

COMPX INTERNATIONAL INC
Form 10-Q
August 04, 2017

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, 2017

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, 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 (Do not check if a smaller reporting company)

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 common stock outstanding on August 1, 2017:

Class A: 2,426,107 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)

	December	
	31, 2016	June 30, 2017
ASSETS		(unaudited)
Current assets:		
Cash and cash equivalents	\$ 33,153	\$ 22,543
Accounts receivable, net	10,347	12,155
Inventories, net	14,974	15,317
Prepaid expenses and other	701	669
Total current assets	59,175	50,684
Other assets:		
Note receivable from affiliate	27,400	39,500
Goodwill	23,742	23,742
Other noncurrent	590	590
Total other assets	51,732	63,832
Property and equipment:		
Land	4,935	4,935
Buildings	22,541	22,558
Equipment	65,570	65,690
Construction in progress	1,098	1,538
	94,144	94,721
Less accumulated depreciation	61,071	61,921
Net property and equipment	33,073	32,800
Total assets	\$ 143,980	\$ 147,316
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,882	\$ 10,165
Income taxes payable to affiliates	1,441	1,114
Total current liabilities	13,323	11,279
Noncurrent liabilities -		
Deferred income taxes	4,887	4,958
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	24	24
Class B common stock	100	100
Additional paid-in capital	55,515	55,612
Retained earnings	70,131	75,343
Total stockholders' equity	125,770	131,079
Total liabilities and stockholders' equity	\$ 143,980	\$ 147,316

Commitments and contingencies (Note 1)

See accompanying Notes to Condensed Consolidated Financial Statements.

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COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)
Net sales	\$27,107	\$30,002	\$54,182	\$59,950
Cost of goods sold	18,621	20,494	37,491	40,756
Gross profit	8,486	9,508	16,691	19,194
Selling, general and administrative expense	4,769	4,907	9,621	10,068
Operating income	3,717	4,601	7,070	9,126
Interest income	41	482	73	817
Income before taxes	3,758	5,083	7,143	9,943
Provision for income taxes	1,320	1,780	2,505	3,489
Net income	\$2,438	\$3,303	\$4,638	\$6,454
Basic and diluted net income per common share	\$0.20	\$0.27	\$0.37	\$0.52
Cash dividends per share	\$0.05	\$0.05	\$0.10	\$0.10
Basic and diluted weighted average shares outstanding	12,415	12,422	12,413	12,421

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended June 30,	
	2016	2017
	(unaudited)	
Cash flows from operating activities:		
Net income	\$4,638	\$6,454
Depreciation and amortization	1,850	1,828
Deferred income taxes	(26)	71
Other, net	291	189
Change in assets and liabilities:		
Accounts receivable, net	(3,634)	(1,823)
Inventories, net	851	(417)
Accounts payable and accrued liabilities	(1,639)	(1,676)
Accounts with affiliates	164	(327)
Prepays and other, net	(626)	32
Net cash provided by operating activities	1,869	4,331
Cash flows from investing activities:		
Capital expenditures	(1,674)	(1,599)
Note receivable from affiliate:		
Collections	-	27,200
Advances	-	(39,300)
Net cash used in investing activities	(1,674)	(13,699)
Cash flows from financing activities -		
Dividends paid	(1,242)	(1,242)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(1,047)	(10,610)
Balance at beginning of period	52,347	33,153
Balance at end of period	\$51,300	\$22,543
Supplemental disclosures -		
Cash paid for income taxes	\$2,367	\$3,747

See accompanying Notes to Condensed Consolidated Financial Statements.

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COMPX INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Six months ended June 30, 2017

(In thousands)

(unaudited)

	Common stock Class Class		Additional paid-in capital	Retained earnings	Total stockholders' equity
	A	B			
Balance at December 31, 2016	\$24	\$100	\$ 55,515	\$70,131	\$ 125,770
Net income	—	—	—	6,454	6,454
Issuance of common stock	—	—	97	—	97
Cash dividends	—	—	—	(1,242)	(1,242)
Balance at June 30, 2017	\$24	\$100	\$ 55,612	\$75,343	\$ 131,079

See accompanying Notes to Condensed Consolidated Financial Statements.

COMPX INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(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, 2017. We manufacture and sell component products (security products and recreational marine components). At June 30, 2017, Valhi, Inc. (NYSE: VHI) owns 83% of NL's outstanding common stock and a wholly-owned subsidiary of Contran Corporation owns 93% 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.

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, 2016 that we filed with the Securities and Exchange Commission ("SEC") on March 1, 2017 (the "2016 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, 2016 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, 2016) 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, 2017 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 2016 Consolidated Financial Statements contained in our 2016 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 June 30, 2016, December 31, 2016 and June 30, 2017. The actual dates of our annual and quarterly periods are July 3, 2016, January 1, 2017 and July 2, 2017, 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 June 30,	Six months ended June 30,
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	2016	2017	2016	2017
	(In thousands)		(In thousands)	
Net sales:				
Security Products	\$23,195	\$26,039	\$46,609	\$52,049
Marine Components	3,912	3,963	7,573	7,901
Total net sales	\$27,107	\$30,002	\$54,182	\$59,950
Operating income (loss):				
Security Products	\$4,785	\$5,361	\$9,256	\$11,053
Marine Components	555	495	889	866
Corporate operating expenses	(1,623)	(1,255)	(3,075)	(2,793)
Total operating income	3,717	4,601	7,070	9,126
Interest income	41	482	73	817
Income before taxes	\$3,758	\$5,083	\$7,143	\$9,943

Intersegment sales are not material.

Note 3 – Accounts receivable, net:

	December	
	31,	June 30,
	2016	2017
	(In thousands)	
Accounts receivable, net:		
Security Products	\$9,329	\$10,844
Marine Components	1,088	1,381
Allowance for doubtful accounts	(70)	(70)
Total accounts receivable, net	\$10,347	\$12,155

Note 4 – Inventories, net:

	December	
	31,	June 30,
	2016	2017
	(In thousands)	
Raw materials:		
Security Products	\$2,365	\$2,316
Marine Components	378	575
Total raw materials	2,743	2,891
Work-in-process:		
Security Products	7,387	8,253
Marine Components	1,601	1,533
Total work-in-process	8,988	9,786
Finished goods:		
Security Products	2,440	1,929
Marine Components	803	711
Total finished goods	3,243	2,640
Total inventories, net	\$14,974	\$15,317

Note 5 – Accounts payable and accrued liabilities:

	December	
	31,	June 30,
	2016	2017

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	(In thousands)	
Accounts payable	\$2,614	\$3,506
Accrued liabilities:		
Employee benefits	7,644	5,195
Customer tooling	346	355
Taxes other than on income	300	426
Insurance	233	153
Professional	219	22
Sales rebates	140	127
Other	386	381
Total accounts payable and accrued liabilities	\$11,882	\$10,165

Note 6 – Provision for income taxes:

	Six months ended June 30, 2016 2017 (In thousands)	
Expected tax expense, at the U.S. federal statutory		
income tax rate of 35%	\$2,500	\$3,480
Domestic production activities deduction	(218)	(298)
State income taxes	208	269
Other, net	15	38
Total income tax expense		