

COMPX INTERNATIONAL INC
Form 10-Q
August 07, 2014

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, 2014

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 August 1, 2014:

Class A: 2,404,107

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, 2013	June 30, 2014 (unaudited)
Current assets:		
Cash and cash equivalents	\$38,753	\$37,591
Accounts receivable, net	8,534	12,281
Inventories, net	13,235	15,875
Deferred income taxes	2,493	2,493
Prepaid expenses and other	596	462
Total current assets	63,611	68,702
Other assets:		
Goodwill	23,742	23,742
Other noncurrent	573	549
Total other assets	24,315	24,291
Property and equipment:		
Land	4,928	4,928
Buildings	20,523	20,714
Equipment	57,799	61,091
Construction in progress	2,588	598
	85,838	87,331
Less accumulated depreciation	52,086	53,805
Net property and equipment	33,752	33,526
Total assets	\$121,678	\$126,519

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

	December 31, 2013	June 30, 2014 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$9,705	\$ 10,906
Income taxes payable to affiliates	339	702
Other	6	8
Total current liabilities	10,050	11,616
Noncurrent liabilities:		
Deferred income taxes	6,900	6,642
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	24	24
Class B common stock	100	100
Additional paid-in capital	55,265	55,342
Retained earnings	49,339	52,795
Total stockholders' equity	104,728	108,261
Total liabilities and stockholders' equity	\$ 121,678	\$ 126,519

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,	
	2013	2014	2013	2014
	(unaudited)		(unaudited)	
Net sales	\$24,039	\$26,848	\$45,492	\$52,629
Cost of goods sold	16,429	18,235	31,862	36,267
Gross profit	7,610	8,613	13,630	16,362
Selling, general and administrative expense	4,667	4,701	9,253	9,162
Operating income	2,943	3,912	4,377	7,200
Interest income	11	7	27	12
Interest expense	(58)	—	(117)	—
Income before taxes	2,896	3,919	4,287	7,212
Provision for income taxes	1,082	1,363	1,578	2,516
Net income	\$1,814	\$2,556	\$2,709	\$4,696
Basic and diluted net income per common share	\$0.15	\$0.21	\$0.22	\$0.38
Cash dividends per share	\$0.050	\$0.050	\$0.175	\$0.100
Basic and diluted weighted average shares outstanding	12,394	12,400	12,393	12,398

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended June 30,	
	2013	2014
	(unaudited)	
Cash flows from operating activities:		
Net income	\$2,709	\$4,696
Depreciation and amortization	1,657	1,744
Deferred income taxes	530	(258)
Other, net	163	298
Change in assets and liabilities:		
Accounts receivable, net	(2,239)	(3,795)
Inventories, net	(1,154)	(2,784)
Accounts payable and accrued liabilities	(1,976)	1,303
Accounts with affiliates	(12,037)	362
Income taxes	(1)	2
Other, net	895	134
Net cash provided by (used in) operating activities	(11,453)	1,702
Cash flows from investing activities:		
Capital expenditures	(1,514)	(1,624)
Cash collected on note receivable	3,034	—
Proceeds from sale of assets held for sale	1,559	—
Proceeds from sale of fixed assets	2	—
Net cash provided by (used in) investing activities	3,081	(1,624)
Cash flows from financing activities:		
Dividends paid	(2,169)	(1,240)
Repayment of long-term debt	(500)	—
Net cash used in financing activities	(2,669)	(1,240)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(11,041)	(1,162)
Balance at beginning of year	63,777	38,753
Balance at end of year	\$52,736	\$37,591
Supplemental disclosures - cash paid for:		
Interest	\$ 155	\$—
Income taxes	13,086	2,410

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Six months ended June 30, 2014

(In thousands)

(unaudited)

	Common stock Class Class		Additional paid-in capital	Retained earnings	Total stockholders' equity
	A	B			
Balance at December 31, 2013	\$24	\$100	\$55,265	\$49,339	\$104,728
Net income	—	—	—	4,696	4,696
Issuance of common stock	—	—	77	—	77
Cash dividends	—	—	—	(1,240)	(1,240)
Balance at June 30, 2014	\$24	\$100	\$55,342	\$52,795	\$108,261

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(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, 2014. We manufacture and sell component products (security products and recreational marine components). At June 30, 2014, (i) Valhi, Inc. (NYSE: VHI) held approximately 83% of NL's outstanding common stock and (ii) a wholly-owned subsidiary of Contran Corporation ("Contran") held an aggregate of approximately 94% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by family trusts 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. Prior to his death in December 2013, Mr. Simmons served as sole trustee of the family trusts. 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, 2013 that we filed with the Securities and Exchange Commission ("SEC") on March 5, 2014 (the "2013 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, 2013 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, 2013) 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, 2014 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 2013 Consolidated Financial Statements contained in our 2013 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 June 30, 2013		2014		Six months ended June 30, 2013		2014	
(In thousands)							