

COMPX INTERNATIONAL INC
Form 10-Q
August 05, 2015

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 June 30, 2015

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.)
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5430 LBJ Freeway, Suite 1700,

Three Lincoln Centre, Dallas, Texas (Address of principal executive offices)	75240-2697 (Zip Code)
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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

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

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

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

Number of shares of common stock outstanding on July 31, 2015:

Class A: 2,411,107

Class B: 10,000,000

COMPX INTERNATIONAL INC.

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

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December	
	31, 2014	June 30, 2015 (unaudited)
Current assets:		
Cash and cash equivalents	\$45,570	\$ 43,005
Accounts receivable, net	8,747	13,073
Inventories, net	16,863	16,118
Deferred income taxes	2,444	2,444
Prepaid expenses and other	556	652
Total current assets	74,180	75,292
Other assets:		
Goodwill	23,742	23,742
Other noncurrent	599	591
Total other assets	24,341	24,333
Property and equipment:		
Land	4,928	4,928
Buildings	20,906	21,028
Equipment	61,835	62,780
Construction in progress	909	1,478
	88,578	90,214
Less accumulated depreciation	55,564	57,203
Net property and equipment	33,014	33,011
Total assets	\$ 131,535	\$ 132,636

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2014	June 30, 2015 (unaudited)
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,796	\$ 9,883
Income taxes payable to affiliates	433	607
Total current liabilities	13,229	10,490
Noncurrent liabilities:		
Deferred income taxes	7,320	7,096
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	24	24
Class B common stock	100	100
Additional paid-in capital	55,342	55,422
Retained earnings	55,520	59,504
Total stockholders' equity	110,986	115,050
Total liabilities and stockholders' equity	\$ 131,535	\$ 132,636

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 June 30,		Six months ended June 30,	
	2014	2015	2014	2015
	(unaudited)		(unaudited)	
Net sales	\$26,848	\$28,918	\$52,629	\$56,808
Cost of goods sold	18,235	19,758	36,267	39,082
Gross profit	8,613	9,160	16,362	17,726
Selling, general and administrative expense	4,701	4,854	9,162	9,719
Operating income	3,912	4,306	7,200	8,007
Interest income	7	8	12	16
Income before taxes	3,919	4,314	7,212	8,023
Provision for income taxes	1,363	1,504	2,516	2,799
Net income	\$2,556	\$2,810	\$4,696	\$5,224
Basic and diluted net income per common share	\$0.21	\$0.23	\$0.38	\$0.42
Cash dividends per share	\$0.05	\$0.05	\$0.10	\$0.10
Basic and diluted weighted average shares outstanding	12,400	12,407	12,398	12,405

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended June 30,	
	2014	2015
	(unaudited)	
Cash flows from operating activities:		
Net income	\$4,696	\$5,224
Depreciation and amortization	1,744	1,771
Deferred income taxes	(258)	(224)
Other, net	298	216
Change in assets and liabilities:		
Accounts receivable, net	(3,795)	(4,348)
Inventories, net	(2,784)	632
Accounts payable and accrued liabilities	1,303	(2,762)
Accounts with affiliates	362	174
Other, net	136	(95)
Net cash provided by operating activities	1,702	588
Cash flows from investing activities -		
Capital expenditures	(1,624)	(1,913)
Cash flows from financing activities -		
Dividends paid	(1,240)	(1,240)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(1,162)	(2,565)
Balance at beginning of period	38,753	45,570
Balance at end of period	\$37,591	\$43,005
Supplemental disclosures - cash paid for:		
Income taxes	\$2,410	\$2,848

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Six months ended June 30, 2015

(In thousands)

(unaudited)

	Common stock Class Class		Additional paid-in capital	Retained earnings	Total stockholders' equity
	A	B			
Balance at December 31, 2014	\$24	\$100	\$55,342	\$55,520	\$110,986
Net income	—	—	—	5,224	5,224
Issuance of common stock	—	—	80	—	80
Cash dividends	—	—	—	(1,240)	(1,240)
Balance at June 30, 2015	\$24	\$100	\$55,422	\$59,504	\$115,050

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(unaudited)

Note 1 – Organization and basis of presentation:

Organization. We (NYSE MKT: CIX) are 87% owned by NL Industries, Inc. (NYSE: NL) at June 30, 2015. We manufacture and sell component products (security products and recreational marine components). At June 30, 2015, (i) Valhi, Inc. (NYSE: VHI) owns approximately 83% of NL's outstanding common stock and (ii) a wholly-owned subsidiary of Contran Corporation ("Contran") owns 93% of Valhi's outstanding common stock. Substantially 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, daughters of Harold C. Simmons, and their children (for which Ms. Lisa Simmons and Ms. Connelly are co-trustees) or is held directly by Ms. Lisa Simmons and Ms. Connelly or persons or entities related to them, including their step-mother Annette C. Simmons, the widow of Mr. Simmons. Under a voting agreement entered into by all of the voting stockholders of Contran, effective in February 2014 and as amended, the size of the board of directors of Contran was fixed at five members, Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons (and in the event of their death, their heirs) each has the right to designate one of the five members of the Contran board and the remaining two members of the Contran board must consist of members of Contran management. Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons each serve as members of the Contran board. The voting agreement expires in February 2017 (unless Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons otherwise unanimously agree), and the ability of Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons to each designate one member of the Contran board is dependent upon each of their continued beneficial ownership of at least 5% of the combined voting stock of Contran. Consequently, Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons may be deemed to control Contran, Valhi, NL and us.

Basis of presentation. Consolidated in this Quarterly Report are the results of CompX International Inc. and its subsidiaries. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 that we filed with the Securities and Exchange Commission ("SEC") on March 5, 2015 (the "2014 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, 2014 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, 2014) 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 June 30, 2015 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 2014 Consolidated Financial Statements contained in our 2014 Annual Report.

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		Six months ended	
	June 30, 2014	2015	June 30, 2014	2015
	(In thousands)		(In thousands)	
Net sales:				
Security Products	\$23,045	\$25,059	\$46,009	\$49,716
Marine Components	3,803	3,859	6,620	7,092
Total net sales	\$26,848	\$28,918	\$52,629	\$56,808
Operating income (loss):				
Security Products	\$4,842	\$5,254	\$9,542	\$10,200
Marine Components	521	606	505	866
Corporate operating expenses	(1,451)	(1,554)	(2,847)	(3,059)
Total operating income	3,912	4,306	7,200	8,007
Interest income	7	8	12	16
Income before taxes	\$3,919	\$4,314	\$7,212	\$8,023

Intersegment sales are not material.

Note 3 – Accounts receivable, net:

	December	
	31, 2014	June 30, 2015
	(In thousands)	
Accounts receivable, net:		
Security Products	\$7,912	\$11,717
Marine Components	913	1,457
Allowance for doubtful accounts	(78)	(101)
Total accounts receivable, net	\$8,747	\$13,073

Note 4 – Inventories, net:

June 30,

	December	
	31,	
	2014	2015
	(In thousands)	
Raw materials:		
Security Products	\$2,805	\$2,885
Marine Components	588	583
Total raw materials	3,393	3,468
Work-in-process:		
Security Products	8,889	8,926
Marine Components	1,382	1,397
Total work-in-process	10,271	10,323
Finished goods:		
Security Products	2,331	1,509
Marine Components	868	818
Total finished goods	3,199	2,327
Total inventories, net	\$16,863	\$16,118

Note 5 – Other noncurrent assets:

	December 31, 30, 2014 2015 (In thousands)	
Assets held for sale	\$ 590	\$ 590
Other	9	1
Total other noncurrent assets	\$ 599	\$ 591

Note 6 – Accounts payable and accrued liabilities:

	December 31, 30, 2014 2015 (In thousands)	
Accounts payable	\$3,850	\$2,930
Accrued liabilities:		
Employee benefits	7,388	5,346
Customer tooling	407	434
Taxes other than on income	266	368
Insurance	217	227
Professional	231	100
Other	437	478
Total accounts payable and accrued liabilities	\$ 12,796	\$ 9,883

Note 7 – Provision for income taxes:

	Six months ended June 30, 2014 2015 (In thousands)	
Expected tax expense, at the U.S. federal statutory	\$ 2,524	\$ 2,808

income tax rate of 35%		
Domestic manufacturing credit	(238)	(260)
State income taxes	218	238
Nondeductible expenses	12	13
Total income tax expense	\$2,516	\$2,799

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, 2014		June 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash and cash equivalents	\$45,570	\$45,570	\$43,005	\$43,005
Accounts receivable, net	8,747	8,747	13,073	13,073
Accounts payable	3,850	3,850	2,930	2,930

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:

As discussed in our 2014 Annual Report, prior to 2014 we entered into an unsecured revolving demand promissory note with NL in which, as amended, we agreed to loan NL up to \$40 million. The principal amount we might lend to NL at any time under such facility was at our discretion, and we made no loans to NL at any time since prior to 2014. In June 2015, we terminated such loan facility with NL.

Note 10 – Recent accounting pronouncements:

In May 2014, FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard replaces existing revenue recognition guidance, which in many cases was tailored for specific industries, with a uniform accounting standard applicable to all industries and transactions. The new standard is currently effective for us beginning in the first quarter of 2017. However, the FASB has voted to issue an ASU that would defer the required adoption date by one year, and assuming such ASU is issued by the FASB, the new standard would be effective for us beginning in the first quarter of 2018. Entities may elect to adopt ASU No. 2014-09 retrospectively for all periods for all contracts and transactions which occurred during the period (with a few exceptions for practical expediency) or retrospectively with a cumulative effect recognized as of the date of adoption. ASU No. 2014-09 is a fundamental rewriting of existing GAAP with respect to revenue recognition, and we are still evaluating the effect the standard will have on our Consolidated Financial Statements. In addition, we have not yet determined the method we will use to adopt the standard.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Business Overview

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

General

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

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

Should one or more of these risks materialize (or the consequences of such development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a

result of changes in information, future events or otherwise.

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Operations Overview

We reported operating income of \$4.3 million in the second quarter of 2015 compared to \$3.9 million in the same period of 2014. We reported operating income of \$8.0 million for the six month period ended June 30, 2015 compared to \$7.2 million for the comparable period in 2014. Our operating income increased for the quarter and for the six month period in 2015 due to the positive impact of higher sales in 2015, primarily from an increase to existing Security Products customers.

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

Results of Operations

	Three months ended June 30, 2014 % 2015 % (unaudited)			
Net sales	\$26,848	100.0%	\$28,918	100.0%
Cost of goods sold	18,235	67.9 %	19,758	68.3 %
Gross profit	8,613	32.1 %	9,160	31.7 %
Operating costs and expenses	4,701	17.5 %	4,854	16.8 %
Operating income	\$3,912	14.6 %	\$4,306	14.9 %