

NL INDUSTRIES INC  
Form 10-Q  
November 03, 2009  
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 September 30, 2009  
Commission file number 1-640

NL INDUSTRIES, INC.  
(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of  
incorporation or organization)

13-5267260  
(IRS Employer Identification No.)

5430 LBJ Freeway, Suite 1700  
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

\* The registrant has not yet been phased into the interactive data requirements.

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 October 30, 2009: 48,611,584.

NL INDUSTRIES, INC. AND SUBSIDIARIES

INDEX

	Page number	
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets - December 31, 2008; September 30, 2009 (unaudited)	3
	Condensed Consolidated Statements of Operations (unaudited)- Three and nine months ended September 30, 2008 and 2009	5
	Condensed Consolidated Statement of Equity and Comprehensive Income - Nine months ended September 30, 2009 (unaudited)	6
	Condensed Consolidated Statements of Cash Flows (unaudited) - Nine months ended September 30, 2008 and 2009	7
	Notes to Condensed Consolidated Financial Statements (unaudited)	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	42
Item 4.	Controls and Procedures	42
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	44
Item 1A.	Risk Factors	45
Item 6.	Exhibits	45

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

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2008	September 30, 2009 (unaudited)
Current assets:		
Cash and cash equivalents	\$16,450	\$19,625
Restricted cash and cash equivalents	7,457	7,119
Marketable securities	5,534	5,296
Accounts and other receivables, net	28,663	14,986
Inventories, net	22,661	17,276
Prepaid expenses and other	1,435	1,254
Deferred income taxes	5,766	5,806
Total current assets	87,966	71,362
Other non-current assets:		
Marketable equity securities	64,000	71,964
Investment in and advances to Kronos Worldwide, Inc.	133,745	122,769
Goodwill	44,194	44,311
Assets held for sale	3,517	2,800
Other assets, net	17,832	17,979
Total other non-current assets	263,288	259,823
Property and equipment:		
Land	12,232	12,351
Buildings	32,723	33,999
Equipment	115,546	124,185
Construction in progress	4,406	1,512
	164,907	172,047
Less accumulated depreciation	96,625	106,531
Net property and equipment	68,282	65,516
Total assets	\$419,536	\$396,701

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND EQUITY	December 31, 2008	September 30, 2009 (unaudited)
Current liabilities:		
Accounts payable	\$6,802	\$6,058
Accrued liabilities	27,614	24,781
Accrued environmental costs	9,834	8,436
Income taxes	1,167	1,131
Total current liabilities	45,417	40,406
Non-current liabilities:		
Note payable to affiliate	41,980	42,230
Accrued environmental costs	40,220	37,205
Accrued pension costs	11,768	11,041
Accrued postretirement benefit (OPEB) costs	8,883	8,669
Deferred income taxes	49,215	52,821
Other	21,823	21,239
Total non-current liabilities	173,889	173,205
Equity:		
NL Stockholders' equity:		
Common stock	6,074	6,076
Additional paid-in capital	330,879	318,904
Retained earnings	16,909	-
Accumulated other comprehensive loss	(165,498 )	(153,142 )
Total NL stockholders' equity	188,364	171,838
Noncontrolling interest in subsidiary	11,866	11,252
Total equity	200,230	183,090
Total liabilities and equity	\$419,536	\$396,701

Commitments and contingencies (Notes 8 and 10)

## NL INDUSTRIES, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

Three months ended

Nine months ended

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	September 30,		September 30,	
	2008	2009	2008	2009
	(unaudited)			
Net sales	\$43,909	\$29,411	\$128,137	\$87,126
Cost of sales	32,688	22,446	96,493	69,141
Gross margin	11,221	6,965	31,644	17,985
Selling, general and administrative expense	6,317	6,910	19,225	19,040
Other operating income (expense):				
Insurance recoveries	706	1,384	2,390	4,098
Goodwill impairment	(10,111 )	-	(10,111 )	-
Litigation settlement gain	-	-	-	11,313
Assets held for sale write-down	-	-	-	(717 )
Other expense, net	(1 )	(221 )	(89 )	(260 )
Corporate expense	(3,046 )	(4,997 )	(13,782 )	(14,319 )
Loss from operations	(7,548 )	(3,779 )	(9,173 )	(940 )
Equity in net income (loss) of Kronos Worldwide, Inc.	(1,284 )	3,072	661	(14,350 )
Other income (expense):				
Interest and dividends	792	681	6,917	2,096
Interest expense	(527 )	(229 )	(1,783 )	(845 )
Loss before taxes	(8,567 )	(255 )	(3,378 )	(14,039 )
Provision for income taxes (benefit)	(848 )	(3,442 )	165	(2,958 )
Net income (loss)	(7,719 )	3,187	(3,543 )	(11,081 )
Noncontrolling interest in net income (loss) of subsidiary	(974 )	67	(473 )	(214 )
Net income (loss) attributable to NL stockholders	\$(6,745 )	\$3,120	\$(3,070 )	\$(10,867 )
Amounts attributable to NL stockholders:				
Basic and diluted net income (loss) per share	\$(.14 )	\$.06	\$(.06 )	\$(.22 )
Cash dividend per share	\$.125	\$.125	\$.375	\$.375
Weighted-average shares used in the calculation of net income per share:				
Basic	48,599	48,612	48,595	48,607
Dilutive impact of stock options	-	2	-	-
Diluted	48,599	48,614	48,595	48,607

## NL INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY AND COMPREHENSIVE INCOME

Nine months ended September 30, 2009

(In thousands)

	NL Stockholders' Equity						Comprehensive income
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss (unaudited)	Noncontrolling interest in subsidiary	Total equity	
Balance at December 31, 2008	\$6,074	\$330,879	\$16,909	\$ (165,498 )	\$ 11,866	\$200,230	
Net loss	-	-	(10,867 )	-	(214 )	(11,081 )	\$ (11,081 )
Other comprehensive income, net	-	-	-	12,356	199	12,555	12,555
Issuance of common stock	2	133	-	-	6	141	
Dividends	-	(12,186 )	(6,042 )	-	(605 )	(18,833 )	
Other	-	78	-	-	-	78	
Balance at September 30, 2009	\$6,076	\$318,904	\$-	\$ (153,142 )	\$ 11,252	\$183,090	
Comprehensive income							\$ 1,474

## NL INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

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	Nine months ended September 30, 2008                      2009 (unaudited)	
Cash flows from operating activities:		
Net loss	\$(3,543 )	\$(11,081 )
Depreciation and amortization	7,117	6,271
Deferred income taxes	(3,743 )	(3,857 )
Equity in net (income) loss of Kronos Worldwide, Inc.	(661 )	14,350
Dividends from Kronos Worldwide, Inc.	13,137	-
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension expense	(2,239 )	601
Other postretirement benefit expense	357	279
Goodwill impairment	10,111	-
Litigation settlement gain	-	(11,313 )
Assets held for sale write-down	-	717
Other, net	758	1,132
Change in assets and liabilities:		
Accounts and other receivables, net	(922 )	9,808
Inventories, net	(1,391 )	5,131
Prepaid expenses and other	(848 )	904
Accrued environmental costs	(4,785 )	(4,413 )
Accounts payable and accrued liabilities	569	(957 )
Income taxes	600	(982 )
Accounts with affiliates	1,522	(1,045 )
Other, net	(3,077 )	(1,717 )
 Net cash provided by operating activities	 12,962	 3,828
 Cash flows from investing activities:		
Capital expenditures	(5,482 )	(1,786 )
Proceeds from real estate-related litigation settlement	-	11,800
Change in restricted cash equivalents and marketable debt securities, net	(4,453 )	489
Collections of loans to affiliates	-	8,090
Collection of note receivable	1,306	261
Proceeds from disposal of:		
Marketable securities	360	89
Property and equipment	255	-
Purchase of:		
CompX common stock	(1,006 )	-
Kronos common stock	-	(139 )
Valhi common stock	-	(33 )
 Net cash provided by (used in) investing activities	 (9,020 )	 18,771

NL INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Nine months ended September 30, 2008          2009 (unaudited)	
Cash flows from financing activities:		
Cash dividends paid	\$(18,224 )	\$(18,228 )
Distributions to noncontrolling interests in subsidiary	(614 )	(605 )
Proceeds from issuance of common stock	-	84
Repayment of note payable to affiliate	(7,000 )	(750 )
Other, net	(50 )	(133 )
Net cash used in financing activities	(25,888 )	(19,632 )
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(21,946 )	2,967
Currency translation	147	208
Cash and cash equivalents at beginning of period	41,112	16,450
Cash and cash equivalents at end of period	\$19,313	\$19,625
Supplemental disclosures:		
Cash paid for:		
Interest	\$1,789	\$1,149
Income taxes, net	1,957	1,631
Non-cash investing activity:		
Accrual for capital expenditures	169	143

See accompanying Notes to Condensed Consolidated Financial Statements.

## NL INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority-owned by Valhi, Inc. (NYSE: VHI), which owned approximately 83% of our outstanding common stock at September 30, 2009. Valhi is majority-owned by subsidiaries of Contran Corporation. 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 (of 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 36% of Kronos Worldwide, Inc. which we account for by the equity method. CompX (NYSE: 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, 2008 that we filed with the SEC on March 12, 2009 (the "2008 Annual Report"), except as discussed in Note 13. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments other than the adjustment to the carrying value of the assets held for sale discussed in Note 6) 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, 2008 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, 2008) normally included in financial statements prepared in accordance with accounting principals generally accepted in the United States of America ("GAAP"). Our results of operations for the interim period ended September 30, 2009 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 2008 Consolidated Financial Statements contained in our 2008 Annual Report.

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

Note 2 – Accounts and other receivables, net:

	December 31, 2008	September 30, 2009
	(In thousands)	
Trade receivables	\$ 17,598	\$ 14,588
Other receivables	8,288	459
Receivable from affiliates:		
Note receivable from Valhi	3,000	-
Income taxes from Valhi	150	-
Refundable income taxes	338	473
Allowance for doubtful accounts	(711 )	(534 )

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Total	\$28,663	\$14,986
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During the second quarter of 2009, we received the final principal payment together with all interest due on our outstanding note receivable related to the sale of CompX's European Thomas Regout operations completed in 2005. The final payment totaled approximately \$948,000, of which \$261,000 related to principal and the remaining \$687,000 related to interest that had accrued over the four year period.

Note 3 – Inventories, net:

	December 31, 2008	September 30, 2009
(In thousands)		
Raw materials	\$7,552	\$5,532
Work in process	8,225	6,610
Finished products	6,884	5,134
Total	\$22,661	\$17,276

Note 4 - Marketable equity securities:

	December 31, 2008	September 30, 2009
(In thousands)		
Current assets (available-for-sale):		
Restricted debt securities	\$5,372	\$5,222
Other marketable securities	162	74
Total	\$5,534	\$5,296
Noncurrent assets (available-for-sale):		
Valhi common stock	\$51,234	\$58,067
TIMET common stock	12,766	13,897
Total	\$64,000	\$71,964

Fair Value Measurements at  
December 31, 2008

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
Total		
(in thousands)		

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Current assets (available-for-sale):			
Restricted debt securities	\$ 5,372	\$ -	\$ 5,372
Other marketable securities	162	-	162
Total	\$ 5,534	\$ -	\$ 5,534
Noncurrent assets (available-for-sale):			
Valhi common stock	\$ 51,234	\$ 51,234	\$ -
TIMET common stock	12,766	12,766	-
Total	\$ 64,000	\$ 64,000	\$ -

	Fair Value Measurements at September 30, 2009		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
	Total	(in thousands)	
Current assets (available-for-sale):			
Restricted debt securities	\$ 5,222	\$ -	\$ 5,222
Other marketable securities	74	-	74
Total	\$ 5,296	\$ -	\$ 5,296
Noncurrent assets (available-for-sale):			
Valhi common stock	\$ 58,067	\$ 58,067	\$ -
TIMET common stock	13,897	13,897	-
Total	\$ 71,964	\$ 71,964	\$ -

We held no level 3 securities at September 30, 2009. Restricted debt securities at September 30, 2009 and December 31, 2008 collateralize certain of our outstanding letters of credit.

Our investments in Valhi and Titanium Metals Corporation (“TIMET”) common stock are accounted for as available-for-sale marketable equity securities carried at fair value based on quoted market prices, a Level 1 input as defined by Accounting Standards Codification (“ASC”) Topic 820-10-35, Fair Value Measurements and Disclosures. At December 31, 2008 and September 30, 2009, we owned approximately 4.8 million shares of Valhi common stock and 1.4 million shares of TIMET common stock. At September 30, 2009, the quoted market price of Valhi’s and TIMET’s common stock was \$12.12 and \$9.59 per share, respectively. At December 31, 2008, such quoted market prices were \$10.70 and \$8.81 per share, respectively.

Note 5 – Investment in and advances to Kronos Worldwide, Inc.:

At December 31, 2008 and September 30, 2009, we owned approximately 17.6 million shares of Kronos common stock. At September 30, 2009, the quoted market price of Kronos’ common stock was \$10.31 per share, or an

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aggregate market value of \$181.6 million. At December 31, 2008, the quoted market price was \$11.65, or an aggregate market value of \$205.0 million. As part of our appeal of certain litigation discussed in Note 10, we have pledged 2.5 million shares of our Kronos common stock (and a nominal number of shares of our CompX common stock).

In 2008, the independent members of our Board of Directors and the independent members of the Board of Directors of Kronos approved the terms for us to lend up to \$40 million to Kronos. Such loan is unsecured, bears interest at the prime rate minus 1.5% (1.75% at September 30, 2009) with all principal due on demand (and no later than December 31, 2009). The amount of our outstanding loans we have to Kronos at any time is solely at our discretion. Kronos repaid a net \$5.1 million during the first nine months of 2009. Interest earned on our notes receivable from Kronos aggregated approximately \$223,000 in the first nine months of 2009.

The composition of our investment in and advances to Kronos at December 31, 2008 and September 30, 2009 is summarized below.

	December 31, 2008	September 30, 2009
	(In millions)	
Investment in Kronos	\$114.5	\$108.7
Loan to Kronos	19.2	14.1
Total assets	\$133.7	\$122.8

The change in the carrying value of our investment in Kronos during the first nine months of 2009 is summarized below:

	Amount (In millions)
Balance at the beginning of the period	\$114.5
Equity in net loss of Kronos	(14.4 )
Other, principally equity in other comprehensive income items of Kronos	8.6
Balance at the end of the period	\$108.7

Selected financial information of Kronos is summarized below:

	December 31, 2008	September 30, 2009
	(In millions)	
Current assets	\$589.5	\$533.1
Property and equipment, net	485.5	500.3
Investment in TiO2 joint venture	105.6	104.1

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Other noncurrent assets	178.1	209.2
Total assets	\$1,358.7	\$1,346.7
Current liabilities	\$204.4	\$199.7
Long-term debt	618.5	627.5
Note payable to NL	19.2	14.1
Accrued pension and postretirement benefits	134.2	133.3
Other non-current liabilities	64.5	71.0
Stockholders' equity	317.9	301.1
Total liabilities and stockholders' equity	\$1,358.7	\$1,346.7

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2009	2008	2009
	(In millions)		(In millions)	
Net sales	\$345.6	\$310.1	\$1,070.0	\$840.2
Cost of sales	295.2	250.6	903.3	762.4
Income (loss) from operations	7.9	21.1	27.3	(26.9 )
Net income (loss)	(3.6 )	8.6	1.8	(39.9 )

Note 6 – Other assets and assets held for sale:

	December	September
	31,	30,
	2008	2009
	(In thousands)	
Promissory note receivable	\$15,000	\$15,000
Assets held for sale	3,517	2,800
Other	2,832	2,979
Total	\$21,349	\$20,779

Assets held for sale consist of two properties (primarily land, buildings and building improvements) formerly used in our component products operations. These assets were classified as “assets held for sale” when they ceased to be used in our operations and met all of the applicable criteria under GAAP. Assets held for sale are stated at the lower of depreciated cost or fair value less cost to sell. Discussions with potential buyers of both properties had been active through the first quarter of 2009. Subsequently during the second quarter, and as weak economic conditions continued longer than expected, we concluded that the likelihood of consummating transactions on the properties at or above their previous carrying values had diminished in the near term and therefore an adjustment to their carrying values was appropriate. In determining the estimated fair values of the properties, we considered recent sales prices for other property near the facilities (Level 2 inputs as defined by ASC Topic 820-10-35). Accordingly, during the second quarter of 2009, we recorded a write-down of approximately \$717,000 to reduce the carrying value of these assets to their aggregate estimated fair value less cost to sell of \$2.8 million.

Note 7 – Accrued liabilities:

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	December 31, 2008	September 30, 2009
	(In thousands)	
Current:		
Employee benefits	\$8,158	\$7,296
Professional fees	3,624	4,444
Payable to affiliates:		
Income taxes – Valhi	919	12
Note payable to TIMET	1,000	-
Accrued interest payable to TIMET	528	163
Other	692	464
Reserve for uncertain tax positions	212	315
Other	12,481	12,087
<b>Total</b>	<b>\$27,614</b>	<b>\$24,781</b>
Noncurrent:		
Reserve for uncertain tax positions	\$19,121	\$19,179
Insurance claims and expenses	1,197	751
Other	1,505	1,309
<b>Total</b>	<b>\$21,823</b>	<b>\$21,239</b>

Note 8 - Income tax provision:

	Nine months ended September 30, 2008		2009	
	(In millions)			
Expected tax benefit at U.S. federal statutory income tax rate of 35%	\$(1.2	)	\$(4.9	)
Non-U.S. tax rates	(.2	)	-	)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	(2.8	)	1.8	)
U.S. state income taxes, net	.6	)	(.6	)
Change in reserve for uncertain tax positions, net	(.1	)	.7	)
Nondeductible expenses	.3		.2	
Goodwill impairment	3.5		-	
Other, net	.1	)	(.2	)
<b>Total</b>	<b>\$.2</b>		<b>\$(3.0</b>	<b>)</b>

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 that 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

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financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will decrease by approximately \$1.9 million during the next twelve months due to the resolution of certain examination and filing procedures related to one or more of our subsidiaries and to the expiration of certain statutes of limitations.

Note 9 – 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 September 30, 2008		2009		Nine months ended September 30, 2008		2009	
					(In thousands)			
Interest cost	\$765		\$736		\$2,319		\$2,164	
Expected return on plan assets	(1,560	)	(830	)	(4,681	)	(2,470	)
Recognized actuarial losses	41		307		123		906	
Total	\$(754	)	\$213		\$(2,239	)	\$600	

Postretirement benefits - The components of net periodic postretirement benefits other than pension cost are presented in the table below.

	Three months ended September 30, 2008		2009		Nine months ended September 30, 2008		2009	
					(In thousands)			
Interest cost	\$163		\$137		\$491		\$413	
Amortization of prior service credit	(44	)	(44	)	(134	)	(134	)
Total	\$119		\$93		\$357		\$279	

Contributions – We expect our 2009 contributions for our pension and other postretirement benefit plans to be consistent with the amount disclosed in our 2008 Annual Report.

Note 10 – 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 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 seeking 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 these 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 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. 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 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

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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. In addition, we are 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.

Environmental obligations 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, 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. Because we may be jointly and severally liable for the total remediation cost at certain sites, the amount for which we are ultimately liable may exceed our accruals due to, among other things, the reallocation of costs among PRPs or the insolvency of one or more PRPs. 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 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 obligations when estimated future expenditures are probable and reasonably estimable. We adjust our environmental accruals as further information becomes available to us or as circumstances change. 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 remediation costs from other parties, if any, as assets when their receipt is deemed probable. At September 30, 2009, 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 costs. The timing of payments depends upon a number of factors including 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 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 costs during the first nine months of 2009 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	\$50,054
Additions charged to expense, net	1,487
Payments, net	(5,900 )

Balance at the end of the period	\$45,641
Amounts recognized in the balance sheet at the end of the period:	
Current liability	\$8,436
Noncurrent liability	37,205
Total	\$45,641

On a quarterly basis, we evaluate the potential range of our liability 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 September 30, 2009, we had accrued approximately \$46 million, related to approximately 45 sites, for those environmental matters which we believe are reasonably estimable. We believe that it is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to us for sites for which we believe it is possible to estimate costs is approximately \$82 million, including the amount currently accrued. We have not discounted these estimates to present value.

At September 30, 2009, there were approximately 20 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.

In 2005, certain real property we owned that is subject to environmental remediation was taken from us in a condemnation proceeding by a governmental authority in New Jersey. The condemnation proceeds, the adequacy of which we disputed, were placed into escrow with a court in New Jersey. Because the funds were in escrow with the court and were beyond our control, we never gave recognition to such condemnation proceeds for financial reporting purposes. In April 2008, we reached a tentative settlement agreement. The tentative settlement agreement was subject to certain conditions which ultimately were not met, and on May 2, 2008 we terminated the agreement. In October 2008 we reached a definitive settlement agreement with such governmental authority and a real estate developer, among others, pursuant to which, among other things, we would receive certain agreed-upon amounts in satisfaction of our claim to just compensation for the taking of our property in the condemnation proceeding at three separate closings, and we would be indemnified against certain environmental liabilities related to such property, in exchange for the release of our equitable lien on specified portions of the property at each closing. The initial closing under the definitive settlement agreement occurred in October 2008. In April 2009, the second closing was completed, pursuant to which we received an aggregate of \$11.8 million in cash. The agreement calls for one final closing that is scheduled to occur in October 2010 and that is subject to, among other things, our receipt of an additional payment.

For financial reporting purposes, we have accounted for the aggregate consideration received in the second quarter 2009 closing of the reinstated settlement agreement by the full accrual method of accounting for real estate sales (since the settlement agreement arose out of a dispute concerning the adequacy of the condemnation proceeds for our former real property in New Jersey). Under this method, we recognized a pre-tax gain related to such closing based on the difference between the aggregate \$11.8 million consideration received and the carrying value of the portion of the property for which we have released our equitable lien in the second closing (\$487,000). Accordingly, we recognized a pre-tax gain in the second quarter of 2009 of approximately \$11.3 million. Similarly, the cash

consideration we received at the second closing is reflected as an investing activity in our Condensed Consolidated Statement of Cash Flows. Our carrying value of the remaining portion of this property, attributable to the portion of the property for which our equitable lien would be released in the third closing, was approximately \$500,000 at September 30, 2009.

#### 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 not considered any potential insurance recoveries for lead pigment or asbestos litigation matters in determining related accruals. 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.

We have agreements with two former insurance carriers pursuant to which the carriers reimburse us for a portion of our lead pigment litigation defense costs, and one such carrier reimburses us for a portion of our 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. We have not considered any additional potential insurance recoveries in determining accruals for lead pigment or asbestos litigation matters.

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 2008 Annual Report.

#### Other litigation

In June 2005, we received notices from the three minority shareholders of EMS indicating they were each exercising their right, which became exercisable on June 1, 2005, to require EMS to purchase their preferred shares in EMS as of June 30, 2005 for a formula-determined amount as provided in EMS' certificate of incorporation. In accordance with the certificate of incorporation, we made a determination in good faith of the amount payable to the three former minority shareholders to purchase their shares of EMS stock, which amount may be subject to review by a third party. In June 2005, we set aside funds as payment for the shares of EMS, but as of September 30, 2009 the former minority shareholders had not tendered their shares. Therefore, the liability owed to these former minority shareholders has not been extinguished for financial reporting purposes as of September 30, 2009 and remains recognized as a current liability in our Condensed Consolidated Financial Statements. We have similarly classified the funds which have been set aside in restricted cash and cash equivalents.

In May 2007, we filed a complaint in Texas state court (Contran Corporation, et al. v. Terry S. Casey, et al., Case No. 07-04855, 192nd Judicial District Court, Dallas County, Texas) in which we alleged negligence, conversion, and breach of contract against a former service provider of ours who was also a former minority shareholder of EMS. In February 2008, two other former minority shareholders of EMS filed counterclaims, a third-party petition and petition in intervention, seeking damages related to their former ownership in EMS. Our original claims were removed to arbitration, and the case is now captioned Industrial Recovery Capital Holdings Co. et al. v. Harold C. Simmons et al., Case No. 08-02589, District Court, Dallas County, Texas. The defendants are us, Contran and certain of our and

EMS's current or former officers or directors. The plaintiffs claim that, in preparing the valuation of the former minority shareholders' preferred shares for purchase by EMS, defendants committed breach of fiduciary duty, civil conspiracy, and breach of contract. We and EMS filed counterclaims against the former minority shareholders relating to the formation and management of EMS. The case was tried in July 2009, and the jury returned a verdict in favor of the plaintiffs. The jury awarded \$28.2 million in breach of contract damages and \$33.7 million in breach of fiduciary duty damages. In addition, the jury awarded an aggregate of \$145 million in punitive damages associated with the finding of breach of fiduciary duty. The plaintiffs will be required to elect breach of contract or breach of fiduciary duty damages, and the punitive damages would be awarded only if the fiduciary duty claim and the punitive damage award are upheld on appeal. Following the jury verdict, we filed a motion to disregard the jury's findings and for judgment notwithstanding the verdict. In October 2009, the judge denied our motions and entered a final judgment. We intend to file a motion for a new trial and, following a hearing and the judge's ruling on that motion, appeal the judgment if necessary. Plaintiffs also have filed a motion for injunctive relief seeking to preserve the judgment, which we intend to oppose. We do not believe that the facts and evidence support the judgment and damages awarded. We continue to believe that the claims of the plaintiffs are without merit and are subject to certain defenses and counterclaims. Moreover, we believe that the plaintiffs' claims are required to be resolved by independent third-parties pursuant to the applicable governing documents, whose findings would be binding on all parties. We intend to continue to vigorously defend the matter. We expect that the judgment will be set aside. At September 30, 2009, we believe that we have adequately accrued for the amount we will ultimately be required to pay to the former minority shareholders in this matter, and our accrual in this regard is included in other current accrued liabilities. See Note 7. Such amount could be increased or decreased as further information becomes available or circumstances change.

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. During the first quarter of 2009, certain of these cases involving multiple plaintiffs were separated into single-plaintiff cases. As a result, the total number of outstanding cases increased. Approximately 1,226 of these types of cases remain pending, involving a total of approximately 2,800 plaintiffs. In addition, the claims of approximately 7,500 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio and Indiana 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). 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.

#### CompX

On February 10, 2009, a complaint (Doc. No. DN2650) was filed with the U.S. International Trade Commission ("ITC") by Humanscale Corporation requesting that the ITC commence an investigation pursuant to Section 337 of the Tariff Act of 1930 to determine allegations concerning the unlawful importation of certain adjustable keyboard related products into the U.S. by CompX's Canadian subsidiary. The products are alleged to infringe certain claims under U.S. patent No. 5,292,097C1 held by Humanscale. The complaint seeks as relief the barring of future imports of the

products into the U.S. until the expiration of the related patent in March 2011. In March 2009 the ITC agreed to undertake the investigation and set a procedural schedule with a hearing set for December 12, 2009 and a target date of June 2010 for its findings. The investigation with its attendant discovery and motion filings by the parties is now underway. Three settlement conferences have been held with no progress made towards a resolution of the dispute between the parties. CompX denies any infringement alleged in the investigation and plans to defend itself with respect to any claims of infringement by Humanscale.

On February 13, 2009, a complaint for patent infringement was filed in the United States District Court, Eastern District of Virginia, Alexandria Division (CV No. 3:09CV86-JRS) by Humanscale Corporation against CompX International Inc. and CompX Waterloo. CompX answered the allegations of infringement of Humanscale's U.S. Patent No. 5,292,097C1 set forth in the complaint on March 30, 2009. CompX filed for a stay in the U.S. District Court Action with respect to Humanscale's claims (as a matter of legislated right because of the ITC action) while at the same time counterclaimed patent infringement claims against Humanscale for infringement of its keyboard support arm patents (U.S. No. 5,037,054 and U.S. No. 5,257,767) by Humanscale's models 2G, 4G and 5G support arms. Humanscale has filed a response not opposing CompX's motion to stay their patent infringement claims but opposing CompX's patent infringement counterclaims against them and asking the Court to stay all claims in the matter until the ITC investigation is concluded. CompX filed a response to their motions. At a hearing before the court held on May 19, 2009, CompX's motion to stay the Humanscale claim of patent infringement was granted and Humanscale's motion to stay CompX's counterclaims was denied. A hearing before the Judge was held on October 13, 2009 to resolve any claim construction issues with respect to CompX's patents. Discovery and motion filings by the parties with respect to CompX's claims of patent(s) infringement are proceeding towards a trial date set by the court for the week of February 16, 2010.

On April 8, 2009, Accuride International Inc. filed a Complaint for Patent Infringement in the United States District Court, Central District of California, Los Angeles (Case No. CV09-2448 R) against CompX Precision Slides Inc. and CompX International Inc. Accuride alleges that CompX Precision Slides Inc. and CompX International Inc. manufacture, sell and cause others to sell in the U.S. unauthorized self-closing precision drawer slides that infringe their U.S. Patent No. 6,773,097B2. Accuride seeks an order declaring willful infringement of one or more claims of the patent; an order enjoining us from making or selling slides that infringe on their patents; damages for such willful infringement of at least \$1,000,000; plus costs and attorneys' fees. On April 24, 2009 CompX was served with a summons in this matter and on May 18, 2009 it filed an answer denying any claims of infringement made by Accuride and asserting certain defenses including the invalidity of Accuride's patent. Discovery by the parties with respect to Accuride's claims of infringement is proceeding with a trial date yet to be set by the court. The parties have engaged in settlement discussions, and we currently believe an out-of-court resolution by the parties to the claims of infringement is more than likely.

For a discussion of other legal proceedings to which we are a party, refer to our 2008 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 claims.

We currently believe that the disposition of all of these various other claims and disputes, individually or 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.

CompX stock repurchase program

CompX's board of directors previously authorized the repurchase of its Class A common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. CompX may repurchase its common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, CompX may terminate the program prior to its completion. CompX will use cash on hand to acquire the shares. Repurchased shares will be added to CompX's treasury and cancelled. CompX did not purchase any shares of its common stock during the first nine months of 2009.

#### Note 11 – Long term debt:

In September 2009, CompX entered into a Third Amendment to its \$37.5 million Credit Agreement (the "Third Amendment"). The primary purpose of the Third Amendment was to adjust certain covenants, principally the interest coverage ratio and the consolidated net worth covenants, in the Credit Agreement in order to take into consideration the current and expected future financial performance of CompX. Additionally, under the Amendment, borrowings are limited to the sum of 80% of CompX's consolidated accounts receivable, net, 50% of consolidated raw material inventory, 50% of consolidated finished goods inventory and 100% of CompX's consolidated unrestricted cash and cash equivalents until the end of the March 2011 fiscal quarter. At September 30, 2009, no amounts were outstanding under the facility. We believe the adjustments to the covenants will allow CompX to comply with the covenant restrictions through the maturity of the facility in January 2012; however if future operating results differ materially from our predictions CompX may be unable to maintain compliance.

As a condition to the Third Amendment, in September 2009 CompX executed with TIMET Finance Management Company ("TFMC") an Amended and Restated Subordinated Term Loan Promissory Note payable to the order of TFMC. The Amended and Restated TFMC Note amended and restated the Subordinated Term Promissory Note dated October 26, 2007 in the original principal amount of \$52,580,190 executed by CompX and payable to the order of TFMC. As of September 21, 2009, the principal amount outstanding under the original promissory note was \$42,230,190 and the amount of accrued interest was \$152,448. Such principal and accrued interest were carried over under the Amended and Restated TFMC Note. The material changes effected by the Amended and Restated TFMC Note were the deferral of required principal and interest payments on the note until on or after January 1, 2011 and certain restrictions on the amount of payments that could be made after that date.

#### Note 12 - Financial instruments:

See Note 4 for a summary of our marketable securities and their fair value determination by the categories set forth in ASC Topic 820-10-35 as of December 31, 2008 and September 30, 2009.

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure as of December 31, 2008 and September 30, 2009:

	December 31, 2008		September 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
				(in millions)
Cash and cash equivalents, current restricted cash equivalents and current marketable securities	\$29.4	\$29.4	\$32.0	\$32.0
Notes receivable from Kronos and Valhi	22.2	22.2	14.1	14.1
Promissory note receivable	15.0	15.0	15.0	15.0

Note payable to affiliate	43.0	43.0	42.2	42.2
Noncontrolling interest in CompX common stock	11.9	8.5	11.3	11.7
NL stockholders' equity	188.4	651.2	171.8	325.7

The fair value of our noncurrent marketable equity securities, restricted marketable debt 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 as defined by ASC Topic 820-10-35. 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.

#### Note 13 – Recent accounting pronouncements:

**Noncontrolling Interest** – In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51, which is now included with ASC Topic 810-10 Consolidation. SFAS No. 160 establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation. On a prospective basis, any changes in ownership are accounted for as equity transactions with no gain or loss recognized on the transactions unless there is a change in control; under previous GAAP such changes in ownership would generally result either in the recognition of additional goodwill (for an increase in ownership) or a gain or loss included in the determination of net income (for a decrease in ownership). The statement standardizes the presentation of noncontrolling interest as a component of equity on the balance sheet and on a net income basis in the statement of operations. This Statement also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners of a subsidiary. Upon adoption, we reclassified our condensed consolidated balance sheet and statement of operations to conform to the new presentation requirements for noncontrolling interest for all periods presented.

**Derivative Disclosures** – In March 2008 the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, which is now included with ASC Topic 815-10 Derivatives and Hedging. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities to provide enhanced disclosures about how and why we use derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect our financial position and performance and cash flows. This statement became effective for us in the first quarter of 2009. We periodically use currency forward contracts to manage a portion of our currency exchange rate market risk associated with trade receivables or future sales. Because our prior disclosures regarding these forward contracts substantially met all of the applicable disclosure requirements of the new standard, its effectiveness did not have a significant effect on our Condensed Consolidated Financial Statements. We have no outstanding forward contracts at September 30, 2009.

**Benefit Plan Asset Disclosures** - During the fourth quarter of 2008, the FASB issued FSP SFAS 132 (R)-1, Employers’ Disclosures about Postretirement Benefit Plan Assets, which is now included with ASC Topic 715-20 Defined Benefit Plans. This statement amends SFAS No. 87, 88 and 106 to require expanded disclosures about employers’ pension plan assets. FSP 132 (R)-1 will become effective for us beginning with our 2009 annual report, and we will provide the expanded disclosures about our pension plan assets at that time.

**Other-Than-Temporary Impairments** - In April 2009 the FASB issued FASB Staff Position (“FSP”) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which is now included with ASC Topic 320-10 Debt and Equity Securities. The FSP amends existing guidance for the recognition and measurement of other-than-temporary impairments for debt and equity securities classified as available-for-sale and held-to-maturity, and expands the disclosure requirements for interim and annual periods for available-for-sale and held-to-maturity debt securities, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized. This FSP became effective for us in the second quarter of 2009 and its adoption did not have a material effect on our Condensed Consolidated Financial Statements.

**Fair Value Disclosures** - Also in April 2009 the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which is now included with ASC Topic 825-10 Financial Instruments. This FSP will require us to disclose the fair value of all financial instruments for which it is practicable to estimate the value, whether recognized or not recognized in the statement of financial position, as required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments for interim as well as annual periods. Prior to the adoption of the FSP we were only required to disclose this information annually. This FSP became effective for us in the second quarter of 2009 and is included in Note 12 to our Condensed Consolidated Financial Statements.

**Subsequent Events** – In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which is now included with ASC Topic 855-10 Subsequent Events. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This statement clarifies existing guidance on subsequent events including:

- the requirement that a public entity evaluate subsequent events through the issue date of the financial statements,
- the determination of when the effects of subsequent events should be recognized in the financial statements, and
  - the disclosures regarding all subsequent events.

SFAS No. 165 also requires a public entity to disclose the date through which it has evaluated subsequent events. We have evaluated subsequent events through November 2, 2009, which is the date this report was filed with the SEC. SFAS No. 165 became effective for us in the second quarter of 2009 and its adoption did not have a material effect on our Condensed Consolidated Financial Statements.

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

### 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: 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, tool storage and a variety of other industries. CompX is also a leading manufacturer of stainless steel exhaust systems, gauges and throttle controls for the performance marine industry.

We account for our 36% 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 comparable 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 including, but 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),
- Customer inventory levels (such as the extent to which Kronos' customers may, from time to time, accelerate purchases of TiO<sub>2</sub> in advance of anticipated price increases or defer purchases of TiO<sub>2</sub> in advance of anticipated price decreases),
  - Changes in raw material and other operating costs (such as energy and steel costs),
- 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,
- Competitive products and substitute products, including increased competition from low-cost manufacturing sources (such as China),
  - Customer and competitor strategies,
- Potential consolidation or solvency of our competitors,
  - Demand for office furniture,
  - Demand for high performance marine components,
    - Substitute products,
  - The impact of pricing and production decisions,
    - Competitive technology positions,
    - 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, natural disasters, fires, explosions, unscheduled or unplanned downtime, leaks and transportation interruptions),
  - The timing and amounts of insurance recoveries,
  - Our ability to maintain sufficient liquidity,
- The extent to which our subsidiaries and affiliates were to become unable to pay us dividends (such as Kronos' suspension of its dividend in 2009),
  - CompX's and Kronos' ability to renew, amend, refinance or comply with credit facilities,

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- 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 new product development,
- The ultimate 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, environmental and patent 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.

### Results of Operations

#### Net Income (Loss) Overview

#### Quarter Ended September 30, 2009 Compared to Quarter Ended September 30, 2008

Our net income attributable to NL stockholders was \$3.1 million, or \$.06 per diluted share, in the third quarter of 2009 compared to a net loss of \$6.7 million, or \$.14 per share, in the third quarter of 2008. As more fully discussed below, our income per share increased from 2008 to 2009 due primarily to the net effect of:

- higher equity in net income from Kronos in 2009,
- lower component products income from operations in 2009,
- a goodwill impairment charge incurred in 2008 related to the marine business line of our component products operations,
  - higher defined benefit pension expense in 2009,
  - higher environmental remediation expense in 2009 and
    - higher insurance recoveries in 2009.

Our 2009 net income includes income of \$.02 per diluted share related to certain insurance recoveries.

Our 2008 net loss includes:

- a goodwill impairment charge of \$.21 per share related to the marine business line of our component products operations and
  - income of \$.01 per diluted share related to certain insurance recoveries.

#### Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Our net loss attributable to NL stockholders was \$10.9 million, or \$.22 per share, in the first nine months of 2009 compared to a net loss of \$3.1 million, or \$.06 per share, in the first nine months of 2008. As more fully discussed below, the increase in our net loss per share from 2008 to 2009 is due primarily to the net effect of:

- higher equity in net losses of Kronos in 2009,
- a litigation settlement pre-tax gain of \$11.3 million in 2009,
- lower component products income from operations in 2009,

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- an asset held for sale write-down of \$.7 million in 2009,
  - higher insurance recoveries in 2009,
- higher environmental remediation expense in 2009,
- lower litigation and related expenses in 2009 and
  - lower interest income in 2009.

Our 2009 net loss includes:

- a litigation settlement gain of \$.15 per share related to the settlement of condemnation proceedings on real property we owned,
  - income of \$.05 per share related to certain insurance recoveries and
    - a write-down of assets held for sale of \$.01 per share.

Our 2008 net loss includes:

- a goodwill impairment charge of \$.21 per share related to the marine business line of our component products operations,
  - interest income of \$.06 per share related to certain escrow funds,
- income included in our equity in earnings of Kronos of \$.03 per share related to an adjustment of certain income tax attributes of Kronos in Germany, and
  - income of \$.03 per share related to certain insurance recoveries.

Income (loss) from Operations

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

	Three months ended		%	Nine months ended		%
	September 30, 2008	2009		2008	September 30, 2009	
	(In millions)			(In millions)		
CompX	\$ (5.2	)				