
**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, 2023

OR

**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
Dallas, Texas 75240-2620
(Address of principal executive offices)

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 27, 2023, the registrant had 12,313,757 shares of Class A common stock, \$.01 par value per share, outstanding.

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, 2022	June 30, 2023 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 26,748	\$ 17,958
Marketable securities	33,147	46,794
Accounts receivable, net	17,840	15,044
Inventories, net	31,290	33,765
Prepaid expenses and other	2,136	1,673
Total current assets	<u>111,161</u>	<u>115,234</u>
Other assets:		
Note receivable from affiliate	13,200	12,200
Goodwill	23,742	23,742
Other noncurrent assets	590	747
Total other assets	<u>37,532</u>	<u>36,689</u>
Property and equipment:		
Land	5,390	5,390
Buildings	23,181	23,181
Equipment	74,113	74,525
Construction in progress	722	434
	<u>103,406</u>	<u>103,530</u>
Less accumulated depreciation	74,712	76,407
Net property and equipment	28,694	27,123
Total assets	<u>\$ 177,387</u>	<u>\$ 179,046</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,618	\$ 13,954
Income taxes payable to affiliate	1,035	827
Total current liabilities	<u>16,653</u>	<u>14,781</u>
Noncurrent liabilities:		
Deferred income taxes	2,230	1,778
Other	68	48
Total noncurrent liabilities	<u>2,298</u>	<u>1,826</u>
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	123	123
Additional paid-in capital	53,155	53,275
Retained earnings	105,175	109,160
Accumulated other comprehensive loss - unrealized loss on marketable securities	(17)	(119)
Total stockholders' equity	<u>158,436</u>	<u>162,439</u>
Total liabilities and stockholders' equity	<u>\$ 177,387</u>	<u>\$ 179,046</u>

Commitments and contingencies (Note 1)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2023	2022	2023
		(unaudited)		
Net sales	\$ 41,675	\$ 36,616	\$ 83,725	\$ 77,767
Cost of sales	28,046	26,343	58,016	54,790
Gross margin	13,629	10,273	25,709	22,977
Selling, general and administrative expense	5,884	5,906	11,658	11,570
Operating income	7,745	4,367	14,051	11,407
Interest income	337	992	551	1,939
Income before income taxes	8,082	5,359	14,602	13,346
Provision for income taxes	1,906	1,287	3,442	3,206
Net income	<u>\$ 6,176</u>	<u>\$ 4,072</u>	<u>\$ 11,160</u>	<u>\$ 10,140</u>
Other comprehensive loss, marketable securities adjustment:				
Unrealized loss arising during year, net	—	(72)	—	(102)
Comprehensive income	<u>\$ 6,176</u>	<u>\$ 4,000</u>	<u>\$ 11,160</u>	<u>\$ 10,038</u>
Basic and diluted net income per common share	<u>\$.50</u>	<u>\$.33</u>	<u>\$.90</u>	<u>\$.82</u>
Basic and diluted weighted average shares outstanding	<u>12,367</u>	<u>12,310</u>	<u>12,374</u>	<u>12,309</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Three months ended June 30, 2022 and 2023 (unaudited)					
	Class A common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at March 31, 2022	\$ 124	\$ 54,780	\$ 120,073	\$ —	\$ —	\$ 174,977
Net income	—	—	6,176	—	—	6,176
Issuance of common stock	—	118	—	—	—	118
Treasury stock:						
Acquired	—	—	—	—	(1,744)	(1,744)
Retired	(1)	(1,743)	—	—	1,744	—
Cash dividends (\$.25 per share)	—	—	(3,094)	—	—	(3,094)
Balance at June 30, 2022	<u>\$ 123</u>	<u>\$ 53,155</u>	<u>\$ 123,155</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 176,433</u>
Balance at March 31, 2023	\$ 123	\$ 53,155	\$ 108,166	\$ (47)	\$ —	\$ 161,397
Net income	—	—	4,072	—	—	4,072
Issuance of common stock	—	120	—	—	—	120
Cash dividends (\$.25 per share)	—	—	(3,078)	—	—	(3,078)
Other comprehensive loss	—	—	—	(72)	—	(72)
Balance at June 30, 2023	<u>\$ 123</u>	<u>\$ 53,275</u>	<u>\$ 109,160</u>	<u>\$ (119)</u>	<u>\$ —</u>	<u>\$ 162,439</u>

	Six months ended June 30, 2022 and 2023 (unaudited)					
	Class A common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at December 31, 2021	\$ 124	\$ 54,780	\$ 118,184	\$ —	\$ —	\$ 173,088
Net income	—	—	11,160	—	—	11,160
Issuance of common stock	—	118	—	—	—	118
Treasury stock:						
Acquired	—	—	—	—	(1,744)	(1,744)
Retired	(1)	(1,743)	—	—	1,744	—
Cash dividends (\$.50 per share)	—	—	(6,189)	—	—	(6,189)
Balance at June 30, 2022	<u>\$ 123</u>	<u>\$ 53,155</u>	<u>\$ 123,155</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 176,433</u>
Balance at December 31, 2022	\$ 123	\$ 53,155	\$ 105,175	\$ (17)	\$ —	\$ 158,436
Net income	—	—	10,140	—	—	10,140
Issuance of common stock	—	120	—	—	—	120
Cash dividends (\$.50 per share)	—	—	(6,155)	—	—	(6,155)
Other comprehensive loss	—	—	—	(102)	—	(102)
Balance at June 30, 2023	<u>\$ 123</u>	<u>\$ 53,275</u>	<u>\$ 109,160</u>	<u>\$ (119)</u>	<u>\$ —</u>	<u>\$ 162,439</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2022	2023
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 11,160	\$ 10,140
Depreciation and amortization	1,956	2,009
Deferred income taxes	(486)	(421)
Noncash interest income	—	(855)
Other, net	201	232
Change in assets and liabilities:		
Accounts receivable, net	(2,033)	2,794
Inventories, net	(7,735)	(2,585)
Accounts payable and accrued liabilities	446	(1,619)
Accounts with affiliates	(667)	(208)
Prepays and other, net	(1,316)	281
Net cash provided by operating activities	1,526	9,768
Cash flows from investing activities:		
Capital expenditures	(2,215)	(478)
Marketable securities:		
Purchases	—	(24,925)
Proceeds from maturities	—	12,000
Note receivable from affiliate:		
Collections	12,400	14,700
Advances	(10,300)	(13,700)
Net cash used in investing activities	(115)	(12,403)
Cash flows from financing activities:		
Dividends paid	(6,189)	(6,155)
Treasury stock acquired	(1,744)	—
Net cash used in financing activities	(7,933)	(6,155)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(6,522)	(8,790)
Balance at beginning of period	76,579	26,748
Balance at end of period	\$ 70,057	\$ 17,958
Supplemental disclosures -		
Cash paid for income taxes	\$ 4,603	\$ 3,847

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023
(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE American: CIX) were approximately 87% owned by NL Industries, Inc. (NYSE: NL) at June 30, 2023. At June 30, 2023, Valhi, Inc. (NYSE: VHI) owned approximately 83% of NL's outstanding common stock and a wholly-owned subsidiary of Contran Corporation owned approximately 91% 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, 2023 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, 2022 that we filed with the Securities and Exchange Commission ("SEC") on March 1, 2023 (the "2022 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, 2022 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, 2022) 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, 2023 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 2022 Consolidated Financial Statements contained in our 2022 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, 2022, December 31, 2022 and June 30, 2023. The actual dates of our annual and quarterly periods are July 3, 2022, January 1, 2023 and July 2, 2023, 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.

Note 2 – Business segment information:

	Three months ended June 30,		Six months ended June 30,	
	2022	2023	2022	2023
	(In thousands)			
Net sales:				
Security Products	\$ 28,837	\$ 25,672	\$ 58,418	\$ 53,014
Marine Components	12,838	10,944	25,307	24,753
Total net sales	<u>\$ 41,675</u>	<u>\$ 36,616</u>	<u>\$ 83,725</u>	<u>\$ 77,767</u>
Operating income:				
Security Products	\$ 6,731	\$ 4,134	\$ 12,741	\$ 9,513
Marine Components	2,724	1,943	4,733	5,260
Corporate operating expenses	(1,710)	(1,710)	(3,423)	(3,366)
Total operating income	7,745	4,367	14,051	11,407
Interest income	337	992	551	1,939
Income before income taxes	<u>\$ 8,082</u>	<u>\$ 5,359</u>	<u>\$ 14,602</u>	<u>\$ 13,346</u>

Intersegment sales are not material.

Note 3 – Marketable securities:

	Market value	Amortized cost basis	Unrealized loss, net
	(In thousands)		
December 31, 2022:			
Current assets	<u>\$ 33,147</u>	<u>\$ 33,164</u>	<u>\$ (17)</u>
June 30, 2023:			
Current assets	<u>\$ 46,794</u>	<u>\$ 46,944</u>	<u>\$ (150)</u>

Our marketable securities consist of investments in debt securities, currently U.S. government treasuries. We classify our marketable securities as available-for-sale. The fair value of our marketable securities is generally determined using Level 2 inputs because although these securities are traded, in many cases the market is not active and the quarter-end valuation is generally based on the last trade of the quarter, which may be several days prior to quarter end. We accumulate unrealized gains and losses on marketable debt securities as part of accumulated other comprehensive income (loss), net of related deferred income taxes.

Note 4 – Accounts receivable, net:

	December 31, 2022	June 30, 2023
	(In thousands)	
Accounts receivable, net:		
Security Products	\$ 13,767	\$ 11,462
Marine Components	4,143	3,652
Allowance for doubtful accounts	(70)	(70)
Total accounts receivable, net	<u>\$ 17,840</u>	<u>\$ 15,044</u>

Note 5 – Inventories, net:

	December 31, 2022	June 30, 2023
(In thousands)		
Raw materials:		
Security Products	\$ 4,172	\$ 4,548
Marine Components	2,073	2,000
Total raw materials	6,245	6,548
Work-in-process:		
Security Products	14,193	16,032
Marine Components	5,790	5,992
Total work-in-process	19,983	22,024
Finished goods:		
Security Products	3,163	3,332
Marine Components	1,899	1,861
Total finished goods	5,062	5,193
Total inventories, net	\$ 31,290	\$ 33,765

Note 6 – Accounts payable and accrued liabilities:

	December 31, 2022	June 30, 2023
(In thousands)		
Accounts payable:		
Security Products	\$ 2,663	\$ 4,018
Marine Components	874	1,206
Accrued liabilities:		
Employee benefits	10,489	7,220
Taxes other than on income	279	339
Insurance	255	268
Deferred revenue	243	189
Customer tooling	135	178
Advances from customers	298	156
Other	382	380
Total accounts payable and accrued liabilities	\$ 15,618	\$ 13,954

Note 7 – Provision for income taxes:

	Three months ended June 30,		Six months ended June 30,	
	2022	2023	2022	2023
(In thousands)				
Expected tax expense, at the U.S. federal statutory income tax rate of 21%	\$ 1,697	\$ 1,126	\$ 3,066	\$ 2,803
State income taxes	243	161	439	401
FDII benefit	(39)	(16)	(72)	(40)
Other, net	5	16	9	42
Total provision for income taxes	\$ 1,906	\$ 1,287	\$ 3,442	\$ 3,206
Comprehensive provision for income taxes allocable to:				
Net income	\$ 1,906	\$ 1,287	\$ 3,442	\$ 3,206
Other comprehensive loss - marketable securities	—	(18)	—	(31)
Total	\$ 1,906	\$ 1,269	\$ 3,442	\$ 3,175

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 electrical cabinet locks and other locking mechanisms used in postal, recreational transportation, office and institutional furniture, cabinetry, tool storage and healthcare applications. We also manufacture wake enhancement systems, stainless steel exhaust systems, gauges, throttle controls, trim tabs and related hardware and accessories 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,
- Government laws and regulations and possible changes therein, including new environmental health and safety or other 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

In the second quarter of 2023 operating income decreased to \$4.4 million compared to \$7.7 million in the second quarter of 2022. Operating income for the first six months of 2023 was \$11.4 million compared to \$14.0 million in the first six months of 2022. The decrease in operating income in the second quarter and first six months of 2023 compared to 2022 is primarily due to lower sales and gross margin in the second quarter of 2023 for both Security Products and Marine Components.

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 sales and gross margin. In addition, small variations in period-to-period net sales, cost of sales and gross margin can result from changes in the relative mix of our products sold.

Results of Operations

	Three months ended			
	June 30,			
	2022	%	2023	%
	(Dollars in thousands)			
Net sales	\$ 41,675	100.0 %	\$ 36,616	100.0 %
Cost of sales	28,046	67.3	26,343	71.9
Gross margin	13,629	32.7	10,273	28.1
Operating costs and expenses	5,884	14.1	5,906	16.1
Operating income	\$ 7,745	18.6 %	\$ 4,367	12.0 %

	Six months ended			
	June 30,			
	2022	%	2023	%
	(Dollars in thousands)			
Net sales	\$ 83,725	100.0 %	\$ 77,767	100.0 %
Cost of sales	58,016	69.3	54,790	70.5
Gross margin	25,709	30.7	22,977	29.5
Operating costs and expenses	11,658	13.9	11,570	14.8
Operating income	\$ 14,051	16.8 %	\$ 11,407	14.7 %

Net sales. Net sales decreased \$5.0 million and \$5.9 million in the second quarter and for the first six months of 2023, respectively, compared to the same periods in 2022 predominantly due to lower Security Products sales to the government security market and, to a lesser extent, lower Marine Components sales to the towboat market. See segment discussion below.

Cost of sales and gross margin. Cost of sales as a percentage of sales increased 4.6% and 1.2% in the second quarter and for the first six months of 2023, respectively, compared to the same periods in 2022. As a result, gross margin as a percentage of sales decreased over the same periods. Gross margin percentage decreased in the second quarter and for the first six months of 2023 compared to the same periods in 2022 primarily due to lower gross margin at Security Products and Marine Components for the second quarter of 2023. The decrease in gross margin percentage for the six-month

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comparative period was partially offset by higher gross margin at Marine Components in the first quarter of 2023. See segment discussion below.

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 any gains and losses on property and equipment. Operating costs and expenses for the second quarter of 2023 were comparable to the same period in 2022. Operating costs and expenses for the first six months of 2023 decreased slightly compared to the same period last year primarily due to reduced employee related administrative expenses at Marine Components. Operating costs and expenses as a percentage of net sales increased for the second quarter and the first six months of 2023 due to the effect of lower sales.

Operating income. As a percentage of net sales, operating income for the second quarter and first six months of 2023 decreased compared to the same periods of 2022 and was primarily impacted by the factors impacting sales, cost of sales, gross margin and operating costs. See segment discussion below.

Interest income. Interest income increased \$.7 million and \$1.4 million in the second quarter and for the first six months of 2023, respectively, compared to the same periods in 2022 primarily due to higher average interest rates and increased investment balances, somewhat offset by lower average balances on the revolving promissory note receivable from Valhi. See Notes 3 and 10 to our Condensed Consolidated Financial Statements.

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 7 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		% Change	Six months ended		% Change
	June 30,			June 30,		
	2022	2023		2022	2023	
	(Dollars in thousands)			(Dollars in thousands)		
Security Products:						
Net sales	\$ 28,837	\$ 25,672	(11)%	\$ 58,418	\$ 53,014	(9)%
Cost of sales	18,888	18,253	(3)	39,388	37,128	(6)
Gross margin	9,949	7,419	(25)	19,030	15,886	(17)
Operating costs and expenses	3,218	3,285	2	6,289	6,373	1
Operating income	\$ 6,731	\$ 4,134	(39)	\$ 12,741	\$ 9,513	(25)
Gross margin	34.5 %	28.9 %		32.6 %	30.0 %	
Operating income margin	23.3	16.1		21.8	17.9	

Security Products. Security Products net sales decreased 11% in the second quarter of 2023 compared to the same period in 2022. Relative to prior year, second quarter sales were \$3.2 million lower to the government security market, (primarily due to non-recurring sales of \$2.2 million to a single government security customer in the second quarter of 2022) and \$.5 million lower to the office furniture market, partially offset by \$1.0 million higher sales to distributors. Security Products net sales decreased 9% in the first six months of 2023 compared to the same period in 2022. Relative to prior year, sales for the first six months were \$5.0 million lower to the government security market (primarily due to non-recurring sales of \$3.6 million to a single government security customer which shipped in the first and second quarters of 2022), \$.8 million lower to the office furniture market and \$.5 million lower to the transportation market, partially offset by \$1.1 million higher sales to distributors.

Gross margin and operating income as a percentage of net sales for the second quarter and the first six months of 2023 decreased as compared to the same periods in 2022 primarily due to effects of lower sales and decreased coverage of fixed costs and operating costs and expenses as a result of lower sales.

	Three months ended			Six months ended		
	June 30,		% Change	June 30,		% Change
	2022	2023		2022	2023	
	(Dollars in thousands)			(Dollars in thousands)		
Marine Components:						
Net sales	\$ 12,838	\$ 10,944	(15)%	\$ 25,307	\$ 24,753	(2)%
Cost of sales	9,158	8,090	(12)	18,628	17,662	(5)
Gross margin	3,680	2,854	(22)	6,679	7,091	6
Operating costs and expenses	956	911	(5)	1,946	1,831	(6)
Operating income	\$ <u>2,724</u>	\$ <u>1,943</u>	(29)	\$ <u>4,733</u>	\$ <u>5,260</u>	11
Gross margin	28.7 %	26.1 %		26.4 %	28.6 %	
Operating income margin	21.2	17.8		18.7	21.2	

Marine Components. Marine Components net sales decreased 15% in the second quarter of 2023 compared to the same period in 2022. Relative to prior year, second quarter sales were \$2.0 million lower to the towboat market, partially offset by \$.5 million higher sales to the industrial market. Marine Components net sales decreased 2% in the first six months of 2023 compared to the same period in 2022. Relative to prior year, sales for the first six months were \$2.8 million lower to the towboat market, partially offset by \$1.7 million higher sales to the industrial market and \$.6 million higher sales to marine dealers and distributors.

Gross margin as a percentage of sales decreased in the second quarter of 2023 compared to the same period in 2022 primarily due to lower sales and decreased coverage of fixed costs as a result of lower sales. Operating income as a percentage of net sales decreased in the second quarter of 2023 compared to the same period in 2022 due to the factors impacting gross margin partially offset by reduced operating costs and expenses, including lower employee related administrative expenses of \$.1 million. For the first six months of 2023, gross margin as a percentage of net sales increased compared to the same period in 2022 as lower sales and gross margin in the second quarter of 2023 were more than offset by the favorable product mix and, to a lesser extent, increased selling prices and increased production efficiencies experienced in the first quarter of 2023. Operating income as a percentage of net sales increased in the first six months of 2023 compared to the same period in 2022 due to the factors impacting gross margin as well as reduced operating costs and expenses, including lower employee related administrative expenses of \$.1 million.

Outlook. During the second quarter, we experienced an acceleration in the softening demand we began seeing in the fourth quarter of 2022 at both segments, particularly in Marine Components. Marine Components largely worked through its backlog, primarily related to the towboat market, and Security Products continued to experience declining order rates. During 2023, labor markets have become increasingly more favorable in each of the regions we operate and material prices have either stabilized or, in the case of certain commodity raw materials, started to decline slightly. Our supply chains are stable and transportation and logistical delays are minimal, although we continue to face long lead times related to certain electronic and specialty components. We have adjusted production rates at our facilities to reflect the stability of our raw material supplies and near-term demand levels.

Over the remainder of the year, we expect gross margins at Security Products will be challenged as higher cost inventory works its way through cost of sales and reduced demand limits our ability to implement further price increases. We are in close contact with our key customers and believe reduced order rates will continue through the third quarter. As expected, Marine Components net sales declined during the second quarter due to accelerating weakness in the towboat market. We expect net sales overall will be challenged compared to 2022 as marine demand faces strong headwinds due to higher interest rates and broader market weakness as several original equipment boat manufacturers, including certain of our customers, have publicly announced further reductions to production schedules in 2023 compared to 2022. We have been able to somewhat offset the towboat market sales declines with increased sales to industrial customers but we do not expect increases in sales to the industrial market will fully offset weakened towboat demand. Overall, we expect Marine Components gross margin as a percentage of net sales for the full year of 2023 to be comparable to 2022 as the product mix experienced in the second quarter of 2023 is expected to be more indicative of the product mix for the remainder of the year. Based on the softening demand and general economic conditions in North America, we currently expect to report lower operating income at both segments in 2023 compared to 2022. We are focused on managing inventory levels to align with anticipated near-term demand. In this regard, we began a planned inventory build during the second quarter at Security Products to fulfill a purchase order received early in the second quarter that is expected to ship over the second

half of the year. Absent this order, inventory balances would have declined at the end of the second quarter in line with current demand. With raw materials and other components more readily available, we believe we will be able to achieve additional operating efficiencies during the year although the extent and impact of such efficiencies is not yet known.

Our expectations for our operations and the markets we serve are based on a number of factors outside our control. As noted above, there continue to be some global and domestic supply chain challenges and any future impacts on our operations will depend on, among other things, any future disruption in our operations or our suppliers' operations, the impact of economic conditions and geopolitical events on demand for our products or our customers' and suppliers' operations, all of which remain uncertain and cannot be predicted.

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.

Our net cash provided by operating activities for the first six months of 2023 increased by \$8.2 million as compared to the first six months of 2022. The increase in net cash provided is primarily due to the net effects of:

- A \$9.5 million decrease in the amount of net cash used by relative changes in our inventories, receivables, prepaids, payables and non-tax related accruals in 2023,
- A \$2.6 million decrease in operating income in 2023,
- A \$.8 million decrease in cash paid for taxes in 2023 due to lower net income, and
- A \$.5 million increase in interest received in 2023 due to higher interest rates and increased investment balances, partially offset by lower average balances on our loan to an affiliate.

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, 2022 to June 30, 2023 varied by segment primarily as a result of relative changes in the timing of sales and collections relative to the end of the quarter. For comparative purposes, we have provided December 31, 2021 and June 30, 2022 numbers below.

Days Sales Outstanding:	December 31, 2021	June 30, 2022	December 31, 2022	June 30, 2023
Security Products	46 Days	43 Days	45 Days	40 Days
Marine Components	30 Days	28 Days	30 Days	30 Days
Consolidated CompX	42 Days	38 Days	41 Days	37 Days

Our average number of days in inventory increased from December 31, 2022 to June 30, 2023 primarily due to higher inventory balances at both segments as a result of planned inventory build for specific customer orders, most significantly at Security Products, which we expect to begin shipping in the third quarter of 2023. For comparative purposes, we have provided December 31, 2021 and June 30, 2022 numbers below.

Days in Inventory:	December 31, 2021	June 30, 2022	December 31, 2022	June 30, 2023
Security Products	95 Days	110 Days	101 Days	119 Days
Marine Components	97 Days	104 Days	95 Days	111 Days
Consolidated CompX	96 Days	108 Days	99 Days	117 Days

Investing activities. Our capital expenditures were \$.5 million and \$2.2 million in the first six months of 2023 and 2022, respectively. During the first six months of 2023, Valhi repaid a net \$1.0 million under the promissory note (\$13.7 million of gross borrowings and \$14.7 million of gross repayments). During the first six months of 2022, Valhi repaid a net \$2.1 million under the promissory note (\$10.3 million of gross borrowings and \$12.4 million of gross repayments).

See Note 10 to our Condensed Consolidated Financial Statements.

During the first six months of 2023, we had gross purchases of U.S. treasury marketable securities aggregating \$24.9 million and received gross proceeds totaling \$12.0 million related to U.S. treasury bill maturities. See Note 3 to our Condensed Consolidated Financial Statements.

Financing activities. During each of the first six months of 2023 and 2022, we paid aggregate quarterly dividends to CompX stockholders of \$.50 per share (\$6.2 million). 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.

During the second quarter of 2022, we acquired 78,900 shares of our Class A common stock (8,900 shares from affiliates and 70,000 shares in a single market transaction) for an aggregate purchase price of \$1.7 million. See Note 8 to our Condensed Consolidated Financial Statements.

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 10 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 \$64.8 million aggregate cash, cash equivalents and marketable securities at June 30, 2023 were held in the U.S.

Capital expenditures. Firm purchase commitments for capital projects in process at June 30, 2023 totaled \$.1 million. We expect our capital expenditures for 2023 will be approximately \$2.7 million primarily to meet our existing customer demand and those required to properly maintain our facilities and technology infrastructure.

Stock repurchase program. At June 30, 2023, we have 523,647 shares available for repurchase under a stock repurchase program authorized by our board of directors. See Note 8 to our Condensed Consolidated Financial Statements.

Commitments and contingencies. There have been no material changes in our contractual obligations since we filed our 2022 Annual Report and we refer you to that report for a complete description of these commitments.

Recent accounting pronouncements –

None.

Critical accounting policies –

There have been no changes in the first six months of 2023 with respect to our critical accounting policies presented in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2022 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 2022 Annual Report, and we refer you to Part I, Item 7A – “Quantitative and Qualitative Disclosure About Market Risk” in our 2022 Annual Report. See also Note 9 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 A. Samford, our Executive Vice President and Chief Financial Officer, has evaluated the design and operating effectiveness of our disclosure controls and procedures as of June 30, 2023. 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, 2023 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 2022 Annual Report 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 – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 1, 2023

By: /s/ Amy A. Samford
Amy A. Samford
Executive Vice President and Chief Financial Officer

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

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 1, 2023

By: /s/ Scott C. James

Scott C. James
President and Chief Executive Officer

CERTIFICATION

I, Amy A. 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 1, 2023

By: /s/ Amy A. Samford

Amy A. Samford
Executive Vice President and Chief Financial Officer
(Principal 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 June 30, 2023, 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 A. Samford, Executive 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 A. Samford

Amy A. Samford
Executive Vice President and Chief Financial Officer

Date: August 1, 2023

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.
