

NL INDUSTRIES INC  
Form 10-Q  
August 03, 2011  
[Table of Contents](#)

**UNITED STATES**  
**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 quarterly period ended June 30, 2011

Commission file number 1-640

**NL INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of

13-5267260  
(IRS Employer

Edgar Filing: NL INDUSTRIES INC - Form 10-Q

incorporation or organization)

5430 LBJ Freeway, Suite 1700

Identification No.)

Dallas, Texas 75240-2697

(Address of principal executive offices)

Registrant's telephone number, including area code: (972) 233-1700

Indicate by check mark:

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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 Securities Exchange Act of 1934).

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 Act). Yes  No

Number of shares of the registrant's common stock outstanding on July 29, 2011: 48,662,884.

**Table of Contents**

**NL INDUSTRIES, INC. AND SUBSIDIARIES**

**INDEX**

	<b>Page number</b>
<b>Part I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets - December 31, 2010; June 30, 2011 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations (unaudited)- Three and six months ended June 30, 2010 and 2011</u>	5
<u>Condensed Consolidated Statement of Equity and Comprehensive Income - Six months ended June 30, 2011 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows (unaudited) - Six months ended June 30, 2010 and 2011</u>	7
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	44
<b>Part II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	46
Item 6. <u>Exhibits</u>	46
Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report	

**Table of Contents**

**NL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	December 31, 2010	June 30, 2011 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,461	\$ 7,004
Restricted cash and cash equivalents	7,413	6,611
Marketable securities	9	
Accounts and other receivables, net	31,663	34,729
Inventories, net	18,424	20,656
Prepaid expenses and other	1,285	2,408
Deferred income taxes	7,724	7,607
<b>Total current assets</b>	<b>81,979</b>	<b>79,015</b>
Other assets:		
Marketable equity securities	130,824	264,650
Investment in Kronos Worldwide, Inc.	231,693	257,976
Goodwill	44,819	44,913
Assets held for sale	2,415	2,419
Other, net	1,447	1,223
<b>Total other assets</b>	<b>411,198</b>	<b>571,181</b>
Property and equipment:		
Land	12,963	13,074
Buildings	34,981	35,433
Equipment	129,260	130,703
Construction in progress	965	1,483
	178,169	180,693
Less accumulated depreciation	117,621	121,711
<b>Net property and equipment</b>	<b>60,548</b>	<b>58,982</b>
<b>Total assets</b>	<b>\$ 553,725</b>	<b>\$ 709,178</b>

**Table of Contents**

**NL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(In thousands)

	December 31, 2010	June 30, 2011 (unaudited)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 10,000	\$ 11,000
Accounts payable	9,179	7,693
Accrued and other current liabilities	16,940	12,738
Accrued environmental remediation and related costs	8,206	10,852
Income taxes	909	1,791
 Total current liabilities	 45,234	 44,074
Non-current liabilities:		
Long-term debt	64,530	45,730
Accrued pension costs	8,550	7,666
Accrued postretirement benefit (OPEB) costs	5,459	5,305
Accrued environmental remediation and related costs	32,194	36,392
Deferred income taxes	115,206	172,184
Other	18,697	18,559
 Total non-current liabilities	 244,636	 285,836
Equity:		
NL Stockholders' equity:		
Common stock	6,078	6,082
Additional paid-in capital	299,469	300,020
Retained earnings	56,229	78,150
Accumulated other comprehensive loss	(108,827)	(16,303)
 Total NL stockholders' equity	 252,949	 367,949
 Noncontrolling interest in subsidiary	 10,906	 11,319
 Total equity	 263,855	 379,268
 Total liabilities and equity	 \$ 553,725	 \$ 709,178

Commitments and contingencies (Notes 11 and 12)

See accompanying Notes to Condensed Consolidated Financial Statements.



**Table of Contents****NL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2010	2011 (unaudited)	2010	2011
Net sales	\$ 34,384	\$ 35,241	\$ 67,184	\$ 70,018
Cost of sales	25,529	25,405	49,231	51,502
<b>Gross margin</b>	<b>8,855</b>	<b>9,836</b>	<b>17,953</b>	<b>18,516</b>
Selling, general and administrative expense	5,664	5,900	11,400	12,056
Other operating income (expense):				
Insurance recoveries	96	99	18,271	458
Litigation settlement expense			(32,174)	
Patent litigation settlement gain				7,468
Patent litigation expense	(373)		(1,941)	(227)
Facility consolidation expense		(792)		(1,798)
Corporate expense and other, net	(2,452)	(12,273)	(7,129)	(15,673)
<b>Income (loss) from operations</b>	<b>462</b>	<b>(9,030)</b>	<b>(16,420)</b>	<b>(3,312)</b>
Equity in net income of Kronos Worldwide, Inc.	6,941	27,061	22,337	45,390
Other income (expense):				
Interest and dividends	641	825	1,247	1,421
Interest expense	(303)	(335)	(500)	(824)
<b>Income before taxes</b>	<b>7,741</b>	<b>18,521</b>	<b>6,664</b>	<b>42,675</b>
Provision for income taxes	3,228	1,389	4,571	7,858
<b>Net income</b>	<b>4,513</b>	<b>17,132</b>	<b>2,093</b>	<b>34,817</b>
Noncontrolling interest in net income of subsidiary	223	213	98	731
<b>Net income attributable to NL stockholders</b>	<b>\$ 4,290</b>	<b>\$ 16,919</b>	<b>\$ 1,995</b>	<b>\$ 34,086</b>
Amounts attributable to NL stockholders:				
Basic and diluted net income (loss) per share	\$ .09	\$ .35	\$ (.01)	\$ .70
Cash dividend per share	\$ .125	\$ .125	\$ .25	\$ .25
<b>Basic and diluted average shares outstanding</b>	<b>48,626</b>	<b>48,660</b>	<b>48,622</b>	<b>48,654</b>

See accompanying Notes to Condensed Consolidated Financial Statements.





Table of Contents

## NL INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY AND COMPREHENSIVE INCOME

Six months ended June 30, 2011

(In thousands)

	NL Stockholders Equity					Total equity	Comprehensive income
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss (unaudited)	Noncontrolling interest in subsidiary		
Balance at December 31, 2010	\$ 6,078	\$ 299,469	\$ 56,229	\$ (108,827)	\$ 10,906	\$ 263,855	
Net income			34,086		731	34,817	\$ 34,817
Other comprehensive income, net				92,524	66	92,590	92,590
Issuance of common stock	4	551			22	577	
Dividends			(12,165)		(406)	(12,571)	
Balance at June 30, 2011	\$ 6,082	\$ 300,020	\$ 78,150	\$ (16,303)	\$ 11,319	\$ 379,268	
Comprehensive income							\$ 127,407

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****NL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Six months ended June 30,</b>	
	<b>2010</b>	<b>2011</b>
	<b>(unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,093	\$ 34,817
Depreciation and amortization	3,953	3,442
Deferred income taxes	4,251	7,168
Equity in net income of Kronos Worldwide, Inc.	(22,337)	(45,390)
Distributions from Kronos Worldwide, Inc.		27,295
<b>Benefit plan expense greater (less) than cash funding:</b>		
Defined benefit pension expense	391	(126)
Other postretirement benefit expense	129	(282)
<b>Litigation settlement expense:</b>		
Accrued	32,174	
Settlement payments made	(19,012)	
Other, net	530	364
<b>Change in assets and liabilities:</b>		
Accounts and other receivables, net	(4,817)	(3,128)
Inventories, net	(2,098)	(2,329)
Prepaid expenses and other	(625)	(1,041)
Accrued environmental remediation and related costs	(3,138)	6,844
Accounts payable and accrued liabilities	(817)	(5,751)
Income taxes	(60)	869
Accounts with affiliates	3,200	(36)
Other, net	(768)	(758)
<b>Net cash provided by (used in) operating activities</b>	<b>(6,951)</b>	<b>21,958</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,211)	(1,328)
Change in restricted cash equivalents	4,174	802
Proceeds from disposal of marketable securities		116
Purchase of marketable securities		(242)
Other, net		100
<b>Net cash provided by (used in) investing activities</b>	<b>2,963</b>	<b>(552)</b>

**Table of Contents****NL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(In thousands)

	Six months ended June 30, 2010          2011 (unaudited)	
<b>Cash flows from financing activities:</b>		
Cash dividends paid	\$ (12,157)	\$ (12,165)
Distributions to noncontrolling interests in subsidiary	(404)	(406)
Proceeds from issuance of stock:		
NL common stock	68	342
CompX common stock		139
Tax benefit from exercise of stock options		32
Repurchase of noncontrolling interest in subsidiary	(6,988)	
Indebtedness:		
Borrowings	7,800	4,600
Repayments		(22,400)
Deferred financing costs paid	(28)	
<b>Net cash used in financing activities</b>	<b>(11,709)</b>	<b>(29,858)</b>
<b>Cash and cash equivalents - net change from:</b>		
Operating, investing and financing activities	(15,697)	(8,452)
Currency translation	86	(5)
Cash and cash equivalents at beginning of period	24,555	15,461
<b>Cash and cash equivalents at end of period</b>	<b>\$ 8,944</b>	<b>\$ 7,004</b>
<b>Supplemental disclosures:</b>		
Cash paid (received) for:		
Interest	\$ 185	\$ 1,667
Income taxes, net	(2,077)	(247)
Non-cash investing activity - accrual for capital expenditures	58	146
Non-cash financing activity - promissory note payable incurred in connection with litigation settlement	18,000	
See accompanying Notes to Condensed Consolidated Financial Statements.		

**Table of Contents**

**NL INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2011**

**(unaudited)**

**Note 1 Organization and basis of presentation:**

**Organization** - We are majority-owned by Valhi, Inc. (NYSE: VHI), which owns approximately 83% of our outstanding common stock at June 30, 2011. Subsidiaries of Contran Corporation owned approximately 94% of Valhi's outstanding common stock at June 30, 2011. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran, Valhi and us.

**Basis of presentation** - Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. We also own 30% of Kronos Worldwide, Inc. which we account for by the equity method. Our ownership interest in Kronos decreased from 36% to 30% as a result of Kronos' secondary stock offering completed in November 2010. CompX (NYSE Amex: CIX) and Kronos (NYSE: KRO) each file periodic reports with the Securities and Exchange Commission (SEC).

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 that we filed with the SEC on March 4, 2011 (the 2010 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, 2010 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, 2010) 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 period ended June 30, 2011 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 2010 Consolidated Financial Statements contained in our 2010 Annual Report.

Unless otherwise indicated, references in this report to NL, we, us or our refer to NL Industries, Inc. and its subsidiaries and affiliate, Kronos, taken as a whole.

**Table of Contents****Note 2 Accounts and other receivables, net:**

	December 31, 2010	June 30, 2011
	(In thousands)	
Trade receivables	\$ 15,068	\$ 18,045
Promissory note receivable	15,000	15,000
Accrued insurance recoveries	92	291
Other receivables	59	67
Receivable from affiliates:		
Income taxes from Valhi	1,700	1,663
Other	129	
Refundable income taxes	4	25
Allowance for doubtful accounts	(389)	(362)
 Total	 \$ 31,663	 \$ 34,729

**Note 3 Inventories, net:**

	December 31, 2010	June 30, 2011
	(In thousands)	
Raw materials	\$ 6,393	\$ 8,041
Work in process	6,680	7,222
Finished products	5,351	5,393
 Total	 \$ 18,424	 \$ 20,656

**Note 4 Marketable securities:**

	December 31, 2010	June 30, 2011
	(In thousands)	
Current assets (available-for-sale) - Other marketable securities	\$ 9	\$
Noncurrent assets (available-for-sale):		
Valhi common stock	\$ 105,929	\$ 237,969
TIMET common stock	24,895	26,547
Other marketable securities		134
 Total	 \$ 130,824	 \$ 264,650

Our marketable securities include investments in the publicly-traded shares of related parties: Titanium Metals Corporation ( TIMET ) and Valhi. We account for our investments in TIMET and Valhi as available-for-sale marketable equity securities, carried at fair value using quoted market prices in active markets for each marketable security, representing a Level 1 input within the fair value hierarchy. Because we have classified all

Edgar Filing: NL INDUSTRIES INC - Form 10-Q

of our marketable securities as available-for-sale, any unrealized gains or losses on the securities are recognized through other comprehensive income.

- 10 -

**Table of Contents**

	Market value	Cost Basis (In thousands)	Unrealized gain (loss)
<b>December 31, 2010:</b>			
Noncurrent assets:			
Valhi common stock	\$ 105,929	\$ 24,347	\$ 81,582
TIMET common stock	24,895	7,351	17,544
<b>Total</b>	<b>\$ 130,824</b>	<b>\$ 31,698</b>	<b>\$ 99,126</b>
<b>June 30, 2011:</b>			
Noncurrent assets:			
Valhi common stock	\$ 237,969	\$ 24,347	\$ 213,622
TIMET common stock	26,547	7,351	19,196
Other marketable securities	134	137	(3)
<b>Total</b>	<b>\$ 264,650</b>	<b>\$ 31,835</b>	<b>\$ 232,815</b>

At December 31, 2010 and June 30, 2011, we held approximately 4.8 million shares of Valhi's outstanding common stock and 1.4 million shares of TIMET's outstanding common stock. At June 30, 2011, the quoted market price of Valhi's and TIMET's common stock was \$49.67 and \$18.32 per share, respectively. At December 31, 2010, such quoted market prices were \$22.11 and \$17.18 per share, respectively.

The Valhi and TIMET common stock we own is subject to the restrictions on resale pursuant to certain provisions of the Securities and Exchange Commission (SEC) Rule 144. In addition, as a majority-owned subsidiary of Valhi we cannot vote our shares of Valhi common stock under Delaware Corporation Law, but we do receive dividends from Valhi on these shares, when declared and paid.

**Note 5 Investment in Kronos Worldwide, Inc.:**

At December 31, 2010 and June 30, 2011, we owned approximately 35.2 million shares of Kronos common stock. At June 30, 2011, the quoted market price of Kronos' common stock was \$31.45 per share, or an aggregate market value of \$1.1 billion. At December 31, 2010, the quoted market price was \$21.25 per share, or an aggregate market value of \$748.2 million. In May 2011, Kronos implemented a 2-for-1 split of its common stock. We have adjusted all share and per-share disclosures related to our investment in Kronos for all periods presented in our condensed consolidated financial statements to give effect to the stock split. Such stock split had no financial statement impact to us, and our ownership interest in Kronos did not change as a result of such split. We have pledged an aggregate of 3.8 million shares of our Kronos common stock (and a nominal number of shares of our CompX common stock) in connection with certain liabilities incurred in legal and environmental-related settlement obligations.

The change in the carrying value of our investment in Kronos during the first six months of 2011 is summarized below:

	Amount (In millions)
Balance at the beginning of the period	\$ 231.7
Equity in net income of Kronos	45.4
Dividends received from Kronos	(27.3)
Other, principally equity in other comprehensive income items of Kronos	8.2
<b>Balance at the end of the period</b>	<b>\$ 258.0</b>





**Table of Contents**

Selected financial information of Kronos is summarized below:

	December 31, 2010	June 30, 2011
	(In millions)	
Current assets	\$ 824.3	\$ 829.7
Property and equipment, net	473.6	498.1
Investment in TiO <sub>2</sub> joint venture	96.2	93.2
Other noncurrent assets	313.5	365.7
<b>Total assets</b>	<b>\$ 1,707.6</b>	<b>\$ 1,786.7</b>
Current liabilities	\$ 220.1	\$ 226.0
Long-term debt	537.4	509.4
Accrued pension and postretirement benefits	130.1	132.3
Other non-current liabilities	58.8	71.3
Stockholders' equity	761.2	847.7
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,707.6</b>	<b>\$ 1,786.7</b>

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
	(In millions)			
Net sales	\$ 380.1	\$ 537.5	\$ 699.8	\$ 957.9
Cost of sales	294.9	340.5	554.1	614.5
Income from operations	38.8	144.2	60.5	246.6
Net income	19.3	89.0	62.1	149.3

**Note 6 Other noncurrent assets:**

	December 31, 2010	June 30, 2011
	(In thousands)	
Patents and other intangible assets, net	\$ 840	\$ 576
Other	607	647
<b>Total</b>	<b>\$ 1,447</b>	<b>\$ 1,223</b>

**Note 7 Accrued and other current liabilities:**

December 31, 2010	June 30, 2011
----------------------	------------------

Edgar Filing: NL INDUSTRIES INC - Form 10-Q

	(In thousands)	
Employee benefits	\$ 9,624	<b>\$ 7,871</b>
Professional fees and legal settlements	3,077	<b>2,043</b>
Payable to affiliates:		
Accrued interest payable to TIMET	876	<b>4</b>
Other	541	<b>357</b>
Other	2,822	<b>2,463</b>
<b>Total</b>	<b>\$ 16,940</b>	<b>\$ 12,738</b>

- 12 -

**Table of Contents****Note 8 Long-term debt:**

	December 31, 2010	June 30, 2011
	(In thousands)	
<b>NL:</b>		
Promissory note payable to Valhi	\$ 11,300	\$ 1,000
Promissory note issued in conjunction with litigation settlement	18,000	<b>18,000</b>
 Subtotal	 29,300	 <b>19,000</b>
<b>Subsidiary debt:</b>		
CompX credit facility	3,000	
CompX promissory note payable to TIMET	42,230	<b>37,730</b>
 Subtotal	 45,230	 <b>37,730</b>
 <b>Total debt</b>	 <b>74,530</b>	 <b>56,730</b>
Less current maturities	10,000	<b>11,000</b>
 <b>Total long-term debt</b>	 <b>\$ 64,530</b>	 <b>\$ 45,730</b>

*NL* In June 2010, we entered into a promissory note with Valhi that allows us to borrow up to \$40 million. Our borrowings from Valhi under the revolving note are unsecured, bear interest at prime rate plus 2.75% (6.00% at June 30, 2011) with all principal due on demand, but in any event no earlier than March 31, 2012 and no later than December 31, 2012. The amount of the outstanding borrowings at any time is solely at the discretion of Valhi.

The \$18.0 million promissory note issued in conjunction with a litigation settlement in 2010 bears interest, payable quarterly, at the prime rate. Fifty percent of the principal amount will be payable on each of December 1, 2011 and December 1, 2012.

*CompX* In February 2011, CompX repaid all of the \$3.0 million that was outstanding at December 31, 2010 on its credit facility.

The promissory note payable to TIMET was amended in September 2009 resulting in the deferral of interest payments and the postponement of quarterly principal payments until March 2011. As such, in March 2011 CompX paid the required quarterly principal payment of \$250,000 and all accrued interest totaling approximately \$1.0 million. In addition, CompX prepaid \$4.0 million principal amount on the promissory note. In the second quarter of 2011, CompX continued its regularly scheduled principal payment of \$250,000 and related accrued interest for the quarter. The interest rate on the promissory note at June 30, 2011 was 1.3%.

In July 2011, CompX borrowed \$5 million under its revolving credit facility in connection with the acquisition of an ergonomic component products business for up front cash consideration of approximately \$5 million, with additional cash consideration of up to approximately \$1.5 million payable in the first quarter of 2013 depending on the acquired business achieving certain specified financial targets. The acquisition is intended to expand CompX's Furniture Components ergonomics product line. The business had net sales of \$4.2 million in 2010, and the pro-forma effect to us, assuming this acquisition had been completed as of January 1, 2011, is not material.

**Table of Contents****Note 9 Other noncurrent liabilities:**

	December 31, 2010	June 30, 2011
	(In thousands)	
Reserve for uncertain tax positions	\$ 16,832	\$ 16,832
Insurance claims and expenses	688	670
Other	1,177	1,057
 Total	 \$ 18,697	 \$ 18,559

**Note 10 Employee benefit plans:**

**Defined benefit plans** The components of net periodic defined benefit pension cost (income) are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
	(In thousands)			
Interest cost	\$ 736	\$ 704	\$ 1,456	\$ 1,391
Expected return on plan assets	(838)	(979)	(1,684)	(1,954)
Recognized actuarial losses	308	220	621	437
 Total	 \$ 206	 \$ (55)	 \$ 393	 \$ (126)

**Postretirement benefits** The components of net periodic postretirement benefits other than pension cost (income) are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
	(In thousands)			
Interest cost	\$ 110	\$ 59	\$ 219	\$ 118
Amortization of prior service credit	(45)	(200)	(90)	(400)
 Total	 \$ 65	 \$ (141)	 \$ 129	 \$ (282)

**Contributions** We expect our 2011 contributions for our pension and other postretirement benefit plans to be consistent with the amount disclosed in our 2010 Annual Report.

**Note 11 Income tax provision:**

Edgar Filing: NL INDUSTRIES INC - Form 10-Q

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2011</b>
	<b>(In millions)</b>	
Expected tax provision at U.S. federal statutory income tax rate of 35%	\$ 2.3	<b>\$ 14.9</b>
Non-U.S. tax rates	(.2)	<b>(.9)</b>
Incremental U.S. tax and rate differences on equity in earnings	2.4	<b>(4.8)</b>
U.S. state income taxes, net	.1	<b>.3</b>
Tax rate change		<b>(1.4)</b>
Other, net		<b>(.2)</b>
<b>Total</b>	<b>\$ 4.6</b>	<b>\$ 7.9</b>

- 14 -

## **Table of Contents**

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. We cannot guarantee these tax matters will be resolved in our favor due to the inherent uncertainties involved in settlement initiatives and court and tax proceedings. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will not change materially during the next twelve months.

In the first quarter of 2011, CompX recognized a \$2.1 million provision for deferred income taxes related to the undistributed earnings of its Canadian subsidiary attributable to the \$7.5 million litigation settlement gain discussed in Note 12.

Under GAAP, we are required to recognize a deferred income tax liability with respect to the incremental U.S. (federal and state) and non-U.S. withholding taxes that would be incurred when undistributed earnings of a non-U.S. subsidiary are subsequently repatriated, unless management has determined that those undistributed earnings are permanently reinvested for the foreseeable future. At the end of March 2010, and based primarily upon changes in our cash management plans, we determined that all of the undistributed earnings of CompX's Taiwanese subsidiary could no longer be considered to be permanently reinvested in Taiwan. Accordingly, in the first quarter of 2010 we recognized an aggregate \$1.9 million provision for deferred income taxes on the pre-2005 undistributed earnings of CompX's Taiwanese subsidiary. Consequently, all of the undistributed earnings of CompX's non-U.S. operations are now considered to be not permanently reinvested.

### **Note 12 Commitments and contingencies:**

#### **Lead pigment litigation**

Our former operations included the manufacture of lead pigments for use in paint and lead-based paint. We, other former manufacturers of lead pigments for use in paint and lead-based paint (together, the former pigment manufacturers), and the Lead Industries Association (LIA), which discontinued business operations in 2002, have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, counties, cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share or risk contribution liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. To the extent the plaintiffs seek compensatory or punitive damages in these actions, such damages are generally unspecified. In some cases, the damages are unspecified pursuant to the requirements of applicable state law. A number of cases are

## **Table of Contents**

inactive or have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of either the defendants or the plaintiffs. In addition, various other cases (in which we are not a defendant) are pending that seek recovery for injury allegedly caused by lead pigment and lead-based paint. Although we are not a defendant in these cases, the outcome of these cases may have an impact on cases that might be filed against us in the future.

We believe that these actions are without merit, and we intend to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. We do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

we have never settled any of the market share, risk contribution, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases,

no final, non-appealable adverse verdicts have ever been entered against us, and

we have never ultimately been found liable with respect to any such litigation matters.

Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases. New cases may continue to be filed against us. We cannot assure you that we will not incur liability in the future in respect of any of the pending or possible litigation in view of the inherent uncertainties involved in court and jury rulings. The resolution of any of these cases could result in recognition of a loss contingency accrual that could have a material adverse impact on our net income for the interim or annual period during which such liability is recognized and a material adverse impact on our consolidated financial condition and liquidity.

## **Environmental matters and related litigation**

Our operations are governed by various environmental laws and regulations. Certain of our businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to maintain compliance with applicable environmental laws and regulations at all of our plants and to strive to improve environmental performance. From time to time, we may be subject to environmental regulatory enforcement under U.S. and non-U.S. statutes, the resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies, could adversely affect our production, handling, use, storage, transportation, sale or disposal of such substances. We believe that all of our facilities are in substantial compliance with applicable environmental laws.

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws and common law. Additionally, in connection with past operating practices, we are currently

## **Table of Contents**

involved as a defendant, potentially responsible party ( PRP ) or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ( CERCLA ), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities we or our predecessors currently or previously owned, operated or were used by us or our subsidiaries, or their predecessors, certain of which are on the United States Environmental Protection Agency s ( EPA ) Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for some of these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable, and among whom costs may be shared or allocated. In addition, we are also a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

Obligations associated with environmental remediation and related matters are difficult to assess and estimate for numerous reasons including the:

complexity and differing interpretations of governmental regulations,

number of PRPs and their ability or willingness to fund such allocation of costs,

financial capabilities of the PRPs and the allocation of costs among them,

solvency of other PRPs,

multiplicity of possible solutions,

number of years of investigatory, remedial and monitoring activity required,

uncertainty over the extent, if any, to which our former operations might have contributed to the conditions allegedly giving rise to such personal injury, property damage, natural resource and related claims, and

number of years between former operations and notice of claims and lack of information and documents about the former operations. In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or allocation of costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites or a determination that we are potentially responsible for the release of hazardous substances at other sites, could cause our expenditures to exceed our current estimates. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental and related matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation and related matters when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available



**Table of Contents**

to us or as circumstances change. Unless the amounts and timing of such estimated future expenditures are fixed and reasonably determinable, we generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the pay out. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. At June 30, 2011, we have not recognized any receivables for recoveries.

We do not know and cannot estimate the exact time frame over which we will make payments for our accrued environmental and related costs. The timing of payments depends upon a number of factors, including but not limited to the timing of the actual remediation process; which in turn depends on factors outside of our control. At each balance sheet date, we estimate the amount of our accrued environmental and related costs which we expect to pay within the next twelve months, and we classify this estimate as a current liability. We classify the remaining accrued environmental costs as a noncurrent liability.

Changes in the accrued environmental remediation and related costs during the first six months of 2011 are presented in the table below. Of the \$9.9 million net additions charged to expense in the first six months of 2011, \$5.6 million relates to certain payments which have been discounted to their present value because the timing and amounts of such payments are fixed and determinable. Such payments aggregate \$6.0 million on an undiscounted basis (\$2.0 million due in 2012 and \$1.0 million due in each of 2013 through 2016) and were discounted to present value using a 3.0% discount rate. The aggregate \$.4 million discount will be charged to expense using the interest method from the third quarter of 2011 through 2016.

	<b>Amount (In thousands)</b>
Balance at the beginning of the period	<b>\$ 40,400</b>
Additions charged to expense, net	<b>9,875</b>
Payments, net	<b>(3,031)</b>
Balance at the end of the period	<b>\$ 47,244</b>
Amounts recognized in the balance sheet at the end of the period:	
Current liability	<b>\$ 10,852</b>
Noncurrent liability	<b>36,392</b>
Total	<b>\$ 47,244</b>

On a quarterly basis, we evaluate the potential range of our liability for environmental remediation and related costs at sites where we have been named as a PRP or defendant, including sites for which our wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc., ( EMS ), has contractually assumed our obligations. At June 30, 2011, we had accrued approximately \$47 million related to approximately 50 sites associated with remediation and related matters that we believe are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to us for remediation and related matters for which we believe it is possible to estimate costs is approximately \$80 million, including the amount currently accrued. Other than as indicated above, these accruals have not been discounted to present value.

We believe that it is not possible to estimate the range of costs for certain sites. At June 30, 2011, there were approximately 5 sites for which we are not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not we actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of our control, such as when the party alleging liability provides information to us. At certain of these previously inactive sites, we have received general and special notices of liability from the EPA and/or state agencies alleging that we, sometimes with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations. These notifications may assert that we, along with any other alleged PRPs, are liable for past and/or future clean-up costs that could be material to us if we are ultimately found liable.

## **Table of Contents**

### **Insurance coverage claims**

We are involved in certain legal proceedings with a number of our former insurance carriers regarding the nature and extent of the carriers obligations to us under insurance policies with respect to certain lead pigment and asbestos lawsuits. The issue of whether insurance coverage for defense costs or indemnity or both will be found to exist for our lead pigment and asbestos litigation depends upon a variety of factors and we cannot assure you that such insurance coverage will be available.

We have agreements with two former insurance carriers pursuant to which the carriers reimburse us for a portion of our future lead pigment litigation defense costs, and one such carrier reimburses us for a portion of our future asbestos litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. While we continue to seek additional insurance recoveries, we do not know if we will be successful in obtaining reimbursement for either defense costs or indemnity. Accordingly, we recognize insurance recoveries in income only when receipt of the recovery is probable and we are able to reasonably estimate the amount of the recovery.

For a complete discussion of certain litigation involving us and certain of our former insurance carriers, refer to our 2010 Annual Report.

### **CompX**

Prior to March 9, 2011, CompX was involved in certain patent litigation with a competitor and in March 2011, CompX entered into a confidential settlement agreement with them. Under the terms of the agreement, the competitor paid CompX's Canadian subsidiary approximately \$7.5 million in cash (which was recognized as a patent litigation settlement gain in the first quarter of 2011), and agreed to cross-license certain patents and to withdraw certain legal proceedings against the other party.

### **Other litigation**

We have been named as a defendant in various lawsuits in several jurisdictions, alleging personal injuries as a result of occupational exposure primarily to products manufactured by our former operations containing asbestos, silica and/or mixed dust. In addition, some plaintiffs allege exposure to asbestos from working in various facilities previously owned and/or operated by us. There are 1,125 of these types of cases pending, involving a total of approximately 2,350 plaintiffs. In addition, the claims of approximately 7,700 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio, Indiana and Texas state courts. We do not expect these claims will be re-opened unless the plaintiffs meet the courts' medical criteria for asbestos-related claims. We have not accrued any amounts for this litigation because of the uncertainty of liability and inability to reasonably estimate the liability, if any. To date, we have not been adjudicated liable in any of these matters. Based on information available to us, including:

facts concerning historical operations,

the rate of new claims,

the number of claims from which we have been dismissed and

our prior experience in the defense of these matters,  
we believe that the range of reasonably possible outcomes of these matters will be consistent with our historical costs (which are not material).

**Table of Contents**

Furthermore, we do not expect any reasonably possible outcome would involve amounts material to our consolidated financial position, results of operations or liquidity. We have sought and will continue to vigorously seek, dismissal and/or a finding of no liability from each claim. In addition, from time to time, we have received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries, including notices provided to insurers with which we have entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from us.

For a discussion of other legal proceedings to which we are a party, refer to our 2010 Annual Report.

In addition to the litigation described above, we and our affiliate are also involved in various other environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to present and former businesses. In certain cases, we have insurance coverage for these items, although we do not expect additional material insurance coverage for environmental matters.

We currently believe the disposition of all of these various other claims and disputes, individually and in the aggregate, should not have a material adverse effect on our consolidated financial position, results of operations or liquidity beyond the accruals already provided.

**Note 13 Financial instruments:**

See Note 4 for information on how we determine fair value of our marketable securities.

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure at December 31, 2010 and June 30, 2011:

	December 31, 2010		June 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
				(in millions)
Cash and cash equivalents, current restricted cash equivalents and current marketable securities	\$ 22.9	\$ 22.9	\$ 13.6	\$ 13.6
Promissory note receivable	15.0	15.0	15.0	15.0
Notes payable to affiliates	53.5	53.5	38.7	38.7
CompX bank credit facility	3.0	3.0		
Promissory note payable	18.0	18.0	18.0	18.0
Noncontrolling interest in CompX common stock	10.9	18.6	11.3	21.5
NL stockholders' equity	252.9	542.7	367.9	893.5

The fair value of our noncurrent marketable equity securities, noncontrolling interest in CompX and NL stockholders' equity are based upon quoted market prices at each balance sheet date, which represent Level 1 inputs. The fair value of our promissory note receivable and our variable interest rate debt is deemed to approximate book value. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

**Table of Contents**

Certain of our sales generated by CompX's non-U.S. operations are denominated in U.S. dollars. CompX periodically uses currency forward contracts to manage a portion of currency exchange rate market risk associated with receivables, or similar exchange rate risk associated with future sales, denominated in a currency other than the holder's functional currency. CompX has not entered into these contracts for trading or speculative purposes in the past, nor does it anticipate entering into such contracts for trading or speculative purposes in the future. Most of the currency forward contracts meet the criteria for hedge accounting under GAAP and are designated as cash flow hedges. For these currency forward contracts, gains and losses representing the effective portion of our hedges are deferred as a component of accumulated other comprehensive income, and are subsequently recognized in earnings at the time the hedged item affects earnings. Occasionally CompX enters into currency forward contracts which do not meet the criteria for hedge accounting. For these contracts, we mark-to-market the estimated fair value of the contracts at each balance sheet date based on quoted market prices for the forward contracts, with any resulting gain or loss recognized in income as part of net currency transactions. The quoted market prices for the forward contracts are a Level 1 input. We had no currency forward contracts outstanding at December 31, 2010. At June 30, 2011, CompX held a series of contracts to exchange an aggregate of U.S. \$3.3 million for an equivalent value of Canadian dollars at an exchange rate of Cdn. \$.99 per U.S. dollar. These contracts qualified for hedge accounting and mature through September 2011. The exchange rate was \$.98 per U.S. dollar at June 30, 2011. The estimated fair value of the contracts was not material at June 30, 2011.

**Note 14 Earnings per share:**

Earnings per share is based on the weighted average number of common shares outstanding during each period. A reconciliation of the numerator used in the calculation of earnings (loss) per share is presented in the following table:

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
	(in thousands)			
Net income attributable to NL stockholders	\$ 4,290	\$ 16,919	\$ 1,995	\$ 34,086
Paid-in capital adjustment			(2,513)	
Adjusted net income (loss) attributable to NL Stockholders	\$ 4,290	\$ 16,919	\$ (518)	\$ 34,086

The paid-in capital adjustment is the result of a litigation settlement recorded in the first quarter of 2010 and relates to the repurchase of former shareholders' noncontrolling interest in EMS. The resulting \$2.5 million increase over our previous estimate of such payment was accounted for as a reduction in additional paid-in capital in accordance with GAAP.

**Note 15 Facility consolidation costs:**

In November of 2010, CompX's management approved a restructuring plan for its Furniture Components business to move precision slide production from its Byron Center, Michigan facility to its other precision slide manufacturing facilities in Kitchener, Ontario and Taipei, Taiwan. The move, which was completed by the end of April 2011, reduced the facilities where CompX produces precision slides from three to two and is expected to enhance the operating efficiency of its precision slide production capacity. CompX will continue to use the Byron Center facility primarily as a U.S. sales and

**Table of Contents**

distribution center. As of June 30, 2011, approximately \$.2 million related to severance costs and approximately \$1.8 million related to the relocation of machinery and equipment from the Byron Center facility to the Kitchener facility had been expensed, mostly in the first six months of 2011. Additional severance and equipment relocation costs subsequent to June 30, 2011 are not expected to be material.

**Note 16 Recent accounting pronouncements:**

In May 2011 the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 contains technical adjustments and clarifications to more closely align U.S. GAAP and International Financial Reporting Standards ( IFRS ) for fair value and will be effective for our first quarter 2012 report. We do not believe the adoption of this standard will have a material effect on our Condensed Consolidated Financial Statements.

In June 2011 the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 will eliminate the option of presenting comprehensive income as a component of the Consolidated Statement of Equity and will instead require comprehensive income to be presented as a component of the Consolidated Statements of Operations or as a separate Consolidated Statement of Comprehensive Income immediately following the Consolidated Statements of Operations. This standard will be effective for our first quarter 2012 report. Upon adoption of ASU 2011-05, we intend to present our comprehensive income in a separate Consolidated Statement of Comprehensive Income.

---

**Table of Contents**

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

**Business and results of operations overview**

We are primarily a holding company. We operate in the component products industry through our majority-owned subsidiary, CompX International Inc. We also own a non-controlling interest in Kronos Worldwide, Inc. Both CompX (NYSE Amex: CIX) and Kronos (NYSE: KRO) file periodic reports with the Securities and Exchange Commission (SEC).

CompX is a leading manufacturer of security products, precision ball bearing slides and ergonomic computer support systems used in the office furniture, transportation, postal, tool storage, appliance and a variety of other industries. CompX also manufactures stainless steel exhaust systems, gauges and throttle controls for the performance marine industry.

We account for our 30% non-controlling interest in Kronos by the equity method. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments (TiO<sub>2</sub>). TiO<sub>2</sub> is used for a variety of manufacturing applications including plastics, paints, paper and other industrial products.

**Forward-looking information**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking in nature. Statements found in this report including, but not limited to, the statements found in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements that represent our beliefs and assumptions based on currently available information. In some cases you can identify these forward-looking statements by the use of words such as believes, intends, may, should, could, anticipates, expected or comparative terminology, or by discussions of strategies or trends. Although we believe the expectations reflected in forward-looking statements are reasonable, we do not know if these expectations will be correct. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. While it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause our 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 include, but are not limited to, the following:

Future supply and demand for our products,

The extent of the dependence of certain of our businesses on certain market sectors,

The cyclicity of our businesses (such as Kronos TiO<sub>2</sub> Operations),

Changes in raw material and other operating costs (such as energy, ore and steel costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs,

Changes in the availability of raw material (such as ore),

General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO<sub>2</sub> and component products),

Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts,



**Table of Contents**

Competitive products and prices, including increased competition from low-cost manufacturing sources (such as China),

Customer and competitor strategies,

Potential consolidation of Kronos competitors,

Demand for office furniture,

Substitute products,

The impact of pricing and production decisions,

Competitive technology positions,

Our ability to protect our intellectual property rights in our technology,

The introduction of trade barriers,

Service industry employment levels,

Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian krone, the Canadian dollar and the New Taiwan dollar),

Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions),

The timing and amounts of insurance recoveries,

Our ability to maintain sufficient liquidity,

The extent to which our subsidiaries were to become unable to pay us dividends,

CompX's and Kronos' ability to renew or refinance debt,

CompX's ability to comply with covenants contained in its revolving bank credit facility,



## Edgar Filing: NL INDUSTRIES INC - Form 10-Q

The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,

Potential difficulties in integrating completed or future acquisitions,

Decisions to sell operating assets other than in the ordinary course of business,

Uncertainties associated with the development of new product features,

Our ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which have been recognized under the more-likely-than-not recognition criteria,

Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities or new developments regarding environmental remediation at sites related to our former operations),

Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including us, with respect to asserted health concerns associated with the use of such products),

The ultimate resolution of pending litigation (such as our lead pigment and environmental matters) and

Possible future litigation.

Should one or more of these risks materialize or if the consequences of such a 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.

## **Table of Contents**

### **Results of Operations**

#### ***Net Income Overview***

##### *Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010*

Our net income attributable to NL stockholders was \$16.9 million, or \$.35 per share, in the second quarter of 2011 compared to \$4.3 million, or \$.09 per share, in the second quarter of 2010. As more fully described below, our net income per share increased from 2010 to 2011 primarily due to the net effect of:

higher equity in net income from Kronos in 2011 due to Kronos higher income from operations in 2011 partially offset by a reduction of our ownership interest from 36% in the second quarter of 2010 to 30% in 2011 as a result of Kronos secondary stock offering completed in November 2010 and

higher environmental remediation and related expense in 2011 of \$10.7 million.

##### *Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010*

Our net income attributable to NL stockholders was \$34.1 million, or \$.70 per share, in the first six months of 2011 compared to net income of \$2.0 million, or \$.01 loss per share, in the first six months of 2010. As more fully described below, our income per share increased from 2010 to 2011 primarily due to the net effect of:

higher equity in net income of Kronos in 2011 due to Kronos higher income from operations in 2011 partially offset by an income tax benefit recognized by Kronos in 2010 as well as a reduction of our ownership percentage in Kronos from 36% in the first six months of 2010 to 30% in 2011 as a result of Kronos secondary stock offering completed in November 2010,

higher income from operations from component products in 2011 principally due to a patent litigation settlement gain as discussed below,

higher environmental remediation and related expense in 2011 of \$10.8 million,

a litigation settlement expense in 2010 as discussed below, and

higher insurance recoveries in 2010 primarily related to the litigation settlement expense.

Our 2011 net income attributable to NL stockholders includes the following first quarter items:

income of \$.06 per share, net of noncontrolling interest and income taxes, related to a CompX patent litigation settlement and

a charge of \$.01 per share included in our equity in Kronos in 2011 consisting of a call premium and the write-off of unamortized deferred financing costs and original issue discount associated with Kronos redemption of Senior Notes.

Our 2010 net income attributable to NL stockholders includes the following first quarter items:

income included in our equity in earnings of Kronos of \$.17 per share related to an income tax benefit recognized by Kronos in the first quarter related to a European Court ruling that resulted in the favorable resolution of certain German income tax issues,

- 25 -

**Table of Contents**

income of \$.24 per share related to certain insurance recoveries we recognized,

a charge of \$.43 per share related to a litigation settlement expense, and

a charge of \$.03 per share, net of noncontrolling interest, related to recognition of a deferred income tax liability associated with a determination that certain undistributed earnings of CompX's Taiwanese subsidiary can no longer be considered to be permanently reinvested.

**Income (loss) from Operations**

The following table shows the components of our income (loss) from operations.

	Three months ended			Six months ended		
	June 30, 2010 (In millions)	2011	% Change	June 30, 2010 (In millions)	2011	% Change
CompX	\$ 3.0	\$ 3.1	3%	\$ 4.7	\$ 11.9	153%
Insurance recoveries	.1	.1		18.3	.5	(97)%
Litigation settlement expense				(32.2)		(100)%
Corporate expense and other, net	(2.6)	(12.2)	369%	(7.2)	(15.7)	118%
<b>Income (loss) from operations</b>	<b>\$ .5</b>	<b>\$ (9.0)</b>		<b>\$ (16.4)</b>	<b>\$ (3.3)</b>	

Amounts attributable to CompX relate to its components products business, while the other amounts generally relate to NL. Each of these items is further discussed below.

**CompX International Inc.**

	Three months ended			Six months ended		
	June 30, 2010 (In millions)	2011	% Change	June 30, 2010 (In millions)	2011	% Change
Net sales	\$ 34.4	\$ 35.2	2%	\$ 67.2	\$ 70.0	4%
Cost of sales	25.5	25.4		49.2	51.5	5%
Gross margin	\$ 8.9	\$ 9.8		\$ 18.0	\$ 18.5	
Operating costs and expenses	(5.6)	(5.9)	5%	(11.4)	(12.1)	6%
Patent litigation settlement gain					7.5	100%
Patent litigation expense	(.3)		(100)%	(1.9)	(.2)	(88)%
Facility consolidation expense		(.8)	100%		(1.8)	100%
<b>Income from operations</b>	<b>\$ 3.0</b>	<b>\$ 3.1</b>	<b>3%</b>	<b>\$ 4.7</b>	<b>\$ 11.9</b>	<b>153%</b>
<b>Percentage of net sales:</b>						
Cost of sales	74 %	72%		73 %	74%	
Income from operations	8%	9%		7%	17%	

## **Table of Contents**

**Net sales** Net sales increased 2% in the second quarter of 2011 and increased 4% in the first six months of 2011 as compared to the same periods of 2010. Net sales increased due to an increase in order rates from many of CompX's customers resulting from improving economic conditions in North America. For the six-month period comparison, CompX's Security Products, Furniture Components and Marine Components businesses accounted for approximately 77%, 23% and less than 1%, respectively, of the total increase in sales. Security Products sales represented the largest percentage of the total increase in sales due to stronger sales to customers in the transportation market. Marine Components sales were flat compared to the prior year periods due to the continued weak demand in the North American marine market.

**Cost of sales and gross margin** Cost of sales as a percentage of sales decreased by 2% in the second quarter of 2011 compared to the same period in 2010 resulting in an increase in gross profit and related margin over the quarter. For the six-month period, cost of sales as a percentage of sales increased less than 1% compared to the same period in 2010 resulting in a slight decrease in gross profit and related margin.

Both the quarter and six month period comparisons were positively impacted by increased leverage of fixed costs from higher sales partially offset by the negative impact of higher raw material costs and relative changes in currency exchange rates. Additionally, the six month period comparison was negatively impacted by the effect of production inefficiencies relating to the consolidation of CompX's Furniture Components facilities (primarily incurred in the first quarter of 2011) which, combined with other items noted above, more than offset the positive impact of the increased leverage of fixed costs.

**Facility consolidation costs** In 2011 CompX's Furniture Components business recorded approximately \$.8 and \$1.8 million in relocation costs for the second quarter and six-month period, respectively, as a result of consolidating two of its precision slides facilities. See Note 15 to our Condensed Consolidation Financial Statements.

**Patent litigation** The patent litigation settlement gain recorded in the first quarter 2011 of approximately \$7.5 million is discussed in Note 12 to our Condensed Consolidated Financial Statements. Additionally, as a result of the settlement, CompX's legal expenses decreased approximately \$.4 and \$1.7 million for the second quarter and first six-month period of 2011 compared to the same periods of 2010.

**Income from operations** CompX's income from operations improved slightly to \$3.1 million for the second quarter of 2011 compared to \$3.0 million for the second quarter of 2010 and improved to \$11.9 million for the first six months of 2011 compared to \$4.7 million for the same period in 2010. Income from operations for the second quarter and six month periods improved due to increased leverage of fixed costs from higher sales and lower litigation expense, partially offset by facility consolidation costs and related production inefficiencies, higher raw material costs and relative changes in currency exchange rates. Additionally, the six month period was positively impacted by the patent litigation settlement gain in 2011.

CompX's Furniture Components business has substantial operations and assets located outside the United States (in Canada and Taiwan). The majority of sales generated from its non-U.S. operations are denominated in the U.S. dollar, with the remainder denominated in currencies other than the U.S. dollar, principally the Canadian dollar and the New Taiwan dollar. Most raw materials, labor and other production costs for CompX's non-U.S. operations are denominated in local currencies. Consequently, the translated U.S. dollar values of CompX's non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported

**Table of Contents**

earnings and may affect comparability of period-to-period operating results. In addition to the impact of the translation of sales and expenses over time, CompX's non-U.S. operations also generate currency transaction gains and losses which primarily relate to the difference between the currency exchange rates in effect when non-local currency sales or operating costs are initially accrued and when such amounts are settled. CompX's Furniture Component business's net sales were positively impacted while its income from operations was negatively impacted by currency exchange rates in the following amounts as compared to the impact of currency exchange rates during the corresponding periods in the prior year:

**Impact of changes in currency exchange rates****three months ended June 30, 2011 vs. June 30, 2010**

	Transaction gains/(losses) recognized			Translation gain/loss- impact of rate changes	Total currency impact 2011 vs. 2010
	2010	2011	Change (In thousands)		
<b>Impact on:</b>					
Net Sales	\$			160	160
Income from operations		122	89	(33)	(552)

**Impact of changes in currency exchange rates****six months ended June 30, 2011 vs. June 30, 2010**

	Transaction gains/(losses) recognized			Translation gain/loss- impact of rate changes	Total currency impact 2011 vs. 2010
	2010	2011	Change (In thousands)		
<b>Impact on:</b>					
Net Sales	\$			332	332
Income from operations		67	43	(24)	(936)

The positive impact on sales relates to sales denominated in non-U.S. dollar currencies translated into higher U.S. dollar sales due to a strengthening of the local currency in relation to the U.S. dollar. The negative impact on CompX's component products income from operations results from the U.S. dollar denominated sales of non-U.S. operations converted into lower local currency amounts due to the weakening of the U.S. dollar. This negatively impacted gross margin as it results in less local currency generated from sales to cover the costs of non-U.S. operations which are denominated in local currencies.

**Table of Contents****Results by Reporting Unit**

The key performance indicator for CompX's reporting units is income from operations.

	Three months ended June 30,		% Change (Dollars in thousands)	Six months ended June 30,		% Change
	2010	2011		2010	2011	
<b>Net sales:</b>						
Security Products	\$ 17,354	\$ <b>18,396</b>	<b>6%</b>	\$ 34,016	\$ <b>36,185</b>	<b>6%</b>
Furniture Components	14,271	<b>14,146</b>	<b>(1)%</b>	28,386	<b>29,041</b>	<b>2%</b>
Marine Components	2,759	<b>2,699</b>	<b>(2)%</b>	4,782	<b>4,792</b>	
<b>Total net sales</b>	<b>\$ 34,384</b>	<b>\$ 35,241</b>	<b>2%</b>	<b>\$ 67,184</b>	<b>\$ 70,018</b>	<b>4%</b>
<b>Gross margin:</b>						
Security Products	\$ 5,319	\$ <b>5,972</b>	<b>12%</b>	\$ 10,846	\$ <b>11,816</b>	<b>9%</b>
Furniture Components	3,036	<b>3,340</b>	<b>10%</b>	6,384	<b>5,927</b>	<b>(7)%</b>
Marine Components	500	<b>524</b>	<b>5%</b>	723	<b>773</b>	<b>7%</b>
<b>Total gross margin</b>	<b>\$ 8,855</b>	<b>\$ 9,836</b>	<b>11%</b>	<b>\$ 17,953</b>	<b>\$ 18,516</b>	<b>3%</b>
<b>Income (loss) from operations:</b>						
Security Products	\$ 3,199	\$ <b>3,788</b>	<b>18%</b>	\$ 6,581	\$ <b>7,361</b>	<b>12%</b>
Furniture Components	1,078	<b>765</b>	<b>(29)%</b>	1,085	<b>7,640</b>	<b>n.m.</b>
Marine Components	(78)	<b>(57)</b>	<b>27%</b>	(447)	<b>(412)</b>	<b>8%</b>
Corporate operating expense	(1,261)	<b>(1,358)</b>	<b>(8)%</b>	(2,545)	<b>(2,691)</b>	<b>(6)%</b>
<b>Total income from operations</b>	<b>\$ 2,938</b>	<b>\$ 3,138</b>	<b>7%</b>	<b>\$ 4,674</b>	<b>\$ 11,898</b>	<b>155%</b>
<b>Gross margin as a percentage of net sales:</b>						
Security Products	31%	<b>33%</b>		32%	<b>33%</b>	
Furniture Components	21%	<b>24%</b>		22%	<b>20%</b>	
Marine Components	18%	<b>19%</b>		15%	<b>16%</b>	
<b>Total gross margin</b>	<b>26%</b>	<b>28%</b>		<b>27%</b>	<b>26%</b>	
<b>Income from operations margin:</b>						
Security Products	18%	<b>21%</b>		19%	<b>20%</b>	
Furniture Components	8%	<b>5%</b>		4%	<b>26%</b>	
Marine Components	(3)%	<b>(2)%</b>		(9)%	<b>(9)%</b>	
<b>Total income from operations margin</b>	<b>9%</b>	<b>9%</b>		<b>7%</b>	<b>17%</b>	

n.m. not meaningful

*Security Products* Security Products net sales increased 6% in each of the second quarter and first six months of 2011 compared to the same periods last year. The increase in sales is primarily due to improved customer order rates across most customers with a slightly greater increase among transportation market customers resulting from improved economic conditions in North America. As a percentage of net sales, gross margin increased

**Table of Contents**

approximately 2% for the quarter compared to the prior year, and income from operations increased 3% as the result of the positive impact of (i) an increase of 1% in variable contribution margin through a more efficient use of overhead due to the higher sales in 2011, (ii) a slightly more than 1% increase relating to improved coverage of fixed manufacturing costs from higher sales volume and lower depreciation expense due to assets that were fully depreciated in 2010, and (iii) greater leverage of selling, general and administrative costs due to the higher sales.

For the first six months of 2011 compared to the same period in 2010, the gross margin and income from operations percentages each improved 1% as the items noted above that impacted the second quarter results were partially mitigated by first quarter 2011 margins that were comparable to first quarter 2010.

*Furniture Components* Furniture Components net sales decreased 1% in the second quarter of 2011 compared to the same period last year, and increased 2% in the first six months of 2011 compared to the same period in the prior year. The decrease in sales for the second quarter is primarily due to slightly lower ergonomic product sales in 2011 due to several one time customer projects in 2010 that were not repeated in 2011 partially offset by higher precision slide sales. The increase for the six month period is primarily due to an increase in customer order rates during the first quarter of 2011 across most customers resulting from improved economic conditions in North America.

Gross margin percentage increased by approximately 3% for the quarter and decreased by approximately 2% for the six month comparative period. The increase in gross margin percentage for the quarter was primarily due to a reduction in fixed manufacturing expenses as a result of the substantial completion of the consolidation of CompX's Furniture Components facilities during the first quarter of 2011 partially offset by higher raw material costs and the negative impact of relative changes in currency exchange rates. The decrease in gross margin percentage for the six month period was primarily the result of higher raw material costs, the negative impact of relative changes in currency exchange rates and manufacturing inefficiencies incurred during the first quarter, relating to the facility consolidation, partially offset by lower manufacturing costs subsequent to the completion of the facility consolidation. Because CompX's Furniture Components facility consolidation was substantially completed in the first quarter, the unfavorable effect of manufacturing inefficiencies associated with such consolidation on its year-to-date gross margin percentage was substantially related to the first quarter of this year.

On a percentage basis, CompX's Furniture Components income from operations decreased 3% for the quarter primarily due to facility consolidation expenses of \$.8 million and the negative impact of relative changes in currency exchange rates partially offset by lower fixed manufacturing and litigation expenses. For the six month comparative period, Furniture Components income from operations includes: (i) a patent litigation settlement gain of \$7.5 million recognized in the first quarter of 2011, (ii) patent litigation expenses of \$1.9 million and \$.2 million in 2010 and 2011, respectively, and (iii) facility consolidation costs of approximately \$1.8 million in 2011. Excluding the patent litigation settlement gain, patent litigation expenses and facility consolidation costs, income from operations percentage decreased 3% in the first six months of 2011 compared to the first six months of 2010 primarily due to the decrease in gross margin for the comparative period as noted above. See Notes 12 and 15 to our Condensed Consolidated Financial Statements regarding the litigation settlement gain and the facility consolidation costs in the first quarter of 2011, respectively.

In July of 2011, CompX completed an acquisition of an ergonomic component products business. See Note 8 to our Condensed Consolidated



## **Table of Contents**

Financial Statements. The acquisition is intended to expand CompX's Furniture Components ergonomics product line.

**Marine Components** Marine Components net sales, gross margin and income from operations in the second quarter and first six months of 2011 were comparable to the same periods last year, as the economic conditions in the North American recreational boating market have not changed from prior year.

**Outlook** Demand for CompX's products increased during the first quarter of 2011 compared to the prior year as conditions in the overall economy improved. However during the later part of the second quarter customer orders were flat, which appeared to be consistent with the overall economic activity in North America during May and June. It is uncertain whether sales growth will return over the next several months or continue to be flat. While changes in market demand are not within our control, CompX is focused on the areas it can impact. Staffing levels are continuously evaluated in relation to sales order rates which may result in headcount adjustments, to the extent possible, to match staffing levels with demand. CompX expects its continuous lean manufacturing and cost improvement initiatives, such as the consolidation of its Furniture Components facilities, to positively impact productivity and result in a more efficient infrastructure. Additionally, CompX continues to seek opportunities to gain market share in markets it currently serves, expand into new markets and develop new product features in order to mitigate the impact of changes in demand as well as broaden its sales base.

Volatility in the costs of commodity raw materials is ongoing. CompX's primary commodity raw materials are steel, brass, alloyed zinc and stainless steel which together represent approximately 17% of its total cost of sales. Compared to the first six months of 2010, cost of these raw materials increased in 2011 between approximately 14% and 22%. CompX generally seeks to mitigate the impact of fluctuations in commodity raw material costs on its margins through improvements in production efficiencies or other operating cost reductions as well as occasionally executing larger quantity tactical spot buys of these raw materials, which may result in higher inventory balances for a period of time. In the event that CompX is unable to offset commodity raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or surcharges due to the competitive nature of the markets served by its products. Consequently, overall operating margins may be affected by commodity raw material cost pressures as is currently the case.

As discussed in Note 12 to our Condensed Consolidated Financial Statements, CompX has been involved in certain patent infringement litigation, which has in the past resulted in our incurring significant litigation expense. With the settlement reached during the first quarter of 2011, CompX does not expect to incur significant litigation expense relating to these patent infringement claims going forward.

The U.S. dollar weakened in 2011 in comparison to the Canadian dollar and the New Taiwan dollar, which are the primary currencies of CompX's non-US operations. We currently expect the U.S. dollar to continue to weaken during 2011 or remain below the rates that were in effect in 2010, which will likely have a negative impact on CompX's 2011 results in comparison to 2010. When practical, CompX will seek to mitigate the negative impact of changes in currency exchange rates on its results by entering into currency hedging contracts. However, such strategies can not fully mitigate the negative impact of changes in currency exchange rates.

### ***General corporate and other items***

**Insurance recoveries** We have agreements with certain insurance carriers pursuant to which the carriers reimburse us for a portion of our past

---

**Table of Contents**

lead pigment and asbestos litigation defense costs. Insurance recoveries include amounts we received from these insurance carriers.

The agreements with certain of our insurance carriers also include reimbursement for a portion of our future litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. Accordingly, these insurance recoveries are recognized when the receipt is probable and the amount is determinable. See Note 12 to our Condensed Consolidated Financial Statements.

In addition to insurance recoveries discussed above, in the first six months of 2010 we recognized an insurance recovery in connection with the litigation settlement discussed below. We had insurance coverage for a portion of the litigation settlement and a substantial portion of the insurance recoveries we recognized in the first six months of 2010 relates to such coverage.

***Litigation settlement expense and corporate expense*** Our results of operations in the first six months of 2010 includes the previously-reported litigation settlement expense of \$32.2 million. Corporate expenses were \$12.3 million in the second quarter of 2011, \$9.8 million or 400% higher than in the second quarter of 2010 primarily due to higher environmental remediation and related expense in 2011. Included in corporate expense are:

litigation and related costs of \$1.2 million in 2011 compared to \$2.0 million in 2010 and

environmental remediation and related expense of \$9.7 million in 2011, compared to a credit of \$1.0 in 2010.

Corporate expenses were \$15.7 million in the first six months of 2011, \$8.5 million or 120% higher than in the first six months of 2010 due to higher environmental remediation and related expense in 2011 partially offset by lower litigation and related costs. Our results of operations in the first six months of 2010 include the previously-reported litigation settlement expense of \$32.2 million. Included in corporate expense are:

litigation and related costs of \$3.0 million in 2011 compared to \$4.9 million (exclusive of the \$32.2 million above) in 2010 and

environmental remediation and related expense of \$9.9 million in 2011, compared to a credit of \$.9 million in 2010.

The level of our litigation and related expenses varies from period to period depending upon, among other things, the number of cases in which we are currently involved, the nature of such cases and the current stage of such cases (e.g. discovery, pre-trial motions, trial or appeal, if applicable). See Note 12 to the Condensed Consolidated Financial Statements.

Obligations associated with environmental remediation and related matters are difficult to assess and estimate, and it is possible that actual costs will exceed accrued amounts or that costs will be incurred in the future for sites in which we cannot currently estimate our liability. If these events were to occur in the remainder of 2011, our corporate expenses would be higher than we currently estimate. In addition, we adjust our accruals for environmental remediation and related matters as further information becomes available to us or as circumstances change. Such further information or changed circumstances could result in an increase or reduction in our accrued costs. See Note 12 to the Condensed Consolidated Financial Statements.

Overall we expect that our net general corporate expenses for all of calendar 2011 will be higher than 2010 due to higher expected litigation and

**Table of Contents**

environmental remediation and related expenses. If our current expectations regarding the number of cases or sites in which we expect to be involved during 2011, or if the nature of such cases or sites were to change, our corporate expenses could be higher than we currently estimate and involve amounts that are material.

***Provision for income taxes*** We recognized an income tax expense of \$7.9 million in the first six months of 2011 as compared to \$4.6 million in the first six months of 2010. Our income tax expense in the first six months of 2010 includes an aggregate \$1.9 million provision for deferred income taxes on the pre-2005 undistributed earnings of CompX's Taiwanese subsidiary. Our income tax expense in the first six months of 2011 includes a \$2.1 million provision recognized by CompX for deferred income taxes related to the undistributed earnings of its Canadian subsidiary attributable to the \$7.5 million patent litigation settlement gain discussed in Note 12. See Note 11 to our Condensed Consolidated Financial Statements.

***Noncontrolling interest in subsidiary*** Noncontrolling interest in net income of subsidiary increased \$.6 million in the first six months of 2011 as compared to the first six months of 2010 due to higher earnings of CompX in 2011.

***Equity in net income of Kronos Worldwide, Inc.***

As a result of Kronos' November 2010 secondary public offering of 8.97 million shares of its common stock in an underwritten offering, our average ownership interest in Kronos was reduced from approximately 36% in the second quarter of 2010 to 30% in the second quarter of 2011.

**Table of Contents**

	Three months ended June 30,		% Change	Six months ended June 30,		% Change
	2010 (In millions)	2011		2010 (In millions)	2011	
<b>Kronos:</b>						
Net sales	\$ 380.1	\$ 537.5	41%	\$ 699.8	\$ 957.9	37%
Cost of sales	294.9	340.5	15%	554.1	614.5	11%
Gross margin	\$ 85.2	\$ 197.0		\$ 145.7	\$ 343.4	
Income from operations	\$ 38.8	\$ 144.2	272%	\$ 60.5	\$ 246.6	308%
Interest and dividend income		1.7	100%		3.4	100%
Loss on prepayment of debt			%		(3.3)	100%
Interest expense	(9.7)	(8.5)	(12)%	(20.1)	(18.1)	(10)%
	29.1	137.4		40.4	228.6	
Income tax expense (benefit)	9.8	48.4	394%	(21.7)	79.3	465%
Net income	\$ 19.3	\$ 89.0		\$ 62.1	\$ 149.3	
<b>Percentage of net sales:</b>						
Cost of sales	78%	63%		79%	64%	
Income from operations	10%	27%		9%	26%	
Equity in net income of Kronos Worldwide, Inc.	\$ 6.9	\$ 27.1		\$ 22.3	\$ 45.4	
<b>TiO<sub>2</sub> operating statistics:</b>						
Sales volumes*	148	146	(1)%	270	271	%
Production volumes*	134	142	6%	258	275	7%
<b>Change in TiO<sub>2</sub> net sales:</b>						
TiO <sub>2</sub> product pricing			39%			36%
TiO <sub>2</sub> sales volumes			(1)%			%
TiO <sub>2</sub> product mix			(6)%			(3)%
Changes in currency exchange rates			9%			4%
Total			41%			37%

\* Thousands of metric tons

The key performance indicators for Kronos are TiO<sub>2</sub> average selling prices and TiO<sub>2</sub> sales and production volumes.

**Current TiO<sub>2</sub> industry conditions** Throughout 2010 and continuing into 2011, global customer demand for Kronos TiO<sub>2</sub> products continued to strengthen, and its production facilities operated at near full practical capacity rates. Kronos believes inventories throughout the TiO<sub>2</sub> industry remain at very low levels despite efforts of major TiO<sub>2</sub> producers to operate their facilities at near full capacity. As a result, Kronos increased TiO<sub>2</sub> selling prices throughout 2010 and the first six months of 2011 that resulted in increased profitability and cash flows. Even with increased profitability, Kronos believes profit margins are not currently at a level which reasonably justifies greenfield or other major expansions of TiO<sub>2</sub> capacity. Provided that global demand for TiO<sub>2</sub> products remains strong, Kronos expects the overall level of worldwide TiO<sub>2</sub> inventories to remain low for several years due to the constraints of adding significant new production capacity, especially for premium grades of TiO<sub>2</sub> products through the chloride process.

---

**Table of Contents**

Given these current dynamics in the TiO<sub>2</sub> industry, as well as the expectation for increases in its manufacturing costs discussed below, Kronos anticipates further implementation of TiO<sub>2</sub> selling price increases. Overall, based on positive market dynamics in the TiO<sub>2</sub> industry, Kronos expects its profitability and cash flows to significantly increase in 2011 and the foreseeable future.

**Net sales** Kronos net sales in the second quarter of 2011 increased 41%, or \$157.4 million, compared to the second quarter of 2010 primarily due to a 39% increase in average TiO<sub>2</sub> selling prices. TiO<sub>2</sub> selling prices will increase or decrease generally as a result of competitive market pressures, changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs.

While the amount of inventory available for shipment in the second quarter of 2011 increased due to higher production volumes and global demand for its TiO<sub>2</sub> products continues to be strong, Kronos sales volumes were 1% lower than the second quarter of 2010 due primarily to the scheduling of available products for shipment.

In addition to the factors discussed above, Kronos estimates the favorable effect of changes in currency exchange rates increased its net sales by approximately \$33 million, or 9%, as compared to the second quarter of 2010, while relative changes in mix of its various grades of its products sold decreased Kronos net sales by approximately \$23 million, or 6%.

Kronos net sales in the six months ended June 30, 2011 increased 37%, or \$258.1 million, compared to the six months ended June 30, 2010 primarily due to a 36% increase in average TiO<sub>2</sub> selling prices.

While the amount of inventory available for shipment in the first six months of 2011 increased due to higher production volumes and global demand for its TiO<sub>2</sub> products continues to be strong, Kronos sales volumes in the first six months of 2011 were less than 1% higher than the first six months of 2010 due primarily to the scheduling of available products for shipment. Kronos expects overall demand will continue to remain high for the remainder of the year. Kronos TiO<sub>2</sub> sales volumes in the first half of 2011 were a new first half record.

In addition to the factors discussed above, Kronos estimates the favorable effect of changes in currency exchange rates increased its net sales by approximately \$28 million, or 4%, as compared to the first six months of 2010, while relative changes in mix of various grades of its products sold decreased net sales by approximately \$21 million, or 3%.

**Cost of sales** Kronos cost of sales increased \$45.6 million or 15% in the second quarter of 2011 compared to 2010 due to the net impact of a 6% increase in TiO<sub>2</sub> production volumes, higher raw material costs of \$18.1 million (primarily feedstock ore and petroleum coke), an increase in maintenance costs of \$4.0 million (consistent with the increase in production volumes) and currency fluctuations (primarily the euro). Cost of sales as a percentage of net sales decreased to 63% in the second quarter of 2011 compared to 78% in the second quarter of 2010 primarily due to the effect of higher selling prices and the benefit of higher production volumes in the second quarter of 2011. Kronos production volumes in the second quarter of 2011 were a new quarterly record.

Kronos cost of sales increased \$60.4 million or 11% in the six months ended June 30, 2011 compared to this same period in 2010 due to the net impact of a 7% increase in TiO<sub>2</sub> production volumes, higher raw material costs of \$30.5 million (primarily feedstock ore and petroleum coke), an increase in maintenance costs of \$7.7 million (consistent with the increase in production

---

**Table of Contents**

volumes) and currency fluctuations (primarily the euro). Cost of sales as a percentage of net sales decreased to 64% in the first six months of 2011 compared to 79% in the same period in 2010 primarily due to the effects of higher selling prices and the benefit of higher production volumes in 2011. Kronos' production volumes in the first half of 2011 were a new first half record.

***Income from operations*** Kronos' income from operations increased by \$105.4 million from \$38.8 million in the second quarter of 2010 to \$144.2 million in the second quarter of 2011. Income from operations as a percentage of net sales increased to 27% in the second quarter of 2011 from 10% in the same period for 2010. This increase was driven by the improvement in gross margin, which increased to 37% for the second quarter of 2011 compared to 22% for the second quarter of 2010. Kronos' gross margin has increased primarily because of the effect of higher selling prices and the benefit of higher production volumes, both of which more than offset the impact of higher manufacturing costs (primarily raw materials and maintenance). Additionally, changes in currency exchange rates have positively affected Kronos' gross margin and income from operations. Kronos estimates that changes in currency exchange rates increased income from operations by approximately \$6 million in the second quarter of 2011 as compared to the same period in 2010.

Kronos' income from operations increased by \$186.1 million from \$60.5 million in the first six months of 2010 to \$246.6 million in the first six months of 2011. Income from operations as a percentage of net sales increased to 26% in the first six months of 2011 from 9% in the same period for 2010. This increase was driven by the improvement in gross margin, which increased to 36% for the first six months of 2011 compared to 21% for the same period in 2010. Kronos' gross margin increased primarily because of the effects of higher selling prices and the benefit of higher production volumes, both of which more than offset the impact of higher manufacturing costs (primarily raw materials and maintenance). Additionally, changes in currency exchange rates have negatively affected Kronos' gross margin and income from operations. Kronos estimates that changes in currency exchange rates decreased income from operations by approximately \$3 million in the first six months of 2011 as compared to the same period in 2010.

***Other non-operating income (expense)*** In March 2011, Kronos redeemed euro 80 million of its 6.5% Senior Secured Notes and borrowed under its European revolving credit facility in order to fund the redemption. As a result, Kronos recognized a \$3.3 million pre-tax interest charge related to the prepayment of its 6.5% Senior Secured Notes in the first quarter of 2011 consisting of the call premium and the write-off of unamortized deferred financing costs and original issue discount associated with the redeemed Senior Notes. The average rate on Kronos' outstanding borrowings under its European revolving credit facility was 2.82% at June 30, 2011.

Kronos' interest expense decreased \$1.2 million from \$9.7 million in the second quarter of 2010 to \$8.5 million in the second quarter of 2011 due to the net effects of the prepayment of a portion of the 6.5% Senior Secured Notes in the first quarter of 2011, and changes in currency exchange rates.

Kronos' interest expense decreased \$2.0 million from \$20.1 million in the six months ended June 30, 2010 to \$18.1 million in the six months ended June 30, 2011 due to the net effects of the prepayment of a portion of the 6.5% Senior Secured Notes in the first quarter of 2011, and changes in currency exchange rates. The interest expense Kronos recognizes will vary with fluctuations in the euro exchange rate.

***Provision for income taxes*** Kronos' income tax provision was \$48.4 million in the second quarter of 2011 compared to \$9.8 million in the same period last year. This increase in provision for income taxes was primarily due to improved income from operations in the second quarter of 2011 compared to the second quarter of 2010.

**Table of Contents**

Kronos' income tax provision was \$79.3 million in the first six months of 2011 compared to an income tax benefit of \$21.7 million in the same period last year. This increase in provision for income taxes was primarily due to improved income from operations in the first six months of 2011 compared to the same period in 2010. In addition, Kronos' income tax benefit in 2010 includes a first quarter income tax benefit of \$35.2 million related to a European Court ruling that resulted in the favorable resolution of certain income tax issues in Germany and an increase in the amount of its German corporate and trade tax net operating loss carryforwards.

Kronos has substantial net operating loss carryforwards in Germany (the equivalent of \$952 million for German corporate purposes and \$349 million for German trade tax purposes at December 31, 2010). At June 30, 2011, Kronos concluded that no deferred income tax asset valuation allowance is required to be recognized with respect to such carryforwards, principally because (i) such carryforwards have an indefinite carryforward period, (ii) Kronos has utilized a portion of such carryforwards during the most recent three-year period and (iii) Kronos currently expects to utilize the remainder of such carryforwards over the long term. However, prior to the complete utilization of such carryforwards, particularly if the economic recovery were to be short-lived or Kronos was to generate losses at its German operations for an extended period of time, it is possible that it might conclude the benefit of such carryforwards would no longer meet the more-likely-than-not recognition criteria, at which point Kronos would be required to recognize a valuation allowance against some or all of the then-remaining tax benefit associated with the carryforwards.

**Currency** Kronos has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). The majority of its sales from non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the euro, other major European currencies and the Canadian dollar. A portion of Kronos' sales generated from its non-U.S. operations is denominated in the U.S. dollar. Certain raw materials used worldwide, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are purchased primarily in local currencies. Consequently, the translated U.S. dollar value of its non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect the comparability of period-to-period operating results. In addition to the impact of the translation of sales and expenses over time, Kronos' non-U.S. operations also generate currency transaction gains and losses which primarily relate to the difference between the currency exchange rates in effect when non-local currency sales or operating costs are initially accrued and when such amounts are settled with the non-local currency.

Overall, Kronos estimates that fluctuations in currency exchange rates had the following effects on sales and income from operations for the periods indicated.

**Table of Contents****Impact of changes in currency exchange rates****Three months ended June 30, 2011 vs June 30, 2010**

	Transaction gains/(losses) recognized			Translation gain/loss-impact of rate changes	Total currency impact 2011 vs 2010
	2010	2011	Change (in millions)		
<b>Impact on:</b>					
Net sales	\$	\$	\$	\$ 33	\$ 33
Income from operations	(3)	1	4	2	6

**Impact of changes in currency exchange rates****Six months ended June 30, 2011 vs June 30, 2010**

	Transaction gains/(losses) recognized			Translation gain/loss-impact of rate changes	Total currency impact 2011 vs 2010
	2010	2011	Change (in millions)		
<b>Impact on:</b>					
Net sales	\$	\$	\$	\$ 28	\$ 28
Income from operations	(1)	2	3	(6)	(3)

**Outlook** During the first six months of 2011 Kronos operated its production facilities at near full practical capacity levels, consistent with its operating rates throughout 2010. Kronos currently expects to continue to operate its facilities at near full practical capacity levels throughout the remainder of 2011. While Kronos will continue to work on debottlenecking projects in 2011 to increase its production capacity, Kronos believes such debottlenecking projects will produce relatively nominal increases in its capacity and as a result its overall production volumes in 2011 will not be increased significantly as compared to 2010.

The overall strong demand for TiO<sub>2</sub> experienced in the first six months of 2011 is expected to continue through the remainder of the year and inventory levels throughout the TiO<sub>2</sub> industry are expected to remain at very low levels. As a result, in 2011 Kronos expects its sales volumes of TiO<sub>2</sub> to be marginally lower than its production volume. Given its expectations for the level of its increased production capacity in 2011 discussed above, Kronos similarly expects that sales volumes in 2011 will not increase significantly as compared to 2010.

Kronos implemented significant increases in TiO<sub>2</sub> selling prices throughout 2010 and the first six months of 2011. Kronos' average TiO<sub>2</sub> selling prices were 39% higher in the second quarter of 2011 as compared to the second quarter of 2010, and its average selling prices at the end of the second quarter of 2011 were 10% higher as compared to the end of the first quarter of 2011 and 20% higher as compared to the end of 2010. As a result, and based on expected continuation of strong demand levels and increases in manufacturing costs discussed below, Kronos anticipates its average selling prices will continue to increase significantly during the remainder of 2011.

During 2011, Kronos expects to see significantly higher feedstock ore costs driven by tight ore supplies and higher-than-historical increases in petroleum coke, energy and freight costs which are being driven in part by escalating worldwide fuel prices. Overall, Kronos currently expects that its per metric ton cost of TiO<sub>2</sub> produced will increase approximately 10% to 15% in 2011 as compared to 2010. Given that the current conditions for the TiO<sub>2</sub> industry discussed above are not expected to change over the year, Kronos



## **Table of Contents**

believes that it should be able to recoup such higher costs through additional selling price increases.

Overall, Kronos expects that income from operations will continue to be significantly higher in the remainder of 2011 as compared to the same periods of 2010, as the favorable effect of higher selling prices will more than offset the impact of higher production costs.

Kronos' expectations as to the future of the TiO<sub>2</sub> industry are based upon a number of factors beyond control, including worldwide growth of gross domestic product, competition in the marketplace, continued operation of competitors, unexpected or earlier than expected capacity additions or reductions and technological advances. If actual developments differ from expectations, Kronos' results of operations could be unfavorably affected.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Consolidated cash flows**

#### *Operating activities*

Trends in cash flows from operating activities, excluding the impact of deferred taxes and relative changes in assets and liabilities, are generally similar to trends in our income from operations. Cash flows provided by operating activities were \$22.0 million in the first six months of 2011 compared to cash flows used in operating activities of \$7.0 million in the first six months of 2010. The \$29.0 million increase in cash provided by operating activities in 2011 is primarily due to the net effect of:

Aggregate dividends from Kronos of \$27.3 million in the first six months of 2011 (including \$17.6 million attributable to Kronos' special dividend of \$.50 per share) compared to nil in the first six months of 2010,

Lower results from operations in 2011 of \$1.5 million (including the impact of CompX's patent litigation settlement gain in 2011, and excluding the impact of each of the litigation settlement expense and insurance recoveries in 2010),

The \$19.0 million paid in 2010 related to the litigation settlement expense,

Lower cash received for insurance recoveries in 2011 of \$18.4 million,

Lower amount of net cash used from relative changes in receivables, inventories, payables and accrued liabilities in 2011 of \$6.5 million, including accruals related to environmental and related matters,

Lower cash refunded from income taxes in 2011 of \$1.8 million, and

Higher cash paid for interest in 2011 of \$1.5 million mainly due to timing of interest payments as discussed in Note 8 to our Condensed Consolidated Financial Statements.

We do not have complete access to CompX's cash flows in part because we do not own 100% of CompX. A detail of our consolidated cash flows from operating activities is presented in the table below. Intercompany dividends have been eliminated. The reference to NL Parent in the table below is a reference to NL Industries, Inc., as the parent company of CompX and our other wholly-owned subsidiaries.

**Table of Contents**

	Six months ended June 30, 2010      2011 (In millions)	
Cash provided by (used in) operating activities:		
CompX	\$ (5.3)	\$ 2.8
NL Parent and wholly-owned subsidiaries	1.0	21.8
Eliminations	(2.7)	(2.6)
<b>Total</b>	<b>\$ (7.0)</b>	<b>\$ 22.0</b>

Relative changes in working capital can have a significant effect on cash flows from operating activities. Generally CompX expects average days sales outstanding to increase from December to June as the result of a seasonal increase in sales during the second quarter compared to the fourth quarter. Overall, June 30, 2011 days sales outstanding compared to December 31, 2010 is in line with expectations. The overall increase in days in inventory is primarily due to higher inventory balances as a result of the facility consolidation. CompX expects days in inventory to decline over the next several quarters as the operations improve the management of the inventory that has been combined at one facility.

For comparative purposes we have provided comparable prior year numbers below.

	December 31, 2009	June 30, 2010	December 31, 2010	June 30, 2011
Days sales outstanding	37 days	45 days	41 days	46 days
Days in inventory	64 days	64 days	70 days	74 days

**Investing and financing activities**

Net cash used in investing activities totaled \$.6 million in the first six months of 2011 compared to cash provided of \$3.0 million in the first six months of 2010.

During 2011:

we had \$1.3 in capital expenditures, substantially all of which related to CompX,

During 2010:

we reduced restricted cash and restricted marketable securities by a total of \$5.1 million due to the release of funds to us from escrow related to a litigation settlement and due to the reduction of one of our letters of credit,

we reduced restricted cash by \$.4 million due to payments made on an environmental remediation project, and

we had \$1.2 million in capital expenditures, substantially all of which related to CompX.

Net cash used in financing activities totaled \$30.0 million in the first six months of 2011 compared to \$11.7 million in the first six months of 2010.

**Table of Contents**

During 2011:

we paid a net \$10.3 million on a promissory note with Valhi and

CompX paid \$7.5 million in principal repayments on long-term debt.

During each of the first six months of 2010 and 2011 we paid \$12.2 million, or \$.25 per share, in dividends. Distributions to noncontrolling interests consist of CompX dividends paid to shareholders other than us.

In July 2011, CompX borrowed approximately \$5 million under its revolving credit facility in connection with the acquisition discussed in Note 8 of our Condensed Consolidated Financial Statements.

Provisions contained in certain of CompX's and Kronos' credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity for reasons other than defaults from failing to comply with typical financial covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. Other than noted above, CompX has no current expectations to borrow on the revolving credit facility to fund working capital, capital expenditures, debt service or dividends (if declared), lower future operating results could reduce or eliminate the amount available to borrow and restrict future dividends.

CompX and Kronos are in compliance with all of their debt covenants at June 30, 2011. Our and our affiliates' ability to borrow funds under our credit facilities in the future will, in some instances, depend in part on our ability to comply with specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreement.

We believe that Kronos will be able to comply with its financial covenants contained in all of its credit facilities through the maturity of the respective facilities; however if future operating results differ materially from our expectations Kronos may be unable to maintain compliance.

**Future cash requirements****Liquidity**

Our primary source of liquidity on an ongoing basis is our cash flow from operating activities. We generally use these amounts to (i) fund capital expenditures, (ii) pay ongoing environmental remediation and legal expenses and (iii) provide for the payment of short-term indebtedness and dividends (if declared).

At June 30, 2011, we had an aggregate of \$13.6 million of restricted and unrestricted cash and cash equivalents. A detail by entity is presented in the table below. Of the \$5.1 million aggregate cash and cash equivalents held by CompX, \$3.0 million was held by its non-U.S. subsidiaries.

	<b>Amount (In millions)</b>
CompX	<b>\$ 5.1</b>
NL Parent and wholly-owned subsidiaries	<b>8.5</b>
<b>Total</b>	<b>\$ 13.6</b>

## **Table of Contents**

In addition, at June 30, 2011 we owned 4.8 million shares of Valhi common stock and 1.4 million shares of TIMET common stock with an aggregate market value of \$264.5 million. See Note 4 to the Condensed Consolidated Financial Statements.

We routinely compare our liquidity requirements and alternative uses of capital against the estimated future cash flows we expect to receive from our subsidiaries and affiliates. As a result of this process, we have in the past sought, and may in the future seek to raise additional capital, incur debt, repurchase indebtedness in the market or otherwise, modify our dividend policies, consider the sale of our interests in our subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of these and other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

We periodically evaluate acquisitions of interests in or combinations with companies (including related companies) perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to our current businesses. We intend to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing indebtedness. From time to time, we also evaluate the restructuring of ownership interests among our respective subsidiaries and related companies.

Based upon our expectations of our operating performance and the anticipated demands on our cash resources we expect to have sufficient liquidity to meet our short-term obligations (defined as the twelve-month period ending June 30, 2012). If actual developments differ from our expectations, our liquidity could be adversely affected. In this regard, Valhi has agreed to loan us up to \$40 million (we had \$1.0 million outstanding at June 30, 2011). The amount of any such outstanding loan Valhi would make to us is at Valhi's discretion.

### *Capital Expenditures*

Firm purchase commitments for capital projects in process at June 30, 2011 approximated \$1.3 million. CompX's 2011 capital investments are limited to those expenditures required to meet expected customer demand and those required to properly maintain its facilities.

### *Dividends*

Because our operations are conducted primarily through subsidiaries and affiliates, our long-term ability to meet parent company-level corporate obligations is largely dependent on the receipt of dividends or other distributions from our subsidiaries and affiliates. Kronos' board of directors determined to resume its regular quarterly dividend in the fourth quarter of 2010. In February 2011 Kronos' board of directors declared and paid a special cash dividend of \$.50 per share of its common stock. In addition, in May 2011, Kronos' board of directors approved a 2-for-1 stock split of its common stock and declared a regular quarterly dividend of \$.15 per share post stock split. Based on the 35.2 million shares of Kronos we held at June 30, 2011, we would receive annual dividends from Kronos of \$21.1 million at such \$.15 per share quarterly rate. CompX currently pays a regular quarterly dividend of \$.125 per share. At that rate, and based on the 10.8 million shares of CompX we held at June 30, 2011, we would receive annual dividends from CompX of \$5.4 million. In May 2011 Valhi's board of directors increased Valhi's regular quarterly dividend from \$.10 per share to \$.125 per share. Based on the 4.8 million shares of Valhi we held at June 30, 2011, we would receive annual dividends from Valhi of \$2.4 million at such \$.125 per share rate. In addition, during May 2011 TIMET's board of directors resumed its regular quarterly dividend of \$.075 per share in the second quarter of

## **Table of Contents**

2011. Based on the 1.4 million shares of TIMET we held at June 30, 2011, we would receive annual dividends from TIMET of \$.4 million at such \$.075 per share rate.

### *Investments in our subsidiaries and affiliates and other acquisitions*

We have in the past purchased, and may in the future purchase, the securities of our subsidiaries and affiliates or third-parties in market or privately-negotiated transactions. We base our purchase decisions on a variety of factors, including an analysis of the optimal use of our capital, taking into account the market value of the securities and the relative value of expected returns on alternative investments. In connection with these activities, we may consider issuing additional equity securities or increasing our indebtedness. We may also evaluate the restructuring of ownership interests of our businesses among our subsidiaries and related companies.

### *Off-balance sheet financing arrangements*

We do not have any off-balance sheet financing agreements other than the operating leases discussed in our 2010 Annual Report.

### *Commitments and contingencies*

We are subject to certain commitments and contingencies, as more fully described in Note 12 to the Condensed Consolidated Financial Statements or in Part II, Item 1 of this report. In addition to those legal proceedings described in Note 12 to the Condensed Consolidated Financial Statements, various legislation and administrative regulations have, from time to time, been proposed that seek to (i) impose various obligations on present and former manufacturers of lead pigment and lead-based paint (including us) with respect to asserted health concerns associated with the use of such products and (ii) effectively overturn court decisions in which we and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date that are expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity, enactment of such legislation could have such an effect.

### **Recent accounting pronouncements**

See Note 16 to our Condensed Consolidated Financial Statements.

### **Critical accounting policies and estimates**

For a discussion of our critical accounting policies, refer to Part I, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Annual Report. There have been no changes in our critical accounting policies during the first six months of 2011.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk, including currency exchange rates, interest rates and security prices. For a discussion of such market risk items, refer to Part I, Item 7A. - Quantitative and Qualitative Disclosure About Market Risk in our 2010 Annual Report and Note 12 to the Condensed Consolidated Financial Statements. There have been no material changes in these market risks during the first six months of 2011.

CompX has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the

---

**Table of Contents**

reported amounts of our assets and liabilities related to our non-U.S. operations, and therefore our consolidated net assets, will fluctuate based upon changes in currency exchange rates.

**ITEM 4. CONTROLS AND PROCEDURES**

***Evaluation of disclosure controls and procedures*** We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, 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 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. Each of Harold C. Simmons, our Chief Executive Officer, and Gregory M. Swalwell, our Vice President, Finance and Chief Financial Officer, have evaluated the design and effectiveness of our disclosure controls and procedures as of June 30, 2011. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of June 30, 2011.

***Internal control over financial reporting*** We also maintain internal control over financial reporting. The term internal control over financial reporting, as defined by regulations of the SEC, 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 GAAP, and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect 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 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 assets that could have a material effect on our Condensed Consolidated Financial Statements.

As permitted by the SEC, our assessment of internal control over financial reporting excludes (i) internal control over financial reporting of equity method investees and (ii) internal control over the preparation of our financial statement schedules required by Article 12 of Regulation S-X. However, our assessment of internal control over financial reporting with respect to equity method investees did include our controls over the recording of amounts related to our investment that are recorded in our Condensed Consolidated Financial Statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

***Changes in Internal Control over Financial Reporting*** There has been no change to our internal control over financial reporting during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

In addition to the matters discussed below, refer to Note 12 to our Condensed Consolidated Financial Statements, to our 2010 Annual Report and to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

*County of Santa Clara v. Atlantic Richfield Company, et al.* (Superior Court of the State of California, County of Santa Clara, Case No. 1-00-CV-788657). In March 2011, plaintiffs filed an amended complaint adding Ventura County as a plaintiff and removing the City of Los Angeles. In addition to Ventura County, current plaintiffs are Santa Clara, Alameda, Monterey, San Mateo, Solano Counties, San Francisco, Oakland and San Diego Cities. In July 2011, trial was set for September 2012.

*Allen, et al. v. American Cyanamid, et al.* (United States District Court, Eastern District of Wisconsin, Case No. 11-C-55). In May 2011, defendants moved to dismiss the case for lack of diversity and misjoinder. The case is currently stayed pending the appeal in *Gibson* (Circuit Court Case in Milwaukee County, Wisconsin).

*Williams v. Goodwin, et al.* (Circuit Court, Milwaukee County, Case No. 2011-CV-1045). In June 2011, we answered the complaint, and the judge stayed the case for all defendants except landlord/insurance defendants, including us, until September 2011.

*Valoe, et al. v. American Cyanamid, et al.* (United States District Court, Eastern District of Wisconsin, Case No. 11-CV-425). In May 2011, we were served with an amended complaint in *Valoe, et al. v. American Cyanamid, et al.* (United States District Court, Eastern District of Wisconsin, Case No. 11-CV-425). The plaintiffs in this case are minors who allege injuries purportedly caused by lead on the surfaces of the homes in which they resided. The complaint alleges negligence and strict liability and seeks compensatory damages jointly and severally from us, American Cyanamid Company, Armstrong Containers, Inc., E.I. Du Pont de Nemours & Company, Atlantic Richfield Company and The Sherwin-Williams Company. We intend to deny liability in this case and will defend vigorously against all claims. In June 2011, the judge stayed the case.

*Brown et al. v. NL Industries, Inc. et al.* (Circuit Court Wayne County, Michigan, Case No. 06-602096 CZ). In July 2011, the case was dismissed with prejudice. This dismissal concludes the case.

*Barton, et al. v. NL Industries, Inc., et al.* (U.S. District Court, Eastern District of Michigan, Case No.: 2:08-CV-12558). In July 2011, the case was dismissed with prejudice. This dismissal concludes the case.

*Beets v. Blue Tee Corp. et al.* (Oklahoma State Court, District of Ottawa County, Case No. CJ-09-298). In June 2011, plaintiffs dismissed NL from the case with prejudice. This dismissal concludes the case with respect to NL.

*ASARCO LLC v. NL Industries, Inc., et al.* (United States District Court, Western District of Missouri, Case No. 4:11-cv-00138-DGK). In June 2011, we were served in *ASARCO LLC v. NL Industries, Inc., et al.* (United States District Court, Western District of Missouri, Case No. 4:11-cv-00138-DGK). The plaintiff brought this CERCLA contribution action against several defendants to recover a portion of the amount it paid in settlement with the U.S. Government during its Chapter 11 bankruptcy in relation to Tar Creek Superfund Site in Ottawa County, Oklahoma, the Cherokee County Superfund Site in southeast Kansas, the Oronogo-Duenweg Lead Mining Belt Superfund Site in Jasper County, Missouri, and the Newton County Mine Tailing Site in Newton

**Table of Contents**

County, Missouri. We intend to deny liability and to defend vigorously against all of the claims.

**Item 1A. Risk Factors**

For a discussion of the risk factors related to our businesses, refer to Part I, Item 1A., Risk Factors, in our 2010 Annual Report. There have been no material changes to such risk factors during the first six months of 2011.

**Item 6. Exhibits**

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



**Table of Contents**

**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.

(Registrant)

NL INDUSTRIES, INC.

Date: August 2, 2011

/s/ Gregory M. Swalwell  
Gregory M. Swalwell  
(Vice President, Finance and

Chief Financial Officer,

Principal Financial Officer)

Date: August 2, 2011

/s/ Tim C. Hafer  
Tim C. Hafer  
(Vice President and Controller,

Principal Accounting Officer)