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 March 31, 2017

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, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐ Emerging growth company ☐

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

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 May 1, 2017:

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

COMPX INTERNATIONAL INC.

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

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2016	March 31, 2017 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,153	**$ 30,113**
Accounts receivable, net	10,347	**12,988**
Inventories, net	14,974	**15,347**
Prepaid expenses and other	701	**779**
Total current assets	59,175	**59,227**
Other assets:		
Note receivable from affiliate	27,400	**29,000**
Goodwill	23,742	**23,742**
Other noncurrent	590	**590**
Total other assets	51,732	**53,332**
Property and equipment:		
Land	4,935	**4,935**
Buildings	22,541	**22,541**
Equipment	65,570	**65,773**
Construction in progress	1,098	**783**
	94,144	**94,032**
Less accumulated depreciation	61,071	**61,319**
Net property and equipment	33,073	**32,713**
Total assets	$ 143,980	**$ 145,272**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 11,882	**$ 9,528**
Income taxes payable to affiliates	1,441	**2,520**
Total current liabilities	13,323	**12,048**
Noncurrent liabilities -		
Deferred income taxes	4,887	**4,924**
Stockholders' equity:		
Preferred stock	—	**—**
Class A common stock	24	**24**
Class B common stock	100	**100**
Additional paid-in capital	55,515	**55,515**
Retained earnings	70,131	**72,661**
Total stockholders' equity	125,770	**128,300**
Total liabilities and stockholders' equity	$ 143,980	**$ 145,272**

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 March 31, 2016		Three months ended March 31, 2017	
	(unaudited)			
Net sales	$	27,075	$	**29,948**
Cost of goods sold		18,870		**20,262**
Gross profit		8,205		**9,686**
Selling, general and administrative expense		4,852		**5,162**
Operating income		3,353		**4,524**
Interest income		32		**335**
Income before taxes		3,385		**4,859**
Provision for income taxes		1,185		**1,708**
Net income	$	2,200	$	**3,151**
Basic and diluted net income per common share	$	0.18	$	**0.25**
Cash dividends per share	$	0.05	$	**0.05**
Basic and diluted weighted average shares outstanding		12,411		**12,419**

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended March 31,	
	2016	2017
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 2,200	**$ 3,151**
Depreciation and amortization	909	**915**
Deferred income taxes	(28)	**37**
Other, net	58	**14**
Change in assets and liabilities:		
Accounts receivable, net	(3,121)	**(2,644)**
Inventories, net	627	**(381)**
Accounts payable and accrued liabilities	(3,066)	**(2,303)**
Accounts with affiliates	648	**1,079**
Prepaids and other, net	(675)	**(78)**
Net cash used in operating activities	(2,448)	**(210)**
Cash flows from investing activities:		
Capital expenditures	(1,221)	**(609)**
Note receivable from affiliate:		
Collections	-	**12,500**
Advances	-	**(14,100)**
Net cash used in investing activities	(1,221)	**(2,209)**
Cash flows from financing activities -		
Dividends paid	(620)	**(621)**
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(4,289)	**(3,040)**
Balance at beginning of period	52,347	**33,153**
Balance at end of period	$ 48,058	**$ 30,113**
Supplemental disclosures -		
Cash paid for income taxes	$ 565	**$ 585**

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three months ended March 31, 2017

(In thousands)

(unaudited)

	Common stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Class A	Class B			
Balance at December 31, 2016	$ 24	$ 100	$ 55,515	$ 70,131	$ 125,770
Net income	—	—	—	3,151	3,151
Cash dividends	—	—	—	(621)	(621)
Balance at March 31, 2017	**$ 24**	**$ 100**	**$ 55,515**	**$ 72,661**	**$ 128,300**

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE MKT: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at March 31, 2017. We manufacture and sell component products (security products and recreational marine components). At March 31, 2017, 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, 2016 that we filed with the Securities and Exchange Commission ("SEC") on March 1, 2017 (the "2016 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, 2016 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, 2016) 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 period ended March 31, 2017 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 2016 Consolidated Financial Statements contained in our 2016 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 March 31, 2016, December 31, 2016 and March 31, 2017. The actual dates of our annual and quarterly periods are April 3, 2016, January 1, 2017 and April 2, 2017, 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 March 31,	
	2016	2017
	(In thousands)	
Net sales:		
Security Products	$ 23,414	**$ 26,010**
Marine Components	3,661	**3,938**
Total net sales	$ 27,075	**$ 29,948**
Operating income (loss):		
Security Products	$ 4,471	**$ 5,691**
Marine Components	334	**371**
Corporate operating expenses	(1,452)	**(1,538)**
Total operating income	3,353	**4,524**
Interest income	32	**335**
Income before taxes	$ 3,385	**$ 4,859**

Intersegment sales are not material.

Note 3 – Accounts receivable, net:

	December 31, 2016	March 31, 2017
	(In thousands)	
Accounts receivable, net:		
Security Products	$ 9,329	**$ 11,339**
Marine Components	1,088	**1,719**
Allowance for doubtful accounts	(70)	**(70)**
Total accounts receivable, net	$ 10,347	**$ 12,988**

Note 4 – Inventories, net:

	December 31, 2016	March 31, 2017
	(In thousands)	
Raw materials:		
Security Products	$ 2,365	**$ 2,272**
Marine Components	378	**509**
Total raw materials	2,743	**2,781**
Work-in-process:		
Security Products	7,387	**8,300**
Marine Components	1,601	**1,476**
Total work-in-process	8,988	**9,776**
Finished goods:		
Security Products	2,440	**2,088**
Marine Components	803	**702**
Total finished goods	3,243	**2,790**
Total inventories, net	$ 14,974	**$ 15,347**

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2016	March 31, 2017
	(In thousands)	
Accounts payable	$ 2,614	**$ 3,661**
Accrued liabilities:		
Employee benefits	7,644	**4,091**
Customer tooling	346	**388**
Taxes other than on income	300	**498**
Insurance	233	**179**
Professional	219	**211**
Sales rebates	140	**112**
Other	386	**388**
Total accounts payable and accrued liabilities	$ 11,882	**$ 9,528**

Note 6 – Provision for income taxes:

	Three months ended March 31,	
	2016	2017
	(In thousands)	
Expected tax expense, at the U.S. federal statutory income tax rate of 35%	$ 1,185	**$ 1,701**
Domestic production activities deduction	(105)	**(145)**
State income taxes	98	**132**
Other, net	7	**20**
Total income tax expense	$ 1,185	**$ 1,708**

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, 2016		March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash and cash equivalents	$ 33,153	$ 33,153	**$ 30,113**	**$ 30,113**
Accounts receivable, net	10,347	10,347	**12,988**	**12,988**
Accounts payable	2,614	2,614	**3,661**	**3,661**

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

Note 8 – Related party transactions:

From time to time, we may have loans and advances outstanding between us and various related parties pursuant to term and demand notes. We generally enter into these loans and advances for cash management purposes. When we loan funds to related parties, we are generally able to earn a higher rate of return on the loan than we would earn if we invested the funds in other instruments, and when we borrow from related parties, we are generally able to pay a lower rate of interest than we would pay if we had incurred third-party indebtedness. While certain of these loans to affiliates may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe we have considered the credit risks in the terms of the applicable loans. In this regard, in August 2016 we entered into an unsecured revolving demand promissory note with Valhi whereby we agreed to loan Valhi up to $40 million. Our loan to Valhi, as amended, bears interest at prime plus 1.00%, payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2018. The amount of our outstanding loans to Valhi at any time is at our discretion. At March 31, 2017, the outstanding principal balance receivable from Valhi under the promissory note was $29.0 million. Interest income (including unused commitment fees) on our loan to Valhi was $0.3 million for the three months ended March 31, 2017.

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 using the modified retrospective approach to adoption. Our sales generally involve single performance obligations to ship goods pursuant to customer purchase orders without further underlying contracts, and as such we expect adoption of this standard will have minimal effect on our revenues. We are in the process of evaluating the additional disclosure requirements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is a comprehensive rewriting of the lease accounting guidance which aims to increase comparability and transparency with regard to lease transactions. The primary change will be the recognition of lease assets for the right-of–use of the underlying asset and lease liabilities for the obligation to make payments by lessees on the balance sheet for leases currently classified as operating leases. The ASU also requires increased qualitative disclosure about leases in addition to quantitative disclosures currently required. Companies are required to use a modified retrospective approach to adoption with a practical expedient which will allow companies to continue to account for existing leases under the prior guidance unless a lease is modified, other than the requirement to recognize the right-of-use asset and lease liability for all operating leases. The changes indicated above will be effective for us beginning in the first quarter of 2019, with early adoption permitted. We have not yet evaluated the effect this ASU will have on our Consolidated Financial Statements, but given the amount of our future minimum payments under non-cancellable operating leases at December 31, 2016 totaling $0.6 million, we do not expect the adoption of this standard to have a material effect on our Consolidated Balance Sheet.

In January 2017, the FASB issued ASU 2017-04, *Intangibles— Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*, which aims to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Previously, Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the new ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and a goodwill impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. In no circumstances would the loss recognized exceed the total amount of goodwill allocated to that reporting unit. The changes indicated above will be effective for us beginning in 2020 (our annual impairment tests are completed in the third quarter), with prospective application required, and early adoption is permitted. We do not believe the application of ASU 2017-04 will have a material effect on our Condensed Consolidated Financial Statements and we plan to early adopt this ASU beginning with our current year goodwill impairment tests.

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 non-marine 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 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

We reported operating income of $4.5 million in the first quarter of 2017 compared to $3.4 million in the same period of 2016. The increase in operating income from 2016 to 2017 primarily resulted from higher Security Products sales to existing government customers.

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 March 31,			
	2016	%	2017	%
	(Dollars in thousands)			
Net sales	$ 27,075	100.0%	**$ 29,948**	**100.0%**
Cost of goods sold	18,870	69.7%	**20,262**	**67.7%**
Gross profit	8,205	30.3%	**9,686**	**32.3%**
Operating costs and expenses	4,852	17.9%	**5,162**	**17.2%**
Operating income	$ 3,353	12.4%	**$ 4,524**	**15.1%**

Net sales. Net sales increased $2.9 million in the first quarter of 2017 compared to the same period of 2016, primarily due to higher Security Products sales volumes to existing government security customers, partially offset by a decrease in sales of security products to an original equipment manufacturer of recreational transportation products. Marine Components also contributed higher sales for the quarter. 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% in the first quarter of 2017 compared to the same period in 2016. As a result, gross profit as a percentage of sales increased over the same period. Gross profit dollars increased due to higher sales at Security Products. The increase in gross profit percentage is primarily due to manufacturing efficiencies facilitated by the higher production volumes at Security Products.

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 first quarter of 2017 were comparable to the same period in 2016.

Operating income. As a percentage of net sales, operating income for the first quarter of 2017 increased compared to the same period of 2016 and was primarily impacted by the factors impacting cost of goods sold, gross margin 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.

Segment Results

The key performance indicator for our segments is operating income.

	Three months ended March 31, 2016	Three months ended March 31, 2017	% Change
	(Dollars in thousands)		
Net sales:			
Security Products	$ 23,414	**$ 26,010**	11%
Marine Components	3,661	**3,938**	8%
Total net sales	$ 27,075	**$ 29,948**	11%
Gross profit:			
Security Products	$ 7,286	**$ 8,725**	20%
Marine Components	919	**961**	5%
Total gross profit	$ 8,205	**$ 9,686**	18%
Operating income:			
Security Products	$ 4,471	**$ 5,691**	27%
Marine Components	334	**371**	11%
Corporate operating expenses	(1,452)	**(1,538)**	-6%
Total operating income	$ 3,353	**$ 4,524**	35%
Gross profit margin:			
Security Products	31.1%	**33.5%**	
Marine Components	25.1%	**24.4%**	
Total gross profit margin	30.3%	**32.3%**	
Operating income margin:			
Security Products	19.1%	**21.9%**	
Marine Components	9.1%	**9.4%**	
Total operating income margin	12.4%	**15.1%**	

Security Products. Security Products net sales increased 11% in the first quarter of 2017 compared to the same period last year. The increase in sales is primarily due to approximately $3.1 million in higher sales volumes to existing government security customers, partially offset by a decrease of approximately $0.8 million in sales to a customer serving the recreational transportation market. Gross profit margin and operating income as a percentage of sales in 2017 increased compared to the same period in 2016 primarily due to manufacturing efficiencies facilitated by higher production volumes.

Marine Components. Marine Components net sales increased 8% in the first quarter of 2017 as compared to the same period last year, reflecting generally improved demand for products sold to various markets. Gross profit margin and operating income as a percentage of net sales in the first quarter of 2017 were comparable to the first quarter of 2016.

Outlook. First quarter sales reflect continued strong demand for our products, including high-security applications for our existing government customers, partially offset by lower sales to the transportation market, where a significant customer of the segment is currently experiencing weakened sales volumes. While we expect government security sales to moderate by midyear, with full-year 2017 government security volumes being lower than full-year 2016 volumes, and anticipate continued softness in transportation sales, our 2017 Security Products sales to other markets are expected to be at least comparable to the prior year. We continue to benefit from innovation and diversification in our product offerings to the recreational boat markets served by our growing Marine Components segment. As in prior periods, 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 markets we currently serve, to expand into new markets and to develop new product features in order to mitigate the impact of changes in demand as well as 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.

We generally report a net use of cash from operating activities in the first three months of each year due to seasonal changes in the level of our working capital. Our net cash used by operating activities for the first three months of 2017 decreased by $2.2 million as compared to the first three months of 2016. The decrease in net cash used is primarily due to the net effects of:

- The positive impact of higher operating income in 2017 of $1.2 million;
- The positive impact of lower net cash used by relative changes in our inventories, receivables, prepaids, payables and non-tax related accruals attributable to our operations of approximately $0.8 million in 2017; and
- The positive impact of higher interest income received of $0.3 million in 2017.

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, 2016 to March 31, 2017 varied by segment. Generally, we expect our average days sales outstanding to increase from December to March as the result of a seasonal increase in sales during the first quarter as compared to the fourth quarter. Overall, our March 31, 2017 days sales outstanding compared to December 31, 2016 is in line with our expectations. For comparative purposes, we have provided December 31, 2015 and March 31, 2016 numbers below.

Days Sales Outstanding:	December 31, 2015	March 31, 2016	December 31, 2016	March 31, 2017
Security Products	32 Days	41 Days	36 Days	39 Days
Marine Components	26 Days	36 Days	33 Days	39 Days
Consolidated CompX	31 Days	40 Days	36 Days	39 Days

As expected, our total average number of days in inventory decreased from December 31, 2016 to March 31, 2017 primarily as a result of the seasonal increase in sales during the first quarter 2017 as compared to the fourth quarter of 2016. 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, 2015 and March 31, 2016 numbers below.

Days in Inventory:	December 31, 2015	March 31, 2016	December 31, 2016	March 31, 2017
Security Products	70 Days	67 Days	73 Days	67 Days
Marine Components	120 Days	85 Days	122 Days	82 Days
Consolidated CompX	76 Days	70 Days	79 Days	69 Days

Investing activities. Our capital expenditures were $0.6 million in the first three months of 2017 compared to $1.2 million in the first three months of 2016. Capital expenditures for 2016 include approximately $0.9 million related to the expansion of our Grayslake facility which was completed in April 2016. In addition, we loaned a net $1.6 million to Valhi in the first three months of 2017 under the terms of our unsecured revolving demand promissory note entered into in August 2016 ($14.1 million of gross borrowings by Valhi and $12.5 million of gross repayments). See Note 8 to the Condensed Consolidated Financial Statements.

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 $30.1 million aggregate cash and cash equivalents at March 31, 2017 were held in the U.S.

Capital Expenditures. Firm purchase commitments for capital projects in process at March 31, 2017 totaled $0.8 million. Our 2017 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 2016 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 2016 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 three months of 2017 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2016 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 2016 Annual Report, and we refer you to Part I, Item 7A – "Quantitative and Qualitative Disclosure About Market Risk" in our 2016 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 March 31, 2017. 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 March 31, 2017 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 2016 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 three months of 2017.

ITEM 6. Exhibits.

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

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: May 5, 2017

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

Exhibit 31.1

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 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: May 5, 2017

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

Exhibit 31.2

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 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: May 5, 2017

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

Exhibit 32.1

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

In connection with the Quarterly Report of CompX International Inc. (the Company) on Form 10-Q for the period ending March 31, 2017 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: May 5, 2017

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.