
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2013

Commission file number 1-13905

COMPX INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
Incorporation or organization)

57-0981653

(IRS Employer
Identification No.)

**5430 LBJ Freeway, Suite 1700,
Three Lincoln Centre, Dallas, Texas**

(Address of principal executive offices)

75240-2697

(Zip Code)

Registrant's telephone number, including area code (972) 448-1400

Indicate by checkmark:

Whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such a 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 ☒ No ☐

Whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☐

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

Number of shares of common stock outstanding on October 31, 2013:

Class A: 2,397,107

Class B: 10,000,000

COMPX INTERNATIONAL INC.

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Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2012	September 30, 2013 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 63,777	\$ 36,591
Accounts receivable, net	8,480	10,676
Inventories, net	11,223	12,926
Deferred income taxes	2,691	2,691
Prepaid expenses and other	4,424	631
Total current assets	<u>90,595</u>	<u>63,515</u>
Other assets:		
Goodwill	23,742	23,742
Other noncurrent	2,119	591
Total other assets	<u>25,861</u>	<u>24,333</u>
Property and equipment:		
Land	4,928	4,928
Buildings	20,521	20,521
Equipment	58,603	57,019
Construction in progress	1,442	2,558
	<u>85,494</u>	<u>85,026</u>
Less accumulated depreciation	51,767	51,329
Net property and equipment	<u>33,727</u>	<u>33,697</u>
Total assets	<u>\$ 150,183</u>	<u>\$ 121,545</u>

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2012	September 30, 2013 (unaudited)
Current liabilities:		
Current maturities of long-term debt	\$ 1,000	\$ —
Accounts payable and accrued liabilities	11,061	10,244
Income taxes payable to affiliate	12,197	372
Other	203	6
Total current liabilities	<u>24,461</u>	<u>10,622</u>
Noncurrent liabilities:		
Long-term debt	17,480	—
Deferred income taxes	6,182	6,924
Total noncurrent liabilities	<u>23,662</u>	<u>6,924</u>
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	24	24
Class B common stock	100	100
Additional paid-in capital	55,203	55,265
Retained earnings	46,733	48,610
Total stockholders' equity	<u>102,060</u>	<u>103,999</u>
Total liabilities and stockholders' equity	<u>\$ 150,183</u>	<u>\$ 121,545</u>

Commitments and contingencies (Note 1)

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2013	2012	2013
	(unaudited)			
Net sales	\$ 21,281	\$ 24,209	\$ 63,856	\$ 69,701
Cost of goods sold	14,971	16,695	45,025	48,557
Gross profit	6,310	7,514	18,831	21,144
Selling, general and administrative expense	4,270	4,537	13,050	13,790
Assets held for sale write-down	405	—	405	—
Operating income	1,635	2,977	5,376	7,354
Other non-operating income, net	—	5	—	32
Interest expense	(114)	(11)	(345)	(127)
Income from continuing operations before income taxes	1,521	2,971	5,031	7,259
Provision for income taxes	637	1,015	2,079	2,593
Income from continuing operations	884	1,956	2,952	4,666
Income from discontinued operations, net of tax	1,725	—	3,273	—
Net income	<u>\$ 2,609</u>	<u>\$ 1,956</u>	<u>\$ 6,225</u>	<u>\$ 4,666</u>
Basic and diluted income per common share:				
Continuing operations	\$.07	\$.16	\$.24	\$.38
Discontinued operations	.14	—	.26	—
Net income	<u>\$.21</u>	<u>\$.16</u>	<u>\$.50</u>	<u>\$.38</u>
Cash dividends per share	<u>\$.125</u>	<u>\$.050</u>	<u>\$.375</u>	<u>\$.225</u>
Shares used in the calculation of basic and diluted income per share	<u>12,392</u>	<u>12,397</u>	<u>12,389</u>	<u>12,394</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2013	2012	2013
	(unaudited)			
Net income	\$ 2,609	\$ 1,956	\$ 6,225	\$ 4,666
Other comprehensive income, net of tax:				
Currency translation adjustment	843	—	873	—
Impact from cash flow hedges, net	58	—	101	—
Total other comprehensive income, net	901	—	974	—
Total comprehensive income, net	<u>\$ 3,510</u>	<u>\$ 1,956</u>	<u>\$ 7,199</u>	<u>\$ 4,666</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine months ended September 30,	
	2012	2013
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 6,225	\$ 4,666
Depreciation and amortization	4,308	2,464
Deferred income taxes	1,988	742
Reversal of accrued contingent consideration	(778)	—
Assets held for sale write-down	405	—
Other, net	308	214
Change in assets and liabilities:		
Accounts receivable, net	(2,924)	(2,161)
Inventories, net	338	(1,884)
Accounts payable and accrued liabilities	(1,932)	(820)
Accounts with affiliates	501	(11,825)
Income taxes	(1,433)	—
Other, net	(576)	738
Net cash provided by (used in) operating activities	<u>6,430</u>	<u>(7,866)</u>
Cash flows from investing activities:		
Capital expenditures	(3,119)	(2,550)
Cash received on note receivable	—	3,034
Proceeds from sale of asset held for sale	—	1,559
Other, net	48	(94)
Net cash provided by (used in) investing activities	<u>(3,071)</u>	<u>1,949</u>
Cash flows from financing activities:		
Dividends paid	(4,646)	(2,789)
Repayment of long-term debt	(1,750)	(18,480)
Other, net	(60)	—
Net cash used in financing activities	<u>(6,456)</u>	<u>(21,269)</u>
Cash and cash equivalents – net change from:		
Operating, investing and financing activities	(3,097)	(27,186)
Currency translation	46	—
Cash and cash equivalents at beginning of period	10,081	63,777
Cash and cash equivalents at end of period	<u>\$ 7,030</u>	<u>\$ 36,591</u>
Supplemental disclosures – cash paid for:		
Interest	\$ 308	\$ 222
Income taxes paid, net	3,478	13,675
Non-cash investing and financing activity – Accrual for capital expenditures, net	\$ 546	\$ (198)

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine months ended September 30, 2013
(In thousands)
(unaudited)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total stockholders' equity</u>
	<u>Class A</u>	<u>Class B</u>			
Balance at December 31, 2012	\$ 24	\$ 100	\$ 55,203	\$ 46,733	\$ 102,060
Net income	—	—	—	4,666	4,666
Issuance of common stock	—	—	62	—	62
Cash dividends	—	—	—	(2,789)	(2,789)
Balance at September 30, 2013	<u>\$ 24</u>	<u>\$ 100</u>	<u>\$ 55,265</u>	<u>\$ 48,610</u>	<u>\$ 103,999</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE MKT: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at September 30, 2013. We manufacture and sell component products (security products and recreational marine components). At September 30, 2013, (i) Valhi, Inc. (NYSE: VHI) held approximately 83% of NL's outstanding common stock and (ii) Contran Corporation ("Contran") and one of its subsidiaries held an aggregate of approximately 94% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (of which Mr. Simmons is sole trustee), or is held directly by Mr. Simmons or other persons or companies related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of the companies and us.

Basis of presentation. Consolidated in this Quarterly Report are the results of CompX International Inc. and its subsidiaries. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 that we filed with the Securities and Exchange Commission ("SEC") on March 6, 2013 (the "2012 Annual Report"). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2012 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2012) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results of operations for the interim periods ended September 30, 2013 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2012 Consolidated Financial Statements contained in our 2012 Annual Report.

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

In May 2013, our board of directors reduced our regular quarterly dividend from \$0.125 per share to \$0.05 per share, effective with our second quarter 2013 dividend. Declaration and payment of future dividends and the amount thereof, if any, is discretionary and dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual requirements and restrictions and other factors deemed relevant by our board of directors.

Note 2 – Discontinued operations:

On December 28, 2012, we completed the sale of our Furniture Components segment to a competitor of that segment.

Selected financial data for the operations of the disposed Furniture Components segment is presented below:

	Three months ended September 30, 2012	Nine months ended September 30, 2012
	(In thousands)	
Net sales	\$ 15,828	\$ 46,382
Operating income	\$ 2,710	\$ 5,807
Other income, net	8	18
Interest expense	(25)	(96)
Income before income taxes	2,693	5,729
Income tax expense	968	2,456
Net income	\$ 1,725	\$ 3,273

In accordance with generally accepted accounting principles, the assets and liabilities relating to the Furniture Components segment were eliminated from the 2012 Consolidated Balance Sheet at the date of sale. We have reclassified our Consolidated Statements of Income for the interim periods ended September 30, 2012 to reflect the disposed operations as discontinued operations. We have not reclassified our September 30, 2012 Consolidated Statements of Cash Flows to reflect discontinued operations.

In conjunction with the sale of our Furniture Components segment, the buyer was not interested in retaining certain undeveloped land located in Taiwan owned by our Taiwanese Furniture Component subsidiary. We had no additional use for the undeveloped land in Taiwan and therefore expected the land to be sold to a third party with CompX receiving the net proceeds. Based on the legal form of how we completed the disposal transaction, our interest in the land was represented by a \$3.0 million promissory note receivable at December 31, 2012, issued to us by our former Taiwanese subsidiary which retained legal ownership in the land to facilitate the future sale of the land to a third party. The proceeds from a future sale of the land were required to be used to settle the note receivable. During the first quarter of 2013, an agreement was entered into with a third party to sell the land for \$3.0 million, \$1.8 million of which was received during the first quarter and the remaining \$1.2 million was received in the second quarter 2013. Such note receivable was classified as part of prepaids and other current assets in our Consolidated Balance Sheet at December 31, 2012.

Note 3 – Business segment information:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2013	2012	2013
(In thousands)				
Net sales:				
Security Products	\$ 18,873	\$ 21,457	\$ 56,315	\$ 61,258
Marine Components	2,408	2,752	7,541	8,443
Total net sales	<u>\$ 21,281</u>	<u>\$ 24,209</u>	<u>\$ 63,856</u>	<u>\$ 69,701</u>
Operating income:				
Security Products	\$ 3,758	\$ 4,578	\$ 10,899	\$ 12,245
Marine Components	(181)	(17)	(330)	185
Corporate operating expense	(1,942)	(1,584)	(5,193)	(5,076)
Total operating income	<u>1,635</u>	<u>2,977</u>	<u>5,376</u>	<u>7,354</u>
Other non-operating income, net	—	5	—	32
Interest expense	(114)	(11)	(345)	(127)
Income from continuing operations before income taxes	<u>\$ 1,521</u>	<u>\$ 2,971</u>	<u>\$ 5,031</u>	<u>\$ 7,259</u>

Intersegment sales are not material.

Corporate operating expenses include a write-down on assets held for sale of approximately \$405,000 in the third quarter and first nine months of 2012.

Note 4 – Accounts receivable, net:

	December 31, 2012	September 30, 2013
(In thousands)		
Account receivable, net:		
Security Products	\$ 7,952	\$ 9,629
Marine Components	744	1,186
Allowance for doubtful accounts	(216)	(139)
Total accounts receivable, net	<u>\$ 8,480</u>	<u>\$ 10,676</u>

Note 5 – Inventories, net:

	December 31, 2012	September 30, 2013
	(In thousands)	
Raw materials:		
Security Products	\$ 2,310	\$ 2,909
Marine Components	943	1,085
Total raw materials	<u>3,253</u>	<u>3,994</u>
Work-in-process:		
Security Products	5,458	6,020
Marine Components	444	687
Total work-in-process	<u>5,902</u>	<u>6,707</u>
Finished goods:		
Security Products	1,578	1,732
Marine Components	490	493
Total finished goods	<u>2,068</u>	<u>2,225</u>
Total inventories, net	<u>\$ 11,223</u>	<u>\$ 12,926</u>

Note 6 – Other noncurrent assets:

	December 31, 2012	September 30, 2013
	(In thousands)	
Assets held for sale	\$ 1,965	\$ 529
Other	154	62
Total other noncurrent assets	<u>\$ 2,119</u>	<u>\$ 591</u>

In the fourth quarter of 2012, we entered into an agreement to sell one of our facilities classified as an asset held for sale. The transaction closed during the first quarter of 2013. The net proceeds from the sale of \$1.6 million approximated the carrying value of the assets as of the date of the sale.

Note 7 – Accounts payable and accrued liabilities:

	December 31, 2012	September 30, 2013
	(In thousands)	
Accounts payable	\$ 2,797	\$ 2,592
Accrued liabilities:		
Employee benefits	6,541	5,656
Customer tooling	282	540
Taxes other than on income	439	544
Insurance	305	248
Other	697	664
Total	<u>\$ 11,061</u>	<u>\$ 10,244</u>

Note 8 – Long-term debt:

	December 31, 2012
	(In thousands)
Note payable to TIMET Finance Management Company	\$ 18,480
Less current maturities	1,000
Total long-term debt	<u>\$ 17,480</u>

In July 2013, we prepaid the remaining outstanding principal amount of the note, plus accrued interest, without penalty. The average interest rate on the promissory note payable for the year-to-date period ended July 18, 2013 (the pay-off date) was 1.3%.

Note 9 – Provision for income taxes:

	Nine months ended September 30,	
	2012	2013
	(In thousands)	
Expected tax expense, at the U.S. federal statutory income tax rate of 35%	\$ 1,761	\$ 2,541
U.S. state income taxes and other, net	318	52
Total income tax expense	<u>\$ 2,079</u>	<u>\$ 2,593</u>

Note 10 – Financial instruments and fair value measurements:

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure:

	December 31, 2012		September 30, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash and cash equivalents	\$ 63,777	\$ 63,777	\$ 36,591	\$ 36,591
Accounts receivable, net	8,480	8,480	10,676	10,676
Accounts payable	2,797	2,797	2,592	2,592
Long-term debt (including current maturities)	18,480	18,480	—	—

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. The fair value of our variable-rate long-term debt is deemed to approximate book value and is a Level 2 input.

Overview

We are a leading manufacturer of engineered components utilized in a variety of applications and industries. Through our Security Products segment we manufacture mechanical and electronic cabinet locks and other locking mechanisms used in recreational transportation, postal, office and institutional furniture, cabinetry, tool storage and healthcare applications. We also manufacture stainless steel exhaust systems, gauges and throttle controls for the recreational marine and other industries through our Marine Components segment.

In December 2012, we completed the sale of our Furniture Components segment. See Note 2 to our Condensed Consolidated Financial Statements. Unless otherwise noted, the results of operations in management's discussion and analysis is focused on our continuing operations.

We reported operating income of \$3.0 million in the third quarter of 2013 compared to \$1.6 million in the same period of 2012. We reported operating income of \$7.4 million for the nine month period ended September 30, 2013 compared to \$5.4 million for the comparable period in 2012. Our operating income increased in the third quarter and for first nine months of 2013 primarily due to the positive impact of higher demand for our Security Products segment's high security pin tumbler locks in 2013 and the asset held for sale write-down in the third quarter of 2012, partially offset by higher self-insured medical expenses in 2013.

Our product offerings consist of a significantly large number of products that have a wide variation in selling price and manufacturing cost, which results in certain practical limitations on our ability to quantify the impact of changes in individual product sales quantities and selling prices on our net sales, cost of goods sold and gross profit. In addition, small variations in period-to-period net sales, cost of goods sold and gross profit can result from changes in the relative mix of our products sold.

Results of Operations

	Three months ended September 30,			
	2012	%	2013	%
	(Dollars in thousands)			
Net sales	\$ 21,281	100%	\$ 24,209	100%
Cost of goods sold	14,971	70	16,695	69
Gross profit	6,310	30	7,514	31
Operating costs and expenses	4,270	20	4,537	19
Assets held for sale write-down	405	2	—	—
Operating income	\$ 1,635	8%	\$ 2,977	12%
	Nine months ended September 30,			
	2012	%	2013	%
	(Dollars in thousands)			
Net sales	\$ 63,856	100%	\$ 69,701	100%
Cost of goods sold	45,025	71	48,557	70
Gross profit	18,831	29	21,144	30
Operating costs and expenses	13,050	20	13,790	20
Assets held for sale write-down	405	1	—	—
Operating income	\$ 5,376	8%	\$ 7,354	10%

Net sales. Net sales increased 14% in the third quarter of 2013 and 9% in the first nine months of 2013 as compared to the respective periods in 2012. Net sales increased principally due to higher demand for high security pin tumbler locks within the Security Products segment, and to a lesser extent from an increase in Marine Component sales outside of the high performance boat market through gains in market share. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of goods sold and gross profit. Cost of goods sold as a percentage of sales decreased by approximately 1% in the third quarter and for the first nine months of 2013 compared to the respective periods in 2012. As a result, gross profit and related margin increased over the same periods. The increase in gross profit is primarily due to improved cost efficiencies from higher sales, partially offset by higher self-insured medical expenses in 2013 as discussed below.

Operating costs and expenses. Operating costs and expenses consist primarily of sales and administrative related personnel costs, sales commissions and advertising expenses, as well as gains and losses on plant, property and equipment. As a percentage of net sales, operating costs and expenses for the third quarter and first nine months of 2013 are comparable to the same periods in 2012.

Asset held for sale write-down. During the third quarter of 2012, we recorded a write-down on assets held for sale totaling \$405,000, based on updated independent appraisals of the property.

Operating income. As a percentage of net sales, operating income increased by approximately 4% for the third quarter of 2013, and increased by approximately 2% for the first nine months of 2013. These increases were primarily impacted by the factors effecting cost of goods sold and gross profit noted above and the asset held for sale write-down in the third quarter of 2012.

Provision for income taxes. A tabular reconciliation between our effective income tax rates and the U.S. federal statutory income tax rate of 35% is included in Note 9 to our Condensed Consolidated Financial Statements. Our current operations are wholly within the U.S. and therefore our effective income tax rate is primarily reflective of the U.S. federal statutory rate.

Segment Results

The key performance indicator for our segments is their operating income .

	Three months ended September 30,			Nine months ended September 30,		
	2012	2013	% Change	2012	2013	% Change
Net sales:						
Security Products	\$ 18,873	\$ 21,457	14%	\$ 56,315	\$ 61,258	9%
Marine Components	2,408	2,752	14%	7,541	8,443	12%
Total net sales	<u>\$ 21,281</u>	<u>\$ 24,209</u>	14%	<u>\$ 63,856</u>	<u>\$ 69,701</u>	9%
Gross profit:						
Security Products	\$ 6,012	\$ 7,037	17%	\$ 17,613	\$ 19,476	11%
Marine Components	298	477	60%	1,218	1,668	37%
Total gross profit	<u>6,310</u>	<u>7,514</u>	19%	<u>\$ 18,831</u>	<u>\$ 21,144</u>	12%
Operating income:						
Security Products	\$ 3,758	\$ 4,578	22%	\$ 10,899	\$ 12,245	12%
Marine Components	(181)	(17)	91%	(330)	185	156%
Corporate operating expense	(1,942)	(1,584)	18%	(5,193)	(5,076)	2%
Total operating income	<u>\$ 1,635</u>	<u>\$ 2,977</u>	82%	<u>\$ 5,376</u>	<u>\$ 7,354</u>	37%
Gross profit margin:						
Security Products	32 %	33 %		31 %	32 %	
Marine Components	12 %	17 %		16 %	20 %	
Total gross profit margin	30 %	31 %		29 %	30 %	
Operating income margin:						
Security Products	20 %	21 %		19 %	20 %	
Marine Components	(8)%	(1)%		(4)%	2 %	
Total operating income margin	8 %	12 %		8 %	10 %	

Security Products. Security Products net sales increased 14% in the third quarter and 9% in the first nine months of 2013 compared to the same periods last year. The increase in sales is primarily due to an increase in sales to certain high security pin tumbler lock customers of \$2.2 million and \$5.3 million in the third quarter and nine month period. Growth of our Security Products segment was aided by our ongoing efforts to diversify our products and customers.

Gross profit margin and operating income as a percentage of sales increased approximately 1% in the third quarter and for the first nine months of 2013 compared to the same periods in 2012 primarily due to improved cost efficiencies from higher sales, partially offset by higher self-insured medical expenses over both comparative periods. Medical expense increased \$142,000 in the third quarter of 2013 compared to the same period in 2012, \$128,000 of which impacted cost of goods sold and \$14,000 of which impacted selling and administration expenses. For the nine month comparative period, medical expense increased \$274,000 in 2013, \$232,000 of which impacted cost of goods sold and \$42,000 of which impacted selling and administration expenses.

Marine Components. Marine Components net sales increased 14% and 12% for the third quarter and nine month periods in 2013 compared to the same periods in the prior year. The increase in sales is primarily due to gains in market share for products sold to the ski/wakeboard towboat market and other non-high performance marine markets. Gross profit margin for the third quarter of 2013 increased 5% compared to the third quarter of 2012 and improved 4% for the nine month period as compared to the prior year. Operating income margin increased for the third quarter and nine month periods of 2013 by 7% and 6%, respectively, compared to the same periods in 2012. The gross profit margin and the operating income margin increased primarily due to increased leverage of fixed costs as a result of the higher sales.

Outlook. Consistent with the current state of the North American economy, overall demand from our customers continues to be subject to instability. While we experienced a total increase in sales in the first nine months of 2013, this was the net result of sales growth in certain markets and flat or slightly decreased sales in other markets. As a result, we are uncertain as to the extent that total sales will continue to grow for the remainder of 2013 and into 2014. While changes in market demand are not within our control, we are focused on the areas we can impact. Staffing levels are continuously evaluated in relation to sales order rates which may result in headcount adjustments, to the extent possible, to match staffing levels with demand. We expect our continuous lean manufacturing and cost improvement initiatives to positively impact our productivity and result in a more efficient infrastructure. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, to expand into new markets and to develop new product features in order to broaden our sales base and mitigate the impact of changes in demand.

Volatility in the costs of commodity raw materials is ongoing. Our primary commodity raw materials are zinc, brass and stainless steel, which together represent approximately 10% of our total cost of goods sold. We generally seek to mitigate the impact of fluctuations in commodity raw material costs on our margins through improvements in production efficiencies or other operating cost reductions. In the event we are unable to offset commodity raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or surcharges due to the competitive nature of the markets served by our products. Consequently, overall operating margins may be negatively affected by commodity raw material cost pressures.

Liquidity and Capital Resources

Consolidated cash flows –

Operating activities. Trends in cash flows from operating activities, excluding changes in assets and liabilities have generally been similar to the trends in operating earnings. Changes in assets and liabilities result primarily from the timing of production, sales and purchases. Changes in assets and liabilities generally tend to even out over time. However, period-to-period relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. The September 30, 2013 Consolidated Statement of Cash Flows has not been revised for discontinued operations. See Note 2 to our Condensed Consolidated Financial Statements.

Our net cash used by operating activities was \$7.9 million for the first nine months of 2013 as compared to \$6.4 million of net cash provided by operating activities for the first nine months of 2012. The net \$14.3 million increase in cash used by operating activities is primarily due to the net effects of:

- The negative impact of higher net cash paid for taxes in 2013 of \$10.2 million for income taxes associated with our tax gain realized on the sale of our disposed operations recognized in the fourth quarter of 2012 and on the 2012 income of the disposed operations;
- The negative impact of higher net cash used by relative changes in our inventories, receivables, payables and non-tax related accruals attributable to our continuing operations of \$3.4 million in 2013; and
- The negative impact of net cash provided by operating activities attributable to our discontinued operations in 2012 of \$4.0 million, (exclusive of the impact of cash paid for income taxes in 2012 attributable to our discontinued operations, as discussed above).

We expect our year-to-date cash flows from operating activities will continue to result in a net use of cash in 2013 primarily due to the first quarter cash payment for income taxes we made of approximately \$11.6 million related to the sale of our disposed operations. Under GAAP, cash paid for income taxes on the disposal of a business unit is reported as a reduction of cash flows from operating activities, while the pre-tax proceeds from disposal are reported as a component of cash flows from investing activities. In addition, operating cash flow comparisons in 2013 will continue to be negatively impacted by such disposal, since the operating cash flows of the disposed operations are included in our total cash flows from operating activities in 2012, through the December 2012 date of sale. See Note 2 to our Condensed Consolidated Financial Statements.

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, our total average days sales outstanding was comparable from December 31, 2012 to September 30, 2013. Marine Components can experience greater variability in their average days sales outstanding due to their smaller size, however, their receivable balances are not significant. Overall, our September 30, 2013 average days sales outstanding compared to December 31, 2012 is in line with our expectations. For comparative purposes, we have provided December 31, 2011 and September 30, 2012 numbers below.

Days Sales Outstanding:	December 31, 2011	September 30, 2012	December 31, 2012	September 30, 2013
Security Products	39 Days	41 Days	41 Days	40 Days
Marine Components	44 Days	37 Days	32 Days	37 Days
Consolidated CompX**	40 Days	41 Days	40 Days	40 Days

** Excludes discontinued operations. See Note 2 to our Condensed Consolidated Financial Statements.

As shown below, our total average number of days in inventory decreased from December 31, 2012 to September 30, 2013. The variability in days in inventory among our segments primarily relates to the differences in the complexity of the production processes and therefore the length of time it takes to produce end-products. Our overall September 30, 2013 average days in inventory compared to December 31, 2012 is in line with our expectations. For comparative purposes, we have provided December 31, 2011 and September 30, 2012 numbers below.

Days in Inventory:	December 31, 2011	September 30, 2012	December 31, 2012	September 30, 2013
Security Products	79 Days	67 Days	71 Days	67 Days
Marine Components	115 Days	87 Days	91 Days	91 Days
Consolidated CompX**	83 Days	69 Days	74 Days	70 Days

** Excludes discontinued operations. See Note 2 to the Condensed Consolidated Financial Statements.

Investing activities. Net cash provided by investing activities was \$1.9 million in the first nine months of 2013 compared to net cash used of \$3.1 million in the first nine months of 2012. The significant items impacting the increase in net cash provided by investing activities in 2013 over net cash used in 2012 are as follows:

During 2013,

- We collected \$3.0 million in principal payments on a note receivable; and
- We received \$1.6 million in net proceeds on the sale of an asset held for sale.

See Notes 2 and 6 to our Condensed Consolidated Financial Statements, respectively.

Financing activities. Net cash used in financing activities was \$21.3 million in the first nine months of 2013 compared to net cash used of \$6.5 million in the first nine months of 2012. The change is primarily a result of the following items:

- Aggregate dividends we paid in the first nine months of 2013 were \$1.9 million lower as compared to the same period in 2012 as a result of reducing our regular quarterly dividend from \$0.125 per share to \$0.05 per share beginning in the second quarter of 2013; and
- In the third quarter of 2013, we prepaid the remaining outstanding principal on our long-term debt, plus accrued interest, without penalty. Debt repayments related to principal for the first nine months of 2013 totalled \$18.5 million compared to \$1.8 million in 2012.

See Note 8 to our Condensed Consolidated Financial Statements.

Future cash requirements—

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

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

We believe that cash generated from operations together with cash on hand, as well as, our ability to obtain external financing, will be sufficient to meet our liquidity needs for working capital, capital expenditures, debt service and dividends (if declared) for both the next 12 months and five years. To the extent that our actual operating results or other developments differ materially from our expectations, our liquidity could be adversely affected.

All of the \$36.6 million aggregate cash and cash equivalents at September 30, 2013 were held in the U.S.

Capital Expenditures. Firm purchase commitments for capital projects in process at September 30, 2013 totaled \$549,000. Our 2013 capital investments are limited to those expenditures required to meet our expected customer demand and those required to properly maintain or improve our facilities and technology infrastructure.

Commitments and Contingencies. There have been no material changes in our contractual obligations since we filed our 2012 Annual Report (other than the prepayment of our outstanding long-term debt in July 2013, as discussed above), and we refer you to that report for a complete description of these commitments.

Off-balance sheet financing arrangements –

We do not have any off-balance sheet financing agreements other than the operating leases discussed in our 2012 Annual Report.

Recent accounting pronouncements –

Not applicable.

Critical accounting policies –

There have been no changes in the first nine months of 2013 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Annual Report.

Forward-looking information –

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

- Future demand for our products,
- Changes in our raw material and other operating costs (such as zinc, brass and energy costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs,
- Price and product competition from low-cost manufacturing sources (such as China),
- The impact of pricing and production decisions,
- Customer and competitor strategies including substitute products,
- Uncertainties associated with the development of new product features,
- Potential difficulties in integrating future acquisitions,
- The impact of current or future government regulations (including employee healthcare benefit related regulations),
- Potential difficulties in implementing new manufacturing and accounting software systems,
- Decisions to sell operating assets other than in the ordinary course of business,
- Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- Future litigation,
- General global economic and political conditions that introduce instability into the U.S. economy (such as changes in the level of gross domestic product in various regions of the world),
- Operating interruptions (including, but not limited to labor disputes, hazardous chemical leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions); and
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts.

Should one or more of these risks materialize or if the consequences worsen, or if the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to market risk from changes in interest rates and raw material prices. There have been no material changes in these market risks since we filed our 2012 Annual Report, and we refer you to Part I, Item 7A – “Quantitative and Qualitative Disclosure About Market Risk” in our 2012 Annual Report. See also Note 10 to our Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. We maintain a system of disclosure controls and procedures. The term “disclosure controls and procedures,” as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the

Securities Exchange Act of 1934, as amended (the “Act”), is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of David A. Bowers, our Vice Chairman of the Board, President and Chief Executive Officer, and Darryl R. Halbert, our Vice President, Chief Financial Officer and Controller, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2013. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of the date of such evaluation.

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

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

Changes in Internal Control Over Financial Reporting. There has been no change to our internal control over financial reporting during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 1A. Risk Factors.

Reference is made to our 2012 Annual Report for a discussion of the risk factors related to our businesses. There have been no material changes in such risk factors during the first nine months of 2013.

ITEM 6. Exhibits.

Item No.	Exhibit Index
31.1*	Certification
31.2*	Certification
32.1*	Certification
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

We have retained a signed original of any of the above exhibits that contains signatures, and we will provide such exhibit to the Commission or its staff upon request. We will also furnish, without charge, a copy of our Code of Business Conduct and Ethics, and Audit Committee Charter, each as adopted by our board of directors on February 22, 2012 and March 2, 2011 respectively, upon request. Such requests should be directed to the attention of our Corporate Secretary at our corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPX INTERNATIONAL INC.
(Registrant)

Date: November 5, 2013

By: /s/ Darryl R. Halbert
Darryl R. Halbert
Vice President, Chief Financial Officer and Controller

CERTIFICATION

I, David A. Bowers, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of CompX International Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2013

By: /s/David A. Bowers

David A. Bowers

Vice Chairman of the Board, President
and Chief Executive Officer

CERTIFICATION

I, Darryl R. Halbert, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of CompX International Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2013

By: /s/Darryl R. Halbert

Darryl R. Halbert

Vice President, Chief Financial Officer
and Controller

(Principal Accounting and Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of CompX International Inc. (the Company) on Form 10-Q for the period ending September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David A. Bowers, Vice Chairman of the Board, President and Chief Executive Officer of the Company and I, Darryl R. Halbert, Vice President, Chief Financial Officer and Controller of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/David A. Bowers

David A. Bowers

Vice Chairman of the Board, President and Chief Executive Officer

By: /s/Darryl R. Halbert

Darryl R. Halbert

Vice President, Chief Financial Officer and Controller

Date: November 5, 2013

Note: The certification the registrant furnishes in this exhibit is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.
