UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2020

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

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)	**75240-2620** (Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock	CIX	NYSE American

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 and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 30, 2020, the registrant had 12,451,157 shares of Class A common stock, $.01 par value per share, outstanding.

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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)

	December 31, 2019	June 30, 2020
ASSETS		(unaudited)
Current assets:		
Cash and cash equivalents	$ 63,255	**$ 62,450**
Accounts receivable, net	11,870	**11,340**
Inventories, net	18,348	**21,818**
Prepaid expenses and other	1,624	**862**
Total current assets	95,097	**96,470**
Other assets:		
Note receivable from affiliate	28,100	**30,500**
Goodwill	23,742	**23,742**
Other noncurrent	590	**590**
Total other assets	52,432	**54,832**
Property and equipment:		
Land	4,940	**4,940**
Buildings	23,047	**23,054**
Equipment	67,718	**68,739**
Construction in progress	1,002	**557**
	96,707	**97,290**
Less accumulated depreciation	65,692	**67,364**
Net property and equipment	31,015	**29,926**
Total assets	$ 178,544	**$ 181,228**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 12,078	**$ 9,629**
Income taxes payable to affiliates	984	**2,092**
Total current liabilities	13,062	**11,721**
Noncurrent liabilities -		
Deferred income taxes	3,287	**3,347**
Stockholders' equity:		
Preferred stock	—	**—**
Class A common stock	124	**124**
Additional paid-in capital	55,869	**55,987**
Retained earnings	106,202	**110,049**
Total stockholders' equity	162,195	**166,160**
Total liabilities and stockholders' equity	$ 178,544	**$ 181,228**

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 June 30,		Six months ended June 30,	
	2019	2020	2019	2020
	(unaudited)		(unaudited)	
Net sales	$ 33,730	**$ 23,800**	$ 64,907	**$ 56,111**
Cost of sales	22,791	**16,434**	44,344	**38,314**
Gross margin	10,939	**7,366**	20,563	**17,797**
Selling, general and administrative expense	5,317	**4,997**	10,650	**10,408**
Operating income	5,622	**2,369**	9,913	**7,389**
Interest income	828	**370**	1,664	**977**
Income before taxes	6,450	**2,739**	11,577	**8,366**
Provision for income taxes	1,555	**674**	2,696	**2,030**
Net income	$ 4,895	**$ 2,065**	$ 8,881	**$ 6,336**
Basic and diluted net income per common share	$ 0.39	**$ 0.17**	$ 0.71	**$ 0.51**
Basic and diluted weighted average shares outstanding	12,439	**12,446**	12,437	**12,445**

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(unaudited)

	Three months ended June 30, 2019 and 2020 (unaudited)			
	Class A common stock	Additional paid-in capital	Retained earnings	Total stockholders' equity
Balance at March 31, 2019	$ 124	$ 55,751	$ 96,803	$ 152,678
Net income	—	—	4,895	4,895
Issuance of common stock	—	118	—	118
Cash dividends ($0.07 per share)	—	—	(872)	(872)
Balance at June 30, 2019	$ 124	$ 55,869	$ 100,826	$ 156,819
Balance at March 31, 2020	**$ 124**	**$ 55,869**	**$ 109,229**	**$ 165,222**
Net income	**—**	**—**	**2,065**	**2,065**
Issuance of common stock	**—**	**118**	**—**	**118**
Cash dividends ($0.10 per share)	**—**	**—**	**(1,245)**	**(1,245)**
Balance at June 30, 2020	**$ 124**	**$ 55,987**	**$ 110,049**	**$ 166,160**

	Six months ended June 30, 2019 and 2020 (unaudited)			
	Class A common stock	Additional paid-in capital	Retained earnings	Total stockholders' equity
Balance at December 31, 2018	$ 124	$ 55,751	$ 93,687	$ 149,562
Net income	—	—	8,881	8,881
Issuance of common stock	—	118	—	118
Cash dividends ($0.14 per share)	—	—	(1,742)	(1,742)
Balance at June 30, 2019	$ 124	$ 55,869	$ 100,826	$ 156,819
Balance at December 31, 2019	**$ 124**	**$ 55,869**	**$ 106,202**	**$ 162,195**
Net income	**—**	**—**	**6,336**	**6,336**
Issuance of common stock	**—**	**118**	**—**	**118**
Cash dividends ($0.20 per share)	**—**	**—**	**(2,489)**	**(2,489)**
Balance at June 30, 2020	**$ 124**	**$ 55,987**	**$ 110,049**	**$ 166,160**

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended June 30, 2019	Six months ended June 30, 2020
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 8,881	**$ 6,336**
Depreciation and amortization	1,808	**1,912**
Deferred income taxes	187	**60**
Other, net	357	**207**
Change in assets and liabilities:		
Accounts receivable, net	(2,770)	**529**
Inventories, net	(839)	**(3,555)**
Accounts payable and accrued liabilities	(1,929)	**(2,415)**
Accounts with affiliates	93	**1,674**
Prepaids and other, net	140	**197**
Net cash provided by operating activities	5,928	**4,945**
Cash flows from investing activities:		
Capital expenditures	(1,811)	**(861)**
Proceeds from sale of fixed assets	128	**—**
Note receivable from affiliate:		
Collections	22,100	**20,628**
Advances	(28,100)	**(23,028)**
Net cash used in investing activities	(7,683)	**(3,261)**
Cash flows from financing activities -		
Dividends paid	(1,742)	**(2,489)**
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(3,497)	**(805)**
Balance at beginning of period	45,414	**63,255**
Balance at end of period	$ 41,917	**$ 62,450**
Supplemental disclosures -		
Cash paid for income taxes	$ 2,955	**$ 850**

See accompanying Notes to Condensed Consolidated Financial Statements.

Note 1 – Organization and basis of presentation:

Organization. We (NYSE American: CIX) were 86% owned by NL Industries, Inc. (NYSE: NL) at June 30, 2020. We manufacture and sell component products (security products and recreational marine components). At June 30, 2020, Valhi, Inc. (NYSE: VHI) owned 83% of NL's outstanding common stock and a wholly-owned subsidiary of Contran Corporation owned 92% of Valhi's outstanding common stock. A majority of Contran's outstanding voting stock is held directly by Lisa K. Simmons and various family trusts established for the benefit of Ms. Simmons, Thomas C. Connelly (the husband of Ms. Simmons' late sister) and their children and for which Ms. Simmons or Mr. Connelly, as applicable, serve as trustee (collectively, the "Other Trusts"). With respect to the Other Trusts for which Mr. Connelly serves as trustee, he is required to vote the shares of Contran voting stock held in such trusts in the same manner as Ms. Simmons. Such voting rights of Ms. Simmons last through April 22, 2030 and are personal to Ms. Simmons. The remainder of Contran's outstanding voting stock is held by another trust (the "Family Trust"), which was established for the benefit of Ms. Simmons and her late sister and their children and for which a third-party financial institution serves as trustee. Consequently, at June 30, 2020 Ms. Simmons and the Family Trust may be deemed to control Contran, and therefore may be deemed to indirectly control the wholly-owned subsidiary of Contran, Valhi, NL 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, 2019 that we filed with the Securities and Exchange Commission ("SEC") on February 26, 2020 (the "2019 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, 2019 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, 2019) 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 June 30, 2020 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 2019 Consolidated Financial Statements contained in our 2019 Annual Report.

Our operations are reported on a 52 or 53-week year. For presentation purposes, annual and quarterly information in the Condensed Consolidated Financial Statements and accompanying notes are presented as ended June 30, 2019, December 31, 2019 and June 30, 2020. The actual dates of our annual and quarterly periods are June 30, 2019, December 29, 2019 and June 28, 2020, respectively. Unless otherwise indicated, references in this report to "we", "us" or "our" refer to CompX International Inc. and its subsidiaries, taken as a whole.

Our results of operations for the second quarter of 2020 were significantly impacted by the COVID-19 pandemic due to government mandated closures and reduced demand for many of our products resulting from the rapid contraction of vast areas of the economy. The extent of the COVID-19 impact on our future operations will depend on the time period and degree to which the COVID-19 pandemic persists in the economy thereby reducing customer demand for certain of our products, including the timing and extent to which our customers' operations continue to be impacted, our customers' perception as to when consumer demand for their products will return to pre-pandemic levels and on any future disruptions in our operations or our suppliers' operations, all of which are difficult to predict.

Note 2 – Business segment information:

	Three months ended June 30,		Six months ended June 30,	
	2019	2020	2019	2020
	(In thousands)		(In thousands)	
Net sales:				
Security Products	$ 26,927	**$ 18,573**	$ 51,631	**$ 44,042**
Marine Components	6,803	**5,227**	13,276	**12,069**
Total net sales	$ 33,730	**$ 23,800**	$ 64,907	**$ 56,111**
Operating income (loss):				
Security Products	$ 6,048	**$ 3,361**	$ 11,124	**$ 9,074**
Marine Components	1,280	**799**	2,181	**1,881**
Corporate operating expenses	(1,706)	**(1,791)**	(3,392)	**(3,566)**
Total operating income	5,622	**2,369**	9,913	**7,389**
Interest income	828	**370**	1,664	**977**
Income before taxes	$ 6,450	**$ 2,739**	$ 11,577	**$ 8,366**

Intersegment sales are not material.

Note 3 – Accounts receivable, net:

	December 31, 2019	June 30, 2020
	(In thousands)	
Accounts receivable, net:		
Security Products	$ 10,321	**$ 9,114**
Marine Components	1,619	**2,296**
Allowance for doubtful accounts	(70)	**(70)**
Total accounts receivable, net	$ 11,870	**$ 11,340**

Note 4 – Inventories, net:

	December 31, 2019	June 30, 2020
	(In thousands)	
Raw materials:		
Security Products	$ 2,134	**$ 2,546**
Marine Components	807	**815**
Total raw materials	2,941	**3,361**
Work-in-process:		
Security Products	9,138	**10,744**
Marine Components	2,633	**2,905**
Total work-in-process	11,771	**13,649**
Finished goods:		
Security Products	2,582	**3,385**
Marine Components	1,054	**1,423**
Total finished goods	3,636	**4,808**
Total inventories, net	$ 18,348	**$ 21,818**

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2019	June 30, 2020
	(In thousands)	
Accounts payable:		
Security Products	$ 1,975	**$ 2,085**
Marine Components	539	**705**
Accrued liabilities:		
Employee benefits	8,331	**5,611**
Customer tooling	264	**207**
Taxes other than on income	350	**496**
Other	619	**525**
Total accounts payable and accrued liabilities	$ 12,078	**$ 9,629**

Note 6 – Provision for income taxes:

	Three months ended June 30,		Six months ended June 30,	
	2019	2020	2019	2020
	(In thousands)		(In thousands)	
Expected tax expense, at the U.S. federal statutory income tax rate of 21%	$ 1,354	**$ 575**	$ 2,431	**$ 1,757**
State income taxes	224	**97**	403	**294**
FDII benefit	(29)	**(4)**	(148)	**(32)**
Other, net	6	**6**	10	**11**
Total provision for income taxes	$ 1,555	**$ 674**	$ 2,696	**$ 2,030**

We qualify for the foreign derived intangible income (FDII) deduction. We recognized a current cash tax benefit of $32,000 in the first six months of 2020 and $148,000 in the first six months of 2019 ($98,000 of our 2019 current cash tax benefit is related to 2018).

On March 27, 2020, the “Coronavirus Aid, Relief and Economic Security (CARES) Act” was signed into law in response to the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, modifications to the limitation of business interest for 2019 and 2020 and technical corrections to tax depreciation methods for qualified improvement property. We have evaluated the relevant provisions of the CARES Act and determined the impact is not material to our tax provision.

Note 7 – Financial instruments:

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

	December 31, 2019		June 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash and cash equivalents	$ 63,255	$ 63,255	**$ 62,450**	**$ 62,450**
Accounts receivable, net	11,870	11,870	**11,340**	**11,340**
Accounts payable	2,514	2,514	**2,790**	**2,790**

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

Note 8 – Related party transactions:

From time to time, we may have loans and advances outstanding between us and various related parties pursuant to term and demand notes. We generally enter into these loans and advances for cash management purposes. When we loan funds to related parties, we are generally able to earn a higher rate of return on the loan than we would earn if we invested the funds in other instruments, and when we borrow from related parties, we are generally able to pay a lower rate of interest than we would pay if we had incurred third-party indebtedness. While certain of these loans to affiliates may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe we have considered the credit risks in the terms of the applicable loans. In this regard, we have an unsecured revolving demand promissory note with Valhi whereby we agreed to loan Valhi up to $40 million. Our loan to Valhi, as amended, bears interest at prime plus 1.00%, payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2021. Loans made to Valhi at any time under the agreement are at our discretion. At June 30, 2020, the outstanding principal balance receivable from Valhi under the promissory note was $30.5 million. Interest income (including unused commitment fees) on our loan to Valhi was $1.2 million and $0.8 million for the six months ended June 30, 2019 and 2020, respectively.

Note 9 – Recent accounting pronouncements:

Adopted

In December 2019, the Financial Accounting Standards Board issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, which changes the accounting for certain income tax transactions and reduces complexity in accounting for income taxes in certain areas. The ASU introduces new guidance including providing a policy election for an entity to not allocate consolidated current and deferred tax expense when a member of a consolidated tax return is not subject to income tax in its separate financial statements and is a disregarded entity by the taxing authority; and providing guidance to evaluate whether a step-up in tax basis of goodwill relates to a business combination in which book goodwill was recognized or a separate transaction. The ASU also changes existing guidance in a number of areas, including: the method of making an intraperiod allocation of total income tax expense if there is a loss in continuing operations and gains outside of continuing operations; accounting for tax law changes and year-to-date losses in interim periods; and determining how to apply the income tax guidance to franchise taxes that are partially based on income. We adopted this ASU in the first quarter of 2020 and the adoption of this standard did not have a material effect on our Condensed Consolidated Financial Statements.

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

Business Overview

We are a leading manufacturer of engineered components utilized in a variety of applications and industries. Through our Security Products segment we manufacture mechanical and 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, throttle controls, wake enhancement systems and trim tabs for the recreational marine and other industries through our Marine Components segment.

General

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Quarterly Report that are not historical facts are forward-looking in nature and represent management's beliefs and assumptions based on currently available information. In some cases, you can identify forward-looking statements by the use of words such as "believes," "intends," "may," "should," "could," "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 these expectations will be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. The factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in our other filings with the SEC and include, but are not limited to, the following:

- Future demand for our products,
- Changes in our raw material and other operating costs (such as zinc, brass, aluminum, steel 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 products and product features,
- Future litigation,
- Our ability to protect or defend our intellectual property rights,
- Potential difficulties in integrating future acquisitions,
- 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, including future tax reform,
- The impact of current or future government regulations (including employee healthcare benefit related regulations),
- General global economic and political conditions that disrupt or introduce instability into our supply chain, impact our customers' level of demand or our customers' perception regarding demand or impair our ability to operate our facilities (including changes in the level of gross domestic product in various regions of the world, natural disasters, terrorist acts, global conflicts and public health crises such as COVID-19),
- Operating interruptions (including, but not limited to labor disputes, hazardous chemical leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime, transportation interruptions, cyber-attacks and public health crises such as COVID-19); 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.

Operating Income Overview

We experienced normal sales volumes and operations during the first quarter of 2020. Beginning in late March 2020 as a result of the COVID-19 pandemic, we began receiving requests from certain customers of both our Security Products and Marine Components segments to postpone shipments, in some cases because our customers' production facilities were temporarily closed. We operate three facilities, each of which specializes in certain manufacturing processes and is therefore dependent upon the other facilities to some extent to manufacture finished goods. With the onset of COVID-19, within each facility we enhanced cleaning and sanitization procedures, mandated social distancing and implemented other health and safety protocols. In late April, we closed our Chicago area location for one week due to COVID-19 activity in the area. The temporary closure of our Illinois facility had a minimal negative impact on our ability to manufacture and ship during the second quarter due to the decline in demand during the same period.

Second quarter 2020 net sales and operating income were significantly impacted by reduced demand for our products as a result of orders postponed at the request of our original equipment manufacturing customers and distributors. We reported operating income of $2.4 million in the second quarter of 2020 compared to $5.6 million in the same period of 2019. Operating income for the first six months of 2020 was $7.4 million compared to $9.9 million for the comparable period in 2019.

We sell a 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.

Results of Operations

	Three months ended June 30,			
	2019	%	2020	%
	(Dollars in thousands)			
Net sales	$ 33,730	100.0%	**$ 23,800**	**100.0%**
Cost of sales	22,791	67.6	**16,434**	**69.1**
Gross margin	10,939	32.4	**7,366**	**30.9**
Operating costs and expenses	5,317	15.7	**4,997**	**20.9**
Operating income	$ 5,622	16.7%	**$ 2,369**	**10.0%**

	Six months ended June 30,			
	2019	%	2020	%
	(Dollars in thousands)			
Net sales	$ 64,907	100.0%	**$ 56,111**	**100.0%**
Cost of goods sold	44,344	68.3	**38,314**	**68.3**
Gross margin	20,563	31.7	**17,797**	**31.7**
Operating costs and expenses	10,650	16.4	**10,408**	**18.5**
Operating income	$ 9,913	15.3%	**$ 7,389**	**13.2%**

Net sales. Net sales decreased $9.9 million and $8.8 million in the second quarter and for the first six months of 2020, respectively, compared to the same periods in 2019. The significant decrease in sales is due to lower sales volumes at both of our segments in the second quarter of 2020 as many of our customers were temporarily closed or reduced production during the quarter due to government ordered closures or reduced demand resulting from the COVID-19 pandemic. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of sales and gross margin. Cost of sales as a percentage of sales for the second quarter of 2020 was 1.5% higher than the same period in 2019. As a result, gross margin as a percentage of sales decreased over the same period. The decrease in gross margin percentage is the result of the decline in both Security Products and Marine Components gross margin percentage for the second quarter. See segment discussion below. Cost of sales and gross margin as a percentage of sales for the first six months of 2020 is comparable to the same period in 2019.

Operating costs and expenses. Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses directly related to product sales and administrative costs relating to business unit and corporate management activities, as well as gains and losses on plant, property and equipment. Operating costs and expenses for the second quarter and first six months of 2020 were lower than the same periods last year, particularly travel and advertising costs which declined by $0.2 million for the second quarter compared to the same prior year period. Operating costs and expenses as a percentage of net sales increased in both periods due to the lower sales.

Operating income. As a percentage of net sales, operating income for the second quarter and first six months of 2020 decreased compared to the same periods of 2019 and was primarily impacted by the factors impacting cost of goods sold, gross margin and operating costs. See segment discussion below.

Provision for income taxes. A tabular reconciliation of our actual tax provision to the U.S. federal statutory income tax rate is included in Note 6 to the Condensed Consolidated Financial Statements. Our operations are wholly within the U.S. and therefore our effective income tax rate is primarily reflective of the U.S. federal statutory rate and applicable state taxes.

Segment Results

The key performance indicator for our segments is operating income.

	Three months ended June 30,		% Change	Six months ended June 30,		% Change
	2019	**2020**		**2019**	**2020**	
	(Dollars in thousands)			**(Dollars in thousands)**		
Security Products:						
Net sales	$ 26,927	**$ 18,573**	**-31%**	$ 51,631	**$ 44,042**	**-15%**
Cost of sales	18,000	**12,679**	**-30**	34,733	**29,590**	**-15**
Gross margin	8,927	**5,894**	**-34**	16,898	**14,452**	**-14**
Operating costs and expenses	2,879	**2,533**	**-12**	5,774	**5,378**	**-7**
Operating income	$ 6,048	**$ 3,361**	**-44**	$ 11,124	**$ 9,074**	**-18**
Gross margin	33.2%	**31.7%**		32.7%	**32.8%**	
Operating income margin	22.5	**18.1**		21.5%	**20.6**	

Security Products. Security Products net sales in the second quarter of 2020 decreased 31% compared to the same period in 2019 due to reduced demand attributed to COVID-19 as discussed above. Relative to prior year, we experienced $2.5 million lower sales to the government security market, $2.4 million in lower sales to the transportation market, and $1.4 million in lower sales to distribution customers during the quarter. Security Products net sales decreased 15% in the first six months of 2020 compared to the same period last year due to the lower second quarter 2020 sales. Gross margin as a percentage of net sales for the second quarter declined as compared to the same period last year due to less favorable customer and product mix and reduced fixed cost coverage from lower production and sales volumes. Gross margin as a percentage of net sales for the first six months of 2020 is comparable to the same period last year. Operating costs and expenses decreased in the second quarter and the first six months of 2020 compared to the same periods last year predominantly due to decreased second quarter expenses related to travel, certain employee benefits expenses, and cancelled or postponed advertising expenses which were $0.3 million lower in aggregate for the second quarter of 2020 compared to the same period in 2019. Operating income as a percentage of net sales for the second quarter and first six months of 2020 decreased compared to the same periods of 2019 as a result of the factors impacting gross margin for the second quarter as well as reduced coverage of operating costs and expenses from lower sales for both comparative periods.

	Three months ended June 30,		% Change	Six months ended June 30,		% Change
	2019	2020		2019	2020	
	(Dollars in thousands)			(Dollars in thousands)		
Marine Components:						
Net sales	$ 6,803	**$ 5,227**	**-23%**	$ 13,276	**$ 12,069**	**-9%**
Cost of sales	4,791	**3,755**	**-22**	9,611	**8,724**	**-9**
Gross margin	2,012	**1,472**	**-27**	3,665	**3,345**	**-9**
Operating costs and expenses	732	**673**	**-8**	1,484	**1,464**	**-1**
Operating income	$ 1,280	**$ 799**	**-38**	$ 2,181	**$ 1,881**	**-14**
Gross margin	29.6%	**28.2%**		27.6%	**27.7%**	
Operating income margin	18.8	**15.3**		16.4	**15.6**	

Marine Components. Marine Components net sales in the second quarter of 2020 decreased 23% compared to the same period in 2019 due to COVID-19 related reduced demand as discussed above. During the quarter, we experienced $0.8 million lower sales to the towboat market, $0.4 million in lower sales to the engine manufacturing market, and $0.3 million in lower sales to the industrial market as compared to 2019. Marine Components net sales decreased 9% in the first six months of 2020 compared to the same period last year due to the lower second quarter 2020 sales. As a percentage of net sales, gross margin and operating income decreased in the second quarter of 2020 compared to the same period in 2019 due to reduced overhead coverage from lower production and sales volumes. Gross margin percentage for the first six months of 2020 is comparable to the same period last year. Operating income as a percentage of net sales decreased in the first six months of 2020 compared to the same periods in the prior year due to reduced coverage of operating cost and expenses on lower sales.

Outlook. In the second quarter of 2020, the COVID-19 pandemic created multiple challenges, both in our operations and from the reduced demand for our products. Both global and domestic supply chains remain intact and we have experienced minimal supply chain disruptions. We continue to work closely with all of our customers and monitor their progress as they continue to adjust their operations. While some of our customers expect to recover quickly, others expect to take longer to recover, including transportation, office furniture and cabinetry manufacturers.

Considerable effort continues at all of our locations to manage current COVID-19 conditions including, enhanced health and safety protocols and additional cleaning and disinfecting efforts. After the temporary closure in late April 2020 at our manufacturing facility outside of Chicago, Illinois, we have been able to operate the facility at normal operating rates. Throughout the course of the COVID-19 pandemic, we have focused our efforts on maintaining efficient operations, while closely managing our expenses and capital projects. In this regard we are constantly evaluating our staffing levels and have recently reduced production staffing levels to adjust to anticipated levels of demand for the second half of 2020.

The advance of the COVID-19 pandemic and the global efforts to mitigate its spread have resulted in sharp contractions of vast areas of the global economy and are expected to continue to challenge workers, businesses and governments for the foreseeable future. Government actions in various regions have generally permitted the gradual resumption of commercial activities following various regional shutdowns, but further government action restricting economic activity is possible in an effort to mitigate increases in COVID-19 cases in certain regions. The success and timing of these mitigating actions will depend in part on deployment of effective tools to fight COVID-19, including increased testing, enhanced monitoring, data analysis, effective treatments and a safe vaccine, before economic growth is likely to return to pre-pandemic levels. Even as these measures are implemented and become effective, they will not directly address the business and employment losses already experienced. As a result, we expect U.S. and worldwide gross domestic product to be significantly impacted for an indeterminate period.

Based on current conditions, we expect to report reduced revenue and operating income in 2020 compared to 2019. We believe the second quarter of 2020 will be the period most impacted by COVID-19 but the severity of the impact on the remainder of the year will depend on customer demand for our products, including the timing and extent to which our customers operations continue to be impacted, on our customers' perception as to when consumer demand for their products will return to pre-pandemic levels and on any future disruptions in our operations or our suppliers' operations, all of which are difficult to predict. Our operations teams meet daily to ensure we are taking appropriate actions to maintain a safe working environment for all of our employees, minimize operational disruptions and manage inventory levels. We increased inventory at both of our segments during the second quarter of 2020 to keep our workforce productive by focusing on high-demand products and components. We expect inventory balances will decline over the remainder of the year as we align our production to current demand levels. It is possible we may temporarily close one or more of our facilities again for the health and safety of our employees before the COVID-19 crisis is over. We have significant cash balances of approximately $62.5 million at June 30, 2020, and we believe we are well positioned to navigate the uncertainty ahead.

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.

Net cash provided by operating activities for the first six months of 2020 decreased by $1.0 million as compared to the first six months of 2019. Changes in working capital were not material. The decrease is primarily due to the net effects of:

- A $2.5 million decrease in operating income in 2020,
- A $0.7 million decrease in interest received in 2020 due to the relative timing of interest received, and
- A $2.1 million decrease in cash paid for taxes in 2020 due to the relative timing of payments and lower operating income.

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, the change in our average days sales outstanding from December 31, 2019 to June 30, 2020 varied by segment, primarily as a result of relative changes in the timing of collections. For comparative purposes, we have provided December 31, 2018 and June 30, 2019 numbers.

Days Sales Outstanding:	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020
Security Products	43 Days	42 Days	38 Days	44 Days
Marine Components	30 Days	31 Days	27 Days	40 Days
Consolidated CompX	40 Days	40 Days	36 Days	43 Days

Our total average number of days in inventory increased from December 31, 2019 to June 30, 2020 as a result of an intentional inventory build during the second quarter of 2020 to keep trained and tenured employees productive. The variability in days in inventory among our segments relates to the differences in the average length of time it takes to produce and sell end-products. For comparative purposes, we have provided December 31, 2018 and June 30, 2019 numbers below.

Days in Inventory:	December 31, 2018	June 30, 2019	December 31, 2019	June 30, 2020
Security Products	77 Days	70 Days	76 Days	120 Days
Marine Components	91 Days	75 Days	100 Days	125 Days
Consolidated CompX	80 Days	71 Days	81 Days	121 Days

Investing activities. Our capital expenditures were $0.9 million in the first six months of 2020 compared to $1.8 million in the first six months of 2019 as we have limited expenditures to those required to meet our expected customer demand and those required to properly maintain our facilities and technology infrastructure as a result of the COVID-19 pandemic. During the first six months of 2020, Valhi borrowed a net $2.4 million under the promissory note ($23.0 million of gross borrowings and $20.6 million of gross repayments). During the first six months of 2019, Valhi borrowed a net $6.0 million under the promissory note ($28.1 million of gross borrowings and $22.1 million of gross repayments). See Note 8 to the Condensed Consolidated Financial Statements.

Financing activities. Financing activities consisted only of quarterly cash dividends. In February 2020, our board of directors increased our regular quarterly dividend from $.07 per share to $.10 per share beginning in the first quarter of 2020. The declaration and payment of future dividends and the amount thereof, if any, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual requirements and restrictions and other factors deemed relevant by our board of directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which we might pay.

Future cash requirements –

Liquidity. Our primary source of liquidity on an ongoing basis is our cash flow from operating activities, which is generally used to (i) fund capital expenditures, (ii) repay short-term or long-term indebtedness incurred primarily for capital expenditures, investment activities or reducing our outstanding stock, (iii) provide for the payment of dividends (if declared), and (iv) lend to affiliates. From time-to-time, we will incur indebtedness, primarily 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, dividends (if declared) and any amounts we might loan from time to time under the terms of our revolving loan to Valhi discussed in Note 8 to our Condensed Consolidated Financial Statements (which loans would be solely at our discretion) for both the next 12 months and five years. To the extent that our actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

All of our $62.5 million aggregate cash and cash equivalents at June 30, 2020 were held in the U.S.

Capital Expenditures. Firm purchase commitments for capital projects in process at June 30, 2020 totaled $0.4 million. Our 2020 capital investments are limited to those expenditures required to meet our expected customer demand and those required to properly maintain our facilities and technology infrastructure. It is possible we will curtail or eliminate planned capital projects based on market conditions.

Commitments and Contingencies. There have been no material changes in our contractual obligations since we filed our 2019 Annual Report 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.

Recent accounting pronouncements –

See Note 9 to our Condensed Consolidated Financial Statements.

Critical accounting policies –

There have been no changes in the first six months of 2020 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2019 Annual Report.

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 2019 Annual Report, and we refer you to Part I, Item 7A – "Quantitative and Qualitative Disclosure About Market Risk" in our 2019 Annual Report. See also Note 7 to the Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures which, as defined in Exchange Act Rule 13a-15(e), 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. Our management with the participation of Scott C. James, our President and Chief Executive Officer, and Amy Allbach Samford, our Vice President and Chief Financial Officer, has evaluated the design and operating effectiveness of our disclosure controls and procedures as of June 30, 2020. 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. Our management is responsible for establishing and maintaining adequate internal control over financial reporting which, as defined in Exchange Act Rule 13a-15(f), 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 generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- Provide reasonable assurance regarding prevention or timely detection of an 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 have been no changes in our internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 1A. Risk Factors.

Reference is made to the 2019 Annual Report and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 for a discussion of risk factors related to our businesses.

ITEM 6. Exhibits.

Item No.	Exhibit Index
31.1	Certification
31.2	Certification
32.1	Certification
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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: August 4, 2020

By: /s/ Amy Allbach Samford
Amy Allbach Samford
Vice President and Chief Financial Officer

By: /s/ Amy E. Ruf
Amy E. Ruf
Vice President and Controller

Exhibit 31.1

CERTIFICATION

I, Scott C. James, 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 and material weaknesses 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: August 4, 2020

By: /s/ Scott C. James
Scott C. James
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Amy Allbach Samford, 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 13d-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 and material weaknesses 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: August 4, 2020

By: /s/ Amy Allbach Samford
Amy Allbach Samford
Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Scott C. James, President and Chief Executive Officer of the Company and I, Amy Allbach Samford, Vice President and Chief Financial Officer 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/ Scott C. James
Scott C. James
President and Chief Executive Officer

By: /s/ Amy Allbach Samford
Amy Allbach Samford
Vice President and Chief Financial Officer

Date: August 4, 2020

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.