NL INDUSTRIES INC
Form 10-Q
May 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2018

Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

New Jersey	13-5267260
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

5430 LBJ Freeway, Suite 1700

Dallas, Texas 75240-2620

(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

Indicate by check mark 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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act).

Indicate by check mark 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 May 1, 2018: 48,714,884.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2017	March 31, 2018 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,316	$ 99,948
Restricted cash and cash equivalents	3,370	3,277
Accounts and other receivables, net	10,670	12,888
Inventories, net	15,382	16,328
Receivable from affiliate	1,767	1,899
Prepaid expenses and other	1,162	1,980
Total current assets	130,667	136,320
Other assets:		
Notes receivable from affiliate	38,200	38,000
Marketable securities	88,681	87,100
Investment in Kronos Worldwide, Inc.	229,543	249,028
Goodwill	27,156	27,156
Other assets, net	4,843	5,153
Total other assets	388,423	406,437
Property and equipment:		
Land	5,146	5,146
Buildings	23,044	22,780
Equipment	67,926	68,154
Construction in progress	569	850
	96,685	96,930
Less accumulated depreciation	64,159	64,818
Net property and equipment	32,526	32,112
Total assets	$ 551,616	$ 574,869

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

	December 31, 2017	March 31, 2018 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$4,116	$ 3,921
Accrued and other current liabilities	9,707	7,090
Accrued environmental remediation and related costs	5,302	18,252
Payable to affiliates	429	429
Income taxes	30	46
Total current liabilities	19,584	29,738
Noncurrent liabilities:		
Long-term debt from affiliate	500	500
Accrued pension costs	12,194	11,970
Accrued postretirement benefits (OPEB) costs	1,846	1,777
Accrued environmental remediation and related costs	106,607	97,506
Deferred income taxes	49,315	53,661
Other	8,492	8,486
Total noncurrent liabilities	178,954	173,900
Equity:		
NL stockholders' equity:		
Common stock	6,089	6,089
Additional paid-in capital	300,866	300,866
Retained earnings	220,104	280,421
Accumulated other comprehensive loss	(191,737)	(234,305)
Total NL stockholders' equity	335,322	353,071
Noncontrolling interest in subsidiary	17,756	18,160
Total equity	353,078	371,231
Total liabilities and equity	$551,616	$ 574,869

Commitments and contingencies (Note 14)

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended March 31, 2017	2018
	(unaudited)	
Net sales	$29,948	$28,413
Cost of sales	20,262	18,910
Gross margin	9,686	9,503
Selling, general and administrative expense	5,162	5,130
Other operating income (expense):		
Insurance recoveries	50	163
Other income, net	—	619
Corporate expense	(5,320)	(7,953)
Loss from operations	(746)	(2,798)
Equity in earnings of Kronos Worldwide, Inc.	11,175	21,479
Other income (expense):		
Securities transactions, net	—	(1,581)
Other components of net periodic pension and OPEB cost	(177)	(99)
Interest and dividend income	696	1,072
Interest expense	(7)	(8)
Income before income taxes	10,941	18,065
Income tax expense	2,179	3,330
Net income	8,762	14,735
Noncontrolling interest in net income of subsidiary	412	487
Net income attributable to NL stockholders	$8,350	$14,248
Amounts attributable to NL stockholders:		
Basic and diluted net income per share	$.17	$.29
Weighted average shares used in the calculation	48,706	48,715

of net income per share

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three months ended March 31, 2017	2018
	(unaudited)	
Net income	$8,762	$14,735
Other comprehensive income (loss), net of tax:		
Marketable securities	(1,722)	—
Currency translation	1,771	2,591
Interest rate swap	112	—
Defined benefit pension plans	867	983
Other postretirement benefit plans	(48)	(73)
Total other comprehensive income, net	980	3,501
Comprehensive income	9,742	18,236
Comprehensive income attributable to noncontrolling interest	412	487
Comprehensive income attributable to NL stockholders	$9,330	$17,749

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Three months ended March 31, 2018

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interest in subsidiary	Total equity
	(unaudited)					
Balance at December 31, 2017	$6,089	$300,866	$220,104	$(191,737)	$17,756	$353,078
Change in accounting principle - ASU 2016-01	—	—	46,069	(46,069)	—	—
Balance at January 1, 2018, as adjusted	6,089	300,866	266,173	(237,806)	17,756	353,078
Net income	—	—	14,248	—	487	14,735
Other comprehensive income, net of tax	—	—	—	3,501	—	3,501
Dividends	—	—	—	—	(83)	(83)
Balance at March 31, 2018	$6,089	$300,866	$280,421	$(234,305)	$18,160	$371,231

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended March 31,	
	2017	2018
	(unaudited)	
Cash flows from operating activities:		
Net income	$8,762	$14,735
Depreciation and amortization	933	889
Deferred income taxes	1,950	3,420
Equity in earnings of Kronos Worldwide, Inc.	(11,175)	(21,479)
Dividends received from Kronos Worldwide, Inc.	5,283	5,987
Cash funding of benefit plans in excess of net benefit plan expense	(26)	(120)
Other, net	16	1,637
Change in assets and liabilities:		
Accounts and other receivables, net	(2,614)	(2,226)
Inventories, net	(381)	(980)
Prepaid expenses and other	(58)	(819)
Accounts payable and accrued liabilities	(3,371)	(2,867)
Income taxes	7	16
Accounts with affiliates	27	(132)
Accrued environmental remediation and related costs	2,605	3,848
Other noncurrent assets and liabilities, net	(2)	(66)
Net cash provided by operating activities	1,956	1,843
Cash flows from investing activities:		
Capital expenditures	(621)	(644)
Promissory notes receivable from affiliate:		
Loans	(14,100)	(12,400)
Collections	12,500	12,600
Other, net	2	224
Net cash used in investing activities	(2,219)	(220)
Cash flows from financing activities -		
Distributions to noncontrolling interests in subsidiary	(83)	(83)
Cash and cash equivalents and restricted cash and cash equivalents - net change from:		
Operating, investing and financing activities	(346)	1,540
Balance at beginning of period	98,242	102,941

Balance at end of period	$97,896	$104,481
Supplemental disclosure - cash paid for:		
Interest	$7	$8
Income taxes, net	$210	$25

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

(unaudited)

Note 1 – Organization and basis of presentation:

Organization – At March 31, 2018, Valhi, Inc. (NYSE: VHI) held approximately 83% of our outstanding common stock and a wholly-owned subsidiary of Contran Corporation held approximately 93% of Valhi's outstanding common stock. All of Contran's outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly and their children for which Ms. Simmons and Ms. Connelly are co-trustees, or is held directly by Ms. Simmons and Ms. Connelly or entities related to them. Consequently, Ms. Simmons and Ms. Connelly may be deemed to control Contran, Valhi 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. (Kronos). CompX (NYSE MKT: 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, 2017 that we filed with the SEC on March 12, 2018 (the 2017 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, 2017 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, 2017) 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 March 31, 2018 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 2017 Consolidated Financial Statements contained in our 2017 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.

Note 2 – Accounts and other receivables, net:

	December 31, 2017	March 31, 2018

	(In thousands)	
Trade receivables - CompX	$10,516	$12,745
Accrued insurance recoveries	145	141
Other receivables	79	74
Allowance for doubtful accounts	(70)	(72)
Total	$10,670	$12,888

Accrued insurance recoveries are discussed in Note 13.

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Note 3 – Inventories, net:

	December 31, 2017	March 31, 2018
	(In thousands)	
Raw materials	$2,730	$2,770
Work in process	9,836	10,667
Finished products	2,816	2,891
Total	$15,382	$16,328

Note 4 – Marketable securities:

Our marketable securities consist of investments in the publicly-traded shares of our immediate parent company Valhi, Inc. Prior to 2018, any unrealized gains or losses on the securities were recognized through other comprehensive income, net of deferred income taxes. Beginning on January 1, 2018 with the adoption of Accounting Standards Update ("ASU") 2016-01, our marketable equity securities will continue to be carried at fair value as noted below, but any unrealized gains or losses on the securities are now recognized as a component of other income included in Securities Transactions, net on our Condensed Consolidated Statements of Income.

	Fair value measurement level	Market value	Cost basis	Unrealized gain
		(In thousands)		
December 31, 2017				
Valhi common stock	1	$88,681	$24,347	$ 64,334
March 31, 2018				
Valhi common stock	1	$87,100	$24,347	$ 62,753

At December 31, 2017 and March 31, 2018, we held approximately 14.4 million shares of common stock of Valhi. See Note 1. Our shares of Valhi common stock are carried at fair value based on quoted market prices, representing a Level 1 input within the fair value hierarchy. At December 31, 2017 and March 31, 2018, the quoted per share market price of Valhi common stock was $6.17 and $6.06, respectively. During the first three months of 2018 we recognized a securities transactions loss of $1.6 million related to the aggregate net change in market value of our marketable equity securities during such period.

The Valhi common stock we own is subject to the restrictions on resale pursuant to certain provisions of the SEC Rule 144. In addition, as a majority-owned subsidiary of Valhi, we cannot vote our shares of Valhi common stock under Delaware General 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, 2017 and March 31, 2018, we owned approximately 35.2 million shares of Kronos common stock. At March 31, 2018, the quoted market price of Kronos' common stock was $22.60 per share, or an aggregate market value of $796.0 million. At December 31, 2017, the quoted market price was $25.77 per share, or an aggregate market value of $907.6 million.

The change in the carrying value of our investment in Kronos during the first three months of 2018 is summarized below.

	Amount (In millions)
Balance at the beginning of the period	$ 229.5
Equity in earnings of Kronos	21.5
Dividends received from Kronos	(6.0)
Equity in Kronos' other comprehensive income:	
Currency translation	3.3
Defined benefit pension plans	.7
Balance at the end of the period	$ 249.0

Selected financial information of Kronos is summarized below:

	December 31, 2017	March 31, 2018
	(In millions)	
Current assets	$1,062.5	$1,195.5
Property and equipment, net	506.4	514.1
Investment in TiO_2 joint venture	86.5	79.6
Other noncurrent assets	169.0	149.4
Total assets	$1,824.4	$1,938.6
Current liabilities	$231.5	$261.1
Long-term debt	473.8	487.4
Accrued pension and postretirement benefits	261.9	267.6
Other noncurrent liabilities	102.9	104.2
Stockholders' equity	754.3	818.3
Total liabilities and stockholders' equity	$1,824.4	$1,938.6

	Three months ended March 31,	
	2017	2018
	(In millions)	
Net sales	$369.8	$430.4

Cost of sales	263.8	255.6
Income from operations	56.4	107.5
Income tax expense	11.0	29.0
Net income	36.8	70.7

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Note 6 – Other noncurrent assets, net:

	December 31, 2017	March 31, 2018
	(In thousands)	
Restricted cash	$1,255	$1,256
Pension asset	2,593	2,844
Other	995	1,053
Total	$4,843	$5,153

Note 7 – Accrued and other current liabilities:

	December 31, 2017	March 31, 2018
	(In thousands)	
Employee benefits	$8,269	$4,965
Professional fees	350	726
Other	1,088	1,399
Total	$9,707	$7,090

Note 8 – Long-term debt:

During the first three months of 2018, our wholly owned subsidiary, NLKW Holding, LLC had no borrowings or repayments under its $50 million secured revolving credit facility with Valhi. At March 31, 2018, we had outstanding borrowings of $0.5 million under such facility, and the remaining $49.5 million was available for future borrowing under this facility. Outstanding borrowings under such credit facility bear interest at the prime rate plus 1.875% per annum, and the average interest rate as of and for the three months ended March 31, 2018 was 6.625% and 6.40%, respectively. We are in compliance with all of the covenants contained in such facility at March 31, 2018.

Note 9 – Employee benefit plans:

The components of net periodic defined benefit pension cost are presented in the table below.

	Three months ended March 31,	
	2017	2018

	(In thousands)	
Interest cost	$506	$372
Expected return on plan assets	(689)	(590)
Recognized actuarial losses	394	365
Total	$211	$147

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

	Three months ended March 31,	
	2017	2018
	(In thousands)	
Interest cost	$20	$15
Recognized actuarial gains	(54)	(63)
Total	$(34)	$(48)

Upon the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, our net periodic defined benefit pension cost and other postretirement benefit cost is presented as a separate line item ("Other components of net periodic pension and OPEB cost") in our Condensed Consolidated Statements of Income for all periods presented. See Note 16.

We currently expect our 2018 contributions to our defined benefit pension plans and other postretirement plans to be approximately $2.5 million.

Note 10 – Other noncurrent liabilities:

	December 31, 2017	March 31, 2018
	(In thousands)	
Reserve for uncertain tax positions	$7,312	$7,312
Insurance claims and expenses	620	638
Other	560	536
Total	$8,492	$8,486

Note 11 – Revenue Recognition

Our sales are conducted through our majority-owned subsidiary CompX and involve single performance obligations to ship our products pursuant to customer purchase orders. In some cases, the purchase order is supported by an underlying master sales agreement, but the purchase order acceptance generally evidences the contract with our customer by specifying the key terms of product and quantity ordered, price and delivery and payment terms.

Effective January 1, 2018 with the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), see Note 16, we record revenue when we satisfy our performance obligations to our customers by transferring control of our products to them, which generally occurs at point of shipment or upon delivery. Such transfer of control is also evidenced by transfer of legal title and other risks and rewards of ownership (giving the customer the ability to direct the use of, and obtain substantially all of the benefits of, the product), and our customers becoming obligated to pay us and such payment being probable of occurring. In certain arrangements we provide shipping and handling activities after the transfer of control to our customer (e.g. when control transfers prior to delivery). In such arrangements shipping and handling are considered fulfillment activities, and accordingly, such costs are accrued when the related revenue is recognized.

Revenue is recorded in an amount that reflects the net consideration we expect to receive in exchange for our products. Prices for our products are based on terms specified in published list prices and purchase orders, which generally do not include financing components, noncash consideration or consideration paid to our customers. As our standard payment terms are less than one year, we have elected the practical expedient under ASC 606 and we have not assessed whether a contract has a significant financing component. We state sales net of price, early payment and distributor discounts as well as volume rebates (collectively, variable consideration). Variable consideration, to the extent present, is not material and is recognized as the amount to which we are most-likely to be entitled, using all information (historical, current and forecasted) that is reasonably available to us, and only to the extent that a significant reversal in the amount of the cumulative revenue recognized is not probable of occurring in a future period. Differences, if any, between estimates of the amount of variable consideration to which we will be entitled and the actual amount of such variable consideration have not been material in the past. We report any tax assessed by a governmental authority that we collect from our customers that is both imposed on and concurrent with our revenue-producing activities (such as sales, use, value added and excise taxes) on a net basis (meaning we do not recognize these taxes either in our revenues or in our costs and expenses).

Frequently, we receive orders for products to be delivered over dates that may extend across reporting periods. We invoice for each delivery upon shipment and recognize revenue for each distinct shipment when all sales recognition criteria for that shipment have been satisfied. As scheduled delivery dates for these orders are within a one year period, under the optional exemption provided by ASC 606, we do not disclose sales allocated to future shipments of partially completed contracts.

The following table disaggregates our net sales by reporting unit, which are the categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors (as required by ASC 606).

	Three months ended March 31,	
	2017	2018
	(In thousands)	
Net sales:		
Security Products	$26,010	$24,056
Marine Components	3,938	4,357
Total net sales	$29,948	$28,413

Note 12 – Income taxes:

	Three months ended March 31,	
	2017	2018
	(In millions)	
Expected tax expense, at U.S. federal statutory income tax rate of 35% in 2017 and 21% in 2018	$3.8	$3.8
Rate differences on equity in earnings of Kronos	(1.6)	(1.2)
Nontaxable income	(.2)	(.1)
U.S. state income taxes and other, net	.2	.8
Income tax expense	$2.2	$3.3

Comprehensive provision for income taxes		
(benefit) allocable to:		
Net income	$2.2	$3.3
Other comprehensive income (loss):		
Marketable securities	(.9)	-
Currency translation	.9	.7
Interest rate swap	.1	-
Pension plans	.5	.3
OPEB plans	(.1)	-
Total	$2.7	$4.3

As discussed in the 2017 Annual Report, on December 22, 2017, H.R.1, formally known as the "Tax Cuts and Jobs Act" ("2017 Tax Act") was enacted into law. This new tax legislation, among other changes, reduced the U.S. Federal corporate income tax rate from 35% to 21% effective January 1, 2018. Following the enactment of the 2017 Tax Act, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 118 to provide guidance on the accounting and reporting impacts of the 2017 Tax Act. SAB 118 states that companies should account for changes related to the 2017 Tax Act in the period of enactment if all information is available and the accounting can be completed. In situations where companies do not have enough information to complete the accounting in the period of enactment, a company must either 1) record an estimated provisional amount if the impact of the change can be reasonably estimated; or 2) continue to apply the accounting guidance that was in effect immediately prior to the 2017 Tax Act if the impact of the change cannot be reasonably estimated. If estimated provisional amounts are recorded, SAB 118 provides a measurement period of no longer than one year during which companies should adjust those amounts as additional information becomes available.

In accordance with GAAP, we recognize deferred income taxes on our undistributed equity in earnings (losses) of Kronos. Because we and Kronos are part of the same U.S. federal income tax group, any dividends we receive from Kronos are nontaxable to us. Accordingly, we do not recognize and we are not required to pay income taxes on dividends from Kronos. We received aggregate dividends from Kronos of $5.3 million in the first three months of 2017 and $6.0 million in the three months of 2018. The amounts shown in the above table of our income tax rate reconciliation for rate differences on equity in earnings of Kronos represents the net tax (benefit) associated with such non-taxability of the dividends we receive from Kronos, as it relates to the amount of deferred income taxes we recognize on our undistributed equity in earnings (losses) of Kronos and the result determined by multiplying the pre-tax earnings or losses of each of our non-U.S. subsidiaries by the difference between the applicable statutory income tax rate for each non-U.S. jurisdiction.

Under GAAP, we are required to revalue our net deferred tax liability associated with our U.S. net taxable temporary differences in the period in which the new tax legislation is enacted based on deferred tax balances as of the enactment date, to reflect the effect of such reduction in the corporate income tax rate. Other than with respect to temporary differences related to our marketable securities, and certain year-end actuarial valuations associated with our defined benefit pension and OPEB plans our temporary differences as of December 31, 2017 were not materially different from our temporary differences as of the enactment date, accordingly revaluation of our net taxable temporary differences was based on our net deferred tax liability as of December 31, 2017. Such revaluation resulted in a non-cash deferred income tax benefit of $37.5 million recognized as of December 31, 2017 in continuing operations, reducing our net deferred income tax liability. The new tax legislation also eliminated the domestic production activities deduction beginning in 2018 and allows for the expensing of certain capital expenditures for assets placed in service between September 28, 2017 and December 31, 2022. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. We have not made any additional measurement-period adjustments to the provisional amounts recorded for this item during the first quarter of 2018 because no new information became available during the period that required an adjustment. We are still waiting on additional guidance that may impact the income tax effects of the new legislation recognized at December 31, 2017. We will complete our accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if we determine an adjustment to the provisional amount recognized at December 31, 2017 is required, we will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Income tax matters related to Kronos

Kronos has substantial net operating loss (NOL) carryforwards in Germany (the equivalent of $652 million for Kronos' German corporate purposes and $.5 million for German trade tax purposes at December 31, 2017) and in Belgium (the equivalent of $50 million for Kronos' Belgian corporate tax purposes at December 31, 2017), all of which have an indefinite carryforward period. As a result, Kronos has net deferred income tax assets with respect to these two jurisdictions, primarily related to these NOL carryforwards. The German corporate tax is similar to the U.S. federal income tax, and the German trade tax is similar to the U.S. state income tax. As discussed in the 2017 Annual Report, commencing June 30, 2015, Kronos concluded that it was required to recognize a non-cash deferred income tax asset vauation allowance under the more-likely-than-not recognition critieria with respect to its German and Belgian net deferred income tax assets at such date. Kronos continued to conclude such losses did not meet the

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more-likely-than-not recognition criteria through March 31, 2017, and during the first quarter of 2017 Kronos recognized an aggregate non-cash deferred income tax benefit of $5.0 million as a result of a net decrease in such deferred income tax asset valuation allowance, due to utilizing a portion of both the German and Belgian NOL during the period. As also discussed in the 2017 Annual Report, at June 30, 2017, Kronos concluded it had sufficient positive evidence under the more-likely-than-not recognition criteria to support reversal of the entire valuation allowance related to its German and Belgian operations.

Prior to the enactment of the 2017 Tax Act, the undistributed earnings of Kronos' European subsidiaries were deemed to be permanently reinvested (Kronos had not made a similar determination with respect to the undistributed earnings of its Canadian subsidiary). Pursuant to the Transition Tax provisions imposing a one-time repatriation tax on post-1986 undistributed earnings, Kronos recognized a provisional current income tax expense of $76.2 million in the fourth quarter of 2017. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. Kronos elected to pay such tax over an eight year period beginning in 2018, including approximately $6.1 million which was paid in April 2018 and the remaining $70.1 million will be paid in increments over the remainder of the eight year period. Kronos has not made any measurement-period adjustments to the provisional amounts recorded for this item during the first quarter of 2018 because no new information became available during the period that required an adjustment. Kronos continues to gather information and is awaiting further guidance, primarily from the state jurisdictions in which Kronos operates, and given the complexities of these new rules and the long time period over which information about its subsidiaries is needed further guidance is necessary in order to determine the amount of the Transition Tax, which may impact the Transition Tax recognized in the fourth quarter of 2017. Kronos will complete its accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if Kronos determines an adjustment to the provisional amount recognized at December 31, 2017 is required, Kronos will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Prior to the enactment of the 2017 Tax Act the undistributed earnings of Kronos' European subsidiaries were deemed to be permanently reinvested (Kronos had not made a similar determination with respect to the undistributed earnings of its Canadian subsidiary). As a result of the implementation of a territorial tax system under the 2017 Tax Act, effective January 1, 2018, and the Transition Tax which in effect taxes the post-1986 undistributed earnings of Kronos' non-U.S. subsidiaries accumulated up through December 31, 2017, Kronos determined effective December 31, 2017 that all of the post-1986 undistributed earnings of its European subsidiaries are not permanently reinvested. Accordingly, in the fourth quarter of 2017 Kronos recognized an aggregate provisional non-cash deferred income tax expense of $4.5 million based on its reasonable estimates of the U.S. state and non-U.S. income tax and withholding tax liability attributable to all of such previously-considered permanently reinvested undistributed earnings through December 31, 2017. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. Kronos has not made any measurement-period adjustments to the provisional amounts recorded at December 31, 2017 for this item during the first quarter of 2018. However, Kronos recorded a provisional non-cash deferred income tax expense of $.4 million for the estimated U.S. state and non-U.S. income tax and withholding tax liability attributable to the 2018 undistributed earnings of its non-U.S. subsidiaries in the first quarter of 2018. Kronos is continuing its review of certain other provisions under the 2017 Tax Act and waiting on further guidance, primarily from the state jurisdictions in which it operates, that may impact its determination of the aggregate temporary differences attributable to its investments in its non-U.S. subsidiaries. Kronos will complete its accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if Kronos determine an adjustment to the provisional amount recognized at December 31, 2017 and March 31, 2018 are required, Kronos will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Under U.S. GAAP, as it relates to the new GILTI tax rules, Kronos is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into the measurement of our deferred taxes (the "deferred method"). Kronos' selection of an accounting policy related to the GILTI tax provisions will depend, in part, on analyzing our global income to determine whether it expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. While Kronos' future global operations depend on a number of different factors, Kronos does expect to have future U.S. inclusions in taxable income related to GILTI. As such, Kronos has performed an analysis of GILTI's impact on its provision and

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determined the impact is not material. Because the impact is not material to its tax provision, Kronos has not recorded any adjustments related to potential GILTI tax in its financial statements in the first quarter of 2018. Further, Kronos has not made a policy decision regarding whether to record deferred taxes on GILTI or record GILTI tax as a current-period expense when incurred. Kronos will complete its policy election for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118 and if Kronos determines such policy election impacts its provision, it will recognize an adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined. Similarly, Kronos has evaluated the tax impact of BEAT on its tax provision in the first quarter of 2018 and determined that the tax law has no material impact on its tax provision as it has historically not entered into international payments between related parties that are unrelated to cost of goods sold.

None of Kronos U.S. and non-U.S. tax returns are currently under examination. As a result of prior audits in certain jurisdictions, which are now settled, in 2008 Kronos filed Advance Pricing Agreement Requests with the tax authorities in the U.S., Canada and Germany. These requests have been under review with the respective tax authorities since 2008 and prior to 2016, it was uncertain whether an agreement would be reached between the tax authorities and whether Kronos would agree to execute and finalize such agreements. During the third quarter of 2017, Kronos' Canadian subsidiary executed and finalized an Advance Pricing Agreement with the Competent Authority for Canada (the "Canada-Germany APA") effective for tax years 2005 - 2017. During the first quarter of 2018, Kronos' German subsidiary executed and finalized the related Advance Pricing Agreement with the Competent Authority for Germany (the "Germany- Canada APA") effective for tax years 2005 - 2017. Kronos recognized a net $1.4 million non-cash income tax benefit related to an APA tax settlement payment between its German and Canadian subsidiaries.

Note 13 – Accumulated other comprehensive income (loss):

Changes in accumulated other comprehensive income (loss) attributable to NL stockholders, including amounts resulting from our investment in Kronos Worldwide (see Note 5), are presented in the table below.

	Three months ended March 31, 2017	2018
	(In thousands)	
Accumulated other comprehensive loss, net of tax:		
Marketable securities:		
Balance at beginning of period	$20,473	$46,069
Change in accounting principle	—	(46,069)
Balance at beginning of period, as adjusted	20,473	—
Other comprehensive income - unrealized gains (losses) arising during the year	(1,722)	—
Balance at end of period	$18,751	$—
Currency translation:		
Balance at beginning of period	$(175,859)	$(164,467)
Other comprehensive income	1,771	2,591
Balance at end of period	$(174,088)	$(161,876)
Interest rate swap:		
Balance at beginning of period	$(390)	$—
Other comprehensive income:		
Unrealized gains arising during the year	1	—
Less reclassification adjustment for amounts included in interest expense	111	—
Balance at end of period	$(278)	$—
Defined benefit pension plans:		
Balance at beginning of period	$(76,710)	$(72,951)
Other comprehensive income - amortization of net losses included in net periodic pension cost	867	983

Balance at end of period	$(75,843)	$(71,968)
OPEB plans:		
Balance at beginning of period	$(360)	$(388)
Other comprehensive loss - amortization of net gains included in net periodic OPEB cost	(48)	(73)
Balance at end of period	$(408)	$(461)
Total accumulated other comprehensive loss:		
Balance at beginning of period	$(232,846)	$(191,737)
Change in accounting principle	—	(46,069)
Balance at beginning of period, as adjusted	(232,846)	(237,806)
Other comprehensive income	980	3,501
Balance at end of period	$(231,866)	$(234,305)

See Note 9 for amounts related to our defined benefit pension plans and OPEB plans.

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Note 14 – Commitments and contingencies:

General

We are involved in various environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our current and former businesses. At least quarterly our management discusses and evaluates the status of any pending litigation or claim to which we are a party or which has been asserted against us. The factors considered in such evaluation include, among other things, the nature of such pending cases and claims, the status of such pending cases and claims, the advice of legal counsel and our experience in similar cases and claims (if any). Based on such evaluation, we make a determination as to whether we believe (i) it is probable a loss has been incurred, and if so if the amount of such loss (or a range of loss) is reasonably estimable, or (ii) it is reasonably possible but not probable a loss has been incurred, and if so if the amount of such loss (or a range of loss) is reasonably estimable, or (iii) the probability a loss has been incurred is remote.

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 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 or a trial verdict in favor of either the defendants or the plaintiffs.

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. Other than with respect to the Santa Clara case discussed below, 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 with respect to all such lead pigment litigation cases to which we are a party, including the Santa Clara case, we believe 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, 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 NL (subject to the final outcome of the Santa Clara case discussed below), and
-

we have never ultimately been found liable with respect to any such litigation matters, including over 100 cases over a twenty-year period for which we were previously a party and for which we have been dismissed without any finding of liability (subject to the final outcome of the Santa Clara case discussed below).

Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases filed by or on behalf of states, counties, cities or their public housing authorities and school districts, or those asserted as class actions. In addition, we have determined that liability to us which may result, if any, cannot be reasonably estimated at this time because there is no prior history of a loss of this nature on which an estimate could be made and there is no substantive information available upon which an estimate could be based.

In one of these lead pigment cases, in April 2000 we were served with a complaint in 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) brought by a number of California government entities against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara sought to recover compensatory damages for funds the plaintiffs have expended or would in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. In July 2003, the trial judge granted defendants' motion to dismiss all remaining claims. Plaintiffs appealed and the intermediate appellate court reinstated public nuisance, negligence, strict liability, and fraud claims in March 2006. A fourth amended complaint was filed in March 2011 on behalf of The People of California by the County Attorneys of Alameda, Ventura, Solano, San Mateo, Los Angeles and Santa Clara, and the City Attorneys of San Francisco, San Diego and Oakland. That complaint alleged that the presence of lead paint created a public nuisance in each of the prosecuting jurisdictions and sought its abatement. In July and August 2013, the case was tried. In January 2014, the Judge issued a judgment finding us, The Sherwin Williams Company and ConAgra Grocery Products Company jointly and severally liable for the abatement of lead paint in pre-1980 homes, and ordered the defendants to pay an aggregate $1.15 billion to the people of the State of California to fund such abatement. The trial court's judgment also found that to the extent any abatement funds remained unspent after four years, such funds were to be returned to the defendants. In February 2014, we filed a motion for a new trial, and in March 2014 the trial court denied the motion. Subsequently in March 2014, we filed a notice of appeal with the Sixth District Court of Appeal for the State of California. On November 14, 2017, the Sixth District Court of Appeal issued its opinion, upholding the trial court's judgment, except that it reversed the portion of the judgment requiring abatement of homes built between 1951 and 1980 which significantly reduced the number of homes subject to the abatement order. In addition, the appellate court ordered the case be remanded to the trial court to recalculate the amount of the abatement fund, to limit it to the amount necessary to cover the cost of investigating and remediating pre-1951 homes, and to hold an evidentiary hearing to appoint a suitable receiver. In addition, the appellate court found that we and the other defendants had the right to seek recovery from liable parties that contributed to a hazardous condition at a particular property. Subsequently, we and the other defendants filed a Petition with the California Supreme Court seeking its review of a number of issues. On February 14, 2018, the California Supreme Court denied such petition. We and the other defendants have indicated they intend to file an appeal with the U.S. Supreme Court, seeking its review of two federal issues in the trial court's original judgment. Review by the U.S. Supreme Court is discretionary, and there can be no assurance that the U.S. Supreme Court would agree to hear any such appeal that we and the other defendants would file, or if they would agree to hear any such appeal, that the U.S. Supreme Court would rule in favor of us and the other defendants. We and the other defendants intend to seek a stay of the case in the trial court, pending its appeal to the U.S. Supreme Court. Granting of such a stay by the appellate court is discretionary. If no such stay is issued, the remand to the trial court would proceed, and under such remand the trial court would, among other things, (i) recalculate the amount of the abatement fund, excluding remediation of homes built between 1951 and 1980, (ii) hold an evidentiary hearing to appoint a suitable receiver for the abatement fund and (iii) enter an order setting forth its rulings on these issues. We believe any party will have a right to appeal any of these new decisions made by the trial court from the remand of the case.

The Santa Clara case is unusual in that this is the second time that an adverse verdict in the lead pigment litigation has been entered against us (the first adverse verdict against us was ultimately overturned on appeal). Given the appellate court's November 2017 ruling, and the denial of an appeal by the California Supreme Court, we have concluded that the likelihood of a loss in this case has reached a standard of "probable" as contemplated by ASC 450. However, we have also concluded that the amount of such loss cannot be reasonably estimated at this time (nor can a range of loss be reasonably estimated) because, among other things:

- The appellate court has remanded the case back to the trial court to recalculate the total amount of the abatement, limiting the abatement to pre-1951 homes. Until the trial court has completed such recalculation, NL and the other defendants have no basis to estimate a liability;

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- The appellate court upheld NL's and the other defendants' right to seek contribution from other liable parties (e.g. property owners who have violated the applicable housing code) on a house-by-house basis. The method by which the trial court would undertake to determine such house-by-house responsibility, and the outcome of such a house-by-house determination, is not presently known;
- Participation in any abatement program by each homeowner is voluntary, and each homeowner would need to consent to allowing someone to come into the home to undertake any inspection and abatement, as well as consent to the nature, timing and extent of any abatement. The original trial court's judgment unrealistically assumed 100% participation by the affected homeowners. Actual participation rates are likely to be less than 100% (the ultimate extent of participation is not presently known);
- The remedy ordered by the trial court is an abatement fund. The trial court ordered that any funds unspent after four years are to be returned to the defendants (this provision of the trial court's original judgment was not overturned by the appellate court). As noted above, the actual number of homes which would participate in any abatement, and the nature, timing and extent of any such abatement, is not presently known; and
- We and the other two defendants are jointly and severally liable for the abatement, and we do not believe any individual defendant would be 100% responsible for the cost of any abatement.

Accordingly, the total ultimate amount of any abatement fund, and NL's share of any abatement is not presently known. For all of the reasons noted above, NL has concluded that the amount of loss for this matter cannot be reasonably estimated at this time (nor can any reasonable range of loss be estimated). However, as with any legal proceeding, there is no assurance that any appeal would be successful, and it is reasonably possible, based on the outcome of the appeals process and the remand proceedings in the trial court, that NL may in the future incur some liability resulting in the recognition of a loss contingency accrual that could have a material adverse impact on our results of operations, financial position and liquidity.

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. In the future, if new information regarding such matters becomes available to us (such as a final, non-appealable adverse verdict against us or otherwise ultimately being found liable with respect to such matters), at that time we would consider such information in evaluating any remaining cases then-pending against us as to whether it might then have become probable we have incurred liability with respect to these matters, and whether such liability, if any, could have become reasonably estimable. The resolution of any of these cases could result in the 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 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 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 that we or our predecessors, our subsidiaries or their predecessors currently or previously owned, operated or used, 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 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 occasionally named as a party in 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 the 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 (including costs associated with damages for personal injury or property damage and/or damages for injury to natural resources) when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available 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 payout. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. At December 31, 2017 and March 31, 2018, 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 three months of 2018 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	$ 111,909
Additions charged to expense, net	4,162
Payments, net	(313)
Balance at the end of the period	$ 115,758
Amounts recognized in the Condensed Consolidated Balance Sheet at the end of the period:	
Current liability	$ 18,252
Noncurrent liability	97,506
Balance at the end of the period	$ 115,758

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 March 31, 2018, we had accrued approximately $116 million related to approximately 38 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 $146 million, including the amount currently accrued. These accruals have not been discounted to present value.

We believe that it is not reasonably possible to estimate the range of costs for certain sites. At March 31, 2018, there were approximately 5 sites for which we are not currently able to reasonably 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 for the contamination at the site, if any, 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. As further information becomes available to us for any of these sites, which would allow us to estimate a range of costs, we would at that time adjust our accruals. Any such adjustment could result in the recognition of an accrual that would have a material effect on our consolidated financial statements, results of operations and liquidity.

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 certain of our 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 2017 Annual Report.

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 106 of these types of cases pending, involving a total of approximately 579 plaintiffs. In addition, the claims of approximately 8,676 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio state court. 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). 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 2017 Annual Report.

In addition to the litigation described above, we and our affiliates 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 15 – Financial instruments and fair value measurements:

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:

	December 31, 2017		March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash, cash equivalents and restricted cash	$102,941	$102,941	$104,481	$104,481
Noncontrolling interest in CompX common stock	17,756	22,224	18,160	23,060

The fair value of our noncontrolling interest in CompX stockholders' equity is based upon its quoted market price at each balance sheet date, which represents a Level 1 input. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

Note 16 – Recent accounting pronouncements:

Adopted

On January 1, 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) for all contracts which were not completed as of January 1, 2018 using the modified retrospective method. Prior to adoption of this standard, we recorded sales when our products were shipped and title and other risks and rewards of ownership had passed to our customer, which was generally at the time of shipment (although in some instances shipping terms were FOB destination point, for which we did not recognize revenue until the product was received by our customer). Following adoption of this standard, we record sales when we satisfy our performance obligations to our customers by transferring control of our products to them, which we have determined is at the same point in time that we recognized revenue prior to adoption of this new standard. Accordingly, the adoption of Topic 606 as of January 1, 2018 did not have a material impact on our consolidated financial statements, and we believe adoption of this standard will have a minimal effect on our revenues on an ongoing basis. See Note 11.

On January 1, 2018, we adopted ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects related to the recognition, measurement, presentation and disclosure of financial instruments. The ASU requires equity investments (except for those accounted for under the equity method of accounting or those that result in the consolidation of the investee) to generally be measured at fair value with changes in fair value recognized in net income (previously, changes in fair value of such securities were recognized in other comprehensive income). The amendment also requires a number of other changes, including among others: simplifying the impairment assessment for equity instruments without readily determinable fair values; eliminating the requirement for public business entities to disclose methods and assumptions used to determine fair value for financial instruments measured at amortized cost; requiring an exit price notion when measuring the fair value of financial instruments for disclosure purposes; and requiring separate presentation of financial assets and liabilities by measurement category and form of asset. We adopted the new standard prospectively. The most significant aspect of adopting this ASU is the requirement to recognize changes in fair value of our available-for-sale marketable equity securities in net income. At December 31, 2017, our entire portfolio of marketable securities consisted of marketable equity securities. Upon adoption of the ASU on January 1, 2018, the entire balance of our accumulated other comprehensive income related to marketable securities of $46.1 million was reclassified to our beginning retained earnings pursuant to the transition requirements of the ASU.

In March 2017, the FASB issued ASU 2017-07, Compensation— Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that the service cost component of net periodic defined benefit pension and OPEB cost be reported in the same line item as other compensation costs for applicable employees incurred during the period. Other components of such net benefit cost are required to be presented in the income statement separately from the service cost component, and below income from operations (if such a subtotal is presented). These other net benefit cost components must be disclosed either on the face of the financial statements or in the notes to the financial statements. In addition only the service cost component is eligible for capitalization in assets where applicable (inventory or internally constructed fixed assets for example). We adopted the amendments in ASU 2017-07 beginning in the first quarter of 2018, with retrospective presentation in our Condensed Consolidated Statements of Income. We began applying ASU 2017-07 prospectively beginning on January 1, 2018 as it relates to the capitalization of the service cost component of net benefit cost into assets (primarily inventory). We are availing ourselves of the practical expedient that permits us to use amounts we previously disclosed as components of our net periodic defined benefit pension and OPEB cost for periods prior to the adoption of this ASU as the estimation basis for applying the retrospective presentation requirements. As a result we have reclassified $.2 million previously classified as part of corporate expense for the three months ended March 31, 2017, to “Other components of net periodic pension and OPEB cost” in our Condensed Consolidated Statement of Income.

Pending adoption

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is a comprehensive rewriting of the lease accounting guidance which aims to increase comparability and transparency with regard to lease transactions. The primary change will be the recognition of lease assets for the right-of-use of the underlying asset and lease liabilities for the obligation to make payments by lessees on the balance sheet for leases currently classified as operating leases. The ASU also requires increased qualitative disclosure about leases in addition to quantitative disclosures currently required. Companies are required to use a modified retrospective approach to adoption with a practical expedient which will allow companies to continue to account for existing leases under the prior guidance unless a lease is modified, other than the requirement to recognize the right-of-use asset and lease liability for all operating leases. The changes indicated above will be effective for us beginning in the first quarter of 2019, with early adoption permitted. We are in the process of assessing all of our current leases. We have not yet evaluated the effect this ASU will have on our Consolidated Financial Statements, but given the insignificant amount of our future minimum payments under non-cancellable operating leases at December 31, 2017 discussed in Note 17 to our 2017 Annual Report, we do not expect the adoption of this standard to have a material effect on our Consolidated Balance Sheets.

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

RESULTS OF OPERATIONS:

Business 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 MKT: CIX) and Kronos (NYSE: KRO) file periodic reports with the Securities and Exchange Commission (SEC).

CompX is a leading manufacturer of engineered components utilized in a variety of applications and industries. Through its Security Products operations, CompX manufactures mechanical and electronic cabinet locks and other locking mechanisms used in recreational transportation, postal, office and institutional furniture, cabinetry, tool storage and healthcare applications. CompX also manufactures stainless steel exhaust systems, gauges, throttle controls and trim tabs for the recreational marine and other non-marine industries through its Marine Components operations.

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_2). TiO_2 is used for a variety of manufacturing applications including paints, plastics, paper and other industrial and specialty products.

Forward-looking information

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking in nature and represent management’s beliefs and assumptions based on currently available information. Statements in this report including, but not limited to, statements found in Item 2 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are forward-looking statements that represent our management’s beliefs and assumptions based on currently available information. In some cases you can identify forward-looking statements by the use of words such as “believes,” “intends,” “may,” “should,” “could,” “anticipates,” “expects” or comparable terminolog 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. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. The factors that could cause 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 including, 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 cyclicality of our businesses (such as Kronos’ TiO_2 operations)
- Customer and producer inventory levels
- Unexpected or earlier-than-expected industry capacity expansion (such as the TiO_2 industry)
- Changes in raw material and other operating costs (such as energy, ore, zinc and brass 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_2 and component products)

- Competitive products and substitute products
- Price and product competition from low-cost manufacturing sources (such as China)
- Customer and competitor strategies
- Potential consolidation of Kronos' competitors
- Potential consolidation of Kronos' customers
- The impact of pricing and production decisions

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- Competitive technology positions
- Potential difficulties in integrating future acquisitions
- Potential difficulties in upgrading or implementing new accounting and manufacturing software systems (such as Kronos' enterprise resource planning system)
- The introduction of trade barriers
- Possible disruption of Kronos' or CompX's business, or increases in our cost of doing business resulting from terrorist activities or global conflicts
- The impact of current or future government regulations (including employee healthcare benefit related regulations)
- 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 and the Canadian dollar), or possible disruptions to our business resulting from potential instability resulting from uncertainties associated with the euro or other currencies
- Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime, transportation interruptions and cyber attacks)
- Decisions to sell operating assets other than in the ordinary course of business
- Kronos' ability to renew or refinance credit facilities
- Our ability to maintain sufficient liquidity
- The timing and amounts of insurance recoveries
- The extent to which our subsidiaries or affiliates were to become unable to pay us dividends
- Uncertainties associated with CompX's development of new product features
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters, including future tax reform
- Our ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which may or may not 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 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)
- 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.

Results of operations

Net income overview

Quarter ended March 31, 2018 compared to the quarter ended March 31, 2017

Our net income attributable to NL stockholders was $14.3 million, or $.29 per share, in the first quarter of 2018 compared to net income attributable to NL stockholders of $8.4 million, or $.17 per share, in the first quarter of 2017. As more fully described below, the increase in our earnings per share from 2017 to 2018 is primarily due to the net effects of:

- equity in earnings of Kronos in 2018 of $21.5 million compared to $11.2 million in 2017;
- higher litigation fees and related costs of $1.3 million in 2018 and

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• higher environmental remediation and related costs of $1.1 million in 2018.

Our 2017 net income attributable to NL stockholders includes income of $.02 per share, net of income taxes, included in our equity in earnings of Kronos related to Kronos' non-cash deferred income tax benefit recognized as a result of a net decrease in Kronos' deferred income tax asset valuation allowance related to its German and Belgian operations.

Income (loss) from operations

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

	Three months ended March 31, 2017	2018	% Change
	(in millions)		
CompX	$4.5	$4.4	(5)%
Insurance recoveries	0.1	.2	226
Other income, net	—	.6	n/m
Corporate expense	(5.3)	(8.0)	(50)
Loss from operations	$(0.7)	$(2.8)	300

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

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

	Three months ended March 31, 2017	2018	% Change
	(in millions)		
Equity in earnings of Kronos	$11.2	$21.5	92 %
Securities transactions, net	—	(1.6)	n/m
Other components of net periodic pension and OPEB	(.2)	(.1)	(44)
Interest and dividend income	.7	1.1	54

CompX International Inc.

Three months ended

March 31, %

	2017	2018	Change
	(in millions)		
Net sales	$29.9	$28.4	(5) %
Cost of sales	20.3	18.9	(7)
Gross margin	9.6	9.5	(2)
Operating costs and expenses	5.1	5.1	(1)
Income from operations	$4.5	$4.4	(3)
Percentage of net sales:			
Cost of sales	68 %	67 %	
Gross margin			