

COMPX INTERNATIONAL INC  
Form 10-Q  
November 04, 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 September 30, 2015

Commission file number 1-13905

COMPX INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

|   |  |
|---|--|
| Delaware<br>(State or other jurisdiction of<br>Incorporation or organization) | 57-0981653<br>(IRS Employer<br>Identification No.) |
|---|--|

5430 LBJ Freeway, Suite 1700,

|   |                          |
|---|--------------------------|
| Three Lincoln Centre, Dallas, Texas<br>(Address of principal executive offices) | 75240-2697<br>(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

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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 October 29, 2015:

Class A: 2,411,107

Class B: 10,000,000

COMPX INTERNATIONAL INC.

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## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| ASSETS                        | December<br>31,<br>2014 | September<br>30,<br>2015<br>(unaudited) |
|-------------------------------|-------------------------|---|
| Current assets:               |                         |   |
| Cash and cash equivalents     | \$45,570                | \$ 47,904                               |
| Accounts receivable, net      | 8,747                   | 11,605                                  |
| Inventories, net              | 16,863                  | 15,448                                  |
| Deferred income taxes         | 2,444                   | 2,444                                   |
| Prepaid expenses and other    | 556                     | 615                                     |
| Total current assets          | 74,180                  | 78,016                                  |
| Other assets:                 |                         |   |
| Goodwill                      | 23,742                  | 23,742                                  |
| Other noncurrent              | 599                     | 590                                     |
| Total other assets            | 24,341                  | 24,332                                  |
| Property and equipment:       |                         |   |
| Land                          | 4,928                   | 4,928                                   |
| Buildings                     | 20,906                  | 21,228                                  |
| Equipment                     | 61,835                  | 63,120                                  |
| Construction in progress      | 909                     | 1,749                                   |
|                               | 88,578                  | 91,025                                  |
| Less accumulated depreciation | 55,564                  | 58,073                                  |
| Net property and equipment    | 33,014                  | 32,952                                  |
| Total assets                  | \$ 131,535              | \$ 135,300                              |

## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

|  | December<br>31,<br>2014 | September<br>30,<br>2015<br>(unaudited) |
|--|-------------------------|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY       |                         |   |
| Current liabilities:                       |                         |   |
| Accounts payable and accrued liabilities   | \$ 12,796               | \$ 11,299                               |
| Income taxes payable to affiliates         | 433                     | 290                                     |
| Total current liabilities                  | 13,229                  | 11,589                                  |
| Noncurrent liabilities:                    |                         |   |
| Deferred income taxes                      | 7,320                   | 7,041                                   |
| 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                  | 61,124                                  |
| Total stockholders' equity                 | 110,986                 | 116,670                                 |
| Total liabilities and stockholders' equity | \$ 131,535              | \$ 135,300                              |

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<br>ended<br>September 30,<br>2014 |          | Nine months<br>ended<br>September 30,<br>2014 |          |
|---|--|----------|---|----------|
|   | 2015   | 2015     | 2014  | 2015     |
|   | (unaudited)                                    |          | (unaudited)                                   |          |
| Net sales   | \$26,473                                       | \$26,505 | \$79,102                                      | \$83,314 |
| Cost of goods sold                                    | 18,331   | 18,387   | 54,598  | 57,471   |
| Gross profit  | 8,142  | 8,118    | 24,504  | 25,843   |
| Selling, general and administrative expense           | 4,710  | 4,684    | 13,872  | 14,402   |
| Operating income                                      | 3,432  | 3,434    | 10,632  | 11,441   |
| Interest income                                       | 7  | 16       | 19  | 32       |
| Income before taxes                                   | 3,439  | 3,450    | 10,651  | 11,473   |
| Provision for income taxes                            | 1,210  | 1,209    | 3,726   | 4,008    |
| Net income  | \$2,229  | \$2,241  | \$6,925                                       | \$7,465  |
| <br>  |  |          |   |          |
| Basic and diluted net income per common share         | \$0.18   | \$0.18   | \$0.56  | \$0.60   |
| <br>  |  |          |   |          |
| Cash dividends per share                              | \$0.05   | \$0.05   | \$0.15  | \$0.15   |
| <br>  |  |          |   |          |
| Basic and diluted weighted average shares outstanding | 12,404   | 12,411   | 12,400  | 12,407   |

See accompanying Notes to Condensed Consolidated Financial Statements.

## COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|   | Nine months<br>ended<br>September 30,<br>2014 2015<br>(unaudited) |          |
|---|---|----------|
| Cash flows from operating activities:         |   |          |
| Net income                                    | \$6,925   | \$7,465  |
| Depreciation and amortization                 | 2,643   | 2,646    |
| Deferred income taxes                         | (283 )  | (279 )   |
| Other, net                                    | 341   | 285      |
| Change in assets and liabilities:             |   |          |
| Accounts receivable, net                      | (3,159 )  | (2,881 ) |
| Inventories, net                              | (2,030 )  | 1,246    |
| Accounts payable and accrued liabilities      | 1,993   | (1,600 ) |
| Accounts with affiliates                      | 728   | (143 )   |
| Other, net                                    | 36  | (60 )    |
| Net cash provided by operating activities     | 7,194   | 6,679    |
| Cash flows from investing activities -        |   |          |
| Capital expenditures                          | (2,168 )  | (2,484 ) |
| Other, net                                    | (57 )   | -        |
| Net cash used in investing activities         | (2,225 )  | (2,484 ) |
| Cash flows from financing activities -        |   |          |
| Dividends paid                                | (1,860 )  | (1,861 ) |
| Cash and cash equivalents - net change from:  |   |          |
| Operating, investing and financing activities | 3,109   | 2,334    |
| Balance at beginning of period                | 38,753  | 45,570   |
| Balance at end of period                      | \$41,862  | \$47,904 |
| Supplemental disclosures - cash paid for:     |   |          |
| Income taxes                                  | \$3,271   | \$4,424  |

See accompanying Notes to Condensed Consolidated Financial Statements.





COMPX INTERNATIONAL INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Nine months ended September 30, 2015

(In thousands)

(unaudited)

|                               | Common<br>stock<br>Class Class |       | Additional<br>paid-in<br>capital | Retained<br>earnings | Total<br>stockholders'<br>equity |
|-------------------------------|--------------------------------|-------|----------------------------------|----------------------|----------------------------------|
|                               | A                              | B     |                                  |                      |                                  |
| Balance at December 31, 2014  | \$24                           | \$100 | \$ 55,342                        | \$ 55,520            | \$ 110,986                       |
| Net income                    | —                              | —     | —                                | 7,465                | 7,465                            |
| Issuance of common stock      | —                              | —     | 80                               | —                    | 80                               |
| Cash dividends                | —                              | —     | —                                | (1,861 )             | (1,861 )                         |
| Balance at September 30, 2015 | \$24                           | \$100 | \$ 55,422                        | \$ 61,124            | \$ 116,670                       |

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 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 September 30, 2015. We manufacture and sell component products (security products and recreational marine components). At September 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 September 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<br>ended<br>September 30,<br>2014 |          | 2015           |          | Nine months<br>ended<br>September 30,<br>2014 |  | 2015           |  |
|------------------------------|--|----------|----------------|----------|---|--|----------------|--|
|                              | (In thousands)                                 |          | (In thousands) |          | (In thousands)                                |  | (In thousands) |  |
| Net sales:                   |  |          |                |          |   |  |                |  |
| Security Products            | \$23,237                                       | \$23,115 | \$69,246       | \$72,831 |   |  |                |  |
| Marine Components            | 3,236  | 3,390    | 9,856          | 10,483   |   |  |                |  |
| Total net sales              | \$26,473                                       | \$26,505 | \$79,102       | \$83,314 |   |  |                |  |
| Operating income (loss):     |  |          |                |          |   |  |                |  |
| Security Products            | \$4,694  | \$4,455  | \$14,235       | \$14,656 |   |  |                |  |
| Marine Components            | 223  | 422      | 729            | 1,288    |   |  |                |  |
| Corporate operating expenses | (1,485 )                                       | (1,443 ) | (4,332 )       | (4,503 ) |   |  |                |  |
| Total operating income       | 3,432  | 3,434    | 10,632         |          |   |  |                |  |