

NL INDUSTRIES INC
Form 10-Q
November 06, 2015

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 September 30, 2015

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 (IRS Employer Identification No.)

incorporation or organization)

5430 LBJ Freeway, Suite 1700

Dallas, Texas 75240-2697

(Address of principal executive offices)

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

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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 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

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 October 30, 2015: 48,691,884.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2014	September 30, 2015 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,560	\$ 88,392
Restricted cash and cash equivalents	3,995	3,306
Accounts and other receivables, net	9,256	12,735
Inventories, net	16,863	15,448
Prepaid expenses and other	792	831
Deferred income taxes	4,567	4,567
Total current assets	108,033	125,279
Other assets:		
Marketable securities	92,131	27,165
Investment in Kronos Worldwide, Inc.	237,719	154,588
Goodwill	27,156	27,156
Other assets, net	2,143	2,494
Deferred income taxes	20	20
Total other assets	359,169	211,423
Property and equipment:		
Land	5,138	5,138
Buildings	21,176	21,498
Equipment	62,264	63,632
Construction in progress	909	1,749
	89,487	92,017
Less accumulated depreciation	55,931	58,489
Net property and equipment	33,556	33,528
Total assets	\$ 500,758	\$ 370,230

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

	December 31, 2014	September 30, 2015 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$6,115	\$5,107
Accrued and other current liabilities	11,521	9,902
Accrued environmental remediation and related costs	6,984	6,989
Income taxes	7	13
Total current liabilities	24,627	22,011
Noncurrent liabilities:		
Accrued pension cost	12,242	11,237
Accrued postretirement benefits (OPEB) costs	3,341	3,081
Accrued environmental remediation and related costs	103,031	104,622
Deferred income taxes	87,725	36,935
Other	18,342	13,667
Total noncurrent liabilities	224,681	169,542
Equity:		
NL stockholders' equity:		
Common stock	6,085	6,086
Additional paid-in capital	300,388	300,543
Retained earnings	112,588	94,306
Accumulated other comprehensive loss	(182,039)	(237,425)
Total NL stockholders' equity	237,022	163,510
Noncontrolling interest in subsidiary	14,428	15,167
Total equity	251,450	178,677
Total liabilities and equity	\$500,758	\$370,230
Commitments and contingencies (Notes 11 and 13)		

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended		Nine months ended	
	September 30, 2014	2015	September 30, 2014	2015
	(unaudited)			
Net sales	\$26,473	\$26,505	\$79,102	\$83,314
Cost of sales	18,331	18,387	54,598	57,471
Gross margin	8,142	8,118	24,504	25,843
Selling, general and administrative expense	4,710	4,684	13,872	14,402
Other operating income (expense):				
Insurance recoveries	8,843	113	10,041	3,480
Other income	9	74	140	91
Corporate expense	(4,304)	(2,659)	(17,582)	(12,146)
Income from operations	7,980	962	3,231	2,866
Equity in earnings (losses) of Kronos Worldwide, Inc.	9,689	(3,600)	24,101	(46,584)
Other income - interest and dividend income	311	294	1,333	878
Income (loss) before income taxes	17,980	(2,344)	28,665	(42,840)
Income tax expense (benefit)	3,800	(3,581)	4,645	(25,534)
Net income (loss)	14,180	1,237	24,020	(17,306)
Noncontrolling interest in net income of subsidiary	291	294	904	976
Net income (loss) attributable to NL stockholders	\$13,889	\$943	\$23,116	\$(18,282)
Amounts attributable to NL stockholders:				
Basic and diluted net income (loss) per share	\$.29	\$.02	\$.47	\$(.38)
Weighted average shares used in the calculation of net income (loss) per share	48,683	48,692	48,678	48,687

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three months ended September 30, 2014 2015 (unaudited)		Nine months ended September 30, 2014 2015	
Net income (loss)	\$14,180	\$1,237	\$24,020	\$(17,306)
Other comprehensive income (loss), net of tax:				
Marketable securities	1,022	(34,513)	(105,842)	(41,657)
Currency translation	(9,215)	(3,538)	(10,589)	(15,309)
Interest rate swap	-	(733)	-	(733)
Defined benefit pension plans	530	902	1,585	2,723
Other postretirement benefit plans	(156)	(137)	(469)	(410)
Total other comprehensive loss, net	(7,819)	(38,019)	(115,315)	(55,386)
Comprehensive income (loss)	6,361	(36,782)	(91,295)	(72,692)
Comprehensive income attributable to noncontrolling interest	291	294	904	976
Comprehensive income (loss) attributable to NL stockholders	\$6,070	\$(37,076)	\$(92,199)	\$(73,668)

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Nine months ended September 30, 2015

(In thousands)

	Common stock (unaudited)	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Noncontrolling interest in subsidiary	Total equity
Balance at December 31, 2014	\$6,085	\$300,388	\$112,588	\$ (182,039)	\$ 14,428	\$251,450
Net income (loss)	-	-	(18,282)	-	976	(17,306)
Other comprehensive loss, net of tax	-	-	-	(55,386)	-	(55,386)
Issuance of NL common stock	1	65	-	-	-	66
Dividends	-	-	-	-	(247)	(247)
Other, net	-	90	-	-	10	100
Balance at September 30, 2015	\$6,086	\$300,543	\$94,306	\$ (237,425)	\$ 15,167	\$178,677

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine months ended September 30, 2014 2015 (unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$24,020	\$(17,306)
Depreciation and amortization	2,694	2,699
Deferred income taxes	1,132	(20,978)
Equity in losses (earnings) of Kronos Worldwide, Inc.	(24,101)	46,584
Dividends received from Kronos Worldwide, Inc.	15,849	15,849
Cash funding of benefit plans in excess of net benefit plan expense	(2,145)	(1,116)
Other, net	417	348
Change in assets and liabilities:		
Accounts and other receivables, net	(1,839)	(2,583)
Inventories, net	(2,030)	1,246
Prepaid expenses and other	15	(40)
Accounts payable and accrued liabilities	2,184	(1,805)
Income taxes	3	-
Accounts with affiliates	3,380	(1,497)
Accrued environmental remediation and related costs	3,334	1,596
Other noncurrent assets and liabilities, net	(63)	(4,700)
Net cash provided by operating activities	22,850	18,297
Cash flows from investing activities:		
Capital expenditures	(2,199)	(2,570)
Change in restricted cash equivalents, net	(454)	348
Proceeds from the sale of marketable securities	-	255
Purchase of marketable securities	-	(251)
Other	(57)	-
Net cash used in investing activities	(2,710)	(2,218)
Cash flows from financing activities -		
Distributions to noncontrolling interests in subsidiary	(246)	(247)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	19,894	15,832
Cash and cash equivalents at beginning of period	52,609	72,560
Cash and cash equivalents at end of period	\$72,503	\$88,392
Supplemental disclosure - cash paid for:		

Income taxes, net	\$190	\$1,587
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See accompanying notes to Condensed Consolidated Financial Statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

(unaudited)

Note 1 – Organization and basis of presentation:

Organization – At September 30, 2015, 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. Substantially all of Contran's outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly, daughters of Harold C. Simmons, and their children (for which Ms. Lisa Simmons and Ms. Connelly are co-trustees) or is held directly by Ms. Lisa Simmons and Ms. Connelly or persons or entities related to them, including their step-mother Annette C. Simmons, the widow of Mr. Simmons. Under a voting agreement entered into by all of the voting stockholders of Contran, effective in February 2014 and as amended, the size of the board of directors of Contran was fixed at five members, Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons (and in the event of their death, their heirs) each has the right to designate one of the five members of the Contran board and the remaining two members of the Contran board must consist of members of Contran management. Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons each serve as members of the Contran board. The voting agreement expires in February 2017 (unless Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons otherwise unanimously agree), and the ability of Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons to each designate one member of the Contran board is dependent upon each of their continued beneficial ownership of at least 5% of the combined voting stock of Contran. Consequently, Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons may be deemed to control Contran, Valhi 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, 2014 that we filed with the SEC on March 12, 2015 (the 2014 Annual Report). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet and Statement of Stockholders' Equity at December 31, 2014 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2014) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our results of operations for the interim periods ended September 30, 2015 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2014 Consolidated Financial Statements contained in our 2014 Annual Report.

Unless otherwise indicated, references in this report to "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, 2014	September 30, 2015
	(In thousands)	
Trade receivables - CompX	\$8,825	\$ 11,687
Income taxes receivable from Valhi	-	914
Accrued insurance recoveries	346	71
Other receivables	163	145
Allowance for doubtful accounts	(78)	(82)
Total	\$9,256	\$ 12,735

Accrued insurance recoveries are discussed in Note 13.

Note 3 – Inventories, net:

	December 31, 2014	September 30, 2015
	(In thousands)	
Raw materials	\$3,393	\$ 3,262
Work in process	10,271	9,902
Finished products	3,199	2,284
Total	\$ 16,863	\$ 15,448

Note 4 – Marketable securities:

	Fair value measurement level	Market value	Cost basis	Unrealized gain
		(In thousands)		
December 31, 2014				
Valhi common stock	1	\$92,131	\$24,347	\$ 67,784
September 30, 2015				
Valhi common stock	1	\$27,165	\$24,347	\$ 2,818

At December 31, 2014 and September 30, 2015, we held approximately 14.4 million shares of common stock of our immediate parent company, Valhi. See Note 1. We account for our investment in Valhi common stock as available-for-sale marketable equity securities and any unrealized gains or losses on the securities are recognized through other comprehensive income, net of deferred income taxes. 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, 2014 and September 30, 2015, the quoted per share market price of Valhi common stock was \$6.41 and \$1.89,

respectively.

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.

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Note 5 – Investment in Kronos Worldwide, Inc.:

At December 31, 2014 and September 30, 2015, we owned approximately 35.2 million shares of Kronos common stock. At September 30, 2015, the quoted market price of Kronos' common stock was \$6.21 per share, or an aggregate market value of \$218.7 million. At December 31, 2014, the quoted market price was \$13.02 per share, or an aggregate market value of \$458.6 million.

The change in the carrying value of our investment in Kronos during the first nine months of 2015 is summarized below.

	Amount (In millions)
Balance at the beginning of the period	\$ 237.7
Equity in losses of Kronos	(46.6)
Dividends received from Kronos	(15.8)
Equity in Kronos' other comprehensive income:	
Marketable securities	.9
Currency translation	(23.6)
Interest rate swap	(1.1)
Defined benefit pension plans	3.1
Balance at the end of the period	\$ 154.6

Selected financial information of Kronos is summarized below:

	December 31, 2014	September 30, 2015
	(In millions)	
Current assets	\$886.2	\$ 781.2
Property and equipment, net	479.7	431.3
Investment in TiO ₂ joint venture	89.0	81.4
Other noncurrent assets	187.6	18.8
Total assets	\$1,642.5	\$ 1,312.7
Current liabilities	\$237.9	\$ 204.7
Long-term debt	344.7	342.9
Accrued pension and postretirement benefits	245.2	219.1
Other noncurrent liabilities	33.6	38.3
Stockholders' equity	781.1	507.7
Total liabilities and stockholders' equity	\$ 1,642.5	\$ 1,312.7

	Three months ended September 30, 2014	2015	Nine months ended September 30, 2014	2015
	(In millions)			

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Net sales	\$414.8	\$336.5	\$1,278.4	\$1,061.8
Cost of sales	319.1	293.3	1,008.4	894.7
Income (loss) from operations	47.9	(3.2)	118.2	18.6
Income tax expense (benefit)	12.3	(7.4)	27.0	147.1
Net income (loss)	31.9	(11.8)	79.3	(153.2)

Note 6 – Other noncurrent assets, net:

	December 31, 2014	September 30, 2015
	(In thousands)	
Restricted cash	\$1,420	\$ 1,420
Assets held for sale	590	590
Other	133	484
Total	\$2,143	\$ 2,494

Note 7 – Accrued and other current liabilities:

	December 31, 2014	September 30, 2015
	(In thousands)	
Employee benefits	\$8,278	\$ 7,222
Professional fees	951	709
Payables to affiliates	659	76
Other	1,633	1,895
Total	\$11,521	\$ 9,902

Note 8 – Other noncurrent liabilities:

	December 31, 2014	September 30, 2015
	(In thousands)	
Reserve for uncertain tax positions	\$16,832	\$ 12,186
Insurance claims and expenses	589	634
Other	921	847
Total	\$18,342	\$ 13,667

Our reserve for uncertain tax positions is discussed in Note 11.

Note 9 – Long-term debt:

During the first nine months of 2015, we had no borrowings under our promissory note with Valhi, and at September 30, 2015, the full \$40 million was available for borrowing under this facility. The amount of any such loan Valhi would make to us is at Valhi's discretion.

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Note 10 – Other comprehensive income (loss):

Changes in accumulated other comprehensive 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 September 30, 2014		2015		Nine months ended September 30, 2014		2015	
	(In thousands)							
Accumulated other comprehensive loss, net of tax:								
Marketable securities:								
Balance at beginning of period	\$47,305	\$39,968	\$154,169	\$47,112				
Other comprehensive income (loss) - unrealized gains (losses) arising during the year	1,022	(34,513)	(105,842)	(41,657)				
Balance at end of period	\$48,327	\$5,455	\$48,327	\$5,455				
Currency translation:								
Balance at beginning of period	\$(135,190)	\$(165,944)	\$(133,816)	\$(154,173)				
Other comprehensive loss	(9,215)	(3,538)	(10,589)	(15,309)				
Balance at end of period	\$(144,405)	\$(169,482)	\$(144,405)	\$(169,482)				
Interest rate swap:								
Balance at beginning of period	\$-	\$-	\$-	\$-				
Other comprehensive loss	-	(733)	-	(733)				
Balance at end of period	\$-	\$(733)	\$-	\$(733)				
Defined benefit pension plans:								
Balance at beginning of period	\$(55,589)	\$(73,439)	\$(56,644)	\$(75,260)				
Other comprehensive income - amortization of net losses included in net periodic pension cost	530	902	1,585	2,723				
Balance at end of period	\$(55,059)	\$(72,537)	\$(55,059)	\$(72,537)				
OPEB plans:								
Balance at beginning of period	\$962	\$9	\$1,275	\$282				
Other comprehensive loss - amortization of prior service credit and net gains included in net periodic OPEB cost	(156)	(137)	(469)	(410)				
Balance at end of period	\$806	\$(128)	\$806	\$(128)				
Total accumulated other comprehensive loss:								
Balance at beginning of period	\$(142,512)	\$(199,406)	\$(35,016)	\$(182,039)				
Other comprehensive loss	(7,819)	(38,019)	(115,315)	(55,386)				

Balance at end of period	\$(150,331)	\$(237,425)	\$(150,331)	\$(237,425)
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See Note 12 for amounts related to our defined benefit pension plans and OPEB plans.

Note 11 – Income taxes:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2015	2014	2015
	(In millions)			
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35%	\$6.3	\$(.8)	\$10.0	\$(15.0)
Rate differences on equity in earnings (losses) of Kronos	(2.5)	(2.7)	(5.8)	(7.4)
Adjustment to the reserve for uncertain tax positions, net	-	-	-	(3.0)
Nontaxable income	.2	(.1)	(.1)	(.3)
U.S. state income taxes and other, net	(.2)	.1	.5	.2
Total	\$3.8	\$(3.5)	\$4.6	\$(25.5)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2015	2014	2015
	(In millions)			
Comprehensive provision (benefit) for income taxes allocable to:				
Net income (loss)	\$3.8	\$(3.5)	\$4.6	\$(25.5)
Other comprehensive income (loss):				
Marketable securities	.5	(18.6)	(57.0)	(22.4)
Currency translation	(5.0)	(2.0)	(5.7)	(8.3)
Interest rate swap	-	(.4)	-	(.4)
Pension plans	.3	.5	.9	1.5
OPEB plans	(.1)	-	(.3)	(.2)
Total	\$(.5)	\$(24.0)	\$(57.5)	\$(55.3)

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. The amounts shown in the above table of our income tax rate reconciliation for rate differences on equity in earnings (losses) of Kronos represents the 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.

Kronos has substantial net operating losses in Germany and Belgium, the benefit of which Kronos had previously recognized under the more-likely-than-not recognition criteria. In the second quarter of 2015, Kronos determined that such losses did not meet the more-likely-than-not recognition criteria, and as a result Kronos recognized a non-cash deferred income tax expense of \$150.3 million in the second quarter of 2015 as a valuation allowance against Kronos' net deferred income tax assets in such jurisdictions. Kronos recognized an additional \$2.3 million non-cash deferred income tax asset valuation allowance during the third quarter of 2015, due to losses recognized by its German and Belgian operations during such period. The rate difference related to our equity in losses of Kronos in the first nine months of 2015 includes our equity in such non-cash deferred income tax expenses recognized by Kronos.

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

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In the first quarter of 2015, we recognized a non-cash income tax benefit of \$3.0 million related to the release of a portion of our reserve for uncertain tax positions due to the expiration of the applicable statute of limitations. We currently estimate that our unrecognized tax benefits will not change materially during the next twelve months.

Note 12 – 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		Nine months ended	
	September 30,		September 30,	
	2014	2015	2014	2015
	(In thousands)			
Interest cost	\$631	\$597	\$1,903	\$1,801
Expected return on plan assets	(856)	(840)	(2,564)	(2,516)
Recognized actuarial losses	267	349	721	1,025
Total	\$42	\$106	\$60	\$310

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2015	2014	2015
	(In thousands)			
Interest cost	\$29	\$27	\$86	\$81
Amortization of prior service credit	(161)	(155)	(483)	(466)
Recognized actuarial gain	(44)	(25)	(132)	(76)
Total	\$(176)	\$(153)	\$(529)	\$(461)

Contributions – We currently expect our 2015 contributions to our defined benefit pension plans and other postretirement plans to be approximately \$1.3 million.

Note 13 – 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 claim, 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. We do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

we have never settled any of the market share, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases, no final, non-appealable adverse verdicts have ever been entered against us, and we have never ultimately been found liable with respect to any such litigation matters, 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.

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 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 will 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 seeks 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. In February 2014, we filed a motion for a new trial, and in March 2014 the 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 and the appeal is proceeding with the appellate court. NL believes that this judgment is inconsistent with California law and is unsupported by the evidence, and we will defend vigorously against all claims.

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 NL (the first adverse verdict against NL was ultimately overturned on appeal). We have concluded that the likelihood of a loss in this case has not reached a standard of “probable” as contemplated by ASC 450, given (i) the substantive, substantial and meritorious grounds on which the adverse verdict in the Santa Clara case will be appealed, (ii) the uniqueness of the Santa Clara verdict (i.e. no final, non-appealable verdicts have ever been rendered against us, or any of the other former lead pigment manufacturers, based on the public nuisance theory of liability or otherwise), and (iii) the rejection of the public nuisance theory of liability as it relates to lead pigment matters in many other jurisdictions (no jurisdiction in which a plaintiff has asserted a public nuisance theory of liability has ever successfully been upheld). In addition, liability that may result, if any, cannot be reasonably estimated, as NL continues to have no basis on which an estimate of liability could be made, as discussed above. 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, 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. At December 31, 2014 and September 30, 2015, 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.

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Changes in the accrued environmental remediation and related costs during the first nine months of 2015 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	\$ 110,015
Additions charged to expense, net	2,530
Payments, net	(934)
Balance at the end of the period	\$ 111,611
Amounts recognized in the Condensed Consolidated	
Balance Sheet at the end of the period:	
Current liability	\$ 6,989
Noncurrent liability	104,622
Balance at the end of the period	\$ 111,611

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 September 30, 2015, we had accrued approximately \$112 million related to approximately 43 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 \$166 million, including the amount currently accrued.

We believe that it is not reasonably possible to estimate the range of costs for certain sites. At September 30, 2015, 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, 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. 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 2014 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 166 of these types of cases pending, involving a total of approximately 712 plaintiffs. In addition, the claims of approximately 8,692 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 2014 Annual Report.

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

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

Note 14 – 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 at December 31, 2014 and September 30, 2015:

	December 31, 2014		September 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Cash, cash equivalents and restricted cash	\$77,975	\$77,975	\$93,118	\$93,118
Noncontrolling interest in CompX common stock	14,428	19,936	15,167	18,199

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 Level 1. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

Note 15 – Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard replaces existing revenue recognition guidance, which in many cases was tailored for specific industries, with a uniform accounting standard applicable to all industries and transactions. The new standard, as amended, is currently effective for us beginning with the first quarter of 2018. Entities may elect to adopt ASU No. 2014-09 retrospectively for all periods for all contracts and transactions which occurred during the period (with a few exceptions for practical expediency) or retrospectively with a cumulative effect recognized as of the date of adoption. ASU No. 2014-09 is a fundamental rewriting of existing GAAP with respect to revenue recognition, and we are still evaluating the effect the standard will have on our Consolidated Financial Statements. We currently expect to adopt the standard in the first quarter of 2018. In addition, we have not yet determined the method we will use to adopt the standard.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. 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 and throttle controls for the recreational marine and other 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 (TiO₂). TiO₂ is used for a variety of manufacturing applications including coatings, 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 terminology 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 cyclical nature of our businesses (such as Kronos' TiO₂ operations)
- Customer and producer inventory levels
- Unexpected or earlier-than-expected industry capacity expansion (such as the TiO₂ 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, TiO₂ 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 manufacturing and accounting software systems
- 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
- 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
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters
- Uncertainties associated with CompX's development of new product features
- Our ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which may not presently 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 (loss) overview

Quarter ended September 30, 2015 compared to the quarter ended September 30, 2014

Our net income attributable to NL stockholders was \$.9 million, or \$.02 per share, in the third quarter of 2015 compared to net income attributable to NL stockholders of \$13.9 million, or \$.29 per share, in the third quarter of 2014. As more fully described below, the decrease in our earnings per share from 2014 to 2015 is primarily due to:

- equity in losses from Kronos in 2015 compared to equity in earnings from Kronos in 2014,
- lower insurance recoveries in 2015 of \$8.7 million primarily related to an insurance recovery settlement for certain past lead pigment litigation defense costs we recognized in the third quarter of 2014, and
- lower litigation and related costs of \$1.5 million in 2015.

Our 2015 net income attributable to NL stockholders includes a loss of \$.03 per share, net of income taxes, included in our equity in losses of Kronos related to Kronos' recognition of an other-than-temporary impairment charge in a marketable equity security.

Our 2014 net income attributable to NL stockholders includes income of \$.12 per share, net of income taxes, related to insurance recoveries we recognized.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Our net loss attributable to NL stockholders was \$18.3 million or \$.38 per share in the first nine months of 2015 compared to net income attributable to NL stockholders of \$23.1 million or \$.47 per share, in the first nine months of 2014.

As more fully described below, the decrease in our earnings per share from 2014 to 2015 is primarily related to:

- equity in losses from Kronos in 2015 compared to equity in earnings from Kronos in 2014,
- higher income from operations attributable to CompX of \$.8 million,
- lower insurance recoveries in 2015 of \$6.5 million primarily related to an insurance recovery settlement for certain past lead pigment litigation defense costs we recognized in the third quarter of 2014,
- lower environmental remediation and related costs of \$3.5 million in 2015,
- lower litigation fees and related costs of \$2.2 million in 2015, and
- a first quarter non-cash income tax benefit in 2015 related to a net reduction in our reserve for uncertain tax positions of \$3.0 million.

Our 2015 net loss attributable to NL stockholders includes:

- loss of \$.62 per share, net of income taxes, included in our equity in losses of Kronos related to Kronos' recognition of a deferred income tax asset valuation allowance related to its German and Belgian operations,
- loss of \$.07 per share, net of income taxes, included in our equity in losses of Kronos related to certain workforce reduction charges recognized by Kronos,
- income of \$.06 per share related to a net reduction of our reserve for uncertain tax positions,
- income of \$.05 per share, net of income taxes, related to insurance recoveries we recognized, and
- loss of \$.03 per share, net of income taxes, included in our equity in losses of Kronos related to Kronos' recognition of an other-than-temporary impairment charge in a marketable equity security.

Our 2014 net income attributable to NL stockholders includes:

- income of \$.13 per share, net of income taxes, related to insurance recoveries we recognized, and
- income of \$.02 per share, net of income taxes, included in our equity in earnings of Kronos related to a net reduction of Kronos' reserve for uncertain tax positions.

Income from operations

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

	Three months ended			Nine months ended			
	September 30,		% Change	September 30,		% Change	
	2014	2015			2014	2015	
	(In millions)			(In millions)			
CompX	\$3.4	\$3.4	-	% \$10.6	\$11.4	8	%
Insurance recoveries	8.8	.1	(99)	10.0	3.5	(65)	
Other income, net	-	.1	-	.1	.1	-	
Corporate expense	(4.3)	(2.6)	(40)	(17.5)	(12.1)	(31)	
Income from operations	\$7.9	\$1.0	(87)	\$3.2	\$2.9	(9)	

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 (loss) before income taxes exclusive of our income from operations.

	Three months ended			Nine months ended			
	September 30,		% Change	September 30,		% Change	
	2014	2015			2014	2015	
	(In millions)			(In millions)			
Equity in earnings (losses) of Kronos	\$9.7	\$(3.6)	(137)	% \$24.1	\$(46.6)	(293)	%
Interest and dividend income	.3	.3	-	1.3	.9	(31)	

CompX International Inc.

	Three months ended			Nine months ended			
	September 30,		% Change	September 30,		% Change	
	2014	2015			2014	2015	
	(In thousands)			(In thousands)			
Net sales	\$26,473	\$26,505	-	% \$79,102	\$83,314	5	%
Cost of sales	18,331	18,387	-	54,598	57,471	5	
Gross margin	8,142	8,118	-	24,504	25,843	5	
Operating costs and expenses	4,710	4,684	(1)	13,872	14,402	4	
Income from operations	\$3,432	\$3,434	-	\$10,632	\$11,441	8	

Percentage of net sales:							
Cost of sales	69	%	69	%	69	%	69
Gross margin	31		31		31		31
Operating costs and expenses	18		18		18		17
Income from operations	13		13		13		14

Net sales – Net sales for the third quarter of 2015 were comparable to the same period in 2014 as a slight increase in CompX’s Marine Components business sales was offset by a slight decrease in CompX’s Security Products business sales over the comparative period. Net sales increased \$4.2 million in the first nine months of 2015 compared to the same period in 2014, as a result of strong demand within CompX’s Security Products business for existing government customers primarily in the first half of 2015. CompX’s Marine Components business sales also contributed to the increase for the nine-month period primarily as a result of improved demand for products sold to the waterski/wakeboard boat market. Relative changes in selling prices did not have a material impact on overall net sales comparisons.

Cost of sales and gross margin – Cost of sales sold as a percentage of net sales for the third quarter of 2015 is comparable to the same period in 2014 as modestly increased variable margins for both CompX’s Security Products business and CompX’s Marine Components business were offset by increased CompX Security Products business fixed costs. As a result, gross margin as a percentage of net sales is comparable over the same period. As a percentage of net sales, cost of sales and resulting gross margin for the first nine months of 2015 are comparable to the same period in 2014 as improved variable margins and manufacturing efficiencies attributable to CompX’s Marine Components business were substantially offset by slightly lower variable margins and increased fixed costs within CompX’s Security Products business. Gross margin dollars for the third quarter of 2015 are comparable to the same period in 2014 as increased CompX Marine Component business gross margin dollars of \$.2 million were offset by decreased CompX Security Products business gross margin dollars of \$.2 million. Gross margin dollars increased \$1.3 million in the first nine months of 2015 compared to the same period in 2014 due to sales growth in CompX’s Security Products business (primarily in the first half of 2015) and sales growth in CompX’s Marine Components business .

Operating costs and expenses – Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses, as well as gains and losses on property, plant and equipment. Operating costs and expenses for the third quarter of 2015 were comparable to the same period in 2014. Operating costs and expenses increased for the first nine months of 2015 compared to the same period of 2014 primarily due to increased administrative personnel (added in the latter half of 2014) to support the growth in volume for CompX’s Security Products business .

Income from operations – As a percentage of net sales, income from operations for the third quarter of 2015 was comparable to the same period in 2014 and increased slightly for the first nine months of 2015 compared to the same period in 2014 primarily as the result of the factors impacting gross margin and operating costs and expenses described above.

Results by reporting unit

The key performance indicator for CompX's reporting units is the level of their income from operations (see discussion below).

	Three months ended			Nine months ended			
	September 30, 2014 (In thousands)	2015	% Change	September 30, 2014 (In thousands)	2015	% Change	
Net sales:							
Security Products	\$23,237	\$23,115	(1)%	\$69,246	\$72,831	5	%
Marine Components	3,236	3,390	5	9,856	10,483	6	
Total net sales	\$26,473	\$26,505	-	\$79,102	\$83,314	5	
Gross margin:							
Security Products	\$7,396	\$7,182	(3)	\$22,222	\$23,005	4	
Marine Components	746	936	25	2,282	2,838	24	
Total gross margin	\$8,142	\$8,118	-	\$24,504	\$25,843	5	
Income from operations:							
Security Products	\$4,694	\$4,455	(5)	\$14,235	\$14,656	3	
Marine Components	223	422	89	729	1,288	77	
Corporate operating expenses	(1,485)	(1,443)	(3)	(4,332)	(4,503)	4	
Total income from operations	\$3,432	\$3,434	-	\$10,632	\$11,441	8	
Gross margin:							
Security Products	32	% 31	%	32	% 32	%	
Marine Components	23	28		23	27		
Total gross margin	31	31		31	31		
Income from operations margin:							
Security Products	20	% 19	%	21	% 20	%	
Marine Components	7	12		7	12		
Total income from operations margin	13	13		13	14		

Security Products – Security Products net sales decreased less than 1% in the third quarter of 2015 compared to the same period in 2014 as increased sales to an existing government customer of approximately \$.2 million was more than offset by decreases in recreational transportation sales and sales to existing office equipment and institutional furniture customers. Security Products sales increased 5% in the first nine months of 2015 compared to the same period last year principally due to increased sales to existing government customers of \$3.4 million, primarily in the first six months of the year.

Gross margin as a percentage of sales for the third quarter of 2015 decreased compared to the third quarter of 2014 due to slightly higher fixed costs for the period. Gross margin as a percentage of sales for the first nine months of 2015 decreased compared to the same period last year due to relative changes in customer and product mix resulting in lower variable margins, and increased fixed costs, including manufacturing support staff added during 2014 in

response to increased volumes. Operating costs and expenses in the third quarter of 2015 were comparable to the third quarter of 2014. For the first nine months of 2015, operating costs and expenses increased approximately \$.4 million primarily due to increased administrative personnel and benefits costs (beginning in the latter half of 2014). Income from operations as a percentage of net sales in the third quarter and first nine months of 2015 decreased compared to the same periods in 2014 primarily as a result of the factors impacting gross margin described above.

Marine Components – Marine Components net sales increased 5% and 6% in the third quarter and first nine months of 2015, respectively, as compared to the same periods last year. The increase in sales is primarily due to improved demand for products sold to the waterski/wakeboard boat market, including the introduction of new product lines to that market. Gross margin and income from operations as a percentage of sales improved for the third quarter and first nine months of 2015 compared to the same periods in 2014 due to improved variable margins as a result of changes in customer and product mix, improved manufacturing efficiencies and increased leverage of fixed costs as a result of higher production volumes.

Outlook – As anticipated, third quarter sales returned to more normalized levels following a strong first half which was led by increased demand for certain government security applications, office equipment and marine components. While third quarter sales in these markets continued to be favorable to prior year, we have not experienced broad-based demand increases in other markets we serve. We continue to benefit from diversification of our product lines and the ongoing innovation of our products, most recently with respect to our line of electronic locks for multiple high security applications, security products for gas stations and expanded offerings to the waterski/wakeboard boat markets.

It is normal for seasonal demand to subside during the fourth quarter and we will continue to remain diligent to monitor general economic conditions and sales order rates and respond to fluctuations in customer demand through continuous evaluation of staffing levels and consistent execution of our lean manufacturing and cost improvement initiatives. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, to expand into new markets and to develop new product features in order to mitigate the impact of changes in demand as well as broaden our sales base.

General corporate and other items

Insurance recoveries – We have agreements with certain insurance carriers pursuant to which the carriers reimburse us for a portion of our past lead pigment and asbestos litigation defense costs. Insurance recoveries include amounts we received from these insurance carriers. Substantially all of the \$3.5 million insurance recoveries we recognized in the first nine months of 2015 relate to a first quarter settlement we reached with one of our insurance carriers in which they agreed to reimburse us for a portion of our past litigation defense costs.

The agreements with certain of our insurance carriers also include reimbursement for a portion of our future litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. Accordingly, these insurance recoveries are recognized when the receipt is probable and the amount is determinable. See Note 13 to our Condensed Consolidated Financial Statements.

Corporate expense – Corporate expenses were \$2.6 million in the third quarter of 2015, \$1.7 million lower than in the third quarter of 2014 primarily due to lower litigation and related costs in 2015. Included in corporate expense in the third quarter of 2014 and 2015 are:

- environmental remediation and related costs of nil in 2015 compared to \$.3 million in 2014, and
- litigation and related costs of \$.9 million in 2015 compared to \$2.4 million in 2014.

Corporate expenses were \$12.1 million in the first nine months of 2015, \$5.4 million lower than in the first nine months of 2014 primarily due to lower environmental remediation and related costs; and litigation and related costs in 2015. Included in corporate expense in the first nine months of 2014 and 2015 are:

- environmental remediation and related costs of \$2.6 million in 2015 compared to \$6.1 million in 2014, and
- litigation and related costs of \$3.7 million in 2015 compared to \$5.9 million in 2014.

The level of our litigation and related costs varies from period to period depending upon, among other things, the number of cases in which we are currently involved, the nature of such cases and the current stage of such cases (e.g. discovery, pre-trial motions, trial or appeal, if applicable). See Note 13 to our Condensed Consolidated Financial Statements. If our current expectations regarding the number of cases in which we expect to be involved during 2015 or the nature of such cases were to change, our corporate expenses could be higher than we currently estimate.

Obligations for environmental remediation costs are difficult to assess and estimate and it is possible that actual costs for environmental remediation will exceed accrued amounts or that costs will be incurred in the future for sites in which we cannot currently estimate our liability. If these events were to occur in 2015, our corporate expenses would be higher than we currently estimate. In addition, we adjust our environmental accruals as further information becomes available to us or as circumstances change. Such further information or changed circumstances could result in an increase in our accrued environmental costs. See Note 13 to our Condensed Consolidated Financial Statements.

Overall, we expect that our general corporate expenses for all of 2015 will be lower than 2014 primarily due to lower expected environmental remediation and related costs and lower litigation and related costs. If our current expectations regarding the number of cases or sites in which we expect to be involved during 2015, or if the nature of such cases or sites were to change, our corporate expenses could be higher than we currently estimate and involve amounts that are material.

Income tax expense – We recognized an income tax benefit of \$3.5 million in the third quarter of 2015 compared to income tax expense of \$3.8 million in the third quarter of 2014, and an income tax benefit of \$25.5 million in the first nine months of 2015 compared to an income tax expense of \$4.6 million in the first nine months of 2014. Our income tax benefit in the first nine months of 2015 includes a first quarter non-cash income tax benefit of \$3.0 million related to the release of a portion of our reserve for uncertain tax positions due to the expiration of the applicable statute of limitations. 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. Therefore, our effective income tax rate will generally be lower than the U.S. federal statutory income tax rate in periods during which we receive dividends from Kronos and recognize equity in earnings of Kronos (such as in 2014). Conversely, our effective income tax rate will generally be higher than the U.S. federal statutory income tax rate in periods during which we receive dividends from Kronos and recognize equity in losses of Kronos (such as in 2015).

Our effective tax rate attributable to our equity in earnings of Kronos, including the effect of the non-taxable dividends we received from Kronos, was 10.7% in the first nine months of 2014. Kronos has substantial net operating losses in Germany and Belgium, the benefit of which Kronos had previously recognized under the more-likely-than-not recognition criteria. In the second quarter of 2015, Kronos determined that such losses did not meet the more-likely-than-not recognition criteria, and as a result Kronos recognized a non-cash deferred income tax expense of \$150.3 million in the second quarter of 2015 and an additional \$2.3 million of expense in the third quarter of 2015 as a valuation allowance against Kronos' net deferred income tax assets in such jurisdictions. Our equity in losses of Kronos in the first nine months of 2015 includes our equity in such non-cash deferred income tax expense recognized by Kronos, and is a significant reason why our effective tax rate attributable to our equity in losses of Kronos, including the effect of the non-taxable dividends we received from Kronos, was 50.9% in the first nine months of 2015. See Note 11 to our Condensed Consolidated Financial Statements for more information about our 2015 income tax items, including a tabular reconciliation of our statutory tax expense (benefit) to our actual expense (benefit).

Noncontrolling interest – Noncontrolling interest in net income of CompX is consistent in the third quarter and year-to-date periods of 2014 and 2015. The noncontrolling interest we recognize in each period is directly related to the level of earnings at CompX for the period.

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Equity in earnings (losses) of Kronos Worldwide, Inc.

	Three months ended			Nine months ended		
	September 30, 2014 (In millions)	2015	% Change	September 30, 2014 (In millions)	2015	% Change
Net sales	\$414.8	\$336.5	(19)%	\$1,278.4	\$1,061.8	(17)%
Cost of sales	319.1	293.3	(8)	1,008.4	894.7	(11)
Gross margin	\$95.7	\$43.2		\$270.0	\$167.1	
Income (loss) from operations	\$47.9	\$(3.2)	(107)	\$118.2	\$18.6	(84)
Interest and dividend income	.2	.3		.7	.6	
Securities transactions, net	-	(12.0)		-	(12.0)	
Interest expense	(3.9)	(4.3)		(12.6)	(13.3)	
Income (loss) before income taxes	44.2	(19.2)		106.3	(6.1)	
Income tax expense	12.3	(7.4)		27.0	147.1	
Net income (loss)	\$31.9	\$(11.8)		\$79.3	\$(153.2)	
Percentage of net sales:						
Cost of sales	77	% 87	%	79	% 84	%
Income (loss) from operations	12	(1)				