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

# FORM 10-K

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

**For the fiscal year ended December 31, 2022**

**OR**

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

**For the transition period from ___ to ____**

**Commission file number 1-13905**

# COMPX INTERNATIONAL INC.
**(Exact name of Registrant as specified in its charter)**

| Delaware | 57-0981653 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**5430 LBJ Freeway, Suite 1700**
**Dallas, Texas 75240-2620**
**(Address of principal executive offices)**
**Registrant's telephone number, including area code: (972) 448-1400**

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

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

**No securities registered pursuant to Section 12(g) of the Act.**

Indicate by check mark:

If the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☐

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 registration was required to submit such files). Yes ☒ No ☐

Whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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. ☐

Whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the 1.6 million shares of voting stock held by nonaffiliates of CompX International Inc. as of June 30, 2022 (the last business day of the Registrant's most recently completed second fiscal quarter) approximated $36.0 million.

As of February 21, 2023, registrant had 12,307,157 shares of Class A common stock, $.01 par value per share, outstanding.

**Documents incorporated by reference**

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

# PART I

## ITEM 1. BUSINESS

### General

CompX International Inc. (NYSE American: CIX), incorporated in Delaware in 1993, is a leading manufacturer of security products used in the postal, recreational transportation, office and institutional furniture, cabinetry, tool storage, healthcare and a variety of other industries. We are also a leading manufacturer of wake enhancement systems, stainless steel exhaust systems, gauges, throttle controls and trim tabs for the recreational marine industry. Our products are principally designed for use in medium to high-end product applications where design, quality and durability are valued by our customers.

At December 31, 2022, NL Industries, Inc. (NYSE: NL) owns approximately 87% of our outstanding common stock, Valhi, Inc. (NYSE: VHI) owns approximately 83% of NL's outstanding common stock and a subsidiary of Contran Corporation owns approximately 92% of Valhi's outstanding common stock. As discussed in Note 1 to our Consolidated Financial Statements, a majority of Contran's outstanding voting stock is held directly by Lisa K. Simmons and various family trusts established for the benefit of Ms. Simmons, Thomas C. Connelly (the husband of Ms. Simmons' late sister) and their children and for which Ms. Simmons or Mr. Connelly, as applicable, serve as trustee (collectively, the "Other Trusts"). With respect to the Other Trusts for which Mr. Connelly serves as trustee, he is required to vote the shares of Contran voting stock held in such trusts in the same manner as Ms. Simmons. Such voting rights of Ms. Simmons last through April 22, 2030 and are personal to Ms. Simmons. The remainder of Contran's outstanding voting stock is held by another trust (the "Family Trust"), which was established for the benefit of Ms. Simmons and her late sister and their children and for which a third-party financial institution serves as trustee. Consequently, at December 31, 2022, Ms. Simmons and the Family Trust may be deemed to control Contran, and therefore may be deemed to indirectly control the wholly-owned subsidiary of Contran, Valhi, NL and us.

Our corporate offices are located at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240. Our telephone number is (972) 448-1400. We maintain a website at www.compxinternational.com.

Unless otherwise indicated, references in this report to "we," "us," or "our" refer to CompX International Inc. and its subsidiaries taken as a whole.

### Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Annual 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 Annual Report and those described from time to time in our other filings with the U.S. Securities and Exchange Commission (the "SEC") and include, but are not limited to, the following:

- Future demand for our products,
- Changes in our raw material and other operating costs (such as zinc, brass, aluminum, steel and energy costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs,
- Price and product competition from low-cost manufacturing sources (such as China),
- The impact of pricing and production decisions,
- Customer and competitor strategies including substitute products,
- Uncertainties associated with the development of new products and product features,

- Future litigation,
- Our ability to protect or defend our intellectual property rights,
- Potential difficulties in integrating future acquisitions,
- Decisions to sell operating assets other than in the ordinary course of business,
- Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters, including future tax reform,
- Government laws and regulations and possible changes therein including new environmental health and safety or other regulations,
- General global economic and political conditions that disrupt or introduce instability into our supply chain, impact our customers' level of demand or our customers' perception regarding demand or impair our ability to operate our facilities (including changes in the level of gross domestic product in various regions of the world, natural disasters, terrorist acts, global conflicts and public health crises such as COVID-19),
- Operating interruptions (including, but not limited to labor disputes, hazardous chemical leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime, transportation interruptions, cyber-attacks and public health crises such as COVID-19); and
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts.

Should one or more of these risks materialize or if the consequences worsen, or if the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

**Industry Overview**

We manufacture engineered components utilized in a variety of applications and industries. We manufacture mechanical and electrical cabinet locks and other locking mechanisms used in postal, recreational transportation, office and institutional furniture, cabinetry, tool storage and healthcare applications. We also manufacture wake enhancement systems, stainless steel exhaust systems, gauges, throttle controls, trim tabs and related hardware and accessories for the recreational marine and other industries. We continuously seek to diversify into new markets and identify new applications and features for our products, which we believe provide a greater potential for higher rates of earnings growth as well as diversification of risk. See also Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Business Segments**

We have two operating business segments – Security Products and Marine Components. For additional information regarding our segments, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 to the Consolidated Financial Statements.

***Manufacturing, Operations and Products***

*Security Products*. Our Security Products segment manufactures mechanical and electrical cabinet locks and other locking mechanisms used in a variety of applications including mailboxes, ignition systems, file cabinets, desk drawers, tool storage cabinets, high security medical cabinetry, integrated inventory and access control secured narcotics boxes, electronic circuit panels, storage compartments, gas station security, vending and cash containment machines. Our Security Products segment has one manufacturing facility in Mauldin, South Carolina and one in Grayslake, Illinois which is shared with Marine Components. We believe we are a North American market leader in the manufacture and sale of cabinet locks and other locking mechanisms. These products include:

- disc tumbler locks which provide moderate security and generally represent the lowest cost lock we produce;

- pin tumbler locking mechanisms which are more costly to produce and are used in applications requiring higher levels of security, including *KeSet*® and *System 64*® (which each allow the user to change the keying on a single lock 64 times without removing the lock from its enclosure), *TuBar*® and *Turbine*™; and
- our innovative *CompX eLock*® and *StealthLock*® electronic locks which provide stand-alone or networked security and audit trail capability for drug storage and other valuables through the use of a proximity card, magnetic stripe, radio frequency or other keypad credential.

A substantial portion of our Security Products' sales consist of products with specialized adaptations to an individual customer's specifications, some of which are listed above. We also have a standardized product line suitable for many customers, which is offered through a North American distribution network to locksmith and smaller original equipment manufacturer distributors via our *STOCK LOCKS*® distribution program.

*Marine Components*. Our Marine Components segment manufactures and distributes wake enhancement systems, stainless steel exhaust components, gauges, throttle controls, trim tabs and related hardware and accessories primarily for ski/wakeboard boats (tow boats) and performance boats. Our Marine Components segment has a facility in Neenah, Wisconsin and a facility in Grayslake, Illinois which is shared with Security Products. Our specialty Marine Component products are high precision components designed to operate within tight tolerances in the highly demanding marine environment. These products include:

- wake enhancement devices, trim tabs, steering wheels and billet aluminum accessories;
- original equipment and aftermarket stainless steel exhaust headers, exhaust pipes, mufflers and other exhaust components;
- high performance gauges such as GPS speedometers and tachometers;
- mechanical and electronic controls and throttles;
- dash panels, LED indicators, and wire harnesses; and
- grab handles, pin cleats and other accessories.

For information regarding our three principal manufacturing facilities, see "Item 2 – Properties."

***Raw Materials***

Our primary raw materials are:

- Security Products - zinc and brass (for the manufacture of locking mechanisms).
- Marine Components - stainless steel (for the manufacture of exhaust headers and pipes and wake enhancement systems), aluminum (for the manufacture of throttles and trim tabs) and other components.

These raw materials are purchased from several suppliers, are readily available from numerous sources and accounted for approximately 17% of our total cost of sales for 2022. Total material costs, including purchased components, represented approximately 47% of our cost of sales in 2022.

We occasionally enter into short-term commodity-related raw material supply arrangements to mitigate the impact of future price increases in commodity-related raw materials, including zinc, brass and stainless steel. These arrangements generally provide for stated unit prices based upon specified purchase volumes, which help us to stabilize our commodity-related raw material costs to a certain extent. At other times we may make spot market buys of larger quantities of raw materials to take advantage of favorable pricing or volume-based discounts. Prices for the primary commodity-related raw materials used in the manufacture of our locking mechanisms, primarily zinc and brass, generally increased throughout 2021 and the first half of 2022. Prices began to stabilize in the latter half of 2022, although at elevated levels. The prices for stainless steel, the primary raw material used for the manufacture of marine exhaust headers and pipes and wake enhancement systems, experienced significant volatility during 2021 and 2022. Based on current economic conditions, we expect the prices for zinc, brass, stainless steel and other manufacturing materials in 2023 to be relatively stable, although at the elevated levels we experienced in the second half of 2022. When purchased on the spot market, each of these raw materials may be subject to sudden and unanticipated price increases. When possible, we seek to mitigate the impact of fluctuations in these raw material costs on our margins through improvements in production efficiencies or other operating cost reductions. In the event we are unable to offset raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or raw material surcharges due to the competitive nature of the markets in which we compete. Consequently, overall operating margins can be affected by commodity-related raw material cost pressures. Commodity market prices are cyclical, reflecting overall economic trends, specific developments in consuming industries and speculative investor activities.

***Patents and Trademarks***

We hold a number of patents relating to our component products, certain of which we believe to be important to us and our continuing business activity. Patents generally have a term of 20 years, and our patents have remaining terms ranging from 1 year to 18 years at December 31, 2022.

Our major trademarks and brand names in addition to *CompX®* include:

| Security Products | Security Products | Marine Components |
|---|---|---|
| *CompX® Security Products™* | *Lockview®* | *CompX Marine®* |
| *National Cabinet Lock®* | *System 64®* | *Custom Marine®* |
| *Fort Lock®* | *SlamCAM®* | *Livorsi® Marine* |
| *Timberline® Lock* | *RegulatoR®* | *Livorsi II® Marine* |
| *Chicago Lock®* | *CompXpress®* | *CMI Industrial®* |
| *STOCK LOCKS®* | *GEM®* | *Custom Marine® Stainless Exhaust* |
| *KeSet®* | *Turbine™* | *The #1 Choice in Performance Boating®* |
| *TuBar®* | *NARC iD®* | *Mega Rim®* |
| *StealthLock®* | *NARC®* | *Race Rim®* |
| *ACE®* | *ecoForce®* | *Vantage View®* |
| *ACE® II* | *Pearl®* | *GEN-X®* |
| *CompX eLock®* | | |

***Sales, Marketing and Distribution***

A majority of our component sales are direct to large OEM customers through our factory-based sales and marketing professionals supported by engineers working in concert with field salespeople and independent manufacturer's representatives. We select manufacturer's representatives based on special skills in certain markets or relationships with current or potential customers.

In addition to sales to large OEM customers, a substantial portion of our Security Products sales are made through distributors. We have a significant North American market share of cabinet lock security product sales as a result of the locksmith distribution channel. We support our locksmith distributor sales with a line of standardized products used by the largest segments of the marketplace. These products are packaged and merchandised for easy availability and handling by distributors and end users.

We sell to a diverse customer base with only two customers representing 10% or more of our sales in 2022 (United States Postal Service representing 14% and Malibu Boats, LLC representing 12%). Our largest ten customers accounted for approximately 52% of our sales in 2022.

***Competition***

The markets in which we participate are highly competitive. We compete primarily on the basis of product design, including space utilization and aesthetic factors, product quality and durability, price, on-time delivery, service and technical support. We focus our efforts on the middle and high-end segments of the market, where product design, quality, durability and service are valued by the customer. Our Security Products segment competes against a number of domestic and foreign manufacturers. Our Marine Components segment competes with small domestic manufacturers and is minimally affected by foreign competitors.

***Environmental, Social and Governance ("ESG")***

We seek to operate our business in line with sound ESG principles that include corporate governance, social responsibility, sustainability and cybersecurity. We believe ESG means conducting operations with high standards of environmental and social responsibility, practicing exemplary ethical standards, focusing on safety as a top priority, respecting human rights and supporting our local communities, and continuously developing our employees. At our facilities, we undertake various environmental sustainability programs, and we promote social responsibility and volunteerism through programs designed to support and give back to the local communities in which we operate. Each of our locations maintains site-specific safety programs and disaster response and business continuity plans. All manufacturing facilities have detailed, site-specific emergency response procedures that we believe adequately address regulatory compliance, vulnerability to potential hazards, emergency response and action plans, employee training, alarms and warning systems and crisis communication.

At a corporate level, we engage in periodic reviews of our cybersecurity programs, including cybersecurity risk and threats. Our cybersecurity programs are built on operations and compliance foundations. Operations focus on continuous detection, prevention, measurement, analysis, and response to cybersecurity alerts and incidents and on emerging threats. Compliance establishes oversight of our cybersecurity programs by creating risk-based controls to protect the integrity, confidentiality, accessibility, and availability of company data stored, processed, or transferred. We periodically update our board of directors on our cyber-related risks and cybersecurity programs.

In an effort to align our non-employee directors' financial interests with those of our stockholders, our Board established share ownership guidelines for our non-management directors.

***Regulatory and Environmental Matters***

We have a history of incorporating environmental management and compliance in our operations and decision making. We operate three low-emission manufacturing facilities and our production processes requiring waste-water discharge are consolidated at our Mauldin, South Carolina facility. This facility has received a ReWa Gold Award multiple years for its exemplary performance from Renewable Water Resources, an organization which sets regulatory and water policies for the Mauldin facility's geographic region. In addition, we operate extensive scrap metal recycling programs to reduce landfill waste.

Our operations are subject to federal, state and local laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, discharge, disposal, remediation of and exposure to hazardous and non-hazardous substances, materials and wastes. Our operations also are subject to federal, state and local laws and regulations relating to worker health and safety. We believe we are in substantial compliance with all such laws and regulations. To date, the costs of maintaining compliance with such laws and regulations have not significantly impacted our results. We currently do not anticipate any significant costs or expenses relating to such matters; however, it is possible future laws and regulations may require us to incur significant additional expenditures.

***Human Capital Resources***

*Employees* – Our operating results depend in part on our ability to successfully manage our human capital resources, including attracting, identifying, and retaining key talent. We have a well-trained labor force with a substantial number of long-tenured employees. We provide competitive compensation and benefits to our employees. In addition to salaries, these programs can include annual bonuses, defined contribution plans with employer matching opportunities, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, family leave, family care resources, employee assistance programs, and tuition assistance.

As of December 31, 2022, we employed 609 people, all in the United States. We believe our labor relations are good.

*Health and Safety* – Protecting the health and safety of our workforce, our customers, our business partners and the natural environment is one of our core values. We are committed to maintaining a strong safety culture where all workers meet or exceed required industry performance standards and continuously seek to improve occupational and process safety performance. We are conducting our business in ways that provide all personnel with a safe and healthy work environment and have established safety and environmental programs and goals to achieve such results. We expect our manufacturing facilities to produce our products safely and in compliance with local regulations, policies, standards and practices intended to protect the environment and people, and we have established policies designed to promote such compliance. We require our employees to comply with such requirements. We provide our workers with the tools and training necessary to make the appropriate decisions to prevent accidents and injuries. Each of our operating facilities develops, maintains, and implements safety programs encompassing key aspects of their operations. In addition, management reviews and evaluates safety performance throughout the year. We monitor conditions that could lead to a safety incident and keep track of injuries through reporting systems in accordance with laws in the jurisdictions in which we operate. We track this data to assess the quality of our safety performance. We use lost time incidents as a key measure of worker safety. We define lost time incidents as work-related accidents where a worker sustains an injury that results in time away from work. We had lost time incidents of nil in 2020, one in 2021 and three in 2022.

*Diversity and Inclusion* – We recognize that everyone deserves respect and equal treatment. We embrace diversity and collaboration in our workforce and our business initiatives. We are an equal opportunity employer and we base employment decisions on merit, competence and qualifications, without regard to race, color, national origin, gender, age, religion, disability, sex, sexual orientation or other characteristics protected by applicable law in the jurisdictions in which we operate. We promote a respectful, diverse and inclusive workplace in which all individuals are treated with respect and dignity.

***Website and Available Information***

Our fiscal year end is always the Sunday closest to December 31, and our operations are reported on a 52 or 53-week fiscal year. For presentation purposes, annual information in this Form 10-K is presented as ended on December 31. The actual date of our fiscal years ended December 31, 2020, 2021 and 2022 are January 3, 2021, January 2, 2022, and January 1, 2023, respectively. Our fiscal year ending December 31, 2020 was a 53-week year. We furnish our stockholders with annual reports containing audited financial statements. In addition, we file annual, quarterly and current reports; proxy and information statements and other information with the SEC. We also make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all related amendments, available free of charge through our website at www.compxinternational.com as soon as reasonably practical after they have been filed with the SEC. We also provide to anyone, without charge, copies of the documents upon written request. Requests should be directed to the attention of the Corporate Secretary at our address on the cover page of this Form 10-K.

Additional information, including our Audit Committee Charter, our Code of Business Conduct and Ethics and our Corporate Governance Guidelines, can also be found on our website. Information contained on our website is not a part of this Annual Report.

We are an electronic filer. The SEC maintains an internet website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers, such as us, that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

Listed below are certain risk factors associated with us and our businesses. In addition to the potential effect of these risk factors discussed below, any risk factor which could result in reduced earnings, operating losses, or reduced liquidity, could in turn adversely affect our ability to service our liabilities or pay dividends on our common stock or adversely affect the quoted market prices for our securities.

### Operational Risk Factors

***We operate in mature and highly competitive markets, resulting in pricing pressure and the need to continuously reduce costs.***

Many of the markets we serve are highly competitive, with a number of competitors offering similar products. We focus our efforts on the middle and high-end segment of the market where we feel that we can compete due to the importance of product design, quality and durability to the customer. However, our ability to effectively compete is impacted by a number of factors. The occurrence of any of these factors could result in reduced earnings or operating losses.

- Competitors may be able to drive down prices for our products beyond our ability to adjust costs because their costs are lower than ours, especially products sourced from Asia.
- Competitors' financial, technological and other resources may be greater than our resources, which may enable them to more effectively withstand changes in market conditions.
- Competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements.
- A reduction of our market share with one or more of our key customers, or a reduction in one or more of our key customers' market share for their end-use products, may reduce demand for our products.
- New competitors could emerge by modifying their existing production facilities to manufacture products that compete with our products.
- We may not be able to sustain a cost structure that enables us to be competitive.
- Customers may no longer value our product design, quality or durability over the lower cost products of our competitors.

***Our development of innovative features for current products is critical to sustaining and growing our sales.***

Historically, our ability to provide value-added custom engineered products that address requirements of technology and space utilization has been a key element of our success. We spend a significant amount of time and effort to refine, improve and adapt our existing products for new customers and applications. Since expenditures for these types of activities are not considered research and development expense under accounting principles generally accepted in the United States of America ("GAAP"), the amount of our research and development expenditures, which is not significant, is not indicative of the overall effort involved in the development of new product features. The introduction of new product features requires the coordination of the design, manufacturing and marketing of the new product features with current and potential customers. The ability to coordinate these activities with current and potential customers may be affected by factors beyond our control. While we will continue to emphasize the introduction of innovative new product features that target customer-specific opportunities, we do not know if any new product features we introduce will achieve the same degree of success that we have achieved with our existing products. Introduction of new product features typically requires us to increase production volume on a timely basis while maintaining product quality. Manufacturers often encounter difficulties in increasing production volumes, including delays, quality control problems and shortages of qualified personnel or raw materials. As we attempt to introduce new product features in the future, we do not know if we will be able to increase production volumes without encountering these or other problems, which might negatively impact our financial condition or results of operations.

***Higher costs or limited availability of our raw materials could negatively impact our financial results.***

Certain raw materials used in our products are commodities that are subject to significant fluctuations in price in response to world-wide supply and demand as well as speculative investor activity. Zinc and brass are the principal raw materials used in the manufacture of security products. Stainless steel and aluminum are the major raw materials used in the manufacture of marine components. These raw materials are purchased from several suppliers and are generally readily available from numerous sources. We occasionally enter into short-term raw material supply arrangements to mitigate the impact of future increases in commodity-related raw material costs and ensure supply. Materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases.

Certain components used in our products are manufactured by foreign suppliers located in China and elsewhere. Global economic and political conditions, including natural disasters, terrorist acts, global conflicts and public health crises such as pandemics, could prevent our vendors from being able to supply these components. Should our vendors not be able to meet their supply obligations or should we be otherwise unable to obtain necessary raw materials or components, we may incur higher supply costs or may be required to reduce production levels, either of which may decrease our liquidity or negatively impact our financial condition or results of operations as we may be unable to offset the higher costs with increases in our selling prices or reductions in other operating costs.

## Legal, Compliance and Regulatory Risk Factors

***Failure to protect our intellectual property rights or claims by others that we infringe their intellectual property rights could substantially harm our business.***

We rely on patent, trademark and trade secret laws in the United States and similar laws in other countries to establish and maintain our intellectual property rights in our technology and designs. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated. Others may independently discover our trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Further, we do not know if any of our pending trademark or patent applications will be approved. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our intellectual property rights. In addition, the laws of certain countries do not protect intellectual property rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions, we may be unable to protect our technology and designs adequately against unauthorized third party use, which could adversely affect our competitive position.

Third parties may claim that we or our customers are infringing upon their intellectual property rights. Even if we believe that such claims are without merit, they can be time-consuming and costly to defend and distract our management's and technical staff's attention and resources. Claims of intellectual property infringement might also require us to redesign affected technology, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our technology. If we cannot or do not license the infringed technology on reasonable pricing terms or at all, or substitute similar technology from another source, our business could be adversely impacted.

***Climate change laws and regulations could negatively impact our financial results or limit our ability to operate our businesses.***

All of our production facilities are located in the United States and each requires energy, including electricity and natural gas in order to conduct operations. The U.S. government has determined that the consumption of energy derived from fossil fuels is a major contributor to climate change and is contemplating regulatory changes in response to the potential impact of climate change, including laws and regulations regarding carbon emission costs, Green House Gas ("GHG") emissions and renewable energy targets. To date, laws and regulatory actions related to climate change have not had a material adverse effect on our financial results. Until the timing, scope and extent of any new or future regulation becomes known, we cannot predict the effect on our business, results of operations or financial condition. However, if new laws or regulations or regulatory actions related to climate change were to be enacted or implemented, it could negatively impact our future results from operations through increased costs of production, particularly as it relates to our energy requirements. If such increased costs of production were to materialize, we may be unable to pass price increases on to our customers to compensate for increased production costs, which may decrease our liquidity, operating income and results of operations. In addition, any adopted future climate change laws and regulations could negatively impact our ability (or that of our customers and suppliers) to compete with companies situated in areas not subject to such limitations.

## General Risk Factors

***Technology failures or cybersecurity breaches could have a material adverse effect on our operations.***

We rely on information technology systems to manage, process and analyze data, as well as to facilitate the manufacture and distribution of our products to and from our plants. We receive, process and ship orders, manage the billing of and collections from our customers, and manage the accounting for and payment to our vendors. Although we have systems and procedures in place to protect our information technology systems, there can be no assurance that such systems and procedures will be sufficiently effective. Therefore, any of our information technology systems may be susceptible to outages, disruptions, or destruction from power outages, telecommunications failures, employee error, cybersecurity breaches or attacks, and other similar events. This could result in a disruption of our business operations, injury to people, harm to the environment or our assets, and/or the inability to access our information technology systems and could adversely affect our results of operations and financial condition. We have in the past experienced, and we expect to continue to experience, cyber-attacks, including phishing, and other attempts to breach, or gain unauthorized access to our systems. To date we have not suffered breaches in our systems, either directly or through a trusted third-party vendor, which have led to material losses. Due to the increase in global cybersecurity incidents it has become increasingly difficult to obtain insurance coverage on reasonable pricing terms to mitigate some risks associated with technology failures or cybersecurity breaches, and we are experiencing such difficulties in obtaining insurance coverage.

***Physical impacts of climate change could have a material adverse effect on our costs and operations.***

Climate change may increase both the frequency and severity of extreme weather conditions and natural disasters such as hurricanes, thunderstorms, tornadoes, drought and snow or ice storms. Extreme weather conditions may increase our costs or cause damage to our facilities, and any damage resulting from extreme weather may not be fully insured. Furthermore, periods of extended inclement weather may inhibit our facility operations and delay or hinder shipments of our products to customers. Any such events could have a material adverse effect on our costs or results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal executive offices are located in leased space at 5430 LBJ Freeway, Dallas, Texas 75240. The following table sets forth the location, size and business operating segment for each of our principal operating facilities.

| Facility Name | Business Segment | Location | Size (square feet) |
|---|---|---|---|
| Owned Facilities: | | | |
| National [1] | SP | Mauldin, SC | 198,000 |
| Grayslake[1] | SP/MC | Grayslake, IL | 133,000 |
| Custom[1] | MC | Neenah, WI | 95,000 |

SP – Security Products business segment
MC – Marine Components business segment
(1) ISO-9001 registered facilities

We believe all of our facilities are well maintained and satisfactory for their intended purposes.

**ITEM 3. LEGAL PROCEEDINGS**

We are involved, from time to time, in various environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our business. See Note 11 to our Consolidated Financial Statements. We currently believe the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

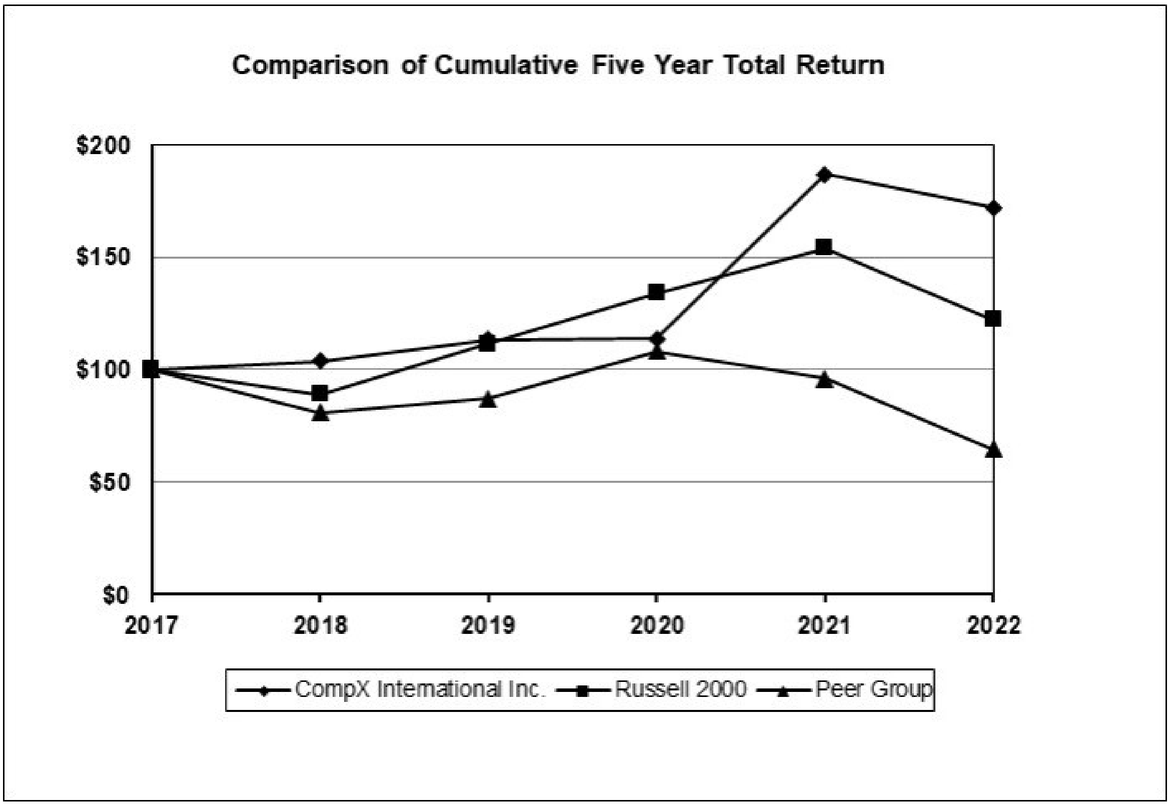
## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

***Common Stock and Dividends.*** Our Class A common stock is listed and traded on the NYSE American (symbol: CIX). As of February 21, 2023, there were approximately 16 holders of record of CompX Class A common stock.

***Performance Graph***. Set forth below is a line graph comparing the yearly change in our cumulative total stockholder returns on our Class A common stock against the cumulative total return of the Russell 2000 Index and an index of a self-selected peer group of companies for the period from December 31, 2017 through December 31, 2022. The peer group index is comprised of The Eastern Company and Strattec Security Corporation. The graph shows the value at December 31 of each year assuming an original investment of $100 at December 31, 2017 and reinvestment of dividends.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| **CompX International Inc.** | $ 100 | $ 104 | $ 113 | $ 114 | $ 187 | $ 172 |
| **Russell 2000 Index** | 100 | 89 | 112 | 134 | 154 | 122 |
| **Peer Group** | 100 | 81 | 87 | 108 | 96 | 65 |




The information contained in the performance graph shall not be deemed "soliciting material" or "filed" with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act, except to the extent we specifically request that the material be treated as soliciting material or specifically incorporate this performance graph by reference into a document filed under the Securities Act or the Securities Exchange Act.

***Equity compensation plan information.*** We have a share based incentive compensation plan, approved by our stockholders, pursuant to which an aggregate of 200,000 shares of our Class A common stock can be awarded to non-employee members of our board of directors. At December 31, 2022, 131,050 shares are available for award under this plan. See Note 9 to the Consolidated Financial Statements.

## ITEM 6. RESERVED

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Business Overview**

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

**Operating Income Overview**

We reported operating income of $25.4 million in 2022 compared to operating income of $20.5 million in 2021 and $11.8 million in 2020. The increase in operating income in 2022 over 2021 is primarily due to higher Marine Components sales and to a lesser extent higher Security Products sales. Our operating income was negatively impacted by the COVID-19 pandemic in 2020, primarily in the second and third quarters, which significantly impacts operating income comparisons for the comparative periods. Beginning in the third quarter of 2020 and continuing through 2021, our sales volumes generally improved at both our business segments and the increase in operating income in 2021 over 2020 primarily resulted from the higher sales volumes. See results of operations discussion below.

Our product offerings consist of 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 - 2022 Compared to 2021 and 2021 Compared to 2020**

| | Years ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020-21 | 2021-22 |
| | | (In millions) | | | |
| Net sales | $ 114.5 | $ 140.8 | **$ 166.6** | 23 % | **18 %** |
| Cost of sales | 81.7 | 98.1 | **117.8** | 20 | **20** |
| Gross margin | 32.8 | 42.7 | **48.8** | 30 | **14** |
| Operating costs and expenses | 21.0 | 22.2 | **23.4** | 6 | **5** |
| Operating income | $ 11.8 | $ 20.5 | **$ 25.4** | 74 | **24** |
| Percent of net sales: | | | | | |
| Cost of sales | 71.3 % | 69.7 % | **70.7 %** | | |
| Gross margin | 28.7 | 30.3 | **29.3** | | |
| Operating costs and expenses | 18.4 | 15.8 | **14.0** | | |
| Operating income | 10.3 | 14.6 | **15.3** | | |

*Net Sales.* Net sales increased approximately $25.8 million in 2022 compared to 2021 due to higher Marine Component sales primarily to the towboat market and, to a lesser extent, higher Security Products sales across a variety of markets.

Net sales increased approximately $26.3 million in 2021 compared to 2020 primarily due to higher sales at both of our segments, particularly in the second quarter of 2021, as many of our customers were temporarily closed or reduced production during the second quarter of 2020 due to government ordered closures or reduced demand resulting from the COVID-19 pandemic. Beginning in the third quarter of 2020 and continuing through 2021, Marine Components sales exceeded pre-pandemic levels. Security Products sales generally improved since third quarter of 2020 but did not recover to pre-pandemic levels until the second quarter of 2021 when sales improved in markets that had been slower to recover from the COVID-19 pandemic, particularly sales to distributors and the office furniture market.

*Cost of Sales and Gross Margin.* Cost of sales increased in 2022 compared to 2021 primarily due to the effects of the higher sales, as well as increased production costs at both Security Products and Marine Components. Gross margin as a percentage of sales decreased over the same period primarily due to the decrease in the Security Products gross margin percentage.

Cost of sales increased in 2021 compared to 2020 primarily due to the effects of the higher sales, as well as increased production costs at both Security Products and Marine Components. Gross margin as a percentage of sales increased over the same period due to the increase in the Security Products gross margin percentage partially offset by the decrease in the Marine Components gross margin percentage.

*Operating Costs and Expenses*. Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses directly related to product sales and administrative costs relating to business unit and corporate management activities, as well as gains and losses on sales of property and equipment. Operating costs and expenses increased in 2022 compared to 2021 predominantly due to higher salary and employment related costs which increased by $.7 million. As a percentage of sales, operating costs and expenses decreased in 2022 compared to 2021 primarily due to the effect of higher sales.

Operating costs and expenses increased in 2021 compared to 2020 predominantly due to higher salary and benefit costs which increased by $.9 million. As a percentage of sales, operating costs and expenses decreased in 2021 compared to 2020 primarily due to the effect of higher sales.

*Operating Income.* As a percentage of net sales, operating income increased in 2022 compared to 2021 and increased in 2021 compared to 2020. Operating margins were primarily impacted by the factors impacting net sales, cost of sales, gross margin and operating costs discussed above.

*General*. Our profitability primarily depends on our ability to utilize our production capacity effectively, which is affected by, among other things, the demand for our products and our ability to control our manufacturing costs, primarily comprised of labor costs and materials. The materials used in our products consist of purchased components and raw materials some of which are subject to fluctuations in the commodity markets such as zinc, brass and stainless steel. Total material costs represented approximately 47% of our cost of sales in 2022, with commodity-related raw materials representing approximately 17% of our cost of sales. Prices for the primary commodity-related raw materials used in the manufacture of our locking mechanisms, primarily zinc and brass, generally increased throughout 2021 and the first half of 2022. Prices began to stabilize in the latter half of 2022, although at elevated levels. The prices for stainless steel, the primary raw material used for the manufacture of marine exhaust headers and pipes and wake enhancement systems, experienced significant volatility during 2021 and 2022. Based on current economic conditions, we expect the prices for zinc, brass, stainless steel and other manufacturing materials in 2023 to be relatively stable, although at the elevated levels we experienced in the second half of 2022.

We occasionally enter into short-term commodity-related raw material supply arrangements to mitigate the impact of future increases in commodity related raw material costs. See Item 1 - “Business- Raw Materials.”

*Interest Income.* Interest income in 2022 increased compared to 2021 primarily due to higher interest rates and increased investment balances, partially offset by lower average loan balances on our loan to an affiliate. Interest income in 2021 decreased compared to 2020 primarily due to lower average loan balances on our loan to an affiliate. See Notes 3 and 10 to our Consolidated Financial Statements.

*Provision for income taxes.* A tabular reconciliation of our actual tax provision to the U.S. federal statutory income tax rate of 21% is included in Note 8 to the Consolidated Financial Statements. As a member of the group of companies consolidated for U.S. federal income tax purposes with Contran, the parent of our consolidated U.S. federal income tax group, we compute our provision for income taxes on a separate company basis, using the tax elections made by Contran.

Our effective income tax rate was 24% in each of 2020, 2021 and 2022. See Notes 8 and 11 to our Consolidated Financial Statements. We currently expect our effective income tax rate for 2023 to be comparable to our effective income tax rate for 2022.

**Segment Results**

The key performance indicator for our segments is the level of their operating income (see discussion below). For additional information regarding our segments refer to Note 2 to our Consolidated Financial Statements.

| | Years ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020-21 | 2021-22 |
| | | (In millions) | | | |
| Security Products: | | | | | |
| Net sales | $ 87.9 | $ 105.1 | **$ 114.5** | **20** % | **9 %** |
| Cost of sales | 62.1 | 71.5 | **79.1** | **15** | **11** |
| Gross margin | 25.8 | 33.6 | **35.4** | **30** | **5** |
| Operating costs and expenses | 10.9 | 12.0 | **12.7** | **11** | **5** |
| Operating income | $ 14.9 | $ 21.6 | **$ 22.7** | **45** | **5** |
| | | | | | |
| Gross margin | 29.4 % | 32.0 % | **31.0 %** | | |
| Operating income margin | 17.0 | 20.6 | **19.9** | | |

*Security Products.* Security Products net sales increased 9% to $114.5 million in 2022 compared to $105.1 million in 2021 due to increased sales across a variety of markets. Relative to prior year, sales were $3.8 million higher to the government security market, $1.8 million higher to the office furniture market, $1.5 million higher to distributors, $1.0 million higher to the tool storage market, and $.9 million higher to the gas station security market. Gross margin as a percentage of net sales for 2022 decreased as compared to 2021 primarily due to higher cost of sales, most significantly in the third and fourth quarters of 2022, as price increases and surcharges did not fully offset higher cost inventory sold in the latter half of the year. Operating income margin decreased for 2022 compared to 2021 primarily due to the factors impacting gross margin, as well as increased operating costs and expenses, resulting from higher salaries and employment related costs, partially offset by increased coverage of operating costs and expenses from higher sales.

Security Products net sales increased 20% to $105.1 million in 2021 compared to $87.9 million in 2020 when it experienced reduced demand across a variety of markets due to COVID-19. Compared to 2020, sales were $7.2 million higher to the government security market, $4.9 million higher to the transportation market, and $2.0 million higher to distribution customers. Gross margin as a percentage of net sales for 2021 increased as compared to 2020 due to increased coverage of fixed costs from higher sales, partially offset by higher production costs including increased raw materials costs across a variety of commodities and component inputs, higher shipping costs, and increased labor costs primarily due to higher overtime costs and increased headcount. Operating income margin increased for 2021 compared to 2020 primarily due to increased coverage of operating costs and expenses on higher sales, partially offset by the higher production costs impacting gross margin and increased sales and administrative-related salary and benefit costs of $.7 million.

| | Years ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020-21 | 2021-22 |
| | | (In millions) | | | |
| Marine Components: | | | | | |
| Net sales | $ 26.6 | $ 35.7 | **$ 52.1** | **34** % | **46 %** |
| Cost of sales | 19.6 | 26.6 | **38.7** | **36** | **45** |
| Gross margin | 7.0 | 9.1 | **13.4** | **29** | **47** |
| Operating costs and expenses | 2.9 | 3.5 | **3.8** | **18** | **9** |
| Operating income | $ 4.1 | $ 5.6 | **$ 9.6** | **37** | **71** |
| | | | | | |
| Gross margin | 26.4 % | 25.4 % | **25.6 %** | | |
| Operating income margin | 15.3 | 15.7 | **18.4** | | |

*Marine Components.* Marine Components net sales increased 46% in 2022 as compared to 2021. Relative to prior year, sales were $11.5 million higher to the towboat market (primarily to original equipment boat manufacturers), $2.1 million higher to the engine builder market, and $2.0 million higher to the industrial market. Gross margin as a percentage of sales increased slightly in 2022 compared to 2021 with increased sales due to price increases and surcharges more than offsetting higher production costs, as well as increased coverage of cost of sales from higher sales. Operating income as a percentage of net sales increased in 2022 compared to 2021 primarily due to the factors impacting gross margin, as well as increased coverage of operating costs and expenses from higher sales.

Marine Components net sales increased 34% in 2021 as compared to 2020 primarily due to increased sales of $7.2 million to several original equipment boat manufactures in the towboat market. Gross margin as a percentage of sales decreased in 2021 compared to 2020 as increased coverage of fixed costs from higher sales were more than offset by higher production costs including raw materials costs (primarily stainless steel), higher shipping costs, and increased labor costs resulting from higher overtime costs and increased headcount. Operating income as a percentage of net sales increased slightly in 2021 compared to 2020 due to increased coverage of operating costs and expenses from higher sales, partially offset by the factors impacting gross margin.

*Outlook.* While we continued to experience strong demand at both our segments during the fourth quarter of 2022, the order rate and backlog at both segments began to soften late in the fourth quarter. We operated our manufacturing facilities at elevated production rates throughout 2022 in line with the strong demand and we continue to monitor demand levels and will adjust production rates accordingly. While labor markets continue to be competitive in each of the regions in which we operate and labor costs continue to rise, we have been able to achieve and maintain more balanced staffing levels aligned with current and forecasted demand, particularly at our Marine Components segment. We continue to face shortages related to certain electronic components; however, our supply chains are generally stable and recently transportation and logistical delays have been minimal.

We expect gross margins at Security Products will continue to be challenged during 2023 as higher cost inventory continues to work its way through cost of sales and anticipated reduced demand may limit our ability to implement further price increases. While we expect Marine Components net sales to remain strong during the first quarter, we expect net sales will decline as compared to 2022 as marine market demand is being challenged by higher interest rates and several original equipment boat manufacturers, including certain of our customers, have publicly announced reduced production schedules in 2023 compared to 2022. We currently expect Marine Components gross margins as a percentage of net sales in 2023 to be comparable to 2022. Based on the softening demand and general economic conditions in North America, we currently expect to report lower net sales and operating income at both segments during 2023 compared to 2022. We are focused on managing inventory levels to support anticipated lower demand in 2023. With raw materials and other components more readily available, we believe we will be able to achieve additional operating efficiencies during the year although the extent and impact of such efficiencies is not yet known.

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

**Critical Accounting Policies and Estimates**

Our significant accounting policies are more fully described in Note 1 to our Consolidated Financial Statements. Our Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which requires us to make estimates, judgments, and assumptions we believe are reasonable based on our historical experience, contract terms, observations of known trends in our company and the industry as a whole and information available from other outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results may differ from initial estimates.

We believe the most critical accounting policies and estimates involving significant judgments and estimates primarily relate to the considerations in the impairment assessments for goodwill and certain long-lived assets. We have discussed the development, selection and disclosure of our critical accounting estimates with the Audit Committee of our Board of Directors.

- *Goodwill* – Our goodwill totaled $23.7 million at December 31, 2022, all relating to our Security Products reporting unit, which corresponds to our Security Products operating segment. Goodwill is required to be tested annually or at other times whenever an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. We perform our annual goodwill impairment test in the third quarter of each year, or at other times whenever an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. Such events or circumstances may include: adverse industry or economic trends, lower projections of profitability, or a sustained decline in our market capitalization. These events or circumstances, among other items, may be indications of potential impairment issues which are triggering events requiring the testing of an asset's carrying value for recoverability. An entity may first assess qualitative factors to determine whether it is necessary to complete a quantitative impairment test using a more-likely-than-not criteria. If an entity believes it is more-likely-than-not the fair value of a reporting unit is greater than its carrying value, including goodwill, the quantitative impairment test can be bypassed. Alternatively, an entity has an unconditional option to bypass the qualitative assessment and proceed directly to performing the quantitative impairment test.

  When performing a qualitative assessment, considerable management judgment is necessary to evaluate the qualitative impact of events and circumstances on the fair value of a reporting unit. Events and circumstances considered in our impairment evaluations, such as historical profits and stability of the markets served, are consistent with factors utilized with our internal projections and operating plan. However, future events and circumstances could result in materially different findings which could result in the recognition of a material goodwill impairment.

  Evaluations of possible impairment utilizing the quantitative impairment test require us to estimate, among other factors: forecasts of future operating results, revenue growth, operating margin, tax rates, capital expenditures, depreciation, working capital, weighted average cost of capital, long-term growth rates, risk premiums, terminal values, and fair values of our reporting units and assets. The goodwill impairment test is subject to uncertainties arising from such events as changes in competitive conditions, the current general economic environment, material changes in growth rate assumptions that could positively or negatively impact anticipated future operating conditions and cash flows, changes in the discount rate, and the impact of strategic decisions. If any of these factors were to materially change, such change may require revaluation of our goodwill. Changes in estimates or the application of alternative assumptions could produce significantly different results.

  In 2022, we used the qualitative assessment for our annual impairment test and determined it was not necessary to perform the quantitative goodwill impairment test, as we concluded it is more-likely- than-not the fair value of the Security Products reporting unit exceeded its carrying amount. See Notes 1 and 6 to our Consolidated Financial Statements.

- *Long-lived assets* – The net book value of our property and equipment totaled $28.7 million at December 31, 2022. We assess property and equipment for impairment only when circumstances indicate an impairment may exist. Our determination is based upon, among other things, our estimates of the amount of future net cash flows to be generated by the long-lived asset (Level 3 inputs) and our estimates of the current fair value of the asset.

Significant judgment is required in estimating such cash flows. Adverse changes in such estimates of future net cash flows or estimates of fair value could result in an inability to recover the carrying value of the long-lived asset, thereby possibly requiring an impairment charge to be recognized in the future. We do not assess our property and equipment for impairment unless certain impairment indicators are present. We did not evaluate any long-lived assets for impairment during 2022 because no such impairment indicators were present.

**Liquidity and Capital Resources**

***Summary***

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, business combinations or buying back shares of our outstanding stock and (iii) provide for the payment of dividends (if declared). From time-to-time, we may incur indebtedness to fund capital expenditures, business combinations or other investment activities. In addition, from time-to-time, we may also sell assets outside the ordinary course of business, the proceeds of which are generally used to repay indebtedness (including indebtedness which may have been collateralized by the assets sold) or to fund capital expenditures or business combinations.

***Consolidated cash flows***

*Operating activities.* Trends in cash flows from operating activities, excluding changes in assets and liabilities, for the last three years have generally been similar to the trends in our earnings. Depreciation and amortization were comparable in each of 2022, 2021 and 2020. See Note 1 to our Consolidated Financial Statements.

Changes in assets and liabilities result primarily from the timing of production, sales and purchases. Such changes in assets and liabilities generally tend to even out over time. However, year-to-year relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. Cash provided by operating activities was $16.9 million in 2022 compared to $10.5 million in 2021. The $6.4 million increase in cash provided by operating activities was primarily the net result of:

- A $4.9 million increase in operating income in 2022,
- A lower amount of net cash used by relative changes in inventories, receivables, payables and non-tax accruals of $3.9 million,
- A $3.1 million increase in cash paid for taxes in 2022 due to higher operating income, and
- A $.7 million increase in interest received in 2022 due to higher interest rates and increased investment balances, partially offset by lower average loan balances on our loan to an affiliate.

Cash provided by operating activities was $10.5 million in 2021 compared to $15.5 million in 2020. The $5.0 million decrease in cash provided by operating activities was primarily the net result of:

- A higher amount of net cash used by relative changes in inventories, receivables, payables and non-tax accruals of $11.3 million,
- A $8.7 million increase in operating income in 2021,
- A $1.4 million increase in cash paid for taxes in 2021 due to higher operating income, and
- A $1.0 million decrease in interest received in 2021 due to lower average loan balances on our loan to an affiliate and the relative timing of interest received.

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, the total average days sales outstanding was generally consistent from December 31, 2021 to December 31, 2022 and is primarily impacted by the timing of sales and collections in the last month of the year. For comparative purposes, we have provided 2020 numbers below.

| **Days Sales Outstanding:** | **December 31, 2020** | **December 31, 2021** | **December 31, 2022** |
|---|---|---|---|
| Security Products | 35 Days | 46 Days | 45 Days |
| Marine Components | 24 Days | 30 Days | 30 Days |
| Consolidated CompX | 33 Days | 42 Days | 41 Days |

As shown below, our average number of days in inventory increased from December 31, 2021 to December 31, 2022 due to increased inventories of certain components and raw materials that had longer lead times or for which we have experienced availability issues and from the timing of sales relative to the end of the fourth quarter, primarily at Security Products. For comparative purposes, we have provided 2020 numbers below.

| **Days in Inventory:** | **December 31, 2020** | **December 31, 2021** | **December 31, 2022** |
|---|---|---|---|
| Security Products | 75 Days | 95 Days | 101 Days |
| Marine Components | 75 Days | 97 Days | 95 Days |
| Consolidated CompX | 75 Days | 96 Days | 99 Days |

*Investing activities*. Capital expenditures have primarily emphasized improving our manufacturing facilities and investing in manufacturing equipment, utilizing new technologies and increased automation of the manufacturing process, to provide for increased productivity and efficiency in order to meet expected customer demand and properly maintain our facilities and technology infrastructure. Capital expenditures were $1.7 million in 2020, $4.1 million in 2021 and $3.7 million in 2022. As a result of the COVID-19 pandemic, we limited 2020 expenditures to those required to meet our expected customer demand and those required to properly maintain our facilities and technology infrastructure. Our 2021 capital expenditures increased above pre-pandemic levels as we accelerated the timeline for certain projects designed to increase capacity and improve our capabilities in response to strong customer demand. Beginning in the latter half of 2022, we limited investments primarily to those expenditures required to meet our existing customer demand and to properly maintain our facilities and technology infrastructure. See Note 2 to our Consolidated Financial Statements.

We expect our capital expenditures for 2023 will be approximately $3.0 million primarily to meet our expected customer demand and those required to properly maintain our facilities and technology infrastructure. Capital spending for 2023 is expected to be funded through cash on hand and cash generated from operations.

We have entered into an unsecured revolving demand promissory note with Valhi under which, as amended, we have agreed to loan Valhi up to $25 million. Our loan to Valhi, as amended, bears interest at prime rate plus 1.00%, payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2024. Loans made to Valhi at any time under the agreement are at our discretion. Under the promissory note, Valhi borrowed a net $1.4 million in 2020 ($34.8 million of gross borrowings and $33.4 million of gross repayments), repaid a net $10.8 million in 2021 ($29.8 million of gross borrowings and $40.6 million of gross repayments) and repaid a net $5.5 million in 2022 ($24.3 million of gross borrowings and $29.8 million of gross repayments). See Note 10 to our Consolidated Financial Statements.

During 2022 we purchased marketable debt securities totaling $33.0 million. See Note 3 to our Consolidated Financial Statements.

*Financing activities.* Regular quarterly dividends paid totaled $5.0 million ($.40 per share, or $.10 per share per quarter) in 2020, $9.9 million ($.80 per share, or $.20 per share per quarter) in 2021, and $12.4 million ($1.00 per share, or $.25 per share per quarter) in 2022. In addition, our board of directors declared a special dividend on our Class A common stock which totaled $21.5 million ($1.75 per share) that we paid on August 30, 2022. On March 1, 2023 our board of directors declared a first quarter 2023 dividend of $.25 per share, to be paid on March 21, 2023 to CompX stockholders of record as of March 13, 2023. The declaration and payment of future dividends and the amount thereof, if any, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual requirements and restrictions and other factors deemed relevant by our board of directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which we might pay.

During 2021, we acquired 75,000 shares of our Class A common stock in market transactions for $1.3 million. During 2022, we acquired 78,900 shares of our Class A common stock (8,900 shares from affiliates and 70,000 shares in a single market transaction) for an aggregate purchase price of $1.7 million. See Note 9 to our Consolidated Financial Statements.

***Future Cash Requirements***

We believe cash generated from operations together with cash on hand will be sufficient to meet our liquidity needs for working capital, capital expenditures, debt service and dividends (if declared) for the next twelve months and our long term obligations for the next five years. To the extent that actual operating results or other developments differ materially from our expectations, our liquidity could be adversely affected.

All of our $59.9 million aggregate cash, cash equivalents and marketable securities at December 31, 2022 were held in the U.S.

We periodically evaluate our 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, repurchase shares of our common stock, 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.

***Commitments and contingencies***

As more fully described in the Notes to the Consolidated Financial Statements, we are a party to various agreements that contractually and unconditionally commit us to pay certain amounts in the future. See Note 11 to our Consolidated Financial Statements. Additionally, we have purchase obligations of $17.7 million ($16.3 million payable in 2023 and $1.4 million payable in 2024) which consists of open purchase orders and contractual obligations, primarily commitments to purchase raw materials and for capital projects in process at December 31, 2022. The timing and amount for purchase obligations are based on the contractual payment amount and the contractual payment date for those commitments.

***Recent accounting pronouncements***

None.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

*General*. We are exposed to market risk from changes in interest rates and raw materials prices.

*Interest rates*. We are exposed to market risk from changes in interest rates, primarily related to our note receivable from affiliate and or investment in marketable debt securities. The outstanding principal amount of the note receivable from affiliate of $13.2 million at December 31, 2022 bears interest at prime plus 1.0% (8.5% at December 31, 2022). We received interest income of $1.0 million from the note during 2022. At December 31, 2022 we have $33.1 million invested in marketable debt securities at an average interest rate of approximately 3%.

*Raw materials.* We will occasionally enter into short term commodity-related raw material supply arrangements to mitigate the impact of future increases in commodity-related raw material costs. We do not have long-term supply agreements for our raw material requirements because either we believe the risk of unavailability of those raw materials is low and we believe the downside risk of price volatility to be too great or because long-term supply agreements for those materials are generally not available. We do not engage in commodity raw material hedging programs.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information called for by this Item is contained in a separate section of this Annual Report. See "Index of Financial Statements" (page F-1).

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures which, as defined in Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Our management with the participation of Scott C. James, our President and Chief Executive Officer, and Amy A. Samford, our Executive Vice President and Chief Financial Officer, has evaluated the design and operating effectiveness of our disclosure controls and procedures as of December 31, 2022. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of the date of such evaluation.

**Management's Report on 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 ("GAAP"), 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 unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Our evaluation of the effectiveness of our internal control over financial reporting is based upon the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 (commonly referred to as the "2013 COSO" framework). Based on our evaluation under that framework, our management has concluded that our internal control over financial reporting was effective as of December 31, 2022.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report.

**Changes in Internal Control Over Financial Reporting**. There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Certifications.** Our chief executive officer and chief financial officer are required to, among other things, quarterly file a certification with the SEC regarding the quality of our public disclosures, as required by Section 302 of the Sarbanes-Oxley Act of 2002. We have filed the certifications for the quarter ended December 31, 2022 as exhibits 31.1 and 31.2 to this Annual Report on Form 10-K.

## ITEM 9B. OTHER INFORMATION

Not applicable.

## ITEM 9C. DISCLOSURE REGARDING FOREIGN JURSIDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report ("Proxy Statement").

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to our Proxy Statement.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to our Proxy Statement.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to our Proxy Statement. See also Note 10 to the Consolidated Financial Statements.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to our Proxy Statement.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) and (c) Financial Statements

The consolidated financial statements listed on the accompanying Index of Financial Statements (see page F-1) are filed as part of this Annual Report.

All financial statement schedules have been omitted either because they are not applicable or required, or the information that would be required to be included is disclosed in the notes to the consolidated financial statements.

(b) Exhibits

We have retained a signed original of any of these exhibits that contain signatures, and we will provide such exhibits to the Commission or its staff. Included as exhibits are the items listed in the Exhibit Index. We, upon request, will furnish a copy of any of the exhibits listed below upon payment of $4.00 per exhibit to cover our costs of furnishing the exhibits. Instruments defining the rights of holders of long-term debt issues which do not exceed 10% of consolidated total assets will be furnished to the Commission 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.

| Item No. | Exhibit Item |
|---|---|
| 3.1 | Second Amended and Restated Certificate of Incorporation of Registrant – incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for quarter ended June 30, 2018. |
| 3.2 | Certificate of Retirement – incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed November 5, 2018. |
| 3.3 | Amended and Restated Bylaws of Registrant, adopted by the Board of Directors March 3, 2021 – incorporated by reference to Exhibit 3.3 of the Registrant's Annual Report on Form 10-K filed on March 3, 2021. |
| 4.1 | Description of Capital Stock – incorporated by reference to Exhibit 4.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019 filed on February 26, 2020. |
| 10.1 | Intercorporate Services Agreement between the Registrant and Contran Corporation effective as of January 1, 2004 – incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 4, 2004. |
| 10.2* | CompX International Inc. 2012 Director Stock Plan – incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 6, 2013. |
| 10.3 | Tax Sharing Agreement between the Registrant, NL Industries, Inc. and Contran Corporation dated as of January 1, 2020 – incorporated by reference to Exhibit 10.3 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019 filed on February 26, 2020. |
| 10.4 | Second Amended and Restated Agreement Regarding Shared Insurance among the Registrant, Contran Corporation, Kronos Worldwide, Inc., NL Industries, Inc., and Valhi, Inc. dated January 25, 2019 – incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 filed on February 27, 2019. |
| 10.5** | Unsecured Revolving Demand Promissory Note dated December 31, 2022 in the original principal amount of $25 million executed by Valhi, Inc. and payable to the Registrant. |

| Item No. | Exhibit Item |
|---|---|
| 10.6* | Form of Indemnification Agreement – incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed May 26, 2016. |
| 21.1** | Subsidiaries of the Registrant. |
| 23.1** | Consent of PricewaterhouseCoopers LLP. |
| 31.1** | Certification |
| 31.2** | Certification |
| 32.1** | Certification |
| 101.INS** | Inline XBRL Instance – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH** | Inline XBRL Taxonomy Extension Schema |
| 101.CAL** | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF** | Inline XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB** | Inline XBRL Taxonomy Extension Label Linkbase |
| 101.PRE** | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104 | Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

* Management contract, compensatory plan or agreement.
** Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.**

Date: March 1, 2023

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Loretta J. Feehan<br>Loretta J. Feehan | Chair of the Board | March 1, 2023 |
| /s/ Michael S. Simmons<br>Michael S. Simmons | Vice Chairman of the Board | March 1, 2023 |
| /s/ Scott C. James<br>Scott C. James | President, Chief Executive Officer and Director<br>(Principal Executive Officer) | March 1, 2023 |
| /s/ Amy A. Samford<br>Amy A. Samford | Executive Vice President, Chief Financial Officer<br>(Principal Financial Officer) | March 1, 2023 |
| /s/ Amy E. Ruf<br>Amy E. Ruf | Vice President, Controller<br>(Principal Accounting Officer) | March 1, 2023 |
| /s/ Thomas E. Barry<br>Thomas E. Barry | Director | March 1, 2023 |
| /s/ Terri L. Herrington<br>Terri L. Herrington | Director | March 1, 2023 |
| /s/ Kevin B. Kramer<br>Kevin B. Kramer | Director | March 1, 2023 |
| /s/ Ann Manix<br>Ann Manix | Director | March 1, 2023 |
| /s/ Mary A. Tidlund<br>Mary A. Tidlund | Director | March 1, 2023 |

**Annual Report on Form 10-K**

**Items 8 and 15(a)**

**Index of Financial Statements**



All financial statement schedules have been omitted either because they are not applicable or required, or the information that would be required to be included is disclosed in the Notes to the Consolidated Financial Statements.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of CompX International Inc.

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of CompX International Inc. and its subsidiaries (the "Company") as of January 1, 2023 and January 2, 2022, and the related consolidated statements of income and comprehensive income, of stockholders' equity and of cash flows for each of the three years in the period ended January 1, 2023, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2023 and January 2, 2022, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2023 in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Goodwill Impairment Assessment – Security Products Reporting Unit*

As described in Note 6 to the consolidated financial statements, the Company's consolidated goodwill balance was $23.7 million as of December 31, 2022, all of which related to the Company's Security Products reporting unit, which corresponds to its Security Products operating segment. As disclosed by management, management performs an annual goodwill impairment test in the third quarter of each year, or at other times whenever an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. Management first assesses qualitative factors to determine whether it is more likely than not the fair value of the Security Products reporting unit is less than its carrying value. When performing a qualitative assessment, considerable management judgment is necessary to evaluate the qualitative impact of events and circumstances on the fair value of a reporting unit. Events and circumstances considered in management’s impairment evaluations include historical profits and stability of the markets served. In 2022, management used the qualitative assessment for the annual impairment test and determined it was not necessary to perform the quantitative goodwill impairment test, as management concluded it was more likely than not the fair value of the Security Products reporting unit exceeded its carrying amount.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the Security Products reporting unit is a critical audit matter are (i) the significant judgment by management when performing the qualitative impairment assessment and (ii) the high degree of auditor judgment and subjectivity in performing procedures and evaluating evidence relating to management’s qualitative impairment assessment.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management’s goodwill impairment assessment and the review of qualitative factors affecting the Security Products reporting unit. These procedures also included, among others, (i) evaluating management’s qualitative impairment assessment by analyzing financial performance of the Security Products reporting unit, the Company’s market capitalization and other events or circumstances impacting the reporting unit and (ii) comparing actual financial performance with forecasted financial performance used in previous impairment assessments to evaluate management’s assessment of whether it is more likely than not that the fair value of each reporting unit is less than the carrying value.

/s/ PricewaterhouseCoopers LLP
Dallas, Texas
March 1, 2023

We have served as the Company’s auditor since 1993.

## COMPX INTERNATIONAL INC. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS
**(In thousands)**

| ASSETS | December 31, 2021 | December 31, 2022 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 76,579 | **$ 26,748** |
| Marketable securities | — | **33,147** |
| Accounts receivable, net | 15,546 | **17,840** |
| Inventories, net | 25,642 | **31,290** |
| Prepaid expenses and other | 2,464 | **2,136** |
| Total current assets | 120,231 | **111,161** |
| Other assets: | | |
| Note receivable from affiliate | 18,700 | **13,200** |
| Goodwill | 23,742 | **23,742** |
| Other noncurrent assets | 597 | **590** |
| Total other assets | 43,039 | **37,532** |
| Property and equipment: | | |
| Land | 5,071 | **5,390** |
| Buildings | 23,161 | **23,181** |
| Equipment | 70,664 | **74,113** |
| Construction in progress | 2,028 | **722** |
| | 100,924 | **103,406** |
| Less accumulated depreciation | 71,742 | **74,712** |
| Net property and equipment | 29,182 | **28,694** |
| Total assets | $ 192,452 | **$ 177,387** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 14,724 | **$ 15,618** |
| Income taxes payable to affiliate | 1,722 | **1,035** |
| Total current liabilities | 16,446 | **16,653** |
| Noncurrent liabilities: | | |
| Deferred income taxes | 2,918 | **2,230** |
| Other | — | **68** |
| Total noncurrent liabilities | 2,918 | **2,298** |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; 1,000 shares authorized, none issued | — | **—** |
| Class A common stock, $.01 par value; 20,000,000 shares authorized 12,380,657 and 12,307,157 shares issued and outstanding | 124 | **123** |
| Additional paid-in capital | 54,780 | **53,155** |
| Retained earnings | 118,184 | **105,175** |
| Accumulated other comprehensive loss - unrealized loss on marketable securities | — | **(17)** |
| Total stockholders' equity | 173,088 | **158,436** |
| Total liabilities and stockholders' equity | $ 192,452 | **$ 177,387** |

Commitments and Contingencies (Note 11)

See accompanying Notes to Consolidated Financial Statements.

## COMPX INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

**(In thousands, except per share data)**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| Net sales | $ 114,537 | $ 140,815 | **$ 166,562** |
| Cost of sales | 81,689 | 98,066 | **117,763** |
| Gross margin | 32,848 | 42,749 | **48,799** |
| Selling, general and administrative expense | 21,031 | 22,223 | **23,363** |
| Operating income | 11,817 | 20,526 | **25,436** |
| Interest income | 1,680 | 1,197 | **1,877** |
| Income before income taxes | 13,497 | 21,723 | **27,313** |
| Provision for income taxes | 3,174 | 5,155 | **6,442** |
| Net income | 10,323 | 16,568 | **20,871** |
| Other comprehensive loss, marketable securities adjustment: | | | |
| Unrealized net loss arising during year | — | — | **(17)** |
| Comprehensive income | $ 10,323 | $ 16,568 | **$ 20,854** |
| Basic and diluted net income per common share | $ .83 | $ 1.34 | **$ 1.69** |
| Basic and diluted weighted average shares outstanding | 12,448 | 12,411 | **12,340** |

See accompanying Notes to Consolidated Financial Statements.

**COMPX INTERNATIONAL INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**Years ended December 31, 2020, 2021 and 2022**

**(In thousands, except per share data)**

| | Class A common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total stockholders' equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2019 | $ 124 | $ 55,869 | $ 106,202 | $ — | $ — | $ 162,195 |
| Net income | — | — | 10,323 | — | — | 10,323 |
| Cash dividends ($0.40 per share) | — | — | (4,980) | — | — | (4,980) |
| Issuance of common stock | — | 118 | — | — | — | 118 |
| Balance at December 31, 2020 | 124 | 55,987 | 111,545 | — | — | 167,656 |
| Net income | — | — | 16,568 | — | — | 16,568 |
| Cash dividends ($0.80 per share) | — | — | (9,929) | — | — | (9,929) |
| Issuance of common stock | — | 104 | — | — | — | 104 |
| Treasury stock: | | | | | | |
| Acquired | — | — | — | — | (1,311) | (1,311) |
| Retired | — | (1,311) | — | — | 1,311 | — |
| Balance at December 31, 2021 | 124 | 54,780 | 118,184 | — | — | 173,088 |
| Net income | **—** | **—** | **20,871** | **—** | **—** | **20,871** |
| Cash dividends ($2.75 per share) | **—** | **—** | **(33,880)** | **—** | **—** | **(33,880)** |
| Issuance of common stock | **—** | **118** | **—** | **—** | **—** | **118** |
| Other comprehensive loss | **—** | **—** | **—** | **(17)** | **—** | **(17)** |
| Treasury stock: | | | | | | |
| Acquired | **—** | **—** | **—** | **—** | **(1,744)** | **(1,744)** |
| Retired | **(1)** | **(1,743)** | **—** | **—** | **1,744** | **—** |
| **Balance at December 31, 2022** | **$ 123** | **$ 53,155** | **$ 105,175** | **$ (17)** | **$ —** | **$ 158,436** |

See accompanying Notes to Consolidated Financial Statements.

**COMPX INTERNATIONAL INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| Cash flows from operating activities: | | | |
| Net income | $ 10,323 | $ 16,568 | **$ 20,871** |
| Depreciation and amortization | 3,827 | 3,839 | **3,977** |
| Deferred income taxes | (48) | (321) | **(688)** |
| Other, net | 346 | 269 | **213** |
| Change in assets and liabilities: | | | |
| Accounts receivable, net | 1,118 | (4,806) | **(2,309)** |
| Inventories, net | (193) | (7,479) | **(5,832)** |
| Accounts payable and accrued liabilities | 95 | 2,547 | **943** |
| Accounts with affiliates | 449 | 854 | **(687)** |
| Prepaids and other, net | (415) | (997) | **403** |
| Net cash provided by operating activities | 15,502 | 10,474 | **16,891** |
| Cash flows from investing activities: | | | |
| Capital expenditures | (1,740) | (4,094) | **(3,695)** |
| Proceeds from sale of fixed assets, net | — | 2 | **133** |
| Purchases of marketable securities | — | — | **(33,036)** |
| Note receivable from affiliate: | | | |
| Collections | 33,428 | 40,600 | **29,800** |
| Advances | (34,828) | (29,800) | **(24,300)** |
| Net cash provided by (used in) investing activities | (3,140) | 6,708 | **(31,098)** |
| Cash flows from financing activities: | | | |
| Dividends paid | (4,980) | (9,929) | **(33,880)** |
| Treasury stock acquired | — | (1,311) | **(1,744)** |
| Net cash used in financing activities | (4,980) | (11,240) | **(35,624)** |
| Cash and cash equivalents - net change from: | | | |
| Operating, investing and financing activities | 7,382 | 5,942 | **(49,831)** |
| Balance at beginning of year | 63,255 | 70,637 | **76,579** |
| Balance at end of year | $ 70,637 | $ 76,579 | **$ 26,748** |
| Supplemental disclosures - | | | |
| Cash paid for income taxes | $ 3,261 | $ 4,700 | **$ 7,817** |

See accompanying Notes to Consolidated Financial Statements.

**Note 1 – Summary of significant accounting policies:**

***Organization.*** We (NYSE American: CIX) are approximately 87% owned by NL Industries, Inc. (NYSE: NL) at December 31, 2022. We manufacture and sell component products (security products and recreational marine components). At December 31, 2022, Valhi, Inc. (NYSE: VHI) owns approximately 83% of NL's outstanding common stock and a wholly-owned subsidiary of Contran Corporation owns approximately 92% of Valhi's outstanding common stock. A majority of Contran's outstanding voting stock is held directly by Lisa K. Simmons and various family trusts established for the benefit of Ms. Simmons, Thomas C. Connelly (the husband of Ms. Simmons' late sister) and their children and for which Ms. Simmons or Mr. Connelly, as applicable, serve as trustee (collectively, the "Other Trusts"). With respect to the Other Trusts for which Mr. Connelly serves as trustee, he is required to vote the shares of Contran voting stock held in such trusts in the same manner as Ms. Simmons. Such voting rights of Ms. Simmons last through April 22, 2030 and are personal to Ms. Simmons. The remainder of Contran's outstanding voting stock is held by another trust (the "Family Trust"), which was established for the benefit of Ms. Simmons and her late sister and their children and for which a third-party financial institution serves as trustee. Consequently, at December 31, 2022 Ms. Simmons and the Family Trust may be deemed to control Contran, and therefore may be deemed to indirectly control the wholly-owned subsidiary of Contran, Valhi, NL and us.

Unless otherwise indicated, references in this report to "we," "us," or "our" refer to CompX International Inc. and its subsidiaries, taken as a whole.

***Management estimates.*** In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at each balance sheet date and the reported amounts of our revenues and expenses during each reporting period. Actual results may differ significantly from previously estimated amounts under different assumptions or conditions.

***Principles of consolidation.*** Our consolidated financial statements include the accounts of CompX International Inc. and our wholly-owned subsidiaries. We eliminate all material intercompany accounts and balances.

***Fiscal year.*** Our fiscal year end is always the Sunday closest to December 31, and our operations are reported on a 52 or 53-week fiscal year. For presentation purposes, annual information in the consolidated financial statements and accompanying notes is presented as ended on December 31. The actual date of our fiscal years ended December 31, 2020, 2021 and 2022 are January 3, 2021, January 2, 2022 and January 1, 2023, respectively. Our fiscal year ending December 31, 2020 was a 53-week year. Each of the years ending December 31, 2021 and 2022 consisted of 52 weeks.

***Cash and cash equivalents.*** We classify bank time deposits and highly liquid investments, including government and commercial notes and bills, with original maturities of three months or less as cash equivalents.

***Marketable securities and securities transactions.*** We carry marketable debt securities at fair value. Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures*, establishes a consistent framework for measuring fair value and (with certain exceptions) this framework is generally applied to all financial statement items required to be measured at fair value. The standard requires fair value measurements to be classified and disclosed in one of the following three categories:

- *Level 1* – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- *Level 2* – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the assets or liability; and

- *Level 3* – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

We classify our marketable debt securities as available-for-sale. We accumulate unrealized gains and losses on marketable debt securities as part of accumulated other comprehensive income (loss), net of related deferred income taxes. See Notes 3 and 12. We base realized gains and losses upon the specific identification of the securities sold.

***Accounts receivable.*** We provide an allowance for doubtful accounts for known and estimated potential losses arising from our sales to customers based on a periodic review of these accounts.

***Inventories and cost of sales.*** We state inventories at the lower of cost or net realizable value. We record a provision for obsolete and slow-moving inventories. We generally base inventory costs for all inventory categories on average cost that approximates the first-in, first-out method. Inventories include the costs for raw materials, the cost to manufacture the raw materials into finished goods and overhead. Depending on the inventory's stage of completion, our manufacturing costs can include the costs of packing and finishing, utilities, maintenance and depreciation, shipping and handling, and salaries and benefits associated with our manufacturing process. We allocate fixed manufacturing overhead costs based on normal production capacity. Unallocated overhead costs resulting from periods with abnormally low production levels are charged to expense as incurred. As inventory is sold to third parties, we recognize the cost of sales in the same period that the sale occurs. We periodically review our inventory for estimated obsolescence or instances when inventory is no longer marketable for its intended use, and we record any write-down, equal to the difference between the cost of inventory and its estimated net realizable value, based on assumptions about alternative uses, market conditions and other factors.

***Net sales.*** Our sales involve single performance obligations to ship our products pursuant to customer purchase orders. In some cases, the purchase order is supported by an underlying master sales agreement, but our purchase order verification notice generally evidences the contract with our customer by specifying the key terms of product and quantity ordered, price and delivery and payment terms. In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, we record revenue when we satisfy our performance obligations to our customers by transferring control of our products to them, which generally occurs at point of shipment or upon delivery. Such transfer of control is also evidenced by transfer of legal title and other risks and rewards of ownership (giving the customer the ability to direct the use of, and obtain substantially all of the benefits of, the product), and our customers becoming obligated to pay us and it is probable we will receive payment. In certain arrangements we provide shipping and handling activities after the transfer of control to our customer (e.g. when control transfers prior to delivery). In such arrangements shipping and handling are considered fulfillment activities, and accordingly, such costs are accrued when the related revenue is recognized.

Revenue is recorded in an amount that reflects the net consideration we expect to receive in exchange for our products. Prices for our products are based on terms specified in published list prices and purchase orders, which generally do not include financing components, noncash consideration or consideration paid to our customers. As our standard payment terms are less than one year, we have elected the practical expedient under ASC 606 and we have not assessed whether a contract has a significant financing component. We state sales net of price, early payment and distributor discounts as well as volume rebates (collectively, variable consideration). Variable consideration, to the extent present, is not material and is recognized as the amount to which we are most-likely to be entitled, using all information (historical, current and forecasted) that is reasonably available to us, and only to the extent that a significant reversal in the amount of the cumulative revenue recognized is not probable of occurring in a future period. Differences, if any, between estimates of the amount of variable consideration to which we will be entitled and the actual amount of such variable consideration have not been material in the past. We occasionally receive partial or full consideration from our customers prior to the completion of our performance obligation (shipment of product). We record estimated deferred revenue on the amount to which we are most-likely to be entitled and deferred revenue is recognized into revenue as our performance obligation has been satisfied. Deferred revenue has not been material in the past. We report any tax assessed by a governmental authority that we collect from our customers that is both imposed on and concurrent with our revenue-producing activities (such as sales, use, value added and excise taxes) on a net basis (meaning we do not recognize these taxes either in our revenues or in our costs and expenses).

Frequently, we receive orders for products to be delivered over dates that may extend across reporting periods. We invoice for each delivery upon shipment and recognize revenue for each distinct shipment when all sales recognition criteria for that shipment have been satisfied. As scheduled delivery dates for these orders are within a one year period, under the optional exemption provided by ASC 606, we do not disclose sales allocated to future shipments of partially completed contracts.

We have determined that our disclosure of sales by segment meets the requirements to disclose a disaggregation of our sales into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See Note 2.

***Selling, general and administrative expenses; advertising costs.*** Selling, general and administrative expenses include costs related to marketing, sales, distribution, research and development and administrative functions such as accounting, treasury and finance, and include costs for salaries and benefits, travel and entertainment, promotional materials and professional fees. We expense advertising and research and development costs as incurred. Advertising and research and development costs were not significant in 2020, 2021 or 2022.

***Goodwill.*** Goodwill represents the excess of cost over fair value of individual net assets acquired in business combinations. Goodwill is not subject to periodic amortization. We evaluate goodwill for impairment annually or when circumstances indicate the carrying value may not be recoverable. See Note 6.

***Property and equipment; depreciation expense*.** We state property and equipment, including purchased computer software for internal use, at cost. We compute depreciation of property and equipment for financial reporting purposes principally by the straight-line method over the estimated useful lives of 15 to 40 years for buildings and 3 to 20 years for equipment and software. We use accelerated depreciation methods for income tax purposes, as permitted. Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized in income currently. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized.

We perform impairment tests when events or changes in circumstances indicate the carrying value may not be recoverable. We consider all relevant factors. We perform the impairment test by comparing the estimated future undiscounted cash flows associated with the asset to the asset’s net carrying value to determine if impairment exists.

***Leases.*** We enter into various arrangements (or leases) that convey the rights to use and control identified underlying assets for a period of time in exchange for consideration. We lease various facilities and equipment. From time to time, we may also enter into an arrangement in which the right to use and control an identified underlying asset is embedded in another type of contract. We determine if an arrangement is a lease (including leases embedded in another type of contract) at inception. All of our leases are classified as operating leases under ASC Topic 842, *Leases*. Operating leases are not material.

***Employee benefit plans.*** We maintain various defined contribution plans in which we make contributions based on matching or other formulas. Defined contribution plan expense approximated $3.0 million in 2020, $3.7 million in 2021 and $3.9 million in 2022.

***Self-insurance.*** We are partially self-insured for workers’ compensation and certain employee health benefits and self-insured for most environmental issues. We purchase coverage in order to limit our exposure to significant workers’ compensation or employee health benefit claims. We accrue self-insured losses based upon estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and our own historical claims experience.

***Income taxes*.** We, and our parent NL, are members of the Contran Tax Group. We have been and currently are a part of the consolidated tax returns filed by Contran for U.S. federal purposes as well as for certain U.S. state jurisdictions. As a member of the Contran Tax Group, we are jointly and severally liable for the federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. See Note 11.

As a member of the Contran Tax Group, we are a party to a tax sharing agreement which provides that we compute our provision for U.S. income taxes on a separate-company basis. Pursuant to the tax sharing agreement, we make payments to or receive payments from NL in amounts we would have paid to or received from the U.S. Internal Revenue Service or the applicable state tax authority had we not been a member of the Contran Tax Group. The separate company provisions and payments are computed using the tax elections made by Contran. We made net cash payments for income taxes to NL of $3.2 million in 2020, $4.7 million in 2021 and $7.8 million in 2022.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities. Deferred income tax assets and liabilities for each tax-paying jurisdiction in which we operate are netted and presented as either a noncurrent deferred income tax asset or liability, as applicable. We periodically evaluate our deferred tax assets in the various taxing jurisdictions in which we operate and adjust any related valuation allowance based on the estimate of the amount of deferred tax assets which we believe do not meet the more-likely-than-not recognition criteria. See Notes 8 and 11.

We record a reserve for uncertain tax positions for tax positions where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. We did not have a reserve for uncertain tax positions in 2020, 2021 or 2022.

**Note 2** – **Business and geographic segments:**

Our operating segments are defined as components of our operations about which separate financial information is available that is regularly evaluated by our chief operating decision maker in determining how to allocate resources and in assessing performance. At December 31, 2022, we had two reportable operating segments – Security Products and Marine Components.

The Security Products segment, with a facility in South Carolina and a facility shared with Marine Components in Illinois, manufactures locking mechanisms and other security products for sale to the postal, transportation, office and institutional furniture, cabinetry, tool storage, healthcare and other industries.

Our Marine Components segment, with a facility in Wisconsin and a facility shared with Security Products in Illinois, manufactures and distributes wake enhancement systems, stainless steel exhaust systems, gauges, throttle controls, trim tabs and related hardware and accessories primarily for ski/wakeboard boats and performance boats.

The chief operating decision maker evaluates segment performance based on segment operating income, which is defined as income before income taxes, exclusive of certain general corporate income and expense items (primarily interest income) and certain non-recurring items (such as gains or losses on the disposition of long-lived assets outside the ordinary course of business). The accounting policies of the reportable operating segments are the same as those described in Note 1. Capital expenditures include additions to property and equipment but exclude amounts attributable to business combinations.

Segment assets are comprised of all assets attributable to the reportable segments. Corporate assets are not attributable to the operating segments and consist primarily of cash, cash equivalents and note receivable from affiliate. For geographic information, the point of origin (place of manufacture) for all net sales is the U.S., the point of destination for net sales is based on the location of the customer, and property and equipment are attributable to their physical location. Intersegment sales are not material.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| | | (In thousands) | |
| Net sales: | | | |
| Security Products | $ 87,863 | $ 105,124 | **$ 114,519** |
| Marine Components | 26,674 | 35,691 | **52,043** |
| Total net sales | $ 114,537 | $ 140,815 | **$ 166,562** |
| | | | |
| Operating income: | | | |
| Security Products | $ 14,926 | $ 21,622 | **$ 22,744** |
| Marine Components | 4,088 | 5,591 | **9,561** |
| Corporate operating expenses | (7,197) | (6,687) | **(6,869)** |
| Total operating income | 11,817 | 20,526 | **25,436** |
| Interest income | 1,680 | 1,197 | **1,877** |
| Income before income taxes | $ 13,497 | $ 21,723 | **$ 27,313** |
| | | | |
| Depreciation and amortization: | | | |
| Security Products | $ 3,069 | $ 2,890 | **$ 2,801** |
| Marine Components | 757 | 940 | **1,167** |
| Corporate | 1 | 9 | **9** |
| Total | $ 3,827 | $ 3,839 | **$ 3,977** |
| | | | |
| Capital expenditures: | | | |
| Security Products | $ 1,252 | $ 1,044 | **$ 2,015** |
| Marine Components | 458 | 3,050 | **1,680** |
| Corporate | 30 | — | **—** |
| Total | $ 1,740 | $ 4,094 | **$ 3,695** |
| | | | |
| Net sales point of destination: | | | |
| United States | $ 107,712 | $ 129,160 | **$ 153,982** |
| Canada | 4,423 | 8,061 | **9,227** |
| Mexico | 431 | 589 | **722** |
| Other | 1,971 | 3,005 | **2,631** |
| Total | $ 114,537 | $ 140,815 | **$ 166,562** |

| | December 31, | | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| | | (In thousands) | |
| Total assets: | | | |
| Security Products | $ 70,755 | $ 78,193 | **$ 80,671** |
| Marine Components | 15,515 | 18,167 | **26,372** |
| Corporate | 97,775 | 96,092 | **70,344** |
| Total | $ 184,045 | $ 192,452 | **$ 177,387** |

Net property and equipment for 2020, 2021 and 2022 is entirely located within the United States.

**Note 3 – Marketable securities:**

| | Market value | Amortized cost basis | Unrealized loss, net |
|---|---|---|---|
| | | (In thousands) | |
| December 31, 2021: | | | |
| Current assets | $ — | $ — | $ — |
| December 31, 2022: | | | |
| Current assets | $ 33,147 | $ 33,164 | **$ (17)** |

Our marketable securities are invested in U.S. government treasuries with original maturities ranging in length from 4 months to 12 months. The fair value of our marketable securities are determined using Level 2 inputs (because although these securities are traded, in many cases the market is not active and the year-end valuation is generally based on the last trade of the year, which may be several days prior to December 31).

**Note 4 – Accounts receivable, net:**

| | December 31, 2021 | December 31, 2022 |
|---|---|---|
| | (In thousands) | |
| Accounts receivable, net: | | |
| Security Products | $ 12,896 | **$ 13,767** |
| Marine Components | 2,720 | **4,143** |
| Allowance for doubtful accounts | (70) | **(70)** |
| Total accounts receivable, net | $ 15,546 | **$ 17,840** |

**Note 5 – Inventories, net:**

| | December 31, 2021 | December 31, 2022 |
|---|---|---|
| | (In thousands) | |
| Raw materials: | | |
| Security Products | $ 3,640 | **$ 4,172** |
| Marine Components | 1,402 | **2,073** |
| Total raw materials | 5,042 | **6,245** |
| Work-in-process: | | |
| Security Products | 12,721 | **14,193** |
| Marine Components | 4,046 | **5,790** |
| Total work-in-process | 16,767 | **19,983** |
| Finished goods: | | |
| Security Products | 2,271 | **3,163** |
| Marine Components | 1,562 | **1,899** |
| Total finished goods | 3,833 | **5,062** |
| Total inventories, net | $ 25,642 | **$ 31,290** |

**Note 6 – Goodwill:**

We assign goodwill based on *reporting unit* (as that term is defined in ASC Topic 350-20-20, *Goodwill*) which corresponds to our operating segments. All of our net goodwill relates to our Security Products segment and was generated from acquisitions relating to our Security Products segment prior to 2001. We test for goodwill impairment at the reporting unit level. In accordance with the requirements of ASC Topic 350-20-20, we review goodwill for each of our reporting units for impairment during the third quarter of each year or when circumstances arise that indicate an impairment might be present.

In 2020, 2021 and 2022, our goodwill was tested for impairment only in the third quarter of each year in connection with our annual testing date. No impairment was indicated as part of such annual reviews of goodwill. As permitted by GAAP, during each of 2020, 2021 and 2022 we used the qualitative assessment of ASC 350-20-35 for our annual impairment test and determined it was not necessary to perform the quantitative goodwill impairment test.

Our gross goodwill at December 31, 2022 is $33.6 million. Prior to 2020, we recorded a $9.9 million goodwill impairment in our Marine Components segment resulting in a net consolidated carrying amount of $23.7 million. There have been no changes in the carrying amount of our goodwill during the past three years.

**Note 7 – Accounts payable and accrued liabilities:**

| | December 31, 2021 | December 31, 2022 |
|---|---|---|
| | (In thousands) | |
| Accounts payable: | | |
| Security Products | $ 2,594 | **$ 2,663** |
| Marine Components | 814 | **874** |
| Accrued liabilities: | | |
| Employee benefits | 9,797 | **10,489** |
| Taxes other than on income | 391 | **279** |
| Customer tooling | 516 | **135** |
| Advances from customers | — | **298** |
| Insurance | 208 | **255** |
| Deferred revenue | — | **243** |
| Other | 404 | **382** |
| Total accounts payable and accrued liabilities | $ 14,724 | **$ 15,618** |

**Note 8 – Income taxes:**

The provision for income taxes and the difference between such provision for income taxes and the amount that would be expected using the U.S. federal statutory income tax rate of 21% are presented below. All of our pre-tax income relates to operations in the United States.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| | | (In thousands) | |
| Provision for income taxes: | | | |
| Currently payable | $ 3,222 | $ 5,476 | **$ 7,130** |
| Deferred income tax benefit | (48) | (321) | **(688)** |
| Total | $ 3,174 | $ 5,155 | **$ 6,442** |
| | | | |
| Expected tax expense, at the U.S. federal statutory income tax rate of 21% | $ 2,835 | $ 4,562 | **$ 5,736** |
| State income taxes | 378 | 692 | **827** |
| FDII benefit | (55) | (120) | **(144)** |
| Other, net | 16 | 21 | **23** |
| Total provision for income taxes | $ 3,174 | $ 5,155 | **$ 6,442** |

On August 16, 2022, the Inflation Reduction Act was signed into law. Among other things, this legislation provides for a 15% corporate alternative minimum tax on certain large corporations, imposes a 1% excise tax on qualifying stock buybacks for transactions occurring after December 31, 2022, and provides for certain energy-related tax credits. We have evaluated the relevant provisions of the Act and do not expect them to have a material impact on our tax provision.

Under the "Tax Cuts and Jobs Act," domestic corporations who are U.S. exporters with no foreign operations may be eligible for a deduction under the foreign derived intangible income (FDII) provisions. We qualify for this deduction and recognized a current cash tax benefit of $.1 million in each of 2020, 2021 and 2022. See also Note 11 to our Consolidated Financial Statements.

The components of the net deferred tax liability are summarized below.

| | December 31, | |
|---|---|---|
| | 2021 | 2022 |
| | (In thousands) | |
| Tax effect of temporary differences related to: | | |
| Inventories | $ 531 | **$ 369** |
| Property and equipment | (2,951) | **(2,188)** |
| Accrued liabilities and other deductible differences | 39 | **51** |
| Accrued employee benefits | 1,182 | **1,262** |
| Goodwill | (1,693) | **(1,693)** |
| Other taxable differences | (26) | **(31)** |
| Total deferred tax liability | $ (2,918) | **$ (2,230)** |

We and Contran file income tax returns in U.S. federal and various state and local jurisdictions. Our income tax returns prior to 2019 are generally considered closed to examination by applicable tax authorities.

**Note 9 – Stockholders' equity:**

| | Shares of common stock | | |
|---|---|---|---|
| | Issued | Treasury | Outstanding |
| Balance at December 31, 2019 | 12,443,057 | — | 12,443,057 |
| Issued | 8,100 | — | 8,100 |
| Balance at December 31, 2020 | 12,451,157 | — | 12,451,157 |
| Issued | 4,500 | — | 4,500 |
| Acquired | — | (75,000) | (75,000) |
| Retired | (75,000) | 75,000 | — |
| Balance at December 31, 2021 | 12,380,657 | — | 12,380,657 |
| Issued | 5,400 | — | 5,400 |
| Acquired | — | (78,900) | (78,900) |
| Retired | (78,900) | 78,900 | — |
| Balance at December 31, 2022 | **12,307,157** | **—** | **12,307,157** |

*Common stock.* Our authorized capital stock consists of 20,000,000 shares of Class A common stock and 1,000 shares of preferred stock.

*Share repurchases and cancellations.* Prior to 2020, our board of directors authorized various repurchases of shares of our Class A common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. We may repurchase our common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, we may terminate the program prior to its completion. We will generally use cash on hand to acquire the shares. Repurchased shares will be added to our treasury and cancelled. We made no treasury purchases during 2020. During 2021, we purchased 75,000 shares of our Class A common stock (50,000 shares in the first quarter and 25,000 shares in the fourth quarter) in market transactions for approximately $1.3

million. During the second quarter of 2022, we acquired 78,900 shares of our Class A common stock for an aggregate amount of approximately $1.7 million under prior repurchase authorizations. Of these shares, 70,000 shares were purchased in a market transaction, and 8,900 shares were purchased from two of our affiliates in two separate private transactions that were also approved in advance by our independent directors. We cancelled these treasury shares and allocated their costs to common stock at par value and additional paid-in-capital. At December 31, 2022, 523,647 shares were available for purchase under these authorizations.

*Incentive compensation plan.* We have a share-based incentive compensation plan pursuant to which an aggregate of up to 200,000 shares of our Class A common stock can be awarded to non-employee members of our board of directors. All of the Class A common shares we issued in 2020, 2021 and 2022 were issued under this plan. At December 31, 2022, 131,050 shares were available for award under this plan.

*Dividends.* We paid regular quarterly dividends of $0.10 per share during 2020, $.20 per share during 2021 and $.25 per share during 2022. Cash dividends in 2022 also include a $1.75 per share special dividend. Declaration and payment of future dividends and the amount thereof, if any, is discretionary and 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.

**Note 10 – Related party transactions:**

We may be deemed to be controlled by Ms. Lisa Simmons and the Family Trust. See Note 1. Corporations that may be deemed to be controlled by or affiliated with these individuals sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions that resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. We continuously consider, review and evaluate, and understand that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that we might be a party to one or more such transactions in the future.

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. While certain of these loans may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe we have evaluated the credit risks in the terms of the applicable loans. In this regard, prior to 2020, we entered into an unsecured revolving demand promissory note with Valhi under which, as amended, we have agreed to loan Valhi up to $25 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, 2024. Loans made to Valhi at any time under the agreement are at our discretion. At the end of our fiscal year in 2021 and 2022, the outstanding principal balance receivable from Valhi under the promissory note was $18.7 million and $13.2 million, respectively. Interest income (including unused commitment fees) on our loan to Valhi was $1.5 million in 2020, $1.2 million in 2021 and $1.0 million in 2022.

Under the terms of an Intercorporate Service Agreement ("ISA") with Contran, employees of Contran perform certain management, tax planning, financial, legal and administrative services for us on a fee basis. Such fees are based upon the compensation of individual Contran employees providing services for us and/or estimates of time devoted to our affairs by such persons. Because of the number of companies affiliated with Contran, we believe we benefit from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. We negotiate ISA fees annually and agreements renew quarterly. Fees pursuant to these agreements aggregated $3.4 million in each of 2020, 2021, and 2022.

Contran and certain of its subsidiaries and affiliates, including us, purchase certain of their insurance policies and risk management services as a group, with the costs of the jointly-owned policies and services being apportioned among the participating companies. Tall Pines Insurance Company ("Tall Pines"), a subsidiary of Valhi, underwrites certain insurance policies for Contran and certain of its subsidiaries and affiliates, including us. Tall Pines purchases reinsurance from highly rated (as determined by A.M. Best or other internationally recognized ratings agency) third-party insurance carriers for substantially all of the risks it underwrites. Consistent with insurance industry practices, Tall Pines receives commissions from the reinsurance underwriters and/or assesses fees for certain of the policies that it underwrites. During 2020, 2021 and 2022 we paid $2.8 million, $2.9 million and $3.3 million, respectively under the group insurance program, which amounts principally represent insurance premiums, including $.7 million, $.9 million and $1.0 million, respectively, for policies written by Tall Pines. Amounts paid under the group insurance program also include payments to insurers or reinsurers for the reimbursement of claims within our applicable deductible or retention ranges that such insurers and reinsurers paid to third parties on our behalf, as well as amounts for claims and risk management services and various other third-party fees and expenses incurred by the program. We expect these relationships will continue in 2023.

With respect to certain of such jointly-owned insurance policies, it is possible that unusually large losses incurred by one or more insureds during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of the policy period. As a result, and in the event that the available coverage under a particular policy would become exhausted by one or more claims, Contran and certain of its subsidiaries and affiliates, including us, have entered into a loss sharing agreement under which any uninsured loss arising because the available coverage had been exhausted by one or more claims will be shared ratably amongst those entities that had submitted claims under the relevant policy. We believe the benefits, in the form of reduced premiums and broader coverage associated with the group coverage for such policies, justifies the risk associated with the potential for any uninsured loss.

**Note 11 – Commitments and contingencies:**

*Legal proceedings*. We are involved, from time to time, in various environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our business. We currently believe the disposition of all claims and disputes, individually or in the aggregate, should not have a material long-term adverse effect on our consolidated financial condition, results of operations or liquidity.

*Environmental matters and litigation*. Our operations are governed by various federal, state and local environmental laws and regulations. Our policy is to comply with environmental laws and regulations at all of our facilities and to continually strive to improve environmental performance in association with applicable industry initiatives. We believe our operations are in substantial compliance with applicable requirements of environmental laws. From time to time, we may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs.

*Income taxes.* From time to time, we undergo examinations of our income tax returns, and tax authorities have or may propose tax deficiencies. We believe we have adequately provided accruals for additional income taxes and related interest expense which may ultimately result from such examinations and we believe that the ultimate disposition of all such examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We are a party to a tax sharing agreement with Contran and NL providing for the allocation of tax liabilities and tax payments as described in Note 1. Under applicable law, we, as well as every other member of the Contran Tax Group, are each jointly and severally liable for the aggregate federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. NL has agreed, however, to indemnify us for any liability for income taxes of the Contran Tax Group in excess of our tax liability in accordance with the tax sharing agreement.

*Concentration of credit risk*. Our products are sold primarily in North America to original equipment manufacturers. Our ten largest customers accounted for approximately 48% of sales in 2020, 51% in 2021 and 52% in 2022. One customer of the Security Products segment accounted for 17% of consolidated sales in 2020, 16% in 2021, and 14% in 2022. One customer of the Marine Components segment accounted for 12% of consolidated sales in 2022.

**Note 12 – Financial instruments:**

See Note 3 for information on how we determine the fair value of our marketable securities.

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

| | December 31, 2021 | | December 31, 2022 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | (In thousands) | | | |
| Cash and cash equivalents | $ 76,579 | $ 76,579 | **$ 26,748** | **$ 26,748** |
| Accounts receivable, net | 15,546 | 15,546 | **17,840** | **17,840** |
| Accounts payable | 3,408 | 3,408 | **3,537** | **3,537** |

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

**UNSECURED REVOLVING**
**DEMAND PROMISSORY NOTE**

**$25,000,000.00** **December 31, 2022**

**Section 1.** ***Promise to Pay***. For and in consideration of value received, the undersigned, VALHI, INC., a corporation duly organized under the laws of the state of Delaware ("*Borrower*"), promises to pay, in lawful money of the United States of America, to the order of COMPX INTERNATIONAL INC., a corporation duly organized under the laws of the state of Delaware ("*CompX*"), or the holder hereof (as applicable, CompX or such holder shall be referred to as the "*Noteholder*"), the principal sum of TWENTY-FIVE MILLION and NO/100ths United States Dollars ($25,000,000.00) or such lesser amount as shall equal the unpaid principal amount of the loan made by the Noteholder to Borrower together with accrued and unpaid interest on the unpaid principal balance from time to time pursuant to the terms of this Unsecured Revolving Demand Promissory Note, as it may be amended from time to time (this "*Note*"). This Note shall be unsecured and will bear interest on the terms set forth in **Section 7** below. Capitalized terms not otherwise defined shall have the meanings given to such terms in **Section 19** of this Note.

**Section 2.2.** ***Amendment and Restatement.*** This Note renews, replaces, amends and restates in its entirety the Unsecured Revolving Demand Promissory Note dated December 31, 2021 in the original principal amount of $30,000,000.00 payable to the order of the Noteholder and executed by the Borrower (the "*Prior Note*"). As of the close of business on December 31, 2022, the unpaid principal balance of the Prior Note was $13,200,000.00, the accrued and unpaid interest thereon was nil and the accrued and unpaid commitment fee thereon was nil, which is the unpaid principal, accrued and unpaid interest and accrued and unpaid commitment fee owed under this Note as of the close of business on the date of this Note. This Note contains the entire understanding between the Noteholder and the Borrower with respect to the transactions contemplated hereby and supersedes all other instruments, agreements and understandings between the Noteholder and the Borrower with respect to the subject matter of this Note.

**Section 3.2.** ***Place of Payment***. All payments will be made at Noteholder's address at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2620, Attention: Treasurer, or such other place as the Noteholder may from time to time appoint in writing.

**Section 4.** ***Payments***. The unpaid principal balance of this Note and any accrued and unpaid interest thereon shall be due and payable on the Final Payment Date. Prior to the Final Payment Date, any accrued and unpaid interest on an unpaid principal balance shall be paid in arrears quarterly on the last day of each March, June, September and December, commencing March 31, 2023. All payments on this Note shall be applied first to accrued and unpaid interest, next to accrued interest not yet payable and then to principal. If any payment of principal or interest on this Note shall become due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and the payment shall be the amount owed on the original payment date.

**Section 5.** ***Prepayments***. This Note may be prepaid in part or in full at any time without penalty.

**Section 6.** ***Borrowings***. Prior to the Final Payment Date, Noteholder expressly authorizes Borrower to borrow, repay and re-borrow principal under this Note in increments of $100,000 on a daily basis so long as:

- the aggregate outstanding principal balance does not exceed $25,000,000.00; and
- no Event of Default has occurred and is continuing.

*Notwithstanding anything else in this Note, in no event will Noteholder be required to lend money to Borrower under this Note and loans under this Note shall be at the sole and absolute discretion of Noteholder.*

**Section 7.** ***Interest***. The unpaid principal balance of this Note shall bear interest at the rate per annum of the Prime Rate plus one percent (1.00%). In the event that an Event of Default occurs and is continuing, the unpaid principal amount shall bear interest from the Event of Default at the rate per annum of the Prime Rate plus four percent (4.00%) until such time as the Event of Default is cured. Accrued interest on the unpaid principal of this Note shall be computed on the basis of a 365- or 366-day year for actual days (including the first, but excluding the last day) elapsed, but in no event shall such computation result in an amount of accrued interest that would exceed accrued interest on the unpaid principal balance during the same period at the Maximum Rate. Notwithstanding anything to the contrary, this Note is expressly limited so that in no contingency or event whatsoever shall the amount paid or agreed to be paid to the Noteholder exceed the Maximum Rate. If, from any circumstances whatsoever, the Noteholder shall ever receive as interest an amount that would exceed the Maximum Rate, such amount that would be excessive interest shall be applied to the reduction of the unpaid principal balance and not to the payment of interest, and if the principal amount of this Note is paid in full, any remaining excess shall be paid to Borrower, and in such event, the Noteholder shall not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of the highest lawful rate permissible under applicable law. All sums paid or agreed to be paid to Noteholder for the use, forbearance or detention of the indebtedness of the Borrower to Noteholder shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full of the principal (including the period of any renewal or extension thereof) so that the interest on account of such indebtedness shall not exceed the Maximum Rate. If at any time the Contract Rate is limited to the Maximum Rate, any subsequent reductions in the Contract Rate shall not reduce the rate of interest on this Note below the Maximum Rate until the total amount of interest accrued equals the amount of interest that would have accrued if the Contract Rate had not been limited by the Maximum Rate. In the event that, upon the Final Payment Date, the total amount of interest paid or accrued on this Note is less than the amount of interest that would have accrued if the Contract Rate had not been limited by the Maximum Rate, then at such time, to the extent permitted by law, in addition to the principal and any other amounts Borrower owes to the Noteholder, the Borrower shall pay to the Noteholder an amount equal to the difference between: (i) the lesser of the amount of interest that would have accrued if the Contract Rate had not been limited by the Maximum Rate or the amount of interest that would have accrued if the Maximum Rate had at all times been in effect; and (ii) the amount of interest actually paid on this Note.

**Section 8. Fees and Expenses**. On the last day of each March, June, September and December, commencing March 31, 2023, and on the Final Payment Date, Borrower shall pay to Noteholder the Unused Commitment Fee for such period, *provided*, *however*, Borrower will not owe any Unused Commitment Fee for any part of such period (prorated as applicable) that the Noteholder is a net borrower of money from the Borrower. In addition, Borrower and any guarantor jointly and severally agree to pay on the Final Payment Date to Noteholder any other cost or expense reasonably incurred by Noteholder in connection with Noteholder's commitment to Borrower pursuant to the terms of this Note, including without limitation any other cost reasonably incurred by Noteholder pursuant to the terms of any credit facility of Noteholder.

**Section 9.** ***Remedy***. Upon the occurrence and during the continuation of an Event of Default, the Noteholder shall have all of the rights and remedies provided in the applicable Uniform Commercial Code, this Note or any other agreement among Borrower and in favor of the Noteholder, as well as those rights and remedies provided by any other applicable law, rule or regulation. In conjunction with and in addition to the foregoing rights and remedies of the Noteholder, the Noteholder may declare all indebtedness due under this Note, although otherwise unmatured, to be due and payable immediately without notice or demand whatsoever. All rights and remedies of the Noteholder are cumulative and may be exercised singly or concurrently. The failure to exercise any right or remedy will not be a waiver of such right or remedy.

**Section 10.** ***Right of Offset***. The Noteholder shall have the right of offset against amounts that may be due by the Noteholder now or in the future to Borrower against amounts due under this Note.

**Section 11.** ***Record of Outstanding Indebtedness***. The date and amount of each repayment of principal outstanding under this Note or interest thereon shall be recorded by Noteholder in its records. The principal balance outstanding and all accrued or accruing interest owed under this Note as recorded by Noteholder in its records shall be the best evidence of the principal balance outstanding and all accrued or accruing interest owed under this Note; *provided* that the failure of Noteholder to so record or any error in so recording or computing any such amount owed shall not limit or otherwise affect the obligations of the Borrower under this Note to repay the principal balance outstanding and all accrued or accruing interest.

**Section 12.** ***Waiver***. Borrower and each surety, endorser, guarantor, and other party now or subsequently liable for payment of this Note, severally waive demand, presentment for payment, notice of nonpayment, notice of dishonor, protest, notice of protest, notice of the intention to accelerate, notice of acceleration, diligence in collecting or bringing suit against any party liable on this Note, and further agree to any and all extensions, renewals, modifications, partial payments, substitutions of evidence of indebtedness, and the taking or release of any collateral with or without notice before or after demand by the Noteholder for payment under this Note.

**Section 13.** ***Costs and Attorneys' Fees***. In addition to any other amounts payable to Noteholder pursuant to the terms of this Note, in the event the Noteholder incurs costs in collecting on this Note, this Note is placed in the hands of any attorney for collection, suit is filed on this Note or if proceedings are had in bankruptcy, receivership, reorganization, or other legal or judicial proceedings for the collection of this Note, Borrower and any guarantor jointly and severally agree to pay on demand to the Noteholder all expenses and costs of collection, including, but not limited to, reasonable attorneys' fees incurred in connection with any such collection, suit, or proceeding, in addition to the principal and interest then due.

**Section 14.** ***Time of Essence***. Time is of the essence with respect to all of Borrower's obligations and agreements under this Note.

**Section 15.** ***Jurisdiction and Venue***. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF TEXAS, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF TEXAS. BORROWER CONSENTS TO JURISDICTION IN THE COURTS LOCATED IN DALLAS, TEXAS.

**Section 16.** ***Notice***. Any notice or demand required by this Note shall be deemed to have been given and received on the earlier of **(i)** when the notice or demand is actually received by the recipient or **(ii)** 72 hours after the notice is deposited in the United States mail, certified or registered, with postage prepaid, and addressed to the recipient. The address for giving notice or demand under this Note **(i)** to the Noteholder shall be the place of payment specified in **Section 3** or such other place as the Noteholder may specify in writing to the Borrower and **(ii)** to Borrower shall be the address below the Borrower's signature or such other place as the Borrower may specify in writing to the Noteholder.

**Section 17.** ***Amendment or Waiver of Provisions of this Note***. No amendment or waiver of any provision of this Note shall in any event be effective unless the same shall be in a writing referring to this Note and signed by the Borrower and the Noteholder. Such amendment or waiver shall be effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Note shall be deemed or shall constitute a waiver of any other provisions, whether or not similar, nor shall any waiver constitute a continuing waiver.

**Section 18.** ***Successors and Assigns***. All of the covenants, obligations, promises and agreements contained in this Note made by Borrower shall be binding upon its successors and permitted assigns, as applicable. Notwithstanding the foregoing, Borrower shall not assign this Note or its performance under this Note without the prior written consent of the Noteholder. Noteholder at any time may assign this Note without the consent of Borrower.

**Section 19.** ***Definitions.*** For purposes of this Note, the following terms shall have the following meanings:

**(a)** "***Basis Point***" shall mean 1/100$^{th}$ of 1 percent.

**(b)** "***Business Day***" shall mean any day banks are open in the state of Texas.

**(c)**(a) "***Contract Rate***" means the amount of any interest (including fees, charges or expenses or any other amounts that, under applicable law, are deemed interest) contracted for, charged or received by or for the account of Noteholder.

**(d)**(b) "***Event of Default***" wherever used herein, means any one of the following events:

**(i)**(i) the Borrower fails to pay any amount due on this Note and/or any fees or sums due under or in connection with this Note after any such payment otherwise becomes due and payable and three Business Days after demand for such payment;

**(ii)**(ii) the Borrower otherwise fails to perform or observe any other provision contained in this Note and such breach or failure to perform shall continue for a period of thirty days after notice thereof shall have been given to the Borrower by the Noteholder;

**(iii)**(iii) a case shall be commenced against Borrower, or Borrower shall file a petition commencing a case, under any provision of the Federal Bankruptcy Code of 1978, as amended, or shall seek relief under any provision of any other bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or shall consent to the filing of any petition against it under such law, or Borrower shall make an assignment for the benefit of its creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall consent to the appointment of a receiver, trustee or liquidator of Borrower or all or any part of its property; or

**(iv)**(iv) an event occurs that, with notice or lapse of time, or both, would become any of the foregoing Events of Default.

**(e)**(d) "***Final Payment Date***" shall mean the earlier of:

- written demand by the Noteholder for payment of all or part of the unpaid principal, the accrued and unpaid interest thereon and the accrued and unpaid commitment fee thereon, but in any event no earlier than December 31, 2024; or
- acceleration as provided herein.

**(f)**(c) "***Maximum Rate***" shall mean the highest lawful rate permissible under applicable law for the use, forbearance or detention of money.

**(g)** "***Prime Rate***" shall mean the fluctuating interest rate per annum in effect from time to time equal to the base rate on corporate loans as reported as the Prime Rate in the Money Rates column of *The Wall Street Journal* or other reliable source.

**(h)** "***Unused Commitment Amount***" for any period on after the date of this Note shall mean the average on each day of such period of the difference between (A) $25,000,000.00 and (B) the amount of the unpaid principal balance of this Note.

**(i)** "***Unused Commitment Fee***" shall mean the product of (A) 50 Basis Points per annum (pro rated to take into account that the fee is payable quarterly, or such shorter period if applicable) and (B) the Unused Commitment Amount.

**BORROWER**:

**VALHI, INC.**

By: /s/ Amy A. Samford

*Amy A. Samford*
*Executive Vice President and Chief Financial Officer*

Address:

5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2620

As of the date hereof, CompX International Inc., as the Noteholder, hereby agrees that this Note renews, replaces, amends and restates in its entirety the Prior Note, and that the unpaid principal of $13,200,000.00, the accrued and unpaid interest thereon of nil and the accrued and unpaid commitment fee thereon of nil that was owed under the Prior Note as of the close of business on December 31, 2022 are the unpaid principal, the accrued and unpaid interest thereon and the accrued and unpaid commitment fee thereon, respectively, owed under this Note as of the close of business on the date of this Note.

**COMPX INTERNATIONAL INC.**

By: /s/ Bryan A. Hanley

*Bryan A. Hanley*
*Senior Vice President and Treasurer*

Exhibit 21.1

# SUBSIDIARIES OF THE REGISTRANT

| Name of Corporation | Jurisdiction of Incorporation or Organization | % of Voting Securities Held at December 31, 2022 |
|---|---|---|
| CompX Security Products Inc. | Delaware | 100 |
| CompX Marine Inc. | Delaware | 100 |
| Custom Marine Inc. | Delaware | 100 |
| JZTB Realty LLC | Wisconsin | 100 |
| Livorsi Marine Inc. | Illinois | 100 |

**Exhibit 23.1**

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-181794) of CompX International Inc. of our report dated March 1, 2023 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Dallas, Texas
March 1, 2023

**Exhibit 31.1**

# CERTIFICATION

I, Scott C. James, certify that:

1) I have reviewed this annual report on Form 10-K 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: March 1, 2023

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

**Exhibit 31.2**

# CERTIFICATION

I, Amy A. Samford, certify that:

1) I have reviewed this annual report on Form 10-K 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: March 1, 2023

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

**Exhibit 32.1**

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

In connection with the Annual Report of CompX International Inc. (the Company) on Form 10-K for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Scott C. James, President and Chief Executive Officer of the Company and I, Amy A. Samford, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

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

Date: March 1, 2023

Note: The certification the registrant furnishes in this exhibit is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.