

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2019

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

For the transition period from _____ to _____

Commission file number 1-13905

COMPX INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
Incorporation or organization)

57-0981653

(IRS Employer
Identification No.)

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

(Address of principal executive offices)

75240-2620

(Zip Code)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

Emerging growth company

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

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

As of October 24, 2019, the registrant had 12,443,057 shares of Class A common stock, \$.01 par value per share, outstanding.

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

	December 31, 2018	September 30, 2019 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,414	\$ 50,224
Accounts receivable, net	12,140	13,433
Inventories, net	17,102	18,826
Prepaid expenses and other	1,629	1,680
Total current assets	<u>76,285</u>	<u>84,163</u>
Other assets:		
Note receivable from affiliate	34,000	36,700
Goodwill	23,742	23,742
Other noncurrent	590	590
Total other assets	<u>58,332</u>	<u>61,032</u>
Property and equipment:		
Land	4,940	4,940
Buildings	22,835	22,856
Equipment	67,073	67,221
Construction in progress	603	963
	<u>95,451</u>	<u>95,980</u>
Less accumulated depreciation	<u>63,639</u>	<u>64,765</u>
Net property and equipment	<u>31,812</u>	<u>31,215</u>
Total assets	<u>\$ 166,429</u>	<u>\$ 176,410</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,504	\$ 12,314
Income taxes payable to affiliates	1,165	818
Total current liabilities	<u>13,669</u>	<u>13,132</u>
Noncurrent liabilities -		
Deferred income taxes	<u>3,198</u>	<u>3,443</u>
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	124	124
Additional paid-in capital	55,751	55,869
Retained earnings	93,687	103,842
Total stockholders' equity	<u>149,562</u>	<u>159,835</u>
Total liabilities and stockholders' equity	<u>\$ 166,429</u>	<u>\$ 176,410</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,	
	2018	2019	2018	2019
	(unaudited)		(unaudited)	
Net sales	\$ 30,029	\$ 29,703	\$ 90,827	\$ 94,610
Cost of sales	20,435	20,227	60,494	64,571
Gross margin	9,594	9,476	30,333	30,039
Selling, general and administrative expense	5,074	5,210	15,454	15,860
Operating income	4,520	4,266	14,879	14,179
Interest income	697	848	1,908	2,512
Income before taxes	5,217	5,114	16,787	16,691
Provision for income taxes	1,286	1,227	4,132	3,923
Net income	\$ 3,931	\$ 3,887	\$ 12,655	\$ 12,768
Basic and diluted net income per common share	\$ 0.32	\$ 0.31	\$ 1.02	\$ 1.03
Basic and diluted weighted average shares outstanding	12,436	12,443	12,431	12,439

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(unaudited)

For the three and nine months ended September 30, 2018

	Common stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Class A	Class B			
Balance at December 31, 2017	\$ 24	\$ 100	\$ 55,612	\$ 80,849	\$ 136,585
Net income	—	—	—	3,726	3,726
Cash dividends (\$0.05 per share)	—	—	—	(621)	(621)
Balance at March 31, 2018	24	100	55,612	83,954	139,690
Net income	—	—	—	4,997	4,997
Issuance of common stock	—	—	139	—	139
Cash dividends (\$0.05 per share)	—	—	—	(622)	(622)
Balance at June 30, 2018	24	100	55,751	88,329	144,204
Net income	—	—	—	3,931	3,931
Share conversion	100	(100)	—	—	—
Cash dividends (\$0.05 per share)	—	—	—	(621)	(621)
Balance at September 30, 2018	\$ 124	\$ —	\$ 55,751	\$ 91,639	\$ 147,514

For the three and nine months ended September 30, 2019

	Class A common stock	Additional paid-in capital	Retained earnings	Total stockholders' equity
	Balance at December 31, 2018	\$ 124	\$ 55,751	\$ 93,687
Net income	—	—	3,986	3,986
Cash dividends (\$0.07 per share)	—	—	(870)	(870)
Balance at March 31, 2019	124	55,751	96,803	152,678
Net income	—	—	4,895	4,895
Issuance of common stock	—	118	—	118
Cash dividends (\$0.07 per share)	—	—	(872)	(872)
Balance at June 30, 2019	124	55,869	100,826	156,819
Net income	—	—	3,887	3,887
Cash dividends (\$0.07 per share)	—	—	(871)	(871)
Balance at September 30, 2019	\$ 124	\$ 55,869	\$ 103,842	\$ 159,835

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended	
	September 30,	
	2018	2019
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 12,655	\$ 12,768
Depreciation and amortization	2,588	2,738
Deferred income taxes	181	245
Other, net	316	428
Change in assets and liabilities:		
Accounts receivable, net	(2,910)	(1,308)
Inventories, net	(1,935)	(1,888)
Accounts payable and accrued liabilities	1,211	(130)
Accounts with affiliates	718	(432)
Prepays and other, net	(29)	34
Net cash provided by operating activities	<u>12,795</u>	<u>12,455</u>
Cash flows from investing activities:		
Capital expenditures	(2,042)	(2,453)
Proceeds from sale of fixed assets, net	-	121
Note receivable from affiliate:		
Collections	44,200	25,400
Advances	(39,000)	(28,100)
Net cash provided by (used in) investing activities	<u>3,158</u>	<u>(5,032)</u>
Cash flows from financing activities -		
Dividends paid	(1,865)	(2,613)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	14,088	4,810
Balance at beginning of period	29,655	45,414
Balance at end of period	<u>\$ 43,743</u>	<u>\$ 50,224</u>
Supplemental disclosures -		
Cash paid for income taxes	\$ 3,233	\$ 4,020

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019

(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE American: CIX) are 86% owned by NL Industries, Inc. (NYSE: NL) at September 30, 2019. We manufacture and sell component products (security products and recreational marine components). At September 30, 2019, Valhi, Inc. (NYSE: VHI) owns 83% of NL's outstanding common stock and a wholly-owned subsidiary of Contran Corporation owns 92% of Valhi's outstanding common stock. At September 30, 2019, a majority of Contran's outstanding voting stock is held directly by Lisa K. Simmons and Serena Simmons Connelly and various family trusts established for the benefit of Ms. Simmons and Ms. Connelly and their children and for which Ms. Simmons or Ms. Connelly, as applicable, serves as trustee. In addition, each of Ms. Simmons and Ms. Connelly serves as co-chair of the Contran board of directors. The remainder of Contran's outstanding voting stock is held by another trust (the "Family Trust"), which was established for the benefit of Ms. Simmons and Ms. Connelly and their children and for which a third-party financial institution serves as trustee. Consequently, at September 30, 2019, Ms. Simmons, Ms. Connelly and the Family Trust may be deemed to control Contran, and therefore may be deemed to indirectly control the wholly-owned subsidiary of Contran, Valhi, NL and us.

Basis of presentation. Consolidated in this Quarterly Report are the results of CompX International Inc. and its subsidiaries. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 that we filed with the Securities and Exchange Commission ("SEC") on February 27, 2019 (the "2018 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, 2018 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, 2018) 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, 2019 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 2018 Consolidated Financial Statements contained in our 2018 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, 2018, December 31, 2018 and September 30, 2019. The actual dates of our annual and quarterly periods are September 30, 2018, December 30, 2018 and September 29, 2019, 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		Nine months ended	
	September 30,		September 30,	
	2018	2019	2018	2019
	(In thousands)		(In thousands)	
Net sales:				
Security Products	\$ 24,541	\$ 23,405	\$ 75,845	\$ 75,036
Marine Components	5,488	6,298	14,982	19,574
Total net sales	<u>\$ 30,029</u>	<u>\$ 29,703</u>	<u>\$ 90,827</u>	<u>\$ 94,610</u>
Operating income (loss):				
Security Products	\$ 5,335	\$ 4,866	\$ 17,761	\$ 15,990
Marine Components	812	1,042	2,335	3,223
Corporate operating expenses	(1,627)	(1,642)	(5,217)	(5,034)
Total operating income	4,520	4,266	14,879	14,179
Interest income	697	848	1,908	2,512
Income before taxes	<u>\$ 5,217</u>	<u>\$ 5,114</u>	<u>\$ 16,787</u>	<u>\$ 16,691</u>

Intersegment sales are not material.

Note 3 – Accounts receivable, net:

	December 31,	September 30,
	2018	2019
	(In thousands)	
Accounts receivable, net:		
Security Products	\$ 10,596	\$ 11,239
Marine Components	1,614	2,264
Allowance for doubtful accounts	(70)	(70)
Total accounts receivable, net	<u>\$ 12,140</u>	<u>\$ 13,433</u>

Note 4 – Inventories, net:

	December 31,	September 30,
	2018	2019
	(In thousands)	
Raw materials:		
Security Products	\$ 2,001	\$ 2,505
Marine Components	660	808
Total raw materials	<u>2,661</u>	<u>3,313</u>
Work-in-process:		
Security Products	9,018	9,258
Marine Components	2,112	2,694
Total work-in-process	<u>11,130</u>	<u>11,952</u>
Finished goods:		
Security Products	2,363	2,603
Marine Components	948	958
Total finished goods	<u>3,311</u>	<u>3,561</u>
Total inventories, net	<u>\$ 17,102</u>	<u>\$ 18,826</u>

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2018	September 30, 2019
(In thousands)		
Accounts payable:		
Security Products	\$ 2,708	\$ 2,705
Marine Components	527	793
Accrued liabilities:		
Employee benefits	8,068	7,084
Customer tooling	334	312
Taxes other than on income	328	667
Other	539	753
Total accounts payable and accrued liabilities	\$ 12,504	\$ 12,314

Note 6 – Provision for income taxes:

	Nine months ended September 30,	
	2018	2019
(In thousands)		
Expected tax expense, at the U.S. federal statutory income tax rate of 21%	\$ 3,525	\$ 3,505
State income taxes	576	588
FDII benefit	—	(170)
Other, net	31	—
Total income tax expense	\$ 4,132	\$ 3,923

Under the 2017 Tax Act enacted into law on December 22, 2017, beginning in 2018, domestic corporations who are U.S. exporters with no foreign operations may be eligible for a deduction under the foreign derived intangible income provisions. We qualify for this deduction and recognized a current cash tax benefit of \$170,000 in the first nine months of 2019 (\$98,000 of such current cash tax benefit is related to 2018).

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, 2018		September 30, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
(In thousands)				
Cash and cash equivalents	\$ 45,414	\$ 45,414	\$ 50,224	\$ 50,224
Accounts receivable, net	12,140	12,140	13,433	13,433
Accounts payable	3,235	3,235	3,498	3,498

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

Note 8 – Related party transactions:

From time to time, we may have loans and advances outstanding between us and various related parties pursuant to term and demand notes. We generally enter into these loans and advances for cash management purposes. When we loan funds to related parties, we are generally able to earn a higher rate of return on the loan than we would earn if we invested the funds in other instruments, and when we borrow from related parties, we are generally able to pay a lower rate of interest than we would pay if we had incurred third-party indebtedness. While certain of these loans to affiliates may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe we have considered the credit risks in the terms of the applicable loans. In this regard, we have an unsecured revolving demand promissory note with Valhi whereby we agreed to loan Valhi up to \$40 million. Our

loan to Valhi, as amended, bears interest at prime plus 1.00%, (6.0% at September 30, 2019) payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2020. Loans made to Valhi at any time under the agreement are at our discretion. At September 30, 2019, the outstanding principal balance receivable from Valhi under the promissory note was \$36.7 million. Interest income (including unused commitment fees) on our loan to Valhi was \$0.5 million and \$0.6 million for each of the three month periods ended September 30, 2018 and 2019, respectively, and \$1.6 million and \$1.9 million for the nine months ended September 30, 2018 and 2019, respectively. On September 30, 2019 (one day after our fiscal quarterly period, but on the last day of the fiscal period for Valhi), we loaned \$3.3 million to Valhi, increasing the outstanding principal balance receivable from Valhi under the promissory note to \$40.0 million.

Note 9 – Recent accounting pronouncements:

Adopted

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)*, which was a comprehensive rewriting of the lease accounting guidance which aimed to increase comparability and transparency with regard to lease transactions. The primary change for leases currently classified as operating leases is the balance sheet recognition of a lease asset for the right to use the underlying asset and a lease liability for the lessee's obligation to make payments. Due to our minimal utilization of lease financing, the adoption of this standard did not have a material effect on our consolidated financial statements.

Business Overview

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

General

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

- Future demand for our products,
- Changes in our raw material and other operating costs (such as zinc, brass, 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,
- Our ability to protect or defend our intellectual property rights,
- Potential difficulties in integrating future acquisitions,
- Decisions to sell operating assets other than in the ordinary course of business,
- Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters, including future tax reform,
- The impact of current or future government regulations (including employee healthcare benefit related regulations),
- General global economic and political conditions that 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 if the consequences worsen, or if the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

Operating Income Overview

Operating income of \$4.3 million in the third quarter of 2019 declined slightly from \$4.5 million in the same period of 2018. Operating income for the first nine months of 2019 declined to \$14.2 million compared to \$14.9 million for the comparable period in 2018. The decrease in operating income in both periods of 2019 compared to the same periods in 2018 is primarily due to lower Security Products sales volumes and increased labor rates and associated payroll costs at our Security Products segment, partially offset by the effect of higher sales volumes at our Marine Components segment.

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

Results of Operations

	Three months ended September 30,			
	2018	%	2019	%
	(Dollars in thousands)			
Net sales	\$ 30,029	100.0%	\$ 29,703	100.0%
Cost of sales	20,435	68.1%	20,227	68.1%
Gross margin	9,594	31.9%	9,476	31.9%
Operating costs and expenses	5,074	16.8%	5,210	17.5%
Operating income	\$ 4,520	15.1%	\$ 4,266	14.4%

	Nine months ended September 30,			
	2018	%	2019	%
	(Dollars in thousands)			
Net sales	\$ 90,827	100.0%	\$ 94,610	100.0%
Cost of sales	60,494	66.6%	64,571	68.2%
Gross margin	30,333	33.4%	30,039	31.8%
Operating costs and expenses	15,454	17.0%	15,860	16.8%
Operating income	\$ 14,879	16.4%	\$ 14,179	15.0%

Net sales. Net sales decreased \$0.3 million in the third quarter of 2019 compared to the same period in 2018 as higher Marine Components sales to the towboat market were more than offset by lower Security Products sales across a variety of markets. Net sales increased \$3.8 million in the first nine months of 2019 compared to the same period in 2018 due to strong sales growth at Marine Components partially offset by lower Security Products sales predominantly in the third quarter. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of sales and gross margin. As a percentage of net sales, cost of sales and gross margin for the third quarter of 2019 were comparable to the same period in 2018 as the improvement in the Marine Components gross margin percentage in the third quarter of 2019 compared to the third quarter 2018 offset the decline in relative contribution of Security Products which generally has higher gross margin percentages than Marine Components. Cost of sales as a percentage of net sales increased in the first nine months of 2019 compared to the same period in 2018. As a result, gross margin as a percentage of sales decreased over the same period. The decrease in gross margin percentage is the result of the decline in Security Products gross margin percentage for the first nine months of 2019 as compared to the same period in 2018.

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 2019 increased compared to the same period in 2018 largely due to increased administration costs at Marine Components.

Operating income. As a percentage of net sales, operating income for the third quarter and first nine months of 2019 decreased compared to the same periods of 2018 and was primarily impacted by the factors impacting cost of sales, 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 and applicable state taxes.

Segment Results

The key performance indicator for our segments is operating income.

	Three months ended			% Change	Nine months ended		
	September 30,				September 30,		
	2018	2019			2018	2019	
	(Dollars in thousands)				(Dollars in thousands)		
Net sales:							
Security Products	\$ 24,541	\$ 23,405		-5%	\$ 75,845	\$ 75,036	-1%
Marine Components	5,488	6,298		15%	14,982	19,574	31%
Total net sales	\$ 30,029	\$ 29,703		-1%	\$ 90,827	\$ 94,610	4%
Gross margin:							
Security Products	\$ 8,113	\$ 7,668		-5%	\$ 26,082	\$ 24,566	-6%
Marine Components	1,481	1,808		22%	4,251	5,473	29%
Total gross margin	\$ 9,594	\$ 9,476		-1%	\$ 30,333	\$ 30,039	-1%
Operating income:							
Security Products	\$ 5,335	\$ 4,866		-9%	\$ 17,761	\$ 15,990	-10%
Marine Components	812	1,042		28%	2,335	3,223	38%
Corporate operating expenses	(1,627)	(1,642)		-1%	(5,217)	(5,034)	4%
Total operating income	\$ 4,520	\$ 4,266		-6%	\$ 14,879	\$ 14,179	-5%
Gross margin:							
Security Products	33.1%	32.8%			34.4%	32.7%	
Marine Components	27.0%	28.7%			28.4%	28.0%	
Total gross margin	31.9%	31.9%			33.4%	31.8%	
Operating income:							
Security Products	21.7%	20.8%			23.4%	21.3%	
Marine Components	14.8%	16.5%			15.6%	16.5%	
Total operating income	15.1%	14.4%			16.4%	15.0%	

Security Products. Security Products net sales decreased 5% in the third quarter of 2019 compared to the same period in 2018 due to lower sales across a variety of markets including a \$0.5 million decrease in each of the transportation and government security markets. Security Products net sales for the first nine months of 2019 was comparable to the same period last year. Gross margin and operating income as a percentage of net sales for the third quarter and for the first nine months of 2019 declined as compared to the same periods last year primarily due to increased labor rates and associated payroll costs resulting from regional pressure on wages for certain skilled labor positions as well as reduced leverage of fixed costs on decreased production volumes.

Marine Components. Marine Components net sales increased 15% and 31% in the third quarter and first nine months of 2019, respectively, as compared to the same periods last year. The increase in sales is primarily due to increased sales to the towboat market, primarily wake enhancement systems and surf pipes to an original equipment boat manufacturer. As a percentage of net sales, gross margin and operating income increased in the third quarter of 2019 compared to the same period in 2018 due to improved fixed cost leverage facilitated by higher production volumes. Gross margin percentage for the first nine months of 2019 is comparable to the same period last year as improved cost leverage on higher production volumes was offset by less favorable customer and product mix, predominantly in the first half of the year. Operating income as a percentage of net sales increased in the third quarter and first nine months of 2019 compared to the same periods in the prior year due to improved fixed cost leverage facilitated by higher production volumes somewhat offset in both periods by increased administrative costs to support higher sustained sales volumes.

Outlook. As reflected in the operating results, our Security Products segment encountered generally weakening economic conditions among its customers and markets during the latter half of the third quarter. As expected, the rate of sales growth for Marine Components began to moderate in the third quarter relative to the same period in 2018, the quarter in which we significantly increased our deliveries of wake enhancement systems. Nevertheless, absent further economic slowdown, we believe full year sales will exceed 2018. Operating income and operating margin for the Security Products segment decreased for the first nine months of

2019 relative to prior year due to higher labor rates and associated payroll costs, the effect of which we were not able to offset through higher selling prices. Although we have experienced minimal direct impact from recently enacted tariffs, we believe that tariffs and related global trade concerns may be impacting our significant original equipment manufacturer customers. We will continue to monitor economic conditions and sales order rates and respond to fluctuations in customer demand through continuous evaluation of staffing levels and discretionary spending as well as 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.

Net cash provided by operating activities for the first nine months of 2019 decreased by \$0.3 million as compared to the first nine months of 2018. The decrease is primarily due to the net effects of:

- A \$0.7 million decrease in operating income in 2019,
- A \$0.5 million increase in interest received in 2019 (net of accrued interest at December 31, 2018 and September 30, 2019, respectively),
- A \$0.8 million increase in cash paid for taxes in 2019 due to the relative timing of payments, and
- A lower amount of net cash used by relative changes in inventories, receivables, payables and non-tax accruals of \$0.4 million.

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, 2018 to September 30, 2019 varied by segment, primarily as a result of relative changes in the timing of collections. For comparative purposes, we have provided December 31, 2017 and September 30, 2018 numbers below.

<u>Days Sales Outstanding:</u>	<u>December 31, 2017</u>	<u>September 30, 2018</u>	<u>December 31, 2018</u>	<u>September 30, 2019</u>
Security Products	39 Days	40 Days	43 Days	44 Days
Marine Components	31 Days	42 Days	30 Days	32 Days
Consolidated CompX	38 Days	40 Days	40 Days	41 Days

Our total average number of days in inventory increased from December 31, 2018 to September 30, 2019 due to increased inventory at Security Products primarily due to the timing of raw material purchases and an intentional raw material inventory build related to product lines in which certain components require long lead-times. The variability in days in inventory among our segments relates to the differences in the average length of time it takes to produce and sell end-products. Generally, we expect Security Products inventory to turn faster than Marine Components. For comparative purposes, we have provided December 31, 2017 and September 30, 2018 numbers below.

<u>Days in Inventory:</u>	<u>December 31, 2017</u>	<u>September 30, 2018</u>	<u>December 31, 2018</u>	<u>September 30, 2019</u>
Security Products	76 Days	74 Days	77 Days	83 Days
Marine Components	96 Days	86 Days	91 Days	90 Days
Consolidated CompX	79 Days	76 Days	80 Days	85 Days

Investing activities. Our capital expenditures were \$2.5 million in the first nine months of 2019 compared to \$2.0 million in the first nine months of 2018. During the first nine months of 2019, Valhi borrowed a net \$2.7 million under the promissory note (\$28.1 million of gross borrowings and \$25.4 million of gross repayments). During the first nine months of 2018, Valhi repaid a net \$5.2 million under the promissory note (\$39.0 million of gross borrowings and \$44.2 million of gross repayments). See Note 8 to the Condensed Consolidated Financial Statements.

Financing activities. Financing activities consisted only of quarterly cash dividends. In February 2019, our board of directors increased our regular quarterly dividend from \$.05 per share to \$.07 per share beginning in the first quarter of 2019. The declaration and payment of future dividends and the amount thereof, if any, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual requirements and restrictions and other factors deemed relevant

by our board of directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which we might pay.

Future cash requirements –

Liquidity. Our primary source of liquidity on an 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 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 \$50.2 million aggregate cash and cash equivalents at September 30, 2019 were held in the U.S.

Capital Expenditures. Firm purchase commitments for capital projects in process at September 30, 2019 totaled \$0.6 million. Our 2019 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 2018 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 2018 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 2019 with respect to our critical accounting policies presented in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2018 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 2018 Annual Report, and we refer you to Part I, Item 7A – “Quantitative and Qualitative Disclosure About Market Risk” in our 2018 Annual Report. See also Note 7 to the Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures which, as defined in Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the “Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and

procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Our management with the participation of Scott C. James, our President and Chief Executive Officer, and Amy A. Samford, our Vice President and Chief Financial Officer, has evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2019. 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, 2019 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 2018 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 2019.

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

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: October 30, 2019

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

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

CERTIFICATION

I, Scott C. James, certify that:

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

Date: October 30, 2019

By: /s/ Scott C. James

Scott C. James

President and Chief Executive Officer

CERTIFICATION

I, Amy A. Samford, certify that:

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

Date: October 30, 2019

By: /s/ Amy A. Samford

Amy A. Samford
Vice President and Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of CompX International Inc. (the Company) on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Scott C. James, President and Chief Executive Officer of the Company and I, Amy A. Samford, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: October 30, 2019

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.