
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2016

Commission file number 1-13905

COMPX INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

57-0981653
(IRS Employer
Identification No.)

**5430 LBJ Freeway, Suite 1700,
Three Lincoln Centre, Dallas, Texas**
(Address of principal executive offices)

75240-2697
(Zip Code)

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

Indicate by checkmark:

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

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

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

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

Number of shares of common stock outstanding on October 27, 2016:

Class A: 2,419,107
Class B: 10,000,000

COMPX INTERNATIONAL INC.

Index

	<u>Page</u>
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets – December 31, 2015 and September 30, 2016 (unaudited)	- 3 -
Condensed Consolidated Statements of Income (unaudited) – Three and nine months ended September 30, 2015 and 2016	- 4 -
Condensed Consolidated Statements of Cash Flows (unaudited) - Nine months ended September 30, 2015 and 2016	- 5 -
Condensed Consolidated Statement of Stockholders' Equity (unaudited) – Nine months ended September 30, 2016	- 6 -
Notes to Condensed Consolidated Financial Statements (unaudited)	- 7 -
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	- 11 -
Item 3. Quantitative and Qualitative Disclosure About Market Risk	- 16 -
Item 4. Controls and Procedures	- 16 -
Part II. OTHER INFORMATION	
Item 1A. Risk Factors	- 17 -
Item 6. Exhibits	- 17 -
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, 2015	September 30, 2016 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,347	\$ 45,371
Accounts receivable, net	8,760	13,040
Inventories, net	15,098	14,638
Prepaid expenses and other	704	688
Total current assets	<u>76,909</u>	<u>73,737</u>
Other assets:		
Goodwill	23,742	23,742
Note receivable from affiliate	-	10,700
Other noncurrent	590	590
Total other assets	<u>24,332</u>	<u>35,032</u>
Property and equipment:		
Land	4,928	4,935
Buildings	21,231	22,541
Equipment	63,539	64,922
Construction in progress	1,567	873
	<u>91,265</u>	<u>93,271</u>
Less accumulated depreciation	<u>57,714</u>	<u>60,162</u>
Net property and equipment	<u>33,551</u>	<u>33,109</u>
Total assets	<u>\$ 134,792</u>	<u>\$ 141,878</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,618	\$ 12,127
Income taxes payable to affiliates	470	1,287
Total current liabilities	<u>12,088</u>	<u>13,414</u>
Noncurrent liabilities -		
Deferred income taxes	<u>5,001</u>	<u>4,924</u>
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	24	24
Class B common stock	100	100
Additional paid-in capital	55,422	55,515
Retained earnings	62,157	67,901
Total stockholders' equity	<u>117,703</u>	<u>123,540</u>
Total liabilities and stockholders' equity	<u>\$ 134,792</u>	<u>\$ 141,878</u>

Commitments and contingencies (Note 1)

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2016	2015	2016
	(unaudited)		(unaudited)	
Net sales	\$ 26,505	\$ 28,404	\$ 83,314	\$ 82,586
Cost of goods sold	18,387	19,005	57,471	56,496
Gross profit	8,118	9,399	25,843	26,090
Selling, general and administrative expense	4,684	4,926	14,402	14,547
Operating income	3,434	4,473	11,441	11,543
Interest income	16	88	32	161
Income before taxes	3,450	4,561	11,473	11,704
Provision for income taxes	1,209	1,592	4,008	4,097
Net income	<u>\$ 2,241</u>	<u>\$ 2,969</u>	<u>\$ 7,465</u>	<u>\$ 7,607</u>
Basic and diluted net income per common share	<u>\$ 0.18</u>	<u>\$ 0.24</u>	<u>\$ 0.60</u>	<u>\$ 0.61</u>
Cash dividends per share	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>
Basic and diluted weighted average shares outstanding	<u>12,411</u>	<u>12,419</u>	<u>12,407</u>	<u>12,415</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2015	2016
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 7,465	\$ 7,607
Depreciation and amortization	2,646	2,790
Deferred income taxes	(279)	(77)
Other, net	285	348
Change in assets and liabilities:		
Accounts receivable, net	(2,881)	(4,289)
Inventories, net	1,246	280
Accounts payable and accrued liabilities	(1,600)	438
Accounts with affiliates	(143)	817
Prepays and other, net	(60)	17
Net cash provided by operating activities	<u>6,679</u>	<u>7,931</u>
Cash flows from investing activities -		
Capital expenditures	(2,484)	(2,344)
Note receivable from affiliate:		
Collections	-	4,400
Advances	-	(15,100)
Net cash used in investing activities	<u>(2,484)</u>	<u>(13,044)</u>
Cash flows from financing activities -		
Dividends paid	(1,861)	(1,863)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	2,334	(6,976)
Balance at beginning of period	45,570	52,347
Balance at end of period	<u>\$ 47,904</u>	<u>\$ 45,371</u>
Supplemental disclosures - cash paid for:		
Income taxes	\$ 4,424	\$ 3,355

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Nine months ended September 30, 2016

(In thousands)

(unaudited)

	Common stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Class A	Class B			
Balance at December 31, 2015	\$ 24	\$ 100	\$ 55,422	\$ 62,157	\$ 117,703
Net income	—	—	—	7,607	7,607
Issuance of common stock	—	—	93	—	93
Cash dividends	—	—	—	(1,863)	(1,863)
Balance at September 30, 2016	\$ 24	\$ 100	\$ 55,515	\$ 67,901	\$ 123,540

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE MKT: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at September 30, 2016. We manufacture and sell component products (security products and recreational marine components). At September 30, 2016, Valhi, Inc. (NYSE: VHI) owns 83% of NL's outstanding common stock and a wholly-owned subsidiary of Contran Corporation owns 93% of Valhi's outstanding common stock. All of Contran's outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly and their children, for which Ms. Simmons and Ms. Connelly are co-trustees, or is held directly by Ms. Simmons and Ms. Connelly or entities related to them. Consequently, Ms. Simmons and Ms. Connelly may be deemed to control 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, 2015 that we filed with the Securities and Exchange Commission ("SEC") on March 3, 2016 (the "2015 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, 2015 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, 2015) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results of operations for the interim periods ended September 30, 2016 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 2015 Consolidated Financial Statements contained in our 2015 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 September 30 and December 31, as applicable. 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 September 30,		Nine months ended September 30,	
	2015	2016	2015	2016
	(In thousands)		(In thousands)	
Net sales:				
Security Products	\$ 23,115	\$ 24,680	\$ 72,831	\$ 71,289
Marine Components	3,390	3,724	10,483	11,297
Total net sales	<u>\$ 26,505</u>	<u>\$ 28,404</u>	<u>\$ 83,314</u>	<u>\$ 82,586</u>
Operating income (loss):				
Security Products	\$ 4,455	\$ 5,421	\$ 14,656	\$ 14,676
Marine Components	422	547	1,288	1,436
Corporate operating expenses	(1,443)	(1,495)	(4,503)	(4,569)
Total operating income	3,434	4,473	11,441	11,543
Interest income	16	88	32	161
Income before taxes	<u>\$ 3,450</u>	<u>\$ 4,561</u>	<u>\$ 11,473</u>	<u>\$ 11,704</u>

Intersegment sales are not material.

Note 3 – Accounts receivable, net:

	December 31, 2015	September 30, 2016
(In thousands)		
Accounts receivable, net:		
Security Products	\$ 7,995	\$ 11,574
Marine Components	852	1,536
Allowance for doubtful accounts	(87)	(70)
Total accounts receivable, net	<u>\$ 8,760</u>	<u>\$ 13,040</u>

Note 4 – Inventories, net:

	December 31, 2015	September 30, 2016
(In thousands)		
Raw materials:		
Security Products	\$ 2,426	\$ 2,368
Marine Components	381	371
Total raw materials	<u>2,807</u>	<u>2,739</u>
Work-in-process:		
Security Products	7,732	7,832
Marine Components	1,614	1,311
Total work-in-process	<u>9,346</u>	<u>9,143</u>
Finished goods:		
Security Products	2,041	2,027
Marine Components	904	729
Total finished goods	<u>2,945</u>	<u>2,756</u>
Total inventories, net	<u>\$ 15,098</u>	<u>\$ 14,638</u>

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2015	September 30, 2016
(In thousands)		
Accounts payable	\$ 2,671	\$ 3,472
Accrued liabilities:		
Employee benefits	7,652	6,724
Taxes other than on income	253	606
Customer tooling	320	450
Sales rebates	96	194
Insurance	244	167
Other	382	514
Total accounts payable and accrued liabilities	<u>\$ 11,618</u>	<u>\$ 12,127</u>

Note 6 – Provision for income taxes:

	Nine months ended September 30,	
	2015	2016
(In thousands)		
Expected tax expense, at the U.S. federal statutory income tax rate of 35%	\$ 4,016	\$ 4,096
Domestic production activities deduction	(369)	(362)
State income taxes	342	339
Other, net	19	24
Total income tax expense	\$ 4,008	\$ 4,097

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, 2015		September 30, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
(In thousands)				
Cash and cash equivalents	\$ 52,347	\$ 52,347	\$ 45,371	\$ 45,371
Accounts receivable, net	8,760	8,760	13,040	13,040
Note receivable from affiliate	-	-	10,700	10,700
Accounts payable	2,671	2,671	3,472	3,472

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. The fair value of our variable-rate promissory note receivable from affiliate is deemed to approximate book value and is a Level 2 input as defined by ASC Topic 820-10-35.

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, on August 3, 2016 we entered into an unsecured revolving demand promissory note with Valhi whereby we have agreed to loan Valhi up to \$40 million. Our loan to Valhi bears interest at prime plus 1.00%, payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2017. The amount of our outstanding loans to Valhi at any time is at our discretion. At September 30, 2016, the outstanding principal balance receivable from Valhi under the promissory note was \$10.7 million.

Note 9 – Recent accounting pronouncements not yet adopted:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard replaces existing revenue recognition guidance, which in many cases was tailored for specific industries, with a uniform accounting standard applicable to all industries and transactions. The new standard, as amended, is currently effective for us beginning with the first quarter of 2018. Entities may elect to adopt ASU No. 2014-09 retrospectively for all periods for all contracts and transactions which occurred during the period (with a few exceptions for practical expediency) or retrospectively with a cumulative effect recognized as of the date of adoption. ASU No. 2014-09 is a fundamental rewriting of existing GAAP with respect to revenue recognition, and we are still evaluating the effect the Standard will have on our consolidated financial statements. We currently expect to adopt the standard in the first quarter of 2018. In addition, we have not yet determined the method we will use to adopt the Standard.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory*. Currently an entity would not recognize the income tax consequences of an intra-entity transfer of assets other than inventory until final disposition to a third-party. Under the new guidance an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. No additional disclosures are required under this pronouncement. This standard is effective for us in the first quarter of 2018 and early adoption is permitted. From time to time we engage in intra-entity asset transfers that may fall under the new guidance but we do not expect the adoption of this standard to have a material effect on our 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 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 and energy costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs,
- Price and product competition from low-cost manufacturing sources (such as China),
- The impact of pricing and production decisions,
- Customer and competitor strategies including substitute products,
- Uncertainties associated with the development of new product features,
- Future litigation,
- 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,
- The impact of current or future government regulations (including employee healthcare benefit related regulations),
- Potential difficulties in upgrading or implementing new manufacturing and accounting software systems,
- General global economic and political conditions that introduce instability into the U.S. economy (such as changes in the level of gross domestic product in various regions of the world),
- Operating interruptions (including, but not limited to labor disputes, hazardous chemical leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime, transportation interruptions and cyber-attacks); 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 the consequences of such development worsen), or should 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.

Operations Overview

Operating income was \$4.5 million in the third quarter of 2016 compared to \$3.4 million in the same period of 2015. Our operating income increased for the third quarter of 2016 primarily due to higher Security Products sales. Operating income for the first nine months of 2016 and 2015 was comparable at \$11.5 million and \$11.4 million, respectively.

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

Results of Operations

	Three months ended September 30,			
	2015	%	2016	%
	(Dollars in thousands)			
Net sales	\$ 26,505	100.0%	\$ 28,404	100.0%
Cost of goods sold	18,387	69.4	19,005	66.9
Gross profit	8,118	30.6	9,399	33.1
Operating costs and expenses	4,684	17.7	4,926	17.3
Operating income	\$ 3,434	13.0%	\$ 4,473	15.7%

	Nine months ended September 30,			
	2015	%	2016	%
	(Dollars in thousands)			
Net sales	\$ 83,314	100.0%	\$ 82,586	100.0%
Cost of goods sold	57,471	69.0	56,496	68.4
Gross profit	25,843	31.0	26,090	31.6
Operating costs and expenses	14,402	17.3	14,547	17.6
Operating income	\$ 11,441	13.7%	\$ 11,543	14.0%

Net sales. Net sales increased \$1.9 million in the third quarter of 2016 compared to the same period in 2015 primarily due to higher Security Products sales to existing government customers. Net sales decreased \$0.7 million in the first nine months of 2016 compared to the respective period in 2015, primarily due to Security Products sales in 2015 for a government security end-user project that, as expected, did not recur in 2016. This decrease was partially offset by higher third quarter Security Products sales and higher Marine Components sales to the waterski/wakeboard market. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of goods sold and gross profit. Cost of goods sold as a percentage of sales decreased 2.5% in the third quarter of 2016 compared to the same period in 2015 due to manufacturing efficiencies and fixed cost leverage resulting from increased manufacturing volume. As a result, gross profit as a percentage of net sales increased over the same period. As a percentage of net sales, cost of goods for the first nine months of 2016 decreased slightly compared to the same period in 2015 due to the operating improvements resulting from the favorable third quarter volumes. As a result, gross profit as a percentage of net sales increased over the same period. Gross profit dollars increased \$1.3 million for the third quarter of 2016 due to higher sales in the Security Products segment. Gross profit dollars for the first nine months of 2016 are comparable to the same period in 2015.

Operating costs and expenses. Operating costs and expenses consist primarily of sales and administrative related personnel costs, sales commissions and advertising expenses, as well as gains and losses on plant, property and equipment. Operating costs and expenses for the third quarter and first nine months of 2016 were comparable to the same periods in 2015.

Operating income. As a percentage of net sales, operating income for the third quarter and first nine months of 2016 increased compared to the same periods of 2015 and was primarily impacted by the factors impacting gross profit percentage and operating costs discussed above.

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, as the benefit associated with the U.S. domestic production activities deduction is fully offset by our provision for U.S. state income taxes.

Segment Results

The key performance indicator for our segments is operating income.

	Three months ended September 30,			Nine months ended September 30,		
	2015	2016	% Change	2015	2016	% Change
	(Dollars in thousands)			(Dollars in thousands)		
Net sales:						
Security Products	\$ 23,115	\$ 24,680	7%	\$ 72,831	\$ 71,289	-2%
Marine Components	3,390	3,724	10%	10,483	11,297	8%
Total net sales	\$ 26,505	\$ 28,404	7%	\$ 83,314	\$ 82,586	-1%
Gross profit:						
Security Products	\$ 7,182	\$ 8,311	16%	\$ 23,005	\$ 22,980	-%
Marine Components	936	1,088	16%	2,838	3,110	10%
Total gross profit	\$ 8,118	\$ 9,399	16%	\$ 25,843	\$ 26,090	1%
Operating income:						
Security Products	\$ 4,455	\$ 5,421	22%	\$ 14,656	\$ 14,676	-%
Marine Components	422	547	30%	1,288	1,436	11%
Corporate operating expenses	(1,443)	(1,495)	-4%	(4,503)	(4,569)	-1%
Total operating income	\$ 3,434	\$ 4,473	30%	\$ 11,441	\$ 11,543	1%
Gross profit margin:						
Security Products	31.1%	33.7%		31.6%	32.2%	
Marine Components	27.6%	29.2%		27.1%	27.5%	
Total gross profit margin	30.6%	33.1%		31.0%	31.6%	
Operating income margin:						
Security Products	19.3%	22.0%		20.1%	20.6%	
Marine Components	12.4%	14.7%		12.3%	12.7%	
Total operating income margin	13.0%	15.7%		13.7%	14.0%	

Security Products. Security Products net sales increased \$1.6 million, or 7%, in the third quarter of 2016 compared to the same period in 2015, primarily due to a net increase in sales to existing government customers of \$1.2 million. As previously disclosed, net sales in 2015 included substantial project related sales for a government security end-user that, as expected, did not recur in 2016. During the third quarter of 2016, we were awarded a substantial new project for the same customer which began to ship in August and is expected to continue through the end of the year. Third quarter sales under the new initiative were slightly greater than the \$1.7 million of nonrecurring project related sales realized in the third quarter of 2015. This offset to the prior year nonrecurring revenue, along with higher sales to other existing government customers and improved sales to distribution customers contributed to the third quarter Security Products sales increase over 2015.

Security Products net sales decreased \$1.5 million, or 2%, in the first nine months of 2016 compared to the same period last year primarily due to approximately \$4.9 million of nonrecurring sales related to the aforementioned government security end-user project. Including the new project for the same customer with initial shipments in the third quarter of 2016 and improved year-to-date sales to other government customers, net sales to existing government customers for the first nine months of 2016 decreased \$2.0 million from a year ago. Aside from government customers, sales into OEM markets for the first nine months of 2016 were mixed, but sales to distribution customers have increased approximately \$0.9 million over the prior year period.

Gross profit margin and operating income as a percent of sales for the third quarter of 2016 increased compared to the same period in 2015 primarily due to manufacturing efficiencies and fixed cost leverage resulting from the increased manufacturing volume during the period. Gross profit margin and operating income as a percentage of sales for the first nine months of 2016 also increased compared to the same period in 2015. The year-to-date improvements are attributable to the favorable third quarter volume as these measures trailed prior year through the first six months of 2016.

Marine Components. Marine Components net sales increased 10% and 8% in the third quarter and first nine months of 2016, respectively, as compared to the same periods last year. The increase in sales for the third quarter and first nine months of 2016 is primarily due to improved demand for products sold to the waterski/wakeboard boat market. Gross profit margin and operating income as a percentage of sales increased for the third quarter and first nine months of 2016 compared to the same periods in 2015 due primarily to improved variable margins resulting from changes in customer and product mix.

Outlook. Security Products sales for the first nine months of 2016 trail the comparable prior year period by only \$1.5 million despite approximately \$4.9 million in 2015 sales related to a government security end-user project which did not recur in 2016. The revenue offset has been achieved primarily through increased sales to existing government customers and the substantial new project for a government customer that began shipping in August and is expected to be completed by the end of the year. Security Product sales to distributors have been marginally improved in 2016, while sales to OEM customers have been relatively flat, reflecting general economic conditions. We continue to benefit from innovation and diversification in our product offerings, particularly in the recreational boat markets served by our Marine Components segment. In the absence of significant change in general economic conditions, full year sales for 2016 are expected to approach 2015 levels.

We will continue to monitor general economic conditions and sales order rates and respond to fluctuations in customer demand through continuous evaluation of staffing levels and consistent execution of our lean manufacturing and cost improvement initiatives. Additionally, we continue to seek opportunities to gain market share in existing markets, to expand into new markets and to further develop new and current customers, products, and features in order to mitigate the impact of changes in demand and broaden our sales base.

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 nine months of 2016 increased by \$1.3 million as compared to the first nine months of 2015. The increase is primarily due to the positive impact of lower cash paid for taxes of \$1.1 million, primarily due to the relative timing of cash tax payments.

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, 2015 to September 30, 2016 varied by segment. Generally, we expect our average days sales outstanding to increase from December to September as the result of a seasonal increase in sales during the third quarter as compared to the fourth quarter. Overall, our September 30, 2016 days sales outstanding compared to December 31, 2015 is in line with our expectations. For comparative purposes, we have provided December 31, 2014 and September 30, 2015 numbers below.

Days Sales Outstanding:	December 31, 2014	September 30, 2015	December 31, 2015	September 30, 2016
Security Products	32 Days	41 Days	32 Days	42 Days
Marine Components	32 Days	34 Days	26 Days	37 Days
Consolidated CompX	32 Days	40 Days	31 Days	42 Days

Our total average number of days in inventory decreased from December 31, 2015 to September 30, 2016 as a result of the seasonal increase in sales during the third quarter of 2016 as compared to the fourth quarter 2015 and the temporary reduction in stocking levels at Marine Components. The variability in days in inventory among our segments primarily relates to the differences in the complexity of the production processes and therefore the length of time it takes to produce end-products. For comparative purposes, we have provided December 31, 2014 and September 30, 2015 numbers below.

Days in Inventory:	December 31, 2014	September 30, 2015	December 31, 2015	September 30, 2016
Security Products	85 Days	72 Days	70 Days	68 Days
Marine Components	125 Days	105 Days	120 Days	83 Days
Consolidated CompX	90 Days	76 Days	76 Days	70 Days

Investing activities. Net cash used in investing activities totaled \$13.0 million in the first nine months of 2016 and \$2.5 million in the first nine months of 2015. On August 3, 2016 we entered into an unsecured revolving demand promissory note with Valhi whereby we have agreed to loan Valhi up to \$40 million. Our loan to Valhi bears interest at prime plus 1.00%, payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2017. The amount of our outstanding loans to Valhi at any time is at our discretion. During the third quarter of 2016, Valhi had borrowed a net \$10.7 million under the promissory note (\$15.1 million of gross borrowings and \$4.4 million of gross repayments). See Note 8 to the Condensed Consolidated Financial Statements.

Our capital expenditures were \$2.3 million in the first nine months of 2016 compared to \$2.5 million in the first nine months of 2015. Capital expenditures for 2016 include approximately \$994,000 related to the expansion of our Grayslake facility which was completed in April 2016.

Financing activities. Financing activities consisted only of quarterly cash dividends (\$0.05 per share) and were comparable for the noted periods.

Future cash requirements –

Liquidity. Our primary source of liquidity on an on-going 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 new 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 \$45.4 million aggregate cash and cash equivalents at September 30, 2016 were held in the U.S.

Capital Expenditures. Firm purchase commitments for capital projects in process at September 30, 2016 totaled \$374,000. Our 2016 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.

Commitments and Contingencies. There have been no material changes in our contractual obligations since we filed our 2015 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 other than the operating leases discussed in our 2015 Annual Report.

Recent accounting pronouncements –

See Note 9 to our Condensed Consolidated Financial Statements.

Critical accounting policies –

There have been no changes in the first nine months of 2016 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2015 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 2015 Annual Report, and we refer you to Part I, Item 7A – “Quantitative and Qualitative Disclosure About Market Risk” in our 2015 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 David A. Bowers, our Vice Chairman of the Board and Chief Executive Officer, and James W. Brown, our Vice President, Chief Financial Officer and Controller, has evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2016. 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 September 30, 2016 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 2015 Annual Report for a discussion of the risk factors related to our businesses. There have been no material changes in such risk factors during the first nine months of 2016.

ITEM 6. Exhibits.

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

We have retained a signed original of any of the above exhibits that contains signatures, and we will provide such exhibit to the Commission or its staff upon request. We will also furnish, without charge, a copy of our Code of Business Conduct and Ethics, and Audit Committee Charter, each as adopted by our board of directors on June 3, 2015, upon request. Such requests should be directed to the attention of our Corporate Secretary at our corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

SIGNATURES

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

COMPX INTERNATIONAL INC.
(Registrant)

Date: November 2, 2016

By: /s/ James W. Brown
James W. Brown
Vice President, Chief Financial Officer and Controller

CERTIFICATION

I, David A. Bowers, certify that:

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

Date: November 2, 2016

By: /s/ David A. Bowers
David A. Bowers
Vice Chairman of the Board and
Chief Executive Officer

CERTIFICATION

I, James W. Brown, 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 in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2016

By: /s/ James W. Brown
James W. Brown
Vice President, Chief Financial Officer
and Controller
(Principal Accounting and Financial Officer)

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

In connection with the Quarterly Report of CompX International Inc. (the Company) on Form 10-Q for the period ending September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David A. Bowers, Vice Chairman of the Board and Chief Executive Officer of the Company and I, James W. Brown, Vice President, Chief Financial Officer and Controller of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ David A. Bowers
David A. Bowers
Vice Chairman of the Board and
Chief Executive Officer

By: /s/ James W. Brown
James W. Brown
Vice President, Chief Financial Officer and Controller

Date: November 2, 2016

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.

