
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2018

Commission file number 1-13905

COMPX INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
Incorporation or organization)

57-0981653

(IRS Employer
Identification No.)

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

(Address of principal executive offices)

75240-2620

(Zip Code)

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

Indicate by checkmark:

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

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

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

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

Emerging growth company

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

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

Number of shares of Class A common stock outstanding on October 25, 2018: 12,435,557

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

	December 31, 2017	September 30, 2018 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,655	\$ 43,743
Accounts receivable, net	10,446	13,346
Inventories, net	15,382	17,159
Prepaid expenses and other	879	908
Total current assets	<u>56,362</u>	<u>75,156</u>
Other assets:		
Note receivable from affiliate	38,200	33,000
Goodwill	23,742	23,742
Other noncurrent	590	590
Total other assets	<u>62,532</u>	<u>57,332</u>
Property and equipment:		
Land	4,935	4,940
Buildings	22,774	22,698
Equipment	67,373	65,684
Construction in progress	569	994
	<u>95,651</u>	<u>94,316</u>
Less accumulated depreciation	<u>63,586</u>	<u>62,772</u>
Net property and equipment	<u>32,065</u>	<u>31,544</u>
Total assets	<u>\$ 150,959</u>	<u>\$ 164,032</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,792	\$ 12,037
Income taxes payable to affiliates	470	1,188
Total current liabilities	<u>11,262</u>	<u>13,225</u>
Noncurrent liabilities -		
Deferred income taxes	<u>3,112</u>	<u>3,293</u>
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	24	124
Class B common stock	100	—
Additional paid-in capital	55,612	55,751
Retained earnings	80,849	91,639
Total stockholders' equity	<u>136,585</u>	<u>147,514</u>
Total liabilities and stockholders' equity	<u>\$ 150,959</u>	<u>\$ 164,032</u>

Commitments and contingencies (Note 1)

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2018	2017	2018
	(unaudited)		(unaudited)	
Net sales	\$ 26,992	\$ 30,029	\$ 86,943	\$ 90,827
Cost of goods sold	18,794	20,435	59,552	60,494
Gross profit	8,198	9,594	27,391	30,333
Selling, general and administrative expense	4,830	5,074	14,897	15,454
Operating income	3,368	4,520	12,494	14,879
Interest income	546	697	1,363	1,908
Income before taxes	3,914	5,217	13,857	16,787
Provision for income taxes	1,418	1,286	4,906	4,132
Net income	\$ 2,496	\$ 3,931	\$ 8,951	\$ 12,655
Basic and diluted net income per common share	\$ 0.20	\$ 0.32	\$ 0.72	\$ 1.02
Cash dividends per share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15
Basic and diluted weighted average shares outstanding	12,426	12,436	12,422	12,431

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended	
	September 30,	
	2017	2018
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 8,951	\$ 12,655
Depreciation and amortization	2,747	2,588
Deferred income taxes	62	181
Other, net	252	316
Change in assets and liabilities:		
Accounts receivable, net	(1,386)	(2,910)
Inventories, net	(475)	(1,935)
Accounts payable and accrued liabilities	(599)	1,211
Accounts with affiliates	(584)	718
Prepays and other, net	(40)	(29)
Net cash provided by operating activities	<u>8,928</u>	<u>12,795</u>
Cash flows from investing activities:		
Capital expenditures	(2,127)	(2,042)
Note receivable from affiliate:		
Collections	40,400	44,200
Advances	(49,700)	(39,000)
Net cash provided by (used in) investing activities	<u>(11,427)</u>	<u>3,158</u>
Cash flows from financing activities -		
Dividends paid	(1,864)	(1,865)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(4,363)	14,088
Balance at beginning of period	33,153	29,655
Balance at end of period	<u>\$ 28,790</u>	<u>\$ 43,743</u>
Supplemental disclosures -		
Cash paid for income taxes	\$ 5,431	\$ 3,233

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Nine months ended September 30, 2018

(In thousands)

(unaudited)

	Common stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Class A	Class B			
Balance at December 31, 2017	\$ 24	\$ 100	\$ 55,612	\$ 80,849	\$ 136,585
Net income	—	—	—	12,655	12,655
Share conversion	100	(100)	—	—	—
Issuance of common stock	—	—	139	—	139
Cash dividends	—	—	—	(1,865)	(1,865)
Balance at September 30, 2018	\$ 124	\$ —	\$ 55,751	\$ 91,639	\$ 147,514

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE American: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at September 30, 2018. We manufacture and sell component products (security products and recreational marine components). At September 30, 2018, Valhi, Inc. (NYSE: VHI) owns 83% of NL's outstanding common stock and a wholly-owned subsidiary of Contran Corporation owns 92% of Valhi's outstanding common stock. All of Contran's outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly and their children, for which Ms. Simmons and Ms. Connelly are co-trustees, or is held directly by Ms. Simmons and Ms. Connelly or entities related to them. Consequently, Ms. Simmons and Ms. Connelly may be deemed to control Contran, Valhi, NL and us.

At our 2018 annual meeting of stockholders held May 23, 2018, our stockholders approved our second amended and restated certificate of incorporation, which among other things added a right for each holder of shares of our Class B common stock, at its option, to convert any or all of those shares into the same number of shares of our Class A common stock. The shares of our Class A and Class B common stock are identical in all respects, except for certain voting rights and certain conversion rights in respect of the shares of Class B common stock. Holders of our shares of Class B common stock were entitled to ten votes per share for election of our directors, and one vote per share on all other matters presented to our stockholders for their approval. Holders of our shares of Class A common stock are entitled to one vote per share on all matters presented to our stockholders for their approval. Our second amended and restated certificate of incorporation became effective on July 17, 2018 when we filed such certificate with the Delaware Secretary of State. Immediately after such effectiveness, NL, which owned all of the 10,000,000 issued and outstanding shares of our Class B common stock, converted such Class B shares into 10,000,000 shares of our Class A common stock. This conversion eliminated the dual-class voting structure with respect to election of our directors, providing for equal voting rights with respect to the election of directors for all shares of common stock and providing for uniform and equivalent corporate governance rights to all holders of our common stock. The rights of holders of Class A common stock were not otherwise affected, and the conversion does not affect the calculation of our earnings per share and has no impact on our consolidated financial position, results of operations or liquidity. Following such conversion, our authorized capital stock consists of 20,000,000 shares of Class A common stock (of which 12,435,557 shares are issued and outstanding), 10,000,000 shares of Class B common stock (none of which are issued and outstanding) and 1,000 shares of preferred stock (none of which are issued and outstanding). The second amended and restated certificate of incorporation does not permit the reissuance or resale of any of the shares of Class B common stock which were converted, and on October 31, 2018, our board of directors approved the retirement of the 10,000,000 shares of Class B common stock.

Basis of presentation. Consolidated in this Quarterly Report are the results of CompX International Inc. and its subsidiaries. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 that we filed with the Securities and Exchange Commission ("SEC") on February 28, 2018 (the "2017 Annual Report"). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2017 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2017) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results of operations for the interim periods ended September 30, 2018 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2017 Consolidated Financial Statements contained in our 2017 Annual Report.

Our operations are reported on a 52 or 53-week year. For presentation purposes, annual and quarterly information in the Condensed Consolidated Financial Statements and accompanying notes are presented as ended September 30, 2017, December 31, 2017 and September 30, 2018. The actual dates of our annual and quarterly periods are October 1, 2017, December 31, 2017 and September 30, 2018, respectively. Unless otherwise indicated, references in this report to "we", "us" or "our" refer to CompX International Inc. and its subsidiaries, taken as a whole.

Note 2 – Business segment information:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2018	2017	2018
	(In thousands)		(In thousands)	
Net sales:				
Security Products	\$ 22,854	\$ 24,541	\$ 74,903	\$ 75,845
Marine Components	4,138	5,488	12,040	14,982
Total net sales	<u>\$ 26,992</u>	<u>\$ 30,029</u>	<u>\$ 86,943</u>	<u>\$ 90,827</u>
Operating income (loss):				
Security Products	\$ 4,249	\$ 5,335	\$ 15,301	\$ 17,761
Marine Components	417	812	1,284	2,335
Corporate operating expenses	(1,298)	(1,627)	(4,091)	(5,217)
Total operating income	3,368	4,520	12,494	14,879
Interest income	546	697	1,363	1,908
Income before taxes	<u>\$ 3,914</u>	<u>\$ 5,217</u>	<u>\$ 13,857</u>	<u>\$ 16,787</u>

Intersegment sales are not material.

Note 3 – Accounts receivable, net:

	December 31,	September 30,
	2017	2018
	(In thousands)	
Accounts receivable, net:		
Security Products	\$ 9,341	\$ 10,857
Marine Components	1,175	2,559
Allowance for doubtful accounts	(70)	(70)
Total accounts receivable, net	<u>\$ 10,446</u>	<u>\$ 13,346</u>

Note 4 – Inventories, net:

	December 31,	September 30,
	2017	2018
	(In thousands)	
Raw materials:		
Security Products	\$ 2,156	\$ 2,236
Marine Components	574	765
Total raw materials	2,730	3,001
Work-in-process:		
Security Products	8,290	8,760
Marine Components	1,546	2,104
Total work-in-process	9,836	10,864
Finished goods:		
Security Products	2,079	2,362
Marine Components	737	932
Total finished goods	2,816	3,294
Total inventories, net	<u>\$ 15,382</u>	<u>\$ 17,159</u>

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2017	September 30, 2018
(In thousands)		
Accounts payable:		
Security Products	\$ 1,897	\$ 2,624
Marine Components	375	\$ 653
Accrued liabilities:		
Employee benefits	7,413	7,037
Customer tooling	290	421
Taxes other than on income	289	638
Other	528	664
Total accounts payable and accrued liabilities	<u>\$ 10,792</u>	<u>\$ 12,037</u>

Note 6 – Revenue Recognition

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. Effective January 1, 2018 with the adoption of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*(see Note 10), 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 such payment being probable of occurring. 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 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.

ASU 2014-09 requires 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. We have determined such disaggregation of our sales is the same as the disclosure of our sales by segment. See Note 2.

Note 7 – Provision for income taxes:

	Nine months ended September 30,	
	2017	2018
(In thousands)		
Expected tax expense, at the U.S. federal statutory income tax rate of 35% in 2017 and 21% in 2018	\$ 4,850	\$ 3,525
Domestic production activities deduction	(420)	—
State income taxes	400	576
Other, net	76	31
Total income tax expense	\$ 4,906	\$ 4,132

As discussed in the 2017 Annual Report, on December 22, 2017, H.R.1, formally known as the “Tax Cuts and Jobs Act” (“2017 Tax Act”) was enacted into law. This new tax legislation, among other changes, (i) reduced the U.S. Federal corporate income tax rate from 35% to 21% effective January 1, 2018; (ii) eliminated the domestic production activities deduction beginning in 2018; and (iii) allows for the expensing of certain capital expenditures. Following the enactment of the 2017 Tax Act, the Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) 118 to provide guidance on the accounting and reporting impacts of the 2017 Tax Act. SAB 118 states that companies should account for changes related to the 2017 Tax Act in the period of enactment if all information is available and the accounting can be completed. In situations where companies do not have enough information to complete the accounting in the period of enactment, a company must either 1) record an estimated provisional amount if the impact of the change can be reasonably estimated; or 2) continue to apply the accounting guidance that was in effect immediately prior to the 2017 Tax Act if the impact of the change cannot be reasonably estimated. If estimated provisional amounts are recorded, SAB 118 provides a measurement period of no longer than one year during which companies should adjust those amounts as additional information becomes available in the reporting period within the measurement period in which such adjustment is determined.

Under GAAP, we were required to revalue our net deferred tax liability associated with our U.S. net taxable temporary differences in the period in which the new tax legislation was enacted based on deferred tax balances as of the enactment date, to reflect the effect of such reduction in the corporate income tax rate. Our temporary differences as of December 31, 2017 were not materially different from our temporary differences as of the enactment date, accordingly revaluation of our net taxable temporary differences was based on our net deferred tax liability as of December 31, 2017. Such revaluation resulted in a non-cash deferred income tax benefit of \$1.9 million recognized as of December 31, 2017 in continuing operations, reducing our net deferred income tax liability. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represented estimates based on information currently available. We did not make any additional measurement-period adjustments to the provisional amounts recorded for this item during the first six months of 2018, as we were still waiting on additional guidance that might impact the income tax effects of the new legislation recognized at December 31, 2017. During the third quarter of 2018, in conjunction with finalizing our federal income tax return, we were able to obtain, prepare and analyze the necessary information to complete the accounting under ASC 740 related to the revaluation of our net deferred tax liability associated with our U.S. net taxable temporary differences as of December 31, 2017, which resulted in the recognition of an immaterial adjustment to the provisional amount recognized at December 31, 2017. Accordingly, we have completed our analysis related to such revaluation as of September 30, 2018.

Note 8 – Financial instruments:

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

	December 31, 2017		September 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
(In thousands)				
Cash and cash equivalents	\$ 29,655	\$ 29,655	\$ 43,743	\$ 43,743
Accounts receivable, net	10,446	10,446	13,346	13,346
Accounts payable	2,272	2,272	3,277	3,277

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

Note 9 – Related party transactions:

From time to time, we may have loans and advances outstanding between us and various related parties pursuant to term and demand notes. We generally enter into these loans and advances for cash management purposes. When we loan funds to related parties, we are generally able to earn a higher rate of return on the loan than we would earn if we invested the funds in other instruments, and when we borrow from related parties, we are generally able to pay a lower rate of interest than we would pay if we had incurred third-party indebtedness. While certain of these loans to affiliates may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe we have considered the credit risks in the terms of the applicable loans. In this regard, we have an unsecured revolving demand promissory note with Valhi whereby we agreed to loan Valhi up to \$40 million. Our loan to Valhi, as amended, bears interest at prime plus 1.00%, payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2019. Loans made to Valhi at any time under the agreement are at our discretion. At September 30, 2018, the outstanding principal balance receivable from Valhi under the promissory note was \$33.0 million. Interest income (including unused commitment fees) on our loan to Valhi was \$0.5 million for each of the three month periods ended September 30, 2017 and 2018, and \$1.3 million and \$1.6 million for the nine months ended September 30, 2017 and 2018, respectively.

Note 10 – Recent accounting pronouncements:*Adopted*

On January 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* for all contracts which were not completed as of January 1, 2018 using the modified retrospective method. Prior to adoption of this standard, we recorded sales when our products were shipped and title and other risks and rewards of ownership had passed to our customer, which was generally at the time of shipment (although in some instances shipping terms were FOB destination point, for which we did not recognize revenue until the product was received by our customer). Following adoption of this standard, we record sales when we satisfy our performance obligations to our customers by transferring control of our products to them, which we have determined is at the same point in time that we recognized revenue prior to adoption of this new standard. Accordingly, the adoption of Topic 606 as of January 1, 2018 did not have a material impact on our consolidated financial statements, and we believe adoption of this standard will have a minimal effect on our revenues on an ongoing basis. See Note 6.

Pending Adoption

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

Business Overview

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

General

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

- Future demand for our products,
- Changes in our raw material and other operating costs (such as zinc, brass, aluminum, steel and energy costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs,
- Price and product competition from low-cost manufacturing sources (such as China),
- The impact of pricing and production decisions,
- Customer and competitor strategies including substitute products,
- Uncertainties associated with the development of new product features,
- Future litigation,
- Potential difficulties in integrating future acquisitions,
- Decisions to sell operating assets other than in the ordinary course of business,
- Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters, including future tax reform,
- The impact of current or future government regulations (including employee healthcare benefit related regulations),
- General global economic and political conditions that introduce instability into the U.S. economy (such as changes in the level of gross domestic product in various regions of the world),
- Operating interruptions (including, but not limited to labor disputes, hazardous chemical leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime, transportation interruptions and cyber-attacks); and
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts.

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

Operations Overview

We reported operating income of \$4.5 million in the third quarter of 2018 compared to \$3.4 million in the same period of 2017. Operating income for the first nine months of 2018 was \$14.9 million compared to \$12.5 million for the comparable period in 2017. The increase in operating income in 2018 over 2017 is primarily due to higher sales at both Security Products and Marine Components as well as the impact of favorable changes in customer and product mix in Security Products for the first nine months of 2018.

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

Results of Operations

	Three months ended September 30,			
	2017	%	2018	%
	(Dollars in thousands)			
Net sales	\$ 26,992	100.0%	\$ 30,029	100.0%
Cost of goods sold	18,794	69.6%	20,435	68.1%
Gross profit	8,198	30.4%	9,594	31.9%
Operating costs and expenses	4,830	17.9%	5,074	16.8%
Operating income	\$ 3,368	12.5%	\$ 4,520	15.1%

	Nine months ended September 30,			
	2017	%	2018	%
	(Dollars in thousands)			
Net sales	\$ 86,943	100.0%	\$ 90,827	100.0%
Cost of goods sold	59,552	68.5%	60,494	66.6%
Gross profit	27,391	31.5%	30,333	33.4%
Operating costs and expenses	14,897	17.1%	15,454	17.0%
Operating income	\$ 12,494	14.4%	\$ 14,879	16.4%

Net sales. Net sales increased \$3.0 million in the third quarter of 2018 compared to the same period in 2017 due to higher sales of security products across the majority of our markets including transportation, government security, office furniture and distribution as well as continued strong growth in sales of marine components to various marine and industrial markets. Net sales increased \$3.9 million in the first nine months of 2018 compared to the same period in 2017 due to the higher Marine Components sales volumes, and to a lesser extent Security Products sales across the majority of our markets, particularly transportation, office furniture and distribution. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of goods sold and gross profit. Cost of goods sold as a percentage of sales decreased 1.5% in the third quarter of 2018 compared to the same period in 2017 primarily due to improved coverage of fixed costs over increased production volumes. As a result, gross profit increased over the same period. As a percentage of net sales, cost of goods sold for the first nine months of 2018 decreased 1.9% compared to the same period in 2017 due to favorable changes in customer and product mix in Security Products as well as improved manufacturing efficiencies and fixed cost leverage facilitated by higher production volumes for each of our business segments. Gross profit for the third quarter and first nine months of 2018 increased over the same periods in the prior year due to the aforementioned factors.

Operating costs and expenses. Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses, as well as gains and losses on plant, property and equipment. Operating costs and expenses for the third quarter and first nine months of 2018 were comparable to the same periods in 2017.

Operating income. As a percentage of net sales, operating income for the third quarter and first nine months of 2018 increased compared to the same periods of 2017 and was primarily impacted by the factors impacting cost of goods sold, gross margin and operating costs discussed above.

Provision for income taxes. A tabular reconciliation of our actual tax provision to the U.S. federal statutory income tax rate is included in Note 7 to the Condensed Consolidated Financial Statements. Our operations are wholly within the U.S. and therefore our effective income tax rate is primarily reflective of the U.S. federal statutory rate and applicable state taxes.

Segment Results

The key performance indicator for our segments is operating income.

	Three months ended			Nine months ended		
	September 30,		% Change	September 30,		% Change
	2017	2018		2017	2018	
	(Dollars in thousands)			(Dollars in thousands)		
Net sales:						
Security Products	\$ 22,854	\$ 24,541	7%	\$ 74,903	\$ 75,845	1%
Marine Components	4,138	5,488	33%	12,040	14,982	24%
Total net sales	\$ 26,992	\$ 30,029	11%	\$ 86,943	\$ 90,827	4%
Gross profit:						
Security Products	\$ 7,216	\$ 8,113	12%	\$ 24,380	\$ 26,082	7%
Marine Components	982	1,481	51%	3,011	4,251	41%
Total gross profit	\$ 8,198	\$ 9,594	17%	\$ 27,391	\$ 30,333	11%
Operating income:						
Security Products	\$ 4,249	\$ 5,335	26%	\$ 15,301	\$ 17,761	16%
Marine Components	417	812	95%	1,284	2,335	82%
Corporate operating expenses	(1,298)	(1,627)	-25%	(4,091)	(5,217)	-28%
Total operating income	\$ 3,368	\$ 4,520	34%	\$ 12,494	\$ 14,879	19%
Gross profit margin:						
Security Products	31.6%	33.1%		32.5%	34.4%	
Marine Components	23.7%	27.0%		25.0%	28.4%	
Total gross profit margin	30.4%	31.9%		31.5%	33.4%	
Operating income margin:						
Security Products	18.6%	21.7%		20.4%	23.4%	
Marine Components	10.1%	14.8%		10.7%	15.6%	
Total operating income margin	12.5%	15.1%		14.4%	16.4%	

Security Products. Security Products net sales in the third quarter of 2018 increased 7% compared to the same period in 2017 on improved sales across the majority of our markets including transportation, government security, office furniture and distribution. Gross profit margin and operating income as a percentage of sales for the third quarter increased compared to the same period in 2017 primarily due to improved coverage of fixed cost over increased production volumes.

Security Products net sales increased 1% for the first nine months of 2018 compared to the same period last year primarily due to higher sales to the transportation, office furniture and distribution markets. Gross profit margin and operating income as a percentage of sales for the first nine months of 2018 increased compared to the same periods in the prior year due to favorable changes in customer and product mix, higher production volumes resulting in improved manufacturing efficiencies and fixed cost coverage and lower production costs, including headcount reductions made during the second quarter of 2017.

Marine Components. Marine Components net sales increased 33% and 24% in the third quarter and first nine months of 2018, respectively, as compared to the same periods last year. The increase in sales reflects improved demand for products sold to original equipment manufacturers of recreational towboats and to a lesser extent sales to manufacturers of larger center-console boats and industrial customers. Gross profit margin and operating income as a percentage of net sales increased in the third quarter and first nine

months of 2018 compared to the same periods last year due to improved fixed cost leverage facilitated by the higher production volumes.

Outlook. Due to the strong third quarter, year-to-date sales of security products now exceed the comparable year-to-date period, while sales of marine components continue to significantly outpace year-to-date 2017 due to the significant traction achieved through new product offerings, primarily to the recreational boat markets. We believe full year sales of our security products and marine components, as well as the related operating earnings, will also surpass prior year. We monitor changes in economic conditions and sales order rates and will respond to fluctuations in customer demand through continuous evaluation of staffing levels and consistent execution of our lean manufacturing and cost improvement initiatives. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, to expand into new markets and to develop new product features in order to mitigate the impact of changes in demand as well as broaden our sales base.

Liquidity and Capital Resources

Consolidated cash flows –

Operating activities. Trends in cash flows from operating activities, excluding changes in assets and liabilities, have generally been similar to the trends in operating earnings. Changes in assets and liabilities result primarily from the timing of production, sales and purchases. Changes in assets and liabilities generally tend to even out over time. However, period-to-period relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities.

Net cash provided by operating activities for the first nine months of 2018 increased by \$3.9 million as compared to the first nine months of 2017. The increase is primarily due to the net effects of:

- Higher operating income of \$2.4 million in 2018;
- Higher interest income received of \$0.5 million in 2018;
- Lower cash paid for taxes of \$2.2 million in 2018, due to tax legislation that, among other changes, reduced the U.S. Federal corporate income tax rate from 35% to 21% effective January 1, 2018 (see Note 7); and
- Higher net cash used by relative changes in our inventories, receivables, prepaids, payables and non-tax related accruals of approximately \$1.2 million in 2018;

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, the change in our average days sales outstanding from December 31, 2017 to September 30, 2018 varied by segment, primarily as a result of relative changes in the timing of collections. While our September 30, 2018 days sales outstanding were consistent with recent trends and in line with our expectations on a consolidated basis, the Marine Components metric was higher than expected due primarily to timing of certain customer payments during the third quarter of 2018. For comparative purposes, we have provided December 31, 2016 and September 30, 2017 numbers below.

Days Sales Outstanding:	December 31, 2016	September 30, 2017	December 31, 2017	September 30, 2018
Security Products	36 Days	40 Days	39 Days	40 Days
Marine Components	33 Days	35 Days	31 Days	42 Days
Consolidated CompX	36 Days	40 Days	38 Days	40 Days

As expected, our total average number of days in inventory decreased from December 31, 2017 to September 30, 2018 primarily as a result of the seasonal increase in sales during the third quarter of 2018 as compared to the fourth quarter of 2017. The variability in days in inventory among our segments primarily relates to the differences in the complexity of the production processes and therefore the length of time it takes to produce and sell end-products. For comparative purposes, we have provided December 31, 2016 and September 30, 2017 numbers below.

Days in Inventory:	December 31, 2016	September 30, 2017	December 31, 2017	September 30, 2018
Security Products	73 Days	73 Days	76 Days	74 Days
Marine Components	122 Days	80 Days	96 Days	86 Days
Consolidated CompX	79 Days	74 Days	79 Days	76 Days

Investing activities. Our capital expenditures were \$2.0 million in the first nine months of 2018 compared to \$2.1 million in the first nine months of 2017. During the first nine months of 2018, Valhi repaid a net \$5.2 million under the promissory note (\$39.0 million of gross borrowings and \$44.2 million of gross repayments). During the first nine months of 2017, Valhi borrowed a net \$9.3 million under the promissory note (\$49.7 million of gross borrowings and \$40.4 million of gross repayments). See Note 9 to the Condensed Consolidated Financial Statements.

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

Future cash requirements –

Liquidity. Our primary source of liquidity on an on-going basis is our cash flow from operating activities, which is generally used to (i) fund capital expenditures, (ii) repay short-term or long-term indebtedness incurred primarily for capital expenditures, investment activities or reducing our outstanding stock, (iii) provide for the payment of dividends (if declared), and (iv) lend to affiliates. From time-to-time, we will incur indebtedness, primarily to fund capital expenditures or business combinations.

Periodically, we evaluate liquidity requirements, alternative uses of capital, capital needs and available resources in view of, among other things, our capital expenditure requirements, dividend policy and estimated future operating cash flows. As a result of this process, we have in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, issue additional securities, modify our dividend policy or take a combination of such steps to manage our liquidity and capital resources. In the normal course of business, we may review opportunities for acquisitions, joint ventures or other business combinations in the component products industry. In the event of any such transaction, we may consider using available cash, issuing additional equity securities or increasing our indebtedness or that of our subsidiaries.

We believe that cash generated from operations together with cash on hand, as well as our ability to obtain external financing, will be sufficient to meet our liquidity needs for working capital, capital expenditures, debt service, dividends (if declared) and any amounts we might loan from time to time under the terms of our revolving loan to Valhi discussed in Note 9 to our Condensed Consolidated Financial Statements (which loans would be solely at our discretion) for both the next 12 months and five years. To the extent that our actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

All of our \$43.7 million aggregate cash and cash equivalents at September 30, 2018 were held in the U.S.

Capital Expenditures. Firm purchase commitments for capital projects in process at September 30, 2018 totaled \$0.6 million. Our 2018 capital investments are limited to those expenditures required to meet our expected customer demand and those required to properly maintain our facilities and technology infrastructure.

Commitments and Contingencies. There have been no material changes in our contractual obligations since we filed our 2017 Annual Report and we refer you to that report for a complete description of these commitments.

Off-balance sheet financing arrangements –

We do not have any off-balance sheet financing agreements other than the operating leases discussed in our 2017 Annual Report.

Recent accounting pronouncements –

See Note 10 to our Condensed Consolidated Financial Statements.

Critical accounting policies –

There have been no changes in the first nine months of 2018 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to market risk from changes in interest rates and raw material prices. There have been no material changes in these market risks since we filed our 2017 Annual Report, and we refer you to Part I, Item 7A – "Quantitative and Qualitative Disclosure About Market Risk" in our 2017 Annual Report. See also Note 8 to the Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures which, as defined in Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the “Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Our management with the participation of Scott C. James, our President and Chief Executive Officer, and James W. Brown, our Vice President, Chief Financial Officer and Controller, has evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2018. Based on their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of the date of such evaluation.

Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting which, as defined in Exchange Act Rule 13a-15(f), means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- Provide reasonable assurance regarding prevention or timely detection of an unauthorized acquisition, use or disposition of our assets that could have a material effect on our Condensed Consolidated Financial Statements.

Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 1A. Risk Factors.

Reference is made to the 2017 Annual Report for a discussion of the risk factors related to our businesses. There have been no material changes in such risk factors during the first nine months of 2018.

ITEM 6. Exhibits.

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

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

SIGNATURES

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

COMPX INTERNATIONAL INC.
(Registrant)

Date: October 31, 2018

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

CERTIFICATION

I, Scott C. James, certify that:

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

Date: October 31, 2018

By: /s/ Scott C. James

Scott C. James

President and Chief Executive Officer

CERTIFICATION

I, James W. Brown, certify that:

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

Date: October 31, 2018

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

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

In connection with the Quarterly Report of CompX International Inc. (the Company) on Form 10-Q for the period ending September 30, 2018 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, James W. Brown, Vice President, Chief Financial Officer and Controller of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: October 31, 2018

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.