-	-	473	
Acquisition of treasury shares (Note 14)..................	5,336	(1)	-	
Net loss...	-	-	-	
	-------	-----	--------	-
BALANCE - DECEMBER 31, 2001...............................	182,337	(204)	119,926	
Issuance of warrants in connection with financing arrangements (Note 11)................................	-	-	190	
Exercise of stock warrants (Note 15)......................	-	-	-	
Issuance of common shares upon conversion of Senior Covertible Preferred Stock (Note 14)..................	-	-	229	
Net loss...	-	-	-	
	-------	-----	--------	-
BALANCE - DECEMBER 31, 2002...............................	182,337	$(204)	$120,345	$
	=======	=====	========	=

The accompanying notes are an integral part of these consolidated st

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	For
	2002
Cash flows from operating activities:	
Net loss from continuing operations	$ (4,72
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:	
Depreciation and amortization	48
Provision for doubtful accounts	1,82
Provision for store closings	92
Provision for inventories	
Net gains from the conveyance of Company-owned store assets to franchisees	
Amortization of excess of fair value of assets acquired over cost	
Non-cash compensation charges related to options and warrants	8
Charges related to long-lived assets	17
Changes in operating assets and liabilities:	
Franchise and other receivables	32
Inventories	29
Prepaid expenses and other current assets	(22
Other assets	7
Accounts payable and accrued liabilities	(43
Franchise deposits and other liabilities	14
Accrual for store closings	(77

Net cash used in operating activities	(1,81

Cash flows from investing activities:	

Franchise notes receivable issued	(7
Proceeds from franchise and other notes receivable	1,40
Purchases of property and equipment	(28
Net cash provided by (used in) investing activities	1,05
Cash flows from financing activities:	
Proceeds from the exercise of stock options and warrants	2
Proceeds from borrowings	2,14
Payments on borrowings	(1,84
Net proceeds from the issuance of Series B Convertible Preferred Stock	
Acquisition of treasury shares	
Net cash provided by financing activities	32
Net cash (used in) provided by continuing operations	(43
Net cash provided by (used in) discontinued operations	4
Net (decrease) increase in cash and cash equivalents	(38
Cash and cash equivalents - beginning of year	1,05
Cash and cash equivalents - end of year	$ 66
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$ 11
Taxes	$ 7
Non-cash investing and financing activities:	
Franchise store assets reacquired	$
Issuance of common shares for consulting services	
Issuance of common shares to settle vendor payable related to discontinued operations	
Extinguishment of related party debt	

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

EMERGING VISION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BUSINESS:

Business

Emerging Vision, Inc. and subsidiaries (the "Company"), is one of the largest chains of retail optical stores and one of the largest franchise optical chains in the United States, based upon management's beliefs, domestic sales and the number of locations of Company-owned and franchised stores (collectively referred to herein as "Sterling Stores"). The Company was incorporated under the laws of the State of New York in January 1992 and, in July 1992, purchased substantially all of the assets of Sterling Optical Corp., a New York corporation then a debtor-in-possession under Chapter 11 of the U.S. Bankruptcy Code.

On March 28, 2001, the Board of Directors decided that the Company should focus its efforts and resources on growing its retail optical business and, as a result, approved a plan to discontinue all other operations then being conducted by the Company (Note 2). In connection with this decision, during 2001, the Company completed its plan of disposal of substantially all of the net assets of Insight Laser Centers, Inc. ("Insight Laser") - which operated three laser vision correction centers in the New York metropolitan area, Insight Laser Centers N.Y.I, Inc. (the "Ambulatory Center") - the owner of the assets of an ambulatory surgery center located in Garden City, New York, and its Internet Division - which was to provide a web-based portal being designed to take advantage of business-to-business opportunities in the optical industry.

As of December 31, 2002, there were 182 Sterling Stores in operation, consisting of 23 Company-owned stores (including 8 stores being managed by franchisees), and 159 franchised stores. As discussed in Note 8, the Company anticipates closing 11 of its non-profitable Company-owned stores during 2003.

Basis of Presentation

The Consolidated Financial Statements reflect the operations of the Company's retail optical store division as continuing operations. The results of operations and cash flows of Insight Laser, the Ambulatory Center and the Internet Division are reflected as discontinued operations in accordance with Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The remaining net liabilities of those segments of the Company's business have been separately stated on the accompanying Consolidated Balance Sheets as net assets or liabilities of discontinued operations, and are classified depending on their expected realization and/or settlement date.

Management's Liquidity Plans

As of December 31, 2002 (exclusive of net liabilities of discontinued operations), the Company had negative working capital of $4,424,000 and cash on hand of $664,000. During 2002, the Company used $1,817,000 of cash in its operating activities. The Company incurred a net loss from continuing operations of $4,721,000 for the year ended December 31, 2002. The primary components of this loss were related to the provision for doubtful accounts of approximately $1,829,000, along with a provision for store closings of $920,000. Additionally, a majority of the cash used in operating activities was a result of $775,000 of costs paid out related to the Company's store closure plan (Note 8), a net decrease of $430,000 in accounts payable and accrued liabilities that existed as of December 31, 2002, and $227,000 related to the prepayment of certain other business expenses, offset, in part, by a net decrease of $328,000 in franchise and other receivables, and a net decrease in inventories (due to the closure of non-profitable Company-owned stores and improved inventory management) of $290,000. Management anticipates that it will continue to make significant payments against liabilities associated with the closure of non-profitable Company-owned stores that are already reflected in the Consolidated Balance Sheet as of December 31, 2002.

The Company plans to continue to improve its cash flows during 2003 by improving store profitability through increased monitoring of store-by-store operations, closing non-profitable Company-owned stores, continuing to implement reductions of administrative overhead expenses where necessary and feasible, actively supporting development programs for franchisees, and adding new franchised stores to the system. Management believes that with the successful execution of the aforementioned plans to improve cash flows, its existing cash,

the collection of outstanding receivables, and the successful completion of its shareholder rights offering (Note 14), there will be sufficient liquidity available for the Company to continue in operation through the first quarter of 2004. However, there can be no assurance that the Company will be able to successfully execute the aforementioned plans, or that it will be successful in completing its rights offering.

NOTE 2 - DISCONTINUED OPERATIONS:

As discussed in Note 1, in March 2001, the Company's Board of Directors decided to discontinue the operations of the Internet, Insight Laser and Ambulatory Center divisions. The Company successfully completed its plan of disposal of the assets of these segments in 2001. Accordingly, the remaining results of operations and cash flows have been reflected as discontinued operations in the accompanying consolidated financial statements. As of December 31, 2002, there were approximately $159,000 of expenses associated with the Company's disposal of these divisions accrued as part of accounts payable and accrued liabilities on the accompanying Consolidated Balance Sheet. The majority of this amount (of which $195,000 was provided for during 2002) relates to certain potential ongoing liabilities that the Company agreed to guarantee in connection with the Company's sale of the Ambulatory Center (Note 12).

In August 2002, the Company received approximately $342,000 in connection with the Pillar Point Partners Antitrust and Patent Litigation, a class action lawsuit to which Insight Laser was a plaintiff. This amount was reflected as income from discontinued operations on the accompanying Consolidated Statement of Operations for the year ended December 31, 2002, and offset the aforementioned costs associated with the Ambulatory Center guarantee.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of such financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, allowances on franchise, notes and other receivables, and accruals for store closings and costs of disposal of discontinued operations.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Emerging Vision, Inc. and its operating subsidiaries, all of which are wholly-owned. All intercompany balances and transactions have been eliminated in consolidation.

Company-Managed Stores

The Company accounts for the results of operations of certain franchised Sterling Stores operated by the Company under management agreements in accordance with Emerging Issues Task Force Issue 97-2 ("EITF 97-2"), "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician

Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." In accordance with EITF 97-2, the results of operations of Company-managed stores are shown on a net basis, and are classified as a loss from franchised stores operated under management agreements in the accompanying Consolidated Statements of Operations.

For the years ended December 31, 2001 and 2000, the Company managed 1 and 3 Sterling Stores, respectively, for franchisees, under management agreements entered into with each such franchisee. These management agreements generally provided for the operation of the Sterling Store in question, by the Company, with all operating decisions primarily being made by the Company. The Company owned the inventory at these locations and was responsible for the collection of all revenues and the payment of all associated expenses. For the years ended December 31, 2001 and 2000, these stores generated revenues of $216,000 and $1,382,000, respectively, and net losses of $167,000 and $627,000, respectively. The Company did not manage any stores on behalf of franchisees during 2002, and has no intention of doing so in the future.

Revenue Recognition

The Company generally charges franchisees a nonrefundable initial franchise fee. Initial franchise fees are recognized at the time all material services required to be provided by the Company have been substantially performed. Continuing franchise royalty fees are based upon a percentage of the gross revenues generated by each franchised location and are recorded as earned, subject to meeting all of the requirements of SAB 101 described below.

The Company derives its revenues from the following four principal sources:

Net sales - Represents sales from eye care products and related services;

Franchise royalties - Represents continuing franchise fees based upon a percentage of the gross revenues generated by each franchised location;

Net gains from the conveyance of Company-store assets to franchisees, and other franchise related fees - Represents the net gains from the sale of Company-owned store assets to franchisees; and certain fees collected by the Company under the terms of franchise agreements (including, but not limited to, initial franchise fees, transfer fees and renewal fees).

Interest on franchise notes - Represents interest charged to franchisees pursuant to promissory notes issued in connection with a franchisee's acquisition of the assets of a Sterling Store or a qualified refinancing of a franchisee's obligations to the Company.

The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Accordingly, revenues are recorded when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the buyer is fixed or determinable, and collectibility is reasonably assured. To the extent that collectibility of royalties and/or interest on franchise notes is not reasonably assured, the Company recognizes such revenue when the cash is received.

The Company also follows the provisions of Emerging Issues Task Force ("EITF") Issue 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including Reseller of the Vendor's Products)" and, accordingly, accounts for discounts, coupons and promotions (that are offered to its

customers) as a direct reduction of sales.

Cash and Cash Equivalents

Cash represents cash on hand at Company-owned stores and cash on deposit with financial institutions. All highly liquid investments with an original maturity (from date of purchase) of three months or less are considered to be cash equivalents. The Company's cash equivalents are invested in various investment-grade, money market accounts.

Fair Value of Financial Instruments

As of December 31, 2002, the carrying values of the Company's financial instruments, such as cash and cash equivalents, accounts and notes receivable and long-term debt, approximated their fair values, based on their short-term maturities and the nature of these instruments.

Inventories

Inventories are stated at the lower of cost or market value, and consist primarily of contact lenses, ophthalmic lenses, eyeglass frames and sunglasses.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation is recorded on a straight-line basis over the estimated useful lives of the respective classes of assets.

Goodwill

Through December 31, 2001, goodwill was being amortized, on a straight-line basis, over its estimated useful life of 20 years, and accumulated amortization on goodwill was approximately $1,275,000 as of December 31, 2001.

In 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." This Statement provided that goodwill and intangible assets with indefinite lives should no longer be amortized, but should be reviewed, at least annually, for impairment. In accordance with the adoption of SFAS No. 142, beginning January 1, 2002, the Company ceased amortizing its existing net goodwill of $1,266,000, resulting in the exclusion of approximately $268,000 of amortization expense for the year ended December 31, 2002. Management performed a review of its existing goodwill and determined that it is not impaired as of December 31, 2002.

Impairment of Long-Lived Assets

The Company follows the provisions of SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, but amends the prior accounting and reporting standards for

segments of a business to be disposed of. The Company periodically evaluates its long-lived assets (on a store-by-store basis) based on, among other factors, the estimated, undiscounted future cash flows expected to be generated from such assets in order to determine if an impairment exists. For the years ended December 31, 2002 and 2001, the Company recorded impairment charges of $0 and $574,000, respectively, for stores it will continue to operate, and wrote off $173,000 and $356,000, respectively, of long-lived assets related to stores that management has made the decision to close (Note 8). For the year ended December 31, 2000, the Company recorded impairment charges of $1,131,000 related to certain corporate long-lived assets that it no longer had use for, along with the capitalized web development costs associated with the development of the website for its 1-800 Anylens business (Note 13). All of the aforementioned amounts are reflected in the Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000, respectively, and a new basis, if any, for the impaired assets was established.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs for Company-owned stores aggregated approximately $364,000, $536,000 and $500,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Comprehensive Income

The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income," which establishes rules for the reporting of comprehensive income and its components. For the years ended December 31, 2002, 2001 and 2000, the Company's operations did not give rise to items includible in comprehensive loss that were not already included in net loss. Therefore, the Company's comprehensive loss is the same as its net loss for all periods presented.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method specified by SFAS No. 109, the deferred income tax amounts included in the Consolidated Balance Sheets are determined based on the differences between the financial statement and tax basis of assets and liabilities, as measured by the enacted tax rates, that will be in effect when these differences reverse. Differences between assets and liabilities for financial statement and tax return purposes are principally related to inventories and the depreciable lives of assets.

Stock-Based Compensation

The Company follows the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25)" in connection with stock-based compensation granted to employees and directors of the Company. The Company provides the required pro forma disclosures, as if the fair value method of SFAS No. 123, "Accounting for Stock Based Compensation," was adopted (Note 15). Stock-based compensation granted to non-employees is accounted for using the provisions of SFAS No. 123.

Concentration of Credit Risk

The Company operates retail optical stores in North America, predominantly in the United States, and its receivables are primarily from franchisees that also operate retail optical stores in the United States.

Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes annual and interim reporting standards for an enterprise's operating segments, and related disclosures about its products, services, geographic areas and major customers. For the years ended December 31, 2002, 2001 and 2000, the Company's continuing operations were classified into one principal industry segment - retail optical (Note 1). All other segments have been reflected as discontinued operations. Accordingly, the disclosures required by SFAS No. 131 have not been provided.

Reclassifications

Certain reclassifications have been made to prior years' consolidated financial statements to conform to the current year presentation.

New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." For most companies, SFAS No. 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as an extraordinary item as previously required. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. SFAS No. 145 also amends SFAS No. 13 to require that certain modifications to capital leases be treated as a sale-leaseback, and to modify the accounting for sub-leases when the original lessee remains a secondary obligor. The Company is required to adopt the provisions of SFAS No. 145 in the first quarter of 2003.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The requirements of SFAS No. 146 apply prospectively to activities that are initiated after December 31, 2002 and, as a result, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

In November 2002, the FASB issued Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the required disclosures to be made by a guarantor in their interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN No. 45 also requires a guarantor to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken. The Company is required to adopt the disclosure requirements of FIN No. 45 for financial statements ending December 31, 2002. The Company is required to adopt

and accordingly has adopted prospectively the initial recognition and measurement provisions of FIN No. 45 for guarantees issued or modified after December 31, 2002 and, as a result, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148 is not expected to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, relating to consolidation of certain entities. First, FIN No. 46 will require identification of the Company's participation in variable interests entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIEs, FIN No. 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN No. 46 also sets forth certain disclosures regarding interests in VIEs that are deemed significant, even if consolidation is not required. As the Company does not participate in VIEs, it does not anticipate that the provisions of FIN No. 46 will have a material impact on its financial position or results of operations.

NOTE 4 - PER SHARE INFORMATION:

In accordance with SFAS No. 128, "Earnings Per Share", basic net loss per common share ("Basic EPS") is computed by dividing the net loss attributable to common shareholders by the weighted-average number of common shares outstanding. Diluted net loss per common share ("Diluted EPS") is computed by dividing the net loss attributable to common shareholders by the weighted-average number of common shares and dilutive common share equivalents and convertible securities then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the Company's Consolidated Statements of Operations. There were 9,222,657, 10,350,322 and 9,267,966 stock options and warrants

excluded from the computation of Diluted EPS for the years ended December 31, 2002, 2001 and 2000, respectively, as their effect on the computation of Diluted EPS would have been anti-dilutive. Additionally, for the years ended December 31, 2002, 2001 and 2000, respectively, there were 0.74, 2.51 and 2.51 shares of our Senior Convertible Preferred Stock outstanding, convertible into 98,519, 334,167 and 334,167 shares of the Company's Common Stock. Similarly, these preferred shares were not "assumed converted" as the effect on the computation of Diluted EPS would also have been anti-dilutive.

The following table sets forth the computation of basic and diluted per

share information:

	2002
Numerator:	
Loss from continuing operations	$ (4,721)
Induced conversion of Senior Convertible Preferred Stock	(18)
Accretion of dividends on Series B Convertible Preferred Stock	-
Numerator for basic and diluted loss per share - loss attributable to common shareholders	(4,739)
Basic and Diluted:	
Loss attributable to common shareholders	(4,739)
Income (loss) from discontinued operations	74
Loss on disposal of discontinued operations	-

(8)
6.8%
-0-

-0-
1.3%

Directors and Named Executive Officers

Thomas E. Barry
1,000
(9)
*
-0-

-0-
*
David A. Bowers
10,000
(9)
*
-0-

-0-
*
Loretta J. Feehan
3,000
(9)
*
-0-

-0-

*
Elisabeth C. Fisher
1,000
(9)
*
-0-

-0-
*
Robert D. Graham
-0-
(9)
-0-
-0-

-0-
-0-
Ann Manix
1,175
(9)
*
-0-

-0-
*
Cecil H. Moore, Jr.
1,000
(9)
*
-0-

-0-
*
Bobby D. O'Brien
3,300
(9)(10)
*
-0-

-0-
*
Mary A. Tidlund
1,000
(9)
*
-0-

-0-
*

James W. Brown

-0-
(9)
-0-
-0-

-0-
-0-
Scott C. James
-0-
(9)
-0-
-0-

-0-
-0-
Andrew B. Nace
-0-
(9)
-0-
-0-

-0-
-0-

Current directors and executive officers as a group (17 persons)
18,375
(9)
*
-0-

-0-
*

* Less than 1%.

- 6 -

(1) Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 under the Securities Exchange Act, and is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise noted, the listed entities, individuals or group have sole investment power and sole voting power as to all shares set forth opposite their names. Other than the investment funds, the business address for each listed person or entity is Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

(2) The percentages set forth above and in the following footnotes are based on 2,419,107 shares of our class A common stock and 10,000,000 shares of our class B common stock outstanding as of the record date. As already discussed, each share of our class A common stock entitles its holder to one vote and each share of our class B common stock entitles its holder to ten votes with respect to the election of directors and one vote on all other matters. In certain instances, shares of our class B common stock are automatically convertible into shares of our class A common stock.

(3) The following is a description of certain related entities or persons that may be deemed to beneficially own outstanding shares of our common stock.

All of Contran's outstanding voting stock is held by the Family Trust or is held directly by Lisa K. Simmons and Serena Simmons Connelly or entities related to them. As co-trustees of the Family Trust, each of Ms. Simmons and Ms. Connelly has the shared power to vote and direct the disposition of the shares of Contran stock held by the Family Trust, and Ms. Simmons and Ms. Connelly each has the power to vote and direct the disposition of the shares held directly by them and the entities related to them. Ms. Simmons and Ms. Connelly are sisters and also serve as the co-chairs of the board of directors of Contran.

Contran is the sole owner of Valhi's outstanding shares of non-voting preferred stock. Contran is also the holder of the sole membership interest of Dixie Rice and may be deemed to control Dixie Rice. Dixie Rice is the direct holder of all of the outstanding common stock of VHC and may be deemed to control VHC.

Ms. Simmons and Ms. Connelly directly hold, or are related to the following person or entities that directly hold, the following percentages of the outstanding shares of NL common stock:

Valhi	82.9%
Kronos Worldwide	Less than 1%
Serena Simmons Connelly	Less than 1%

Ms. Simmons and Ms. Connelly directly hold, or are related to the following entities that directly hold, the following percentages of the outstanding shares of Kronos Worldwide common stock:

Valhi	50.0%
NL	30.4%
Contran	Less than 1%
Serena Simmons Connelly	Less than 1%

Ms. Simmons and Ms. Connelly directly hold, or are related to the following person or entity that directly holds, the following percentages of the outstanding shares of Valhi common stock (a):

VHC	92.6%
Serena Simmons Connelly	Less than 1%

(a) NL (including a wholly owned subsidiary of NL) and Kronos Worldwide own 14,372,970 shares and 1,724,916 shares, respectively, of Valhi common stock. Since NL and Kronos Worldwide are majority owned subsidiaries of Valhi and pursuant to Delaware law, Valhi treats the shares of Valhi common stock that NL and Kronos Worldwide own as treasury stock for voting purposes. Pursuant to Section 13(d)(4) of the Securities Exchange Act, such shares are not deemed outstanding for the purposes of calculating the percentage ownership of the outstanding shares of Valhi common stock as of the record date in this proxy statement.

By virtue of the stock ownership in each of VHC, Dixie Rice and Contran, the role of Ms. Simmons and Ms. Connelly as co-trustees of the Family Trust, Ms. Simmons and Ms. Connelly being beneficiaries of the Family Trust, the direct holdings of Contran voting stock by each of Ms. Simmons and Ms. Connelly and entities related to them, and the

positions as co-chairs of the Contran board by each of Ms. Simmons and Ms. Connelly, in each case as described above:

- Ms. Simmons and Ms. Connelly may be deemed to control the Family Trust;
- Ms. Simmons and Ms. Connelly may be deemed to control each of Contran, Dixie Rice, VHC, Valhi, NL, Kronos Worldwide and us; and
- Ms. Simmons and Ms. Connelly, Contran, Dixie Rice, VHC, Valhi, NL, Kronos Worldwide and we may be deemed to possess indirect beneficial ownership of shares of common stock directly held by such entities, including any shares of our common stock.

Except for the 2,000 shares of our class A common stock she holds directly, Ms. Connelly disclaims beneficial ownership of all shares of our class A and B common stock except to the extent of her pecuniary interest in such shares, if any. Ms. Simmons disclaims beneficial ownership of all shares of our class A and B common stock, except to the extent of her pecuniary interest in such shares, if any.

(4) The shares attributable to the Family Trust and their co-trustees consist of shares held directly by the following entities. For more information concerning the relationships among these persons or entities, please see footnote 3 above.

	CompX Class A Common Stock		CompX Class B Common Stock		CompX Class A and B Common Stock Combined
Beneficial Owner	Shares	Percent of Class	Shares	Percent of Class	Percent of Class
NL	755,104	31.2%	10,000,000	100.0%	86.6%
Contran	5,900	*	-0-	-0-	*
Kronos Worldwide.	3,000	*	-0-	-0-	*
	764,004	31.6%	10,000,000	100.0%	86.7%

* Less than 1%

(5) Based on a Schedule 13G executed on August 29, 2014, that Sessa Capital (Master), L.P., Sessa Capital GP, LLC, Sessa Capital IM, L.P., Sessa Capital IM GP, LLC and John Petry filed with the SEC. Sessa Capital GP, LLC is the general partner of Sessa Capital (Master), L.P. Sessa Capital IM, L.P. is the investment manager of Sessa Capital (Master), L.P. Sessa Capital IM GP, LLC is the general partner of Sessa Capital IM, L.P. Mr. Petry is the manager of Sessa Capital GP, LLC and Sessa Capital IM GP, LLC. Mr. Petry and these entities may each be deemed to beneficially own these 431,732 shares and each has sole power to vote or direct the vote of these shares and to dispose or direct the disposition of these shares. The address for Mr. Petry and these entities is 444 Madison Ave. 3rd Floor, New York, New York 10022.

(6) Based on Amendment No. 15 to Schedule 13G executed on January 6, 2017 that Royce & Associates, LP filed with the SEC. Royce & Associates, LP is an investment adviser that manages various accounts. One of these accounts, the Royce Value Trust, Inc., holds 211,100 of these shares. The address of Royce & Associates, LP is 745 Fifth Avenue, New York, New York 10151.

(7) Based on Amendment No. 6 to Schedule 13G executed on February 9, 2017 that Dimensional Fund Advisors LP filed with the SEC. Dimensional Fund Advisors LP is an investment adviser that furnishes investment advice to four investment companies and serves as investment manager or sub-advisor to certain other commingled funds, group trusts and separate accounts. In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain of these funds. Dimensional Fund Advisors LP has sole voting power over 181,469 of these shares and sole dispositive power over all of these shares. Dimensional Fund Advisors LP disclaims beneficial ownership of all of these shares. Its address is Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(8) Based on Amendment No. 8 to Schedule 13G executed on February 14, 2017 that Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation filed with the SEC. Both Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation are investment advisers that beneficially own all of these shares. Renaissance Technologies Holdings Corporation is a majority owner of Renaissance Technologies LLC. Their address is 800 Third Avenue, New York, New York 10022.

(9) Each of our directors or executive officers disclaims beneficial ownership of any shares of our common stock, except to the extent he or she has a pecuniary interest in such shares, if any.

(10)

Stock ownership information for Mr. O'Brien is as of January 20, 2017, the last day on which he served as an executive officer of us.

We understand that Contran and related entities may consider acquiring or disposing of shares of our common stock through open market or privately negotiated transactions, depending upon future developments, including, but not limited to, the availability and alternative uses of funds, the performance of our common stock in the market, an assessment of our business and prospects, financial and stock market conditions and other factors deemed relevant by such entities. We may similarly consider acquisitions of shares of our common stock and acquisitions or dispositions of securities issued by related entities.

Ownership of Related Companies. Some of our directors and executive officers own equity securities of several companies related to us.

Ownership of NL and Valhi. The following table and footnotes set forth the beneficial ownership, as of the record date, of the shares of NL and Valhi common stock held by each director, each named executive officer (including one former executive officer) and all of our current directors and executive officers as a group. All information is taken from or based upon ownership filings made by such persons with the SEC or upon information provided by such persons.

Name of Beneficial Owner	NL Common Stock			Valhi Common Stock		
	Amount and Nature of Beneficial Ownership (1)		Percent of Class (1)(2)	Amount and Nature of Beneficial Ownership (1)		Percent of Class (1)(3)
Thomas E. Barry	-0-	(4)	-0-	53,500	(4)	*
David A. Bowers	-0-	(4)	-0-	-0-	(4)	-0-
Loretta J. Feehan	5,000	(4)	*	5,000	(4)	*
Elisabeth C. Fisher	-0-	(4)	-0-	2,000	(4)	*
Robert D. Graham	5,000	(4)	*	2,000	(4)	*
Ann Manix	2,000	(4)	*	-0-	(4)	-0-
Cecil H. Moore, Jr.	14,500	(4)	*	-0-	(4)	-0-
Bobby D. O'Brien	-0-	(4)(5)	-0-	5,000	(4)(5)	*
Mary A. Tidlund	-0-	(4)	-0-	2,000	(4)	*
James W. Brown	-0-	(4)	-0-	-0-	(4)	-0-
Scott C. James	-0-	(4)	-0-	-0-	(4)	-0-
Andrew B. Nace	-0-	(4)	-0-	-0-	(4)	-0-
Current directors and executive officers as a group (17 persons)	26,500	(4)	*	67,998	(4)	*

* Less than 1%.

(1) Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 under the Securities Exchange Act, and is not necessarily indicative of beneficial ownership for any other purpose. Except as otherwise noted, the individuals or group have sole investment power and sole voting power as to all shares set forth opposite their names.

(2) The percentages are based on 48,705,884 shares of NL common stock outstanding as of the record date.

(3) The percentages are based on 339,158,949 shares of Valhi common stock outstanding as of the record date. NL (including a wholly owned subsidiary of NL) and Kronos Worldwide own 14,372,970 shares and 1,724,916 shares, respectively, of Valhi common stock. Since NL and Kronos Worldwide are majority owned subsidiaries of Valhi and pursuant to Delaware law, Valhi treats the shares of Valhi common stock that NL and Kronos Worldwide own as treasury stock for voting purposes. Pursuant to Section 13(d)(4) of the Securities Exchange Act, such shares are not deemed outstanding for the purposes of calculating the percentage ownership of the outstanding shares of Valhi common stock as of the record date in this proxy statement.

(4) Each of our directors or executive officers disclaims beneficial ownership of any shares of NL or Valhi common stock, except to the extent he or she has a pecuniary interest in such shares, if any.

(5)

Stock ownership information for Mr. O'Brien is as of January 20, 2017, the last day on which he served as an executive officer of us.

PROPOSAL 1

ELECTION OF DIRECTORS

Our bylaws provide that the board of directors shall consist of one or more members as determined by our board of directors or stockholders. Our board of directors has currently set the number of directors at eight. The board of directors recommends the eight director nominees named in this proxy statement for election at our 2017 annual stockholder meeting. If all the nominees are elected, the number of directors will be set at eight effective at the adjournment of the meeting. The directors elected at the meeting will hold office until our 2018 annual stockholder meeting and until their successors are duly elected and qualified or their earlier removal or resignation.

All of the director nominees are currently members of our board of directors whose terms will expire at the 2017 annual meeting. All of the nominees have agreed to serve if elected. If any nominee is not available for election at the meeting, your shares will be voted FOR an alternate nominee to be selected by the board of directors, unless you withhold authority to vote for such unavailable nominee. The board of directors believes that all of its nominees will be available for election at the meeting and will serve if elected.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE FOLLOWING NOMINEES FOR DIRECTOR.

Nominees for Director. All of our nominees have extensive senior management and policy-making or significant accounting experience. We believe all of our nominees are knowledgeable about our business. Each of our independent directors is financially literate. The board of directors considered each nominee's specific business experiences described in the biographical information provided below in determining whether to nominate him or her for election as a director.

Thomas E. Barry, age 73, has served on our board of directors since March 2016. Dr. Barry has held the position of professor of marketing in the Edwin L. Cox School of Business at Southern Methodist University since 1970. He also served the university as vice president for executive affairs from 1995 to 2015. Since prior to 2012, he has served as a director of Valhi and a member of its audit and management development and compensation committees (including serving as chairman of Valhi's audit and management development and compensation committees since March 2016 and May 2016, respectively). He has served as a member of our audit committee since March 2016 and on our management development and compensation committee since May 2016.

Dr. Barry has less than a year of experience on our board of directors and over 16 years of experience on Valhi's board of directors, audit committee and management development and compensation committee. He also has senior executive, operating, corporate governance, finance and financial accounting oversight experience from a large, non-profit, private educational institution for which he currently serves and from a former publicly held corporation affiliated with us, which was publicly held at the time he served as one of its directors.

David A. Bowers, age 79, has served as our vice chairman of the board since 2001, and as our chief executive officer since 2002. He has served on our board of directors since 1993. He also served as our president from 2002 to 2014. Mr. Bowers has been employed by us or our predecessors since 1960 in various sales, marketing and executive positions, having been named president of our security products and related businesses in 1979. Mr. Bowers is trustee emeritus and former chairman of the board of Monmouth College, Monmouth, Illinois.

Mr. Bowers has over 56 years of experience serving CompX, in which he developed general management, senior executive, corporate governance, finance and financial accounting oversight experience.

Loretta J. Feehan, age 61, has served as a director of us, Kronos Worldwide, NL and Valhi since 2014. She is a certified public accountant who consults on financial and tax matters. She served as a tax partner with Deloitte and Touche LLP in the Denver office until 1992 primarily serving corporate clients. She now has her own consulting practice serving a variety of businesses and individual clients. Ms. Feehan also teaches continuing education courses to tax practitioners around the country. Ms. Feehan has been a financial advisor to Serena Simmons Connelly and Lisa K. Simmons since prior to 2012.

Ms. Feehan has three years of experience as a director of us, Kronos Worldwide, NL and Valhi. She also has over 39 years of financial and tax accounting and auditing experience, certain years of which were as a partner of one the largest international accounting firms.

Elisabeth C. Fisher, age 60, has served on our board of directors since March 2016. Ms. Fisher is currently a private investor and retired from Deloitte & Touche LLP in 2013 after eleven years as a partner in their Houston office in which she served in various capacities with the public accounting firm. Among other positions, she served as partner in charge of their Mid-America region real estate practice, served on their real estate services executive committee and was a technical resource to numerous national clients with respect to environmental accounting and auditing issues. Prior to joining Deloitte & Touche, Ms. Fisher spent 22 years with Arthur Andersen LLP, including 9 years as a partner. Ms. Fisher's clients included companies in the real estate, construction, hospitality and leisure, manufacturing and waste management industries, and she has extensive experience with public company regulatory requirements. Ms. Fisher has served as a director and on the audit committee of Valhi since March 2016. She is a member of our audit committee.

Ms. Fisher has over 34 years of financial and auditing experience, certain years of which were as a partner of one the largest international accounting firms.

Robert D. Graham, age 61, has served as our chairman of the board since January 2017 and on our board of directors since May 2016. He currently serves as chairman of the board, president and chief executive officer of Kronos Worldwide, NL and Valhi, and as president and chief legal officer of Contran. He has served as a director of Contran, Valhi and Kronos Worldwide since May 2016 and as a director of NL since 2014. Mr. Graham has served with various companies related to us and Contran since 2002.

Mr. Graham has extensive experience with our businesses. He also has senior executive, operating, corporate governance, finance and financial accounting oversight experience from other publicly and privately held entities related to us for which he currently serves or formerly served.

Ann Manix, age 64, has served on our board of directors since 1998. Since 2014, Ms. Manix has served as a director of Blue Canon Partners, Inc., a global management consulting firm. She served on the global market intelligence, consulting and financial advisory team for Ducker Worldwide, LLC, a privately held industrial research firm, since prior to 2012, and as a managing partner for the firm from 1994 until 2006. Additionally, she has served as a principal of Summus, Ltd., a strategic consulting firm, since 2008. She is chairwoman of our management development and compensation committee and a member of our audit committee.

Ms. Manix has over 18 years of experience on our board of directors and audit committee and 16 years of experience on our management development and compensation committee. She has senior executive, operating, corporate governance, finance and financial accounting oversight experience from other publicly and privately held entities for which she formerly served.

Cecil H. Moore, Jr., age 77, has served on our board of directors since March 2016. Mr. Moore is currently a private investor and retired from KPMG LLP in 2000 after 37 years in which he served in various capacities with the public accounting firm. Among other positions, he served as managing partner of the firm's Dallas, Texas office from 1990 to 1999. Prior to 1990, Mr. Moore was partner-in-charge of the audit and accounting practice of the firm's Dallas, Texas office for 12 years. From 2014 to 2016, Mr. Moore served as a director and chairman of the audit committee of Sizmek Inc., a former publicly held on-line advertising business that was spun-off in 2014 by Digital Generation, Inc. From prior to 2012 to 2014, he served as a director and chairman of the audit committee of Digital Generation, Inc., a former publicly held provider of digital technology services to media outlets. From 2003 until 2009, Mr. Moore served as a director and chairman of the audit committee of Perot Systems. Since prior to 2012, he has served as a director and on the audit committee of NL, and as a director and chairman of the audit committee of Kronos Worldwide. He is the chairman of our audit committee.

Mr. Moore has over thirteen years of experience on the boards of directors and audit committees of Kronos Worldwide and NL. He also has senior executive, operating, corporate governance, finance, financial accounting and auditing experience from one of the largest independent international public accounting firms and from other publicly held entities for which he currently serves or formerly served.

Mary A. Tidlund, age 60, has served on our board of directors since March 2016. Ms. Tidlund has served as the president of The Mary A. Tidlund Charitable Foundation, a charitable organization that designs and funds sustainable development projects around the world, since she founded it in 1998. From 1989 to 1995, she served as president and chief executive officer of Williston Wildcatters Oil Corporation, a former publicly traded oil exploration and service company. Ms. Tidlund has served as a director and on the audit committee of Valhi since March 2016, and also served as a director of Valhi from 2014 to 2015. She is a member of our audit committee.

Ms. Tidlund has senior executive, operating, corporate governance, finance and financial accounting oversight experience from a publicly traded oil exploration and service company for which she formerly served.

EXECUTIVE OFFICERS

Set forth below is certain information relating to our executive officers. Each executive officer serves at the pleasure of the board of directors. Biographical information with respect to David A. Bowers and Robert D. Graham is set forth under the Nominees for Director subsection above.

Name	Age	Position(s)
Robert D. Graham	61	Chairman of the Board
David A. Bowers	79	Vice Chairman of the Board and Chief Executive Officer
Scott C. James	51	President and Chief Operating Officer
Kelly D. Luttmer	53	Executive Vice President and Chief Tax Officer
Gregory M. Swalwell	60	Executive Vice President
James W. Brown	60	Vice President, Chief Financial Officer and Controller
Steven S. Eaton	58	Vice President and Director of Internal Control over

		Financial Reporting
A. Andrew R. Louis	56	Vice President and Secretary
Andrew B. Nace	52	Vice President
John A. St. Wrba	60	Vice President and Treasurer

Scott C. James has served as our president and chief operating officer since 2014 and president of both of our divisions, CompX Security Products and CompX Marine, since 2002 and 2005, respectively. He served as our vice president from 2002 to 2014. Since 1992, Mr. James has served in various sales, marketing and executive positions with our security products operations.

Kelly D. Luttmer has served as our executive vice president and chief tax officer since May 2016, as our executive vice president and global tax director from 2015 to May 2016, as our vice president and global tax director from 2012 to 2015 and as our vice president and tax director from 2004 to 2012. She currently serves as executive vice president and chief tax officer of Kronos Worldwide, NL, Valhi and Contran. Ms. Luttmer has served in tax accounting positions (including officer positions) with various companies related to us and Contran since 1989.

Gregory M. Swalwell has served as our executive vice president since 2013. He currently serves as executive vice president and chief financial officer of Kronos Worldwide and NL, and as executive vice president, chief financial officer and chief accounting officer of Valhi and Contran. Mr. Swalwell has served in accounting and financial positions (including officer positions) with various companies related to us and Contran since 1988.

James W. Brown has served as our vice president, chief financial officer and controller since 2014. He currently serves as vice president business planning and strategic initiatives of Valhi. Mr. Brown has served in accounting and financial positions (including officer positions) with various companies related to us and Contran since 2003.

Steven S. Eaton has served as our vice president and director of internal control over financial reporting since 2015. He currently serves as vice president and director of internal control over financial reporting for Kronos Worldwide, NL and Valhi. Mr. Eaton has served in internal audit positions (including officer positions) with various companies related to us and Contran since 2006.

A. Andrew R. Louis has served as our vice president since 2011 and as our secretary since 1998. He currently serves as vice president and secretary of Kronos Worldwide, NL and Valhi and as secretary of Contran. He has served as legal counsel (including officer positions) of various companies related to us and Contran since 1995.

Andrew B. Nace has served as our vice president since 2013. He currently serves as executive vice president of Kronos Worldwide and NL and as executive vice president and general counsel of Valhi and Contran. Mr. Nace has served as legal counsel (including officer positions) to companies related to us and Contran since 2003.

John A. St. Wrba has served as our vice president and treasurer since 2011. He currently serves as vice president and treasurer of Contran, Valhi, Kronos Worldwide and NL. Mr. St. Wrba has served in treasurer positions (including officer positions) in various companies related to us and Contran since 2003.

CORPORATE GOVERNANCE

Controlled Company Status, Director Independence and Committees. Because of NL's ownership of 86.6% of the outstanding shares of our combined class A and B common stock, which represents 98.4% of the voting power for the election of directors and 86.6% of the voting power for other matters, we are considered a controlled company under the corporate governance standards of the NYSE MKT. Pursuant to the corporate governance standards, a controlled company may choose not to have a majority of independent directors, independent compensation or nominations committees or charters for these committees. We have decided not to have an independent nominations or corporate governance committee or charters for these committees. Our board of directors believes that the full board of directors best represents the interests of all of our stockholders and that it is appropriate for all matters that would otherwise be considered by a nominations or risk oversight committee to be considered and acted upon by the full board of directors. Applying the NYSE MKT director independence standards without any additional categorical standards, the board of directors has determined that Thomas E. Barry, Elisabeth C. Fisher, Ann Manix, Cecil H. Moore, Jr. and Mary A. Tidlund are independent and have no material relationship with us that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. While the members of our management development and compensation committee currently satisfy the independence requirements of the NYSE MKT, we have chosen not to satisfy all of the NYSE MKT corporate governance standards for a compensation committee and not to have a charter for our management development and compensation committee.

2016 Meetings and Standing Committees of the Board of Directors. The board of directors held five meetings in 2016. Except for Jack Hardin, our directors attended all of such meetings and of the 2016 meetings of the committees on which he or she served at the time. Mr. Hardin, who did not stand for re-election in 2016, attended less than 75% of such board meetings and of the 2016 meetings of the committees on which he served at the time. It is expected that each director nominee will attend our annual meeting of stockholders, which is held immediately before the annual meeting of the board of directors. All of our directors who were elected at our 2016 annual stockholder meeting attended such meeting.

The board of directors has established and delegated authority to two standing committees, which are described below. The board of directors is expected to elect the members of the standing committees at the board of directors annual meeting immediately following the annual stockholder meeting. The board of directors from time to time may establish other committees to assist it in the discharge of its responsibilities.

Audit Committee. Our audit committee assists with the board of directors' oversight responsibilities relating to our financial accounting and reporting processes and auditing processes. The purpose, authority, resources and responsibilities of our audit committee are more specifically set forth in its charter. Applying the requirements of the NYSE MKT corporate governance standards (without additional categorical standards) and SEC regulations, as applicable, the board of directors has previously determined that:

- each member of our audit committee is independent, financially literate and has no material relationship with us other than serving as our director; and
- each of Ms. Elisabeth C. Fisher and Mr. Cecil H. Moore, Jr. is an "audit committee financial expert."

No member of our audit committee serves on more than three public company audit committees. For further information on the role of our audit committee, see the Audit Committee Report in this proxy statement. The current members of our audit committee are Cecil H. Moore, Jr. (chairman), Thomas E. Barry, Elisabeth C. Fisher, Ann Manix and Mary A. Tidlund. Our audit committee held six meetings in 2016.

Management Development and Compensation Committee. The principal responsibilities of our management development and compensation committee are:

- to recommend to the board of directors whether or not to approve any proposed charge to us or any of our privately held subsidiaries pursuant to our ISA with Contran;

- to review, approve and administer certain matters regarding our employee benefit plans or programs, including annual incentive compensation awards;
- to review, approve, administer and grant awards under our equity compensation plan; and
- to review and administer such other compensation matters as the board of directors may direct from time to time.

As discussed above, the board of directors has determined that each member of our management development and compensation committee is independent by applying the NYSE MKT director independence standards (without additional categorical standards). The management development and compensation committee may delegate to its members or our officers any or all of its authority as it may choose subject to certain limitations of Delaware law on what duties directors may delegate. The committee has not exercised this right of delegation. With respect to the role of our executive officers in determining or recommending the amount or form of executive compensation, see the Compensation Discussion and Analysis section of this proxy statement. With respect to director cash compensation, our executive officers make recommendations on such compensation directly to our board of directors for its consideration without involving the management development and compensation committee. The current members of our management development and compensation committee are Ann Manix (chairwoman) and Thomas E. Barry. Our management development and compensation committee held one meeting in 2016.

Risk Oversight. Our board of directors oversees the actions we take in managing our material risks. Our management is responsible for our day-to-day management of risk. The board's oversight of our material risks is undertaken through, among other things, various reports and assessments that management presents to the board and the related board discussions. The board has delegated some of its primary risk oversight to our audit committee and management development and compensation committee. Our audit committee annually receives management's reports and assessments on, among other things, the risk of fraud, certain material business risks and a ranking of such material business risks and our insurance program. The audit committee also receives reports from our independent registered public accounting firm regarding, among other things, financial risks and the risk of fraud. Our management development and compensation committee receives management's assessments on the likelihood that our compensation policies and practices could have a material adverse effect on us, as more fully described in the Compensation Policies and Practices as They Relate to Risk Management section of this proxy statement. The audit committee and management development and compensation committee report to the board of directors about their meetings. We believe the leadership structure of the board of directors is appropriate for our risk oversight.

Identifying and Evaluating Director Nominees. Historically, our management has recommended director nominees to the board of directors. As stated in our corporate governance guidelines:

- our board of directors has no specific minimum qualifications for director nominees;
- each nominee should possess the necessary business background, skills and expertise at the policy-making level and a willingness to devote the required time to the duties and responsibilities of membership on the board of directors; and
- the board of directors believes that experience as our director is a valuable asset and that directors who have served on the board for an extended period of time are able to provide important insight into our current and future operations.

In identifying, evaluating and determining our director nominees, the board of directors follows such corporate governance guidelines. The board also considers the nominee's ability to satisfy the need, if any, for required expertise on the board of directors or one of its committees. While we do not have any policy regarding the diversity of our nominees, the board does consider diversity in the background, skills and expertise at the policy making level of our director nominees, and as a result our board believes our director nominees do possess a diverse range of senior management experience that aids the board in fulfilling its responsibilities. The board of directors believes its procedures for identifying and evaluating director nominees are appropriate for a controlled company under the NYSE MKT corporate governance standards.

Leadership Structure of the Board of Directors and Independent Director Meetings. Robert D. Graham serves as our chairman of the board and David A. Bowers serves as our vice chairman of the board and chief executive officer. The board of directors believes our current leadership structure is appropriate for a controlled company under the NYSE MKT corporate governance standards. While there is no single organizational structure that is ideal in all circumstances, the board believes that our current leadership structure, in which different individuals serve as our chairman of the board and as our chief executive officer, reflects the established working relationship for these positions as well as with our other executive officers regarding our business, and provides an appropriate breadth of experience and perspective that effectively facilitates the formulation of our long-term strategic direction and business plans. In addition, the board of directors believes that since Robert D. Graham and certain of our other executive officers are employed by Contran, their respective service in their capacities is beneficial in providing strategic leadership for us since there is a commonality of interest that is closely aligned in building long-term stockholder value for all of our stockholders. We have in the past, and may in the future, have a leadership structure in which the same individual serves as our chairman of the board and as our chief executive officer. In those instances, such individual has been, or would be expected to be, an employee or representative of Contran (or one of Contran's subsidiaries, including us).

Pursuant to our corporate governance guidelines, our independent directors are entitled to meet on a regular basis throughout the year, and will meet at least once annually, without the participation of our other directors who are not independent. While we do not have a lead independent director, the chairman of our audit committee presides at all of the meetings of our independent directors. In 2016, we complied with the NYSE MKT requirements for meetings of our independent directors.

Stockholder Proposals and Director Nominations for the 2018 Annual Meeting of Stockholders. Stockholders may submit proposals on matters appropriate for stockholder action at our annual stockholder meetings, consistent with rules adopted by the SEC. We must receive such proposals not later than December 26, 2017 to be considered for inclusion in the proxy statement and form of proxy card relating to our annual meeting of stockholders in 2018. Our bylaws require that the proposal must set forth a brief description of the proposal, the name and address of the proposing stockholder as they appear in our records, the number of shares of our common stock the stockholder holds and any material interest the stockholder has in the proposal.

The board of directors will consider the director nominee recommendations of our stockholders in accordance with the process discussed above. Our bylaws require that a nomination set forth the name and address of the nominating stockholder, a representation that the stockholder will be a stockholder of record entitled to vote at the annual stockholder meeting and intends to appear in person or by proxy at the meeting to nominate the nominee, a description of all arrangements or understandings between the stockholder and the nominee (or other persons pursuant to which the nomination is to be made), such other information regarding the nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC and the consent of the nominee to serve as a director if elected.

For proposals or director nominations to be brought at the 2018 annual meeting of stockholders but not included in the proxy statement for such meeting, our bylaws require that the proposal or nomination must be delivered or mailed to our principal executive offices in most cases no later than March 12, 2018. Proposals and nominations should be addressed to our corporate secretary at CompX International Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

Communications with Directors. Stockholders and other interested parties who wish to communicate with the board of directors or its independent directors may do so through the following procedures. Such communications not involving complaints or concerns regarding accounting, internal accounting controls and auditing matters related to us may be sent to the attention of our corporate secretary at CompX International Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. Provided that any such communication relates to our business or affairs and is within the function of our board of directors or its committees, and does not relate to insignificant or inappropriate matters, such communication, or a summary of such communication, will be forwarded to the chairman of our audit committee, who also serves as the presiding director of our independent director meetings.

Complaints or concerns regarding accounting, internal accounting controls and auditing matters, which may be made anonymously, should be sent to the attention of our General Counsel with a copy to our chief financial officer at the same address as our corporate secretary. These complaints or concerns will be forwarded to the chairman of our audit committee. We will investigate and keep these complaints or concerns confidential and anonymous, to the extent feasible, subject to applicable law. Information contained in such a complaint or concern may be summarized, abstracted and aggregated for purposes of analysis and investigation.

Compensation Committee Interlocks and Insider Participation. As discussed above, for 2016 the members of our management development and compensation committee were Ann Manix and Thomas E. Barry (current members) and Norman S. Edelcup and George E. Poston (former members). Mr. Edelcup and Mr. Poston did not stand for re-election in 2016. No member of the committee:

- was an officer or employee of ours during 2016 or any prior year;
- had any related party relationships with us that requires disclosure under applicable SEC rules; or
- had any interlock relationships under applicable SEC rules.

For 2016, no executive officer of ours had any interlock relationships within the scope of the intent of applicable SEC rules. However, at certain times in 2016 each of Bobby D. O'Brien and Steven L. Watson (formerly executive officers of ours) and Robert D. Graham was an executive officer of ours and on the board of directors of Contran when concurrently also serving as one of our directors.

Code of Business Conduct and Ethics. We have adopted a code of business conduct and ethics. The code applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller. Only the board of directors may amend the code. Only our audit committee or other committee of the board of directors with specifically delegated authority may grant a waiver of this code. We will disclose amendments to or waivers of the code as required by law and the applicable rules of the NYSE MKT.

Corporate Governance Guidelines. We have adopted corporate governance guidelines to assist the board of directors in exercising its responsibilities. Among other things, the corporate governance guidelines provide for director qualifications, for independence standards and responsibilities, for approval procedures for ISAs and that our audit committee chairman preside at all meetings of the independent directors.

Availability of Corporate Governance Documents. A copy of each of our audit committee charter, code of business conduct and ethics and corporate governance guidelines is available on our website at www.compx.com under the corporate section.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS
AND OTHER INFORMATION

Compensation Discussion and Analysis. This compensation discussion and analysis describes the key principles and factors underlying our executive compensation policies for our named executive officers. In 2016, we employed two of our named executive officers. Contran employed and directly compensated our three other named executive officers who provided their services to us in 2016 under our ISA with Contran.

As defined in the Glossary of Terms at the beginning of this proxy statement, the phrase "named executive officers" refers to the five persons whose compensation is summarized in the 2016 Summary Compensation Table in this proxy statement. Such phrase is not intended to refer, and does not refer, to all of our executive officers.

Nonbinding Advisory Stockholder Vote on Executive Officer Compensation. For the 2016 annual meeting of stockholders, we submitted a nonbinding advisory proposal recommending the stockholders adopt a resolution approving the compensation of our named executive officers as disclosed in the 2016 proxy statement. At the annual meeting, the resolution received the affirmative vote of 94.3% of the eligible votes. We considered the favorable result and determined not to make any material changes to our compensation practices.

Compensation of our Named Executive Officers Employed by Us. In each of the last three years, we employed the following named executive officers:

Name	Position(s)
David A. Bowers	Vice Chairman of the Board and Chief Executive Officer
Scott C. James	President and Chief Operating Officer

Messrs. Bowers and James were executive officers for all of the last three years.

Overview. Prior to 2014, we decided to forego long-term compensation (other than defined contribution plans that are generally available on a non-discriminatory basis to all employees) and implemented a compensation program that is primarily cash-based, with minimal perquisites, if any. Our objectives for the primarily cash-based compensation program as it relates to our senior officers, including all of our named executive officers employed by us, are to:

- have a total individual compensation package that is easy to understand;
- encourage them to maximize long-term stockholder value; and
- achieve a balanced compensation package that would attract and retain highly qualified senior officers and appropriately reflect each such officer's individual performance, contributions and general market value.

In furtherance of our objectives and in an effort to separate annual operating planning from annual incentive compensation, we implemented discretionary incentive bonuses for our senior officers. As a result, annual compensation for our named executive officers employed by us primarily consists of base salaries and discretionary incentive bonuses.

We do not base our employed named executive officer compensation on any specific measure of, or formula based upon, our financial performance, although we do consider our financial performance as one factor in determining the compensation of our employed named executive officers. We determine the amount of each component of such compensation solely in our collective business judgment and experience, without performing any independent market research. We do not enter into any written employment agreements with our employed named executive officers.

Base Salaries. We have established the annual base salaries for our employed named executive officers on a position-by-position basis based on responsibility and experience. We pay this portion of each of our employed named executive officer's compensation to provide him with a reliable amount of compensation for the year, subject to his continued at-will employment and satisfactory performance for his services at the level of his responsibilities. Our chief executive officer has the responsibility to conduct annual internal reviews of our employed named executive officer salary levels in order to rank salary, individual performance and job value to each position. He then makes recommendations on salaries, other than his own, to our chairman of the board and then to our management development and compensation committee. The chairman of the board makes the recommendation on our chief executive officer's salary to the committee. The committee reviews the recommendations regarding changes in salaries for executive officers and may take such action, including modifications to the recommendations, as it deems appropriate. The recommendations of our chief executive officer and our chairman of the board and the determinations of our management development and compensation committee are based on our evaluations of the past year annual base-salary amounts with adjustments made as a result of our past and expected future financial performance, inflation, past and potential future individual performance and contributions or alternative career opportunities that might be available to our named executive officers employed by us, without performing any independent market research.

In all cases, no specific measure of, or formula based upon, our financial performance was utilized in determining the increase in an executive officer's base salary for a year, although we did consider our financial performance as one factor in determining such increase. There is no specific weighting of factors in determining such increases. The salaries for our named executive officers employed by us are disclosed in their salary column in the 2016 Summary Compensation Table in this proxy statement for each of the last three years in which such officer served as one of our executive officers.

Annual Incentive Bonuses. We pay discretionary incentive bonuses annually in cash to each of our employed named executive officers to motivate him to achieve higher levels of performance in attaining our corporate goals and reward him for such performance. We determine the amount of any such incentive bonuses we pay our named executive officers employed by us on a year-end discretionary evaluation of each such officer's responsibility, performance, attitude and potential. The amount of the incentive bonus is also influenced by the amount of the named executive officer's base salary and prior year incentive bonus, as well as our financial performance. We based our award of incentive bonuses for each year primarily upon the chairman of the board's recommendation regarding the chief executive officer, the chief executive officer's recommendations regarding the other named executive officers employed by us and the determinations of our management development and compensation committee, which may take such action, including modifications to the recommendations, as it deems appropriate. No specific overall performance measures were utilized and there is no specific measure of, or formula based upon, our financial performance that was utilized in determining an employed named executive officer's bonus, although we did consider our financial performance as one factor in determining such bonus. Additionally, there is no specific weighting of factors considered in the determination of incentive bonuses paid to these executive officers.

We approved discretionary incentive bonuses for our employed named executive officers in the last three years as a percentage of the officer's base salary as follows.

	Discretionary Incentive Bonuses as a Percentage of Base Salary		
Named Executive Officer	2014 (1)	2015 (1)	2016 (1)
David A. Bowers	105%	110%	110%
Scott C. James	118%	118%	113%

(1) These bonuses were approved by our management development and compensation committee in the first quarter of the following year, and such bonuses were paid in such following year for performance in the reported year.

The 2016 discretionary incentive bonuses for Messrs. Bowers and James recognized, among other things, the continuation of our significantly improved operating income in 2016 in both of our segments as compared to 2015. The 2015 discretionary incentive bonuses for Messrs. Bowers and James recognized, among other things, the continuation of our higher sales and operating income in 2015 in both of our segments as compared to 2014. The 2014 discretionary incentive bonuses for Messrs. Bowers and James primarily recognized our significantly improved operating income year over year for our current businesses and the promotion of Mr. James in 2014 to our president and chief operating officer. These discretionary incentive bonuses are disclosed in the bonus column in the 2016 Summary Compensation Table in this proxy statement.

Defined Contribution Plans. We pay discretionary annual contributions to the CompX Capital Accumulation Plan, a profit sharing defined contribution plan, and The Employee 401(k) Retirement Plan, a 401(k) defined contribution plan. Participants of these plans are employees of certain of our operations. In March of each year, upon the recommendation of our chief executive officer and the approval of our management development and compensation committee, we contributed for the plan year that ended on December 31 of the prior year, subject to certain limitations under the respective plans and the U.S. Internal Revenue Code of 1986, as amended:

- to the CompX Capital Accumulation Plan for each of the last three plan years, 7.25% of that year's earnings before taxes of our combined CompX security products division and Livorsi marine components unit for each of the last three years (with certain adjustments); and
- to our 401(k) plan for each of the last three plan years, a matching contribution from a pool of 5% of the earnings before taxes of the business unit up to 100% of the participant's eligible earnings.

Each of Messrs. Bowers and James received such contributions for each of the last three years. These contributions are included in their all other compensation column in the 2016 Summary Compensation Table in this proxy statement.

Compensation of our Named Executive Officers Employed by Contran. For each of the last three years, certain of our named executive officers were employed by Contran and provided their services to us pursuant to our ISA with Contran. Our named executive officers who provided services to us pursuant to our ISA with Contran are as follows:

Name	Positions with CompX
Bobby D. O'Brien	Former Chairman of the Board (1)
James W. Brown	Vice President, Chief Financial Officer and Controller
Andrew B. Nace	Vice President

____

(1) Mr. O'Brien resigned as our chairman of the board effective January 20, 2017.

The nature of the duties of each of our named executive officers who are employees of Contran is consistent with the duties normally associated with the officer titles and positions such officer holds with us.

Intercorporate Services Agreement with Contran. In each of the last three years, we paid Contran a fee for services provided pursuant to our ISA with Contran, which fee was approved by our independent directors after receiving the recommendation of our management development and compensation committee and the concurrence of our chief financial officer. Such services provided under this ISA included the services of our named executive officers employed by Contran, and as a result a portion of the aggregate ISA fee we pay to Contran is paid with respect to services provided to us by such named executive officers.

The charge under this ISA reimburses Contran for its cost of employing the personnel who provide the services by allocating such cost to us based on the estimated percentage of time such personnel were expected to devote to us over the year. The amount of the fee we paid for each year under this ISA for a person who provided services to us represents, in management's view, the reasonable equivalent of "compensation" for such services. See the Intercorporate Services Agreements part of the Certain Relationships and Transactions section of this proxy statement for the aggregate amount we paid to Contran in 2016 under this ISA. Under the various ISAs among Contran and its subsidiaries and affiliates, we shared the cost of the employment of our executive officers employed by Contran with Contran and certain of its other publicly and privately held subsidiaries.

For our named executive officers employed by Contran, the portion of the annual charge we paid for each of the last three years to Contran under this ISA attributable to each of their services, as applicable, is set forth in footnote 3 to the 2016 Summary Compensation Table in this proxy statement. As discussed further below, the amount charged under the ISA is based upon Contran's cost of employing or engaging the personnel who provide the services to us (including the services of our named executive officers employed by Contran) by allocating such cost to us based on the estimated percentage of time such personnel were expected to devote to us over the year. The amount charged under the ISA is not dependent upon our financial performance. As previously disclosed, our prior vice president, chief financial officer and controller, who was employed by Contran, resigned his employment with Contran effective April 10, 2014 in order to take a position with an unrelated company. Our board of directors elected James W. Brown, an employee of Contran, as our vice president, chief financial officer and controller effective April 10, 2014. Accordingly, for purposes of the 2016 Summary Compensation Table, the portion of the 2014 ISA charge for the 2014 services for our vice president, chief financial officer and controller was prorated one-fourth to the prior vice president, chief financial officer and controller and three-fourths to Mr. Brown.

We believe the cost of the services received under our ISA with Contran, after considering the quality of the services received, is fair to us and is no less favorable to us than we could otherwise obtain from an unrelated third party for comparable services, based solely in our collective business judgment and experience without performing any independent market research.

In the early part of each year, Contran's management, including certain of our executive officers, estimates the percentage of time that each Contran employee, including certain of our named executive officers, is expected to devote in the upcoming year to Contran and its subsidiaries and affiliates, including us. Contran's management then allocates Contran's cost of employing each of its employees among Contran and its various subsidiaries based on such estimated percentages. Contran's aggregate cost of employing each of its employees comprises:

- the annualized base salary of such employee at the beginning of the year;
- an estimate of the bonus Contran will pay or accrue for such employee (other than bonuses for specific matters) for the year, using as a reasonable approximation for such bonus the actual bonus that Contran paid or accrued for such employee in the prior year; and
- Contran's portion of the social security and medicare taxes on such base salary and an estimated overhead factor (23% for each of 2016 and 2015 and 25% for 2014) applied to the base salary for the cost of medical and life insurance benefits, unemployment taxes, disability insurance, defined benefit and defined contribution plan benefits, professional education and licensing and costs of providing an office, equipment and supplies related to providing such services.

Contran's senior management subsequently made such adjustments to the details of the proposed ISA charge as they deemed necessary for accuracy, overall reasonableness and fairness to us.

In the first quarter of each year, the proposed charge for that year under our ISA with Contran was presented to our management development and compensation committee, and the committee considered whether to recommend that our board of directors approve the ISA charge. Among other things during such presentation, the committee was informed of:

- the quality of the services Contran provides to us, including the quality of the services certain of our executive officers provide to us;
- the comparison of the ISA charge and number of full-time equivalent employees reflected in the charge by department for the prior year and proposed for the current year;
- the comparison of the prior year and proposed current year charges by department and in total and such amounts as a percentage of Contran's similarly calculated costs for its departments and in total for those years;

- the comparison of the prior year and proposed current year average hourly rate; and
- the concurrence of our chief financial officer as to the reasonableness of the proposed charge.

In determining whether to recommend that the board of directors approve the proposed ISA fee to be charged to us, the management development and compensation committee considers the three elements of Contran's cost of employing the personnel who provide services to us, including the cost of employing certain of our named executive officers, in the aggregate and not individually. After considering the information contained in such presentations, and following further discussion and review, our management development and compensation committee recommended that our board of directors approve the proposed ISA fee after concluding that:

- the cost to employ the additional personnel necessary to provide the quality of the services provided by Contran would exceed the proposed aggregate fee to be charged by Contran to us under our ISA with Contran; and
- the cost for such services would be no less favorable than could otherwise be obtained from an unrelated third party for comparable services in the committee's collective business judgment and experience, without performing any independent market research.

In reaching its recommendation, our management development and compensation committee did not review:

- any ISA charge from Contran to any other publicly held parent or sister company, although such charge was separately reviewed by the management development and compensation committee of the applicable company; and
- the compensation policies of Contran or the amount of time our named executive officers employed by Contran are expected to devote to us because:
  - each of our named executive officers employed by Contran, provides services to many companies related to Contran, including Contran itself;
  - the fee we pay to Contran under our ISA with Contran each year does not represent all of Contran's cost of employing each of such named executive officers;
  - Contran and these other companies related to Contran absorb the remaining amount of Contran's cost of employing each of such named executive officers; and
  - the members of our management development and compensation committee consider the other factors discussed above in determining whether to recommend that the proposed ISA fee for each year be approved by the full board of directors.

Based on the recommendation of our management development and compensation committee as well as the concurrence of our chief financial officer, our independent directors approved the proposed annual ISA charge effective January 1, 2016, with our other directors abstaining.

For financial reporting and income tax purposes, the ISA fee is expensed as incurred on a quarterly basis. Section 162(m) of the Internal Revenue Code of 1986 generally disallows an income tax deduction to publicly held companies for non-performance based compensation over $1.0 million paid to the company's chief executive officer and four other most highly compensated executive officers. Prior to 2017, the Contran ISA did not exceed $1.0 million for any individual's charge to a publicly held company under the ISA. Accordingly, the deductibility by the company of the charge for income tax purposes was not limited under Section 162(m), if such section were to be deemed applicable as it relates to the ISA. Beginning in 2017, the ISA may include charges in excess of $1.0 million, but Contran will absorb the impact of any such income tax deduction disallowance. However, the fee we expect to pay to Contran under our ISA with Contran for 2017 does not include the services for any individual with an ISA charge in excess of $1.0 million.

Director Fees, including Equity-Based Compensation. We paid director fees in the form of cash and stock compensation to certain of our named executive officers who provide their services to us pursuant to our ISA with Contran and who also served on our board of directors. Mr. Bowers does not receive these fees because we do not pay these fees to directors who are also employed by us. Other than these director fees, we did not pay any compensation directly to such named executive officers. See the Director Compensation section of this proxy statement.

The 2016 Summary Compensation Table sets forth in footnote 3 the cash fees we paid to Mr. O'Brien for his director services. The director fees paid to him are the annual director retainer fees and the fees for attending board meetings, as our named executive officers who also serve on our board of directors are not members of any board committee. The cash director fees are not dependent upon our financial performance.

The 2016 Summary Compensation Table sets forth in footnote 4 the director stock grants we paid to Mr. O'Brien for his director services. See the 2016 Grants of Plan-Based Awards section in this proxy statement for a discussion of these annual grants and the formula by which the stock awards are determined. The stock grant Mr. O'Brien received was pursuant to the same formula for all directors eligible to receive such grants. The dollar amount of the stock awards appearing in the 2016 Summary Compensation Table represents the value recognized for financial statement reporting purposes of shares of common stock we granted to Mr. O'Brien for his director services.

Prior to 2014, we decided to forego the grant of any equity compensation other than annual awards of stock to our directors, as discussed above. We also do not have any security ownership requirements or guidelines for our management or directors. We do not currently anticipate any equity-based compensation will be granted in 2017, other than the annual grants of stock to our directors.

Compensation Committee Report. The management development and compensation committee has reviewed with management the Compensation Discussion and Analysis section in this proxy statement. Based on the committee's review and a discussion with management, the committee recommended to the board of directors that our compensation discussion and analysis be included in this proxy statement.

The members of our management development and compensation committee submit the foregoing report as of March 1, 2017.

Ann Manix
Chairwoman of our Management Development and Compensation Committee

Thomas E. Barry
Member of our Management Development and Compensation Committee

Summary of Cash and Certain Other Compensation of Executive Officers. The 2016 Summary Compensation Table below provides information concerning compensation we and our subsidiaries paid or accrued for services rendered during the last three years by our chief executive officer, our chief financial officer and each of the three other most highly compensated individuals (in certain instances, based on ISA charges to us) who were executive officers of ours during 2016. Messrs. Brown, Nace and O'Brien were employees of Contran for their years reported in this table and provided their services to us and our subsidiaries pursuant to our ISA with Contran. For a discussion of this ISA, see the Intercorporate Services Agreements part of the Certain Relationships and Transactions section of this proxy statement.

2016 SUMMARY COMPENSATION TABLE (1)

Name and Principal Position	Year	Salary		Bonus	Stock Awards		All Other Compensation		Total
David A. Bowers	2016	$524,659		$550,000	$ -0-		$35,586	(5)	$1,110,245
Vice Chairman of the	2015	518,013		550,000	-0-		35,153	(5)	1,103,166
Board and Chief	2014	473,866		500,000	-0-		36,066	(5)	1,009,932
Executive Officer									
Scott C. James	2016	374,486		400,000	-0-		35,586	(5)	810,072
President and Chief	2015	350,880		400,000	-0-		35,153	(5)	786,033
Operating Officer	2014	295,115		350,000	-0-		36,066	(5)	681,181
James W. Brown (2)	2016	690,900	(3)	-0-	-0-		-0-		690,900
Vice President, Chief	2015	561,500	(3)	-0-	-0-		-0-		561,500
Financial Officer and	2014	364,600	(3)(6)	-0-	-0-		-0-		364,600
Controller									
Andrew B. Nace (2)	2016	222,400	(3)	-0-	-0-		-0-		222,400
Vice President									
Bobby D. O'Brien (2)	2016	203,100	(3)	-0-	11,600	(4)	-0-		214,700
Former Executive	2015	191,900	(3)	-0-	11,500	(4)	-0-		203,400
Vice President	2014	170,300	(3)	-0-	10,950	(4)	-0-		181,250

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

(2) 2016 is the first year Mr. Nace was a named executive officer. Our board of directors elected Mr. Brown as our vice president, chief financial officer and controller effective April 10, 2014, and accordingly Mr. Brown served as our chief financial officer for only a portion of 2014. Mr. O'Brien resigned as a director and executive officer of ours on January 20, 2017.

(3) The amounts shown in the table as salary compensation for Messrs. Brown, Nace and O'Brien represent the portion of the fees we paid to Contran pursuant to the ISA attributable to the services each of these officers 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. The amount shown in the table as salary for Mr. O'Brien also includes

director cash compensation we paid to him, as indicated in the following table.

	2014	2015	2016
Bobby D. O'Brien			
ISA Fees:	$141,300	$161,900	$173,100
Director Fees Earned or Paid in Cash:	29,000	30,000	30,000
	$170,300	$191,900	$203,100

(4) Stock awards to Mr. O'Brien consisted of shares of our class A common stock we granted to him for his director services. See the 2016 Grants of Plan-Based Awards Table below for more details regarding the 2016 grants. The stock awards consisted of the following:

Shares of Class A Common Stock	Date of Grant	Closing Price on Date of Grant	Grant Date Value of Shares of Class A Common Stock
Bobby D. O'Brien			
1,000 shares of CompX class A common stock	May 26, 2016	$11.60	$11,600
1,000 shares of CompX class A common stock	May 27, 2015	$11.50	$11,500
1,000 shares of CompX class A common stock	May 28, 2014	$10.95	$10,950

We valued this stock award at the closing price of a share of the class A common stock on the date of grant, consistent with the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 718.

(5) All other compensation for each of Messrs. Bowers and James for each of the last three years consisted of our matching contributions to their accounts under our 401(k) Plan and our contributions to their accounts under the CompX Capital Accumulation Plan, a defined contribution plan, as follows:

Year	Employer's 401(k) Plan Matching Contributions	Employer's Capital Accumulation Plan Contributions	Total
2016	$13,014	$22,572	$35,586
2015	12,478	22,675	35,153
2014	12,885	23,181	36,066

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

(6) As previously disclosed, our prior vice president, chief financial officer and controller resigned his employment with Contran on April 10, 2014 in order to take a position with an unrelated company, and Mr. Brown was appointed to assume the vacated officer positions. Accordingly, for purposes of the 2016 Summary Compensation Table, the portion of the 2014 ISA charge for the services for our vice president, chief financial officer and controller has been prorated three-fourths to Mr. Brown and one-fourth to his predecessor (who does not appear in the 2016 Summary Compensation Table).

2016 Grants of Plan-Based Awards. The following table sets forth details of the stock award of our class A common stock we granted to Mr. O'Brien in 2016 for his service as our director. Other than this stock award, and as already discussed, we did not pay any plan-based incentive compensation in 2016. No other named executive officer received any plan-based awards from us or our subsidiaries in 2016.

2016 GRANTS OF PLAN-BASED AWARDS (1)

Name	Grant Date	Date of Approval (2)	All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	Grant Date Fair Value of Stock and Option Awards (2)
Bobby D. O'Brien	May 26, 2016	May 30, 2012	1,000	$11,600

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

(2) As preapproved by our management development and compensation committee, on the day of each of our annual stockholder meetings each of our directors elected on that day receives a grant of shares of our class A common stock under our 2012 Director Stock Plan 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

These shares are fully vested and tradable immediately on their date of grant, other than restrictions under applicable securities laws. For the purposes of this table, we valued these stock awards at the $11.60 closing price per share of our class A common stock on their date of grant, consistent with the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 718.

No Outstanding Equity Awards at December 31, 2016. At December 31, 2016, none of our named executive officers held outstanding stock options to purchase shares of our class A or B common stock (or common stock of our parent companies), or held any equity incentive awards for such shares.

No Option Exercises or Stock Vested. During 2016, no named executive officer exercised any stock options or held any stock subject to vesting restrictions. For stock awards granted to Mr. O'Brien in 2016 that had no vesting restrictions, see the 2016 Grants of Plan-Based Awards Table above.

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 2016 were Dr. Barry, Messrs. Graham and Moore and Mses. Feehan, Fisher, Manix and Tidlund. Our former directors who also received such compensation in 2016 were Messrs. Edelcup, Hardin, O'Brien, Poston and Watson. Messrs. Edelcup, Hardin and Poston did not stand for re-election in 2016. Dr. Barry, Mr. Moore and Mses. Fisher and Tidlund were elected to our board of directors in March 2016, and Mr. Graham was elected to our board of directors in May 2016. Mr. Watson resigned as a director and executive officer of ours in May 2016. Accordingly, the 2016 amounts for each of Dr. Barry, Messrs. Edelcup, Graham, Hardin, Moore, Poston and Watson and Mses. Fisher and Tidlund reflect that they did not serve for the entire year. Mr. O'Brien resigned as a director and executive officer of ours effective January 20, 2017.

The table below reflects the annual rates of their retainers for 2016.

	2016 Director Retainers
Each director	$ 25,000
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)	$ 45,000
Other members of our audit committee	$ 25,000
Members of our other committees	$ 5,000

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 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 2016 director services provided to us.

2016 DIRECTOR COMPENSATION (1)

Name	Fees Earned or Paid in Cash (2)	Stock Awards (3)	Total
Thomas E. Barry	$ 45,000	$11,600	$56,600
Norman S. Edelcup	40,500	-0-	40,500
Loretta J. Feehan	32,000	11,600	43,600
Robert D. Graham	14,500	-0-	14,500
Edward J. Hardin	26,000	-0-	26,000
Elisabeth C. Fisher	57,500	11,600	69,100
Ann Manix	62,000	11,600	73,600
Cecil H. Moore, Jr.	57,500	11,600	69,100
George E. Poston	30,500	-0-	30,500
Mary A. Tidlund	41,500	11,600	53,100
Steven L. Watson	15,500	11,600	27,100

(1) Certain non-applicable columns have been omitted from this table. See the 2016 Summary Compensation Table and 2016 Grants of Plan-Based Awards Table in this proxy statement for compensation we paid Mr. O'Brien for his director services.

(2) Represents cash retainers and meeting fees the nonemployee director earned for director services he or she provided to us in 2016.

(3) Represents the value of 1,000 shares of our class A common stock we granted to each of these nonemployee directors on May 26, 2016. For the purposes of this table, we valued these stock awards at the $11.60 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.

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:
  - 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
  - there exist ceilings for our other key employee bonuses (which are not a significant part of their compensation) 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 NYSE MKT and us. Based solely on the review of the copies of such forms and representations by certain reporting persons, we believe that for 2016 our executive officers, directors and 10% shareholders complied with all applicable filing requirements under section 16(a), except as previously disclosed in last year's proxy statement.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Related Party Transaction Policy. From time to time, we engage in transactions with affiliated companies. Pursuant to our Policy Regarding Related Party Transactions, or RPT Policy, all related party transactions to which we are or are proposed to be a party are approved or ratified by our audit committee (unless another committee of our board of directors composed solely of independent directors, or all of the independent directors of our board, shall have approved or ratified the related party transaction). For certain ongoing related party transactions to which we are a party (referred to as ordinary course of business related party transactions), such approval or ratification shall occur no less frequently than once a year. The RPT Policy is available on our website at www.compx.com under the corporate governance section.

During 2016 our audit committee reviewed, adopted and ratified the following ordinary course of business related party transactions to which we are a party in accordance with the terms of such RPT Policy:

- Risk Management Program – a program pursuant to which Contran and certain of its subsidiaries and related entities, including us, as a group purchase third-party insurance policies and risk management services, with the costs thereof apportioned among the participating companies;
- Tax Sharing Agreement– the cash payments for income taxes periodically paid by us to NL or received by us from NL, as applicable, and related items pursuant to the terms of our tax sharing agreement with NL (such tax sharing agreement being appropriate, given that we and our qualifying subsidiaries are members of the consolidated U.S. federal income tax return, and certain state and local jurisdiction income tax returns, of which Contran is the parent company); and
- Cash Management Loans – our unsecured revolving credit facility with Valhi, which provides for loans by us to Valhi of up to $40 million.

Each of these ordinary course of business related party transactions, and the actions taken by the audit committee in fulfilling its duties and responsibilities under the RPT Policy, are more fully described below. Our audit committee was not required to approve and ratify the fee we paid to Contran in 2016 under our intercorporate services agreement with Contran, because such intercorporate services fee is approved by all of the independent directors of our board, as more fully described below. During 2016, we were not a party to any other related party transactions (ordinary course of business related party transactions or otherwise) requiring approval or ratification under the RPT Policy.

Relationships with Related Parties. As set forth under the Security Ownership section of this proxy statement, Lisa K. Simmons and Serena Simmons Connelly may be deemed to control us. We and other entities that may be deemed to be controlled by or related to Ms. Simmons and Ms. Connelly 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 Ms. Simmons and Ms. Connelly.

Certain directors or executive officers of Contran, NL 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, and consistent with the provisions of the RPT Policy.

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, 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 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 2016 fee charged to us under our ISA with Contran.

In 2016, we paid Contran fees of approximately $3.1 million for its services under our ISA with Contran, including amounts for the services of certain of our named executive officers that are employees of Contran, as disclosed in the 2016 Summary Compensation Table in this proxy statement. In 2017, we expect to pay Contran fees of approximately $2.8 million for its services under this ISA, including the services of certain of our named executive officers that are employees of Contran. We also paid director compensation directly to Mr. O'Brien for his services as our director, as disclosed above in the 2016 Summary Compensation Table. Mr. O'Brien resigned as a director and executive officer of ours effective January 20, 2017, and therefore we will not pay any director compensation to him in 2017 other than his first quarter 2017 quarterly director retainer fee and one daily meeting fee.

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, and in the event that the available coverage under a particular policy would become exhausted by one or more claims, Contran and certain of its subsidiaries and affiliates, including us, have entered into a loss sharing agreement under which any uninsured loss arising because the available coverage had been exhausted by one or more claims will be shared ratably amongst those entities that had 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 risk associated with the potential for any uninsured loss.

During 2016, we paid Tall Pines and EWI in the aggregate approximately $1.7 million. This amount principally represents payments for insurance premiums, including 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. We expect these relationships with Tall Pines and EWI will continue in 2017.

In October 2016, our management made a presentation to our audit committee regarding our participation in the combined risk management program. Among other things during such presentation, the committee was informed of the following (in addition to the matters described above):

- the premiums for all of the insurance and reinsurance policies are set by third parties (the underwriters for the insurance or reinsurance carriers bearing the risk), without any markup by Tall Pines or EWI;
- the method by which the insurance premiums are allocated among the companies participating in the risk management program is generally the same as the basis used by the insurance or reinsurance carriers to establish the premiums for such insurance/reinsurance (i.e. the dominant premium factor, which is the factor that has the greatest impact on the premium, such as revenues, payroll or employee headcount);
- EWI provides claims and risk management services to each of the companies participating in the risk management program, including us, and where appropriate EWI engages third-party risk management consultants;

- the commissions received by Tall Pines and EWI from the insurance or reinsurance underwriters, and the fees assessed for the policies they so provide or broker, are in amounts equal to the commissions or fees which would be received by third-party brokers or underwriters;
- the insurance coverages provided to us by the risk management program are sufficient and adequate for our purposes;
- the benefits to our participating in the risk management program include, among others, (a) the ability to obtain broader coverage, with strong/solvent underwriters, at a reduced cost as compared to the coverage and cost that would be available if we were to purchase insurance by itself, (b) the greater spread of risk among the companies participating in the risk management program, (c) the ability to obtain centralized premium and claim reporting, and (d) the ability to have access to the experienced risk management personnel of EWI, including in the areas of loss controls and claims processing; and
- the "cost of risk" metric, as defined by the Risk and Insurance Management Society, or RIMS, for the Contran group is lower as compared to the cost of risk as reflected in a recent RIMS benchmark survey for certain groups of companies comparable to the Contran group.

As part of such presentations, our chief financial officer, after consultation with other members of our management, advised the committee of his belief that our participation in the risk management program, including the allocation of its costs among us and the other entities participating in the risk management program, is fair and reasonable to us, and is on terms no less favorable than we could otherwise obtain from unrelated parties, and provided the committee with his recommendation that the committee approve, adopt and ratify our participation in the risk management program in all respects.

After considering the information contained in the presentations, including the recommendation of our chief financial officer, and following further discussion and review by the audit committee, our audit committee determined that our participation in the risk management program is fair and reasonable to us, and is on terms no less favorable than we could otherwise obtain from unrelated parties, in each case based on the collective business judgment and experience of members of the committee, and the committee approved, adopted and ratified our participation in the risk management program in all respects.

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." We are also a party to a tax sharing agreement with Contran and NL. As a member of the Contran Tax Group and pursuant to the tax sharing agreement, we and our qualifying subsidiaries compute our provision for U.S. income taxes on a separate company basis using tax elections made by Contran. Pursuant to the tax sharing agreement and using tax elections made by Contran, we make payments to or receive payments from NL in amounts we would have paid to or received from the U.S. Internal Revenue Service had we not been a member of the Contran Tax Group but instead had been a separate taxpayer. Refunds are limited to amounts previously paid under the tax sharing agreement. We and our qualifying subsidiaries are also a part of consolidated tax returns filed by Contran in certain U.S. state jurisdictions, and the terms of the tax sharing agreement 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 sharing agreement with NL, NL has agreed 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 sharing agreement.

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. For 2016, and pursuant to our tax sharing agreement, we made net cash payments for income taxes to NL of approximately $4.6 million.

In February 2016, our management made a presentation to our audit committee regarding our tax sharing agreement with Contran and NL. Among other things during such presentation, the committee was informed of the following (in addition to the matters described above):

- the tax sharing agreement is consistent with accounting principles generally accepted in the United States of America, and consistent with applicable law and regulations; and
- our income tax accounts are included in the scope of the annual audit of our consolidated financial statements performed by PwC, and PwC makes periodic reports to the committee regarding income tax matters related to us.

As part of such presentation, our chief financial officer and our chief tax officer advised the committee of their belief that the terms of the tax sharing agreement are consistent with the terms of applicable law and regulations, and are fair and reasonable to us, and are on terms no less favorable than would be present if we were not a party to the tax sharing agreement, and provided the committee with their recommendation that the committee approve, adopt and ratify the tax sharing agreement in all respects.

After considering the information contained in the presentations, including the recommendation of our chief financial officer and our chief tax officer, and following further discussion and review by the audit committee, our audit committee determined that the terms of the tax sharing agreement are on terms no less favorable than would be present if we were not a party to the tax sharing agreement, in each case based on the collective business judgment and experience of members of the committee, and the committee approved, adopted and ratified the tax sharing agreement in all respects.

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, we are generally able to earn a higher rate of return on the loan than we 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 have outstanding indebtedness, we may still decide to enter into a loan to a related party either because the interest rate on the loan to the related party is at a higher rate of return as compared to the interest rate we are paying on our outstanding indebtedness, or the funds we would be loaning to the related party would not otherwise be used to paydown the outstanding indebtedness (such as, for example, in the case when the outstanding indebtedness has a maturity longer than the maturity of the loan to the related party). 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.

Beginning August 2016, we had an unsecured revolving promissory note with Valhi whereby we agreed to loan Valhi up to $40 million. Our loan to Valhi, as amended, bears interest at the prime rate plus 1.00%, payable quarterly and all principal and unpaid interest due on demand, but in any event no earlier than December 31, 2018. The principal amount of our outstanding loans to Valhi at any time is at our discretion. During 2016, we made aggregate loans to Valhi of $36.6 million, and Valhi repaid an aggregate of $9.2 million. At December 31, 2016, the outstanding balance of such loan to Valhi was $27.4 million. During 2016, we received aggregate interest under this note (including unused commitment fees) of $0.2 million.

In August 2016, our management made a presentation to our audit committee regarding our loan to Valhi. Among other things during such presentation, the committee was informed of the following (in addition to the matters described above):

- We have no outstanding indebtedness;
- We receive an unused commitment fee of 50 basis points per annum, payable quarterly;
- The interest rate we would earn on any outstanding borrowings by Valhi would be higher than the rate of return we would earn on any of our funds available for investment; and

- The interest rate we would earn on any outstanding borrowings by Valhi would be an interest rate no less than (and generally greater than) the interest rate which a lender would be earning under certain debt facilities of three of our competitors.

As part of such presentation, our chief financial officer, after consultation with our treasurer and other members of our management, advised the committee of his belief that the terms of our loan to Valhi are fair and reasonable to us, and are on terms no less favorable than we could otherwise obtain from unrelated parties, and provided the committee with his recommendation that the committee approve, adopt and ratify our loan to Valhi in all respects.

After considering the information contained in the presentation, including the recommendation of our chief financial officer, and following further discussion and review by the audit committee, our audit committee determined that the terms of our loan to Valhi are fair and reasonable to us, and are on terms no less favorable than we could otherwise obtain from unrelated parties, in each case based on the collective business judgment and experience of members of the committee, and the committee approved, adopted and ratified our loan to Valhi in all respects.

AUDIT COMMITTEE REPORT

Our audit committee of the board of directors is composed of five directors and 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 NYSE MKT and promulgated by the SEC under the Sarbanes-Oxley Act of 2002. Two members of our audit committee meets the audit committee financial expert requirements under the applicable SEC rules. 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 PCAOB 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 and the audits of our consolidated financial statements. Our audit committee is directly responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm. As part of fulfilling this responsibility, our audit committee engages in an annual evaluation of, among other things, the firm's qualifications, competence, integrity, expertise, performance, independence and communications with the committee (including these factors as they relate specifically to the firm's lead audit engagement partner), and whether the current firm should be retained for the upcoming year's audit. Our audit committee discusses with our independent registered public accounting firm the overall scope and plans for the audit they will perform, and the committee meets with the firm throughout the year, both with and without management being present, to monitor the firm's execution of and results obtained from their audit. Our audit committee performs other activities throughout the year, in accordance with the responsibilities of the audit committee specified in the audit committee charter, including the approval or ratification of certain related party transactions in accordance with the terms of our RPT Policy, as discussed above in the Certain Relationships and Transactions section in this proxy statement.

In its oversight role, our audit committee reviewed and discussed our audited consolidated financial statements with management and with PwC, our independent registered public accounting firm for 2016. Our audit committee also reviewed and discussed our internal control over financial reporting with management and with PwC. Management and PwC indicated that our consolidated financial statements as of and for the year ended December 31, 2016 were fairly stated in accordance with GAAP. Our audit committee discussed with PwC and management the significant accounting policies used and significant estimates made by management in the preparation of our audited consolidated financial statements, and the overall quality of management's financial reporting process. Our audit committee and PwC also discussed any issues deemed significant by PwC or the committee, including the matters required to be discussed pursuant to the standards of the PCAOB, the rules of the SEC and other applicable regulations. PwC has provided to our audit committee written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent registered public accounting firm'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 consolidated financial statements be included in our 2016 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 as of March 1, 2017.

Cecil H. Moore, Jr
Chairman of our Audit Committee

Thomas E. Barry	Elisabeth C. Fisher	Ann Manix	Mary A. Tidlund
Member of our Audit Committee	Member of our Audit Committee	Member of our Audit Committee	Member of our Audit Committee

- 35 -

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, 2016. 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 2017. 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 2017 and the first quarter of 2018; and
- audit our annual consolidated financial statements for the year ending December 31, 2017.

Representatives of PwC are not expected to attend our 2017 annual stockholder 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 2015 and 2016. Additional fees for 2016 may subsequently be authorized and paid to PwC, in which case the amounts disclosed below for fees paid to PwC for 2016 would be adjusted to reflect such additional payments in our proxy statement relating to next year's annual stockholder meeting.

Type of Fees	2015	2016
	(in thousands)	
Audit Fees (1)	$ 781	$ 859
Audit-Related Fees (2)	-0-	-0-
Tax Fees (3)	-0-	-0-
All Other Fees	-0-	-0-
Total	$ 781	$ 859

(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.

(2) Fees for assurance and related services reasonably related to the audit or review of financial statements for each year. These services might include 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 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 PCAOB.

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 2016, our audit committee preapproved all of PwC's services provided to us or any of our subsidiaries in compliance with our preapproval policy without the use of the SEC's de minimis exception to such preapproval requirement.

PROPOSAL 2
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, and the future frequency of the Say-on-Pay proposal is the subject of the nonbinding advisory vote in Proposal 3 (Say-When-on-Pay). After the 2017 Annual Meeting of Stockholders, the next nonbinding stockholder advisory vote on the frequency of a Say-on-Pay proposal will be at our 2023 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 nonbinding affirmative vote of the holders of the majority of the class A and B shares of common stock, voting together as a single class, present in person or represented by proxy at the 2017 annual meeting and entitled to vote on the subject matter, the stockholders of CompX International Inc. approve, on a nonbinding advisory basis, the compensation of its executive officers named in the 2016 Summary Compensation Table in the 2017 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 nonbinding affirmative vote of the holders of the majority of the class A and B shares of common stock, voting together as a single class, present in person or represented by proxy at the 2017 annual meeting and entitled to vote on the subject matter 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 effect on this proposal.
NL 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.

PROPOSAL 3

NONBINDING ADVISORY PREFERRED FREQUENCY FOR STOCKHOLDERS TO CONSIDER APPROVING EXECUTIVE COMPENSATION

Background of this Proposal. Section 14A of the Exchange Act also requires a publicly held company to hold, no less frequently than every six years, a nonbinding advisory stockholder vote with respect to the preferred frequency of the vote on subsequent Say-on-Pay proposals. Publicly held companies must give stockholders the choice of whether to cast a nonbinding advisory vote on the Say-on-Pay proposal every year, every other year or every third year, which we refer to as the "Say-When-on-Pay" proposal. Our last Say-When-on-Pay proposal was in 2011, when our stockholders approved an annual Say-on-Pay. SEC rules require that:

- our stockholders also have the option to abstain from making a choice; and
- we disclose in the next periodic report we file with the SEC, our decision in light of the nonbinding advisory vote on the Say-When-on-Pay proposal how frequently we will include in our proxy materials a Say-on-Pay proposal.

Say-When-on-Pay Proposal. This proposal affords our stockholders the opportunity to submit a nonbinding advisory vote on how often we should include a Say-on-Pay proposal in our proxy materials for future annual stockholder meetings (or special stockholder meetings for which we must include executive compensation information in the proxy statement for that meeting). Under this proposal, stockholders may vote to have the Say-on-Pay proposal every year, every other year or every third year or abstain from voting. Stockholders are not voting to approve or disapprove the recommendation of our board of directors that we hold an annual vote on the Say-on-Pay proposal. We believe that giving our stockholders the right to cast an advisory vote every year on our executive compensation is a good corporate governance practice.

Effect of the Proposal. This Say-When-on-Pay proposal is nonbinding and advisory. Our board of directors may decide that it is in the best interests of us and our stockholders to hold a nonbinding advisory vote on the Say-on-Pay proposal more or less frequently than the option our stockholders choose by a plurality of the affirmative votes. We currently plan to follow the nonbinding advisory vote of our stockholders on this proposal.

Vote Required. Because there are multiple choices and this proposal is a nonbinding advisory vote, there is no minimum requisite vote to approve a certain frequency of future Say-on-Pay proposals. Accordingly, if you indicate on your proxy card that you approve one of the options other than abstain, we will deem that you consent that a plurality of the affirmative votes of the holders of our outstanding class A and class B shares of common stock, voting together as a single class, will determine, on a nonbinding advisory basis, the frequency of future Say-on-Pay proposals preferred by our stockholders. Since this proposal needs only receive the plurality of affirmative votes from the holders represented and entitled to vote at the meeting, an abstention or a broker/nominee non-vote on this proposal will have no effect on its outcome.

NL 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 an annual Say-on-Pay proposal. 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, on a nonbinding advisory basis, approve an annual Say-on-Pay.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE OPTION OF "1 YEAR" (AS OPPOSED TO TWO YEARS OR THREE YEARS) AS THE PREFERRED FREQUENCY WITH WHICH STOCKHOLDERS ARE PROVIDED A NONBINDING ADVISORY VOTE ON OUR NAMED EXECUTIVE OFFICER COMPENSATION AS DISCLOSED PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

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.

2016 ANNUAL REPORT ON FORM 10-K

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 is included as part of the annual report mailed 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 2016 ANNUAL REPORT AND THIS PROXY STATEMENT

To obtain copies of our 2016 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 24, 2017

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 24, 2017.

The proxy statement and annual report to stockholders (including CompX's Annual Report on Form 10-K for the fiscal year ended December 31, 2016) are available at www.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 24, 2017
The undersigned hereby appoints David A. Bowers, James W. Brown 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 2017 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 75240-2697 on Wednesday, May 24, 2017, 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 proposal 2 (Say-on-Pay) or proposal 3 (Say-When-on-Pay), the agents will vote "FOR" each such nominee for election as a director, "FOR" proposal 2 and "1 YR" for proposal 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.

Electronic Voting Instructions
You can vote by Internet or telephone!
IMPORTANT ANNUAL MEETING INFORMATION
Available 24 hours a day, 7 days a week!
Instead of mailing your proxy card, you may choose one of the voting methods outlined below to instruct how the agents 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 24, 2017.

Vote by Internet
- Go to www.investorvote.com/CIX
- Or scan the QR code with your smartphone
- Follow the steps outlined on the secure 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 your 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, FOR Proposal 2 and 1 YR for Proposal 3.

1. Director Nominees:

	For	Withhold		For	Withhold		For	Withhold
01 – Thomas E. Barry			02 – David A. Bowers			03 –Loretta J. Feehan		
04 – Elisabeth C. Fisher			05 – Robert D. Graham			06 – Ann Manix		
07 – Cecil H. Moore, Jr.			08 – Mary A. Tidlund					

	For	Against	Abstain		1 Yr	2 Yrs	3 Yrs	Abstain
2. Say-on-Pay, nonbinding advisory vote approving executive compensation				3. Say-When-on-Pay, nonbinding advisory vote on the preferred frequency of executive compensation				

votes

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
/ /		