NL INDUSTRIES INC
Form 10-Q
November 01, 2010

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, 2010
Commission file number 1-640

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

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

5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2697
(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 X 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 X Non-accelerated filer Smaller reporting company

Whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No X

Number of shares of the registrant's common stock outstanding on October 29, 2010: 48,630,934.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2009	September 30, 2010
		(unaudited)
Current assets:		
Cash and cash equivalents	$24,555	$ 12,746
Restricted cash and cash equivalents	7,157	6,324
Marketable securities	5,225	52
Accounts and other receivables, net	17,053	18,359
Inventories, net	16,266	18,033
Prepaid expenses and other	1,349	2,162
Deferred income taxes	5,039	5,040
Total current assets	76,644	62,716
Other assets:		
Marketable equity securities	85,073	126,181
Investment in Kronos Worldwide, Inc.	112,766	146,932
Goodwill	44,316	44,461
Assets held for sale	2,800	2,307
Other assets, net	17,026	16,554
Total other assets	261,981	336,435
Property and equipment:		
Land	12,368	12,563
Buildings	34,261	34,525
Equipment	126,203	127,260
Construction in progress	1,180	785
	174,012	175,133
Less accumulated depreciation	109,646	114,360
Net property and equipment	64,366	60,773
Total assets	$402,991	$459,924

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND EQUITY	December 31, 2009	September 30, 2010 (unaudited)
Current liabilities:		
Current maturities of long-term debt	$-	$9,950
Accounts payable	6,664	6,618
Accrued liabilities	26,549	15,791
Accrued environmental costs	8,328	7,522
Income taxes	332	533
Total current liabilities	41,873	40,414
Non-current liabilities:		
Long-term debt	42,540	64,480
Accrued environmental costs	37,518	32,984
Accrued pension costs	12,233	11,422
Accrued postretirement benefit (OPEB) costs	8,307	8,093
Deferred income taxes	55,750	77,603
Other	19,112	18,679
Total non-current liabilities	175,460	213,261
Equity:		
NL stockholders' equity:		
Common stock	6,076	6,078
Additional paid-in capital	311,939	299,469
Retained earnings	-	5,416
Accumulated other comprehensive loss	(143,411)	(115,571)
Total NL stockholders' equity	174,604	195,392
Noncontrolling interest in subsidiary	11,054	10,857
Total equity	185,658	206,249
Total liabilities and equity	$402,991	$459,924

Commitments and contingencies (Notes 10 and 11)

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 September 30, 2009	Three months ended September 30, 2010	Nine months ended September 30, 2009	Nine months ended September 30, 2010
	(unaudited)			
Net sales	$29,411	$35,740	$87,126	$102,924
Cost of sales	22,446	26,042	69,141	75,272
Gross margin	6,965	9,698	17,985	27,652
Selling, general and administrative expense	6,910	5,936	19,040	19,278
Other operating income (expense):				
Insurance recoveries	1,384	307	4,098	18,578
Litigation settlement gain	-	5,264	11,313	5,264
Litigation settlement expense	-	-	-	(32,174)
Assets held for sale write-down	-	(500)	(717)	(500)
Other income (expense), net	(221)	(126)	(260)	89
Corporate expense	(4,997)	(3,586)	(14,319)	(10,930)
Income (loss) from operations	(3,779)	5,121	(940)	(11,299)
Equity in net income (loss) of Kronos Worldwide, Inc.	3,072	11,557	(14,350)	33,894
Other income (expense):				
Interest and dividends	681	606	2,096	1,853
Interest expense	(229)	(459)	(845)	(959)
Income (loss) before taxes	(255)	16,825	(14,039)	23,489
Provision for income taxes (benefit)	(3,442)	5,114	(2,958)	9,685
Net income (loss)	3,187	11,711	(11,081)	13,804
Noncontrolling interest in net income (loss) of subsidiary	67	217	(214)	315
Net income (loss) attributable to NL stockholders	$3,120	$11,494	$(10,867)	$13,489
Amounts attributable to NL stockholders:				
Basic and diluted net income (loss) per share	$.06	$.24	$(.22)	$ .23
Cash dividend per share	$.125	$.125	$.375	$.375

Basic and diluted average shares outstanding	48,614	48,630	48,607	48,625

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY AND COMPREHENSIVE INCOME

Nine months ended September 30, 2010

(In thousands)

	NL stockholders' equity						
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss (unaudited)	Noncontrolling interest in subsidiary	Total equity	Comprehensive income
Balance at December 31, 2009	$6,076	$311,939	$-	$ (143,411)	$ 11,054	$185,658	
Net income	-	-	13,489	-	315	13,804	$ 13,804
Other comprehensive income, net	-	-	-	27,840	85	27,925	27,925
Issuance of NL common stock	2	131	-	-	-	133	
Dividends	-	(10,162)	(8,073)	-	(606)	(18,841)	
Other, net	-	(2,439)	-	-	9	(2,430)	
Balance at September 30, 2010	$6,078	$299,469	$5,416	$ (115,571)	$ 10,857	$206,249	
Comprehensive income							$ 41,729

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, 2009	2010
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$(11,081)	$13,804
Depreciation and amortization	6,271	5,916
Deferred income taxes	(3,857)	6,810
Equity in net (income) loss of Kronos Worldwide, Inc.	14,350	(33,894)
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension expense	601	575
Other postretirement benefit expense	279	193
Litigation settlement gain	(11,313)	-
Litigation settlement expense:		
Accrued	-	32,174
Settlement payments made	-	(19,012)
Assets held for sale write-down	717	500
Other, net	1,132	617
Change in assets and liabilities:		
Accounts and other receivables, net	9,808	(5,421)
Inventories, net	5,131	(2,144)
Prepaid expenses and other	904	(800)
Accrued environmental costs	(4,413)	(5,340)
Accounts payable and accrued liabilities	(957)	(1,801)
Income taxes	(982)	1,972
Accounts with affiliates	(1,045)	2,267
Other, net	(1,717)	(1,358)
Net cash provided by (used in) operating activities	3,828	(4,942)
Cash flows from investing activities:		
Capital expenditures	(1,786)	(1,474)
Proceeds from real estate–related litigation settlement	11,800	-
Change in restricted cash equivalents and marketable debt securities, net	489	6,058
Collections of loans to affiliates	8,090	-
Collection of note receivable	261	-
Proceeds from disposal of marketable securities	89	280
Purchase of:		
Marketable securities	-	(326)
Kronos common stock	(139)	-
Valhi common stock	(33)	-

Net cash provided by investing activities	18,771	4,538

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Nine months ended September 30, 2009	2010
	(unaudited)	
Cash flows from financing activities:		
Cash dividends paid	$(18,228)	$(18,235)
Distributions to noncontrolling interests in subsidiary	(605)	(606)
Proceeds from issuance of common stock	84	68
Repurchase of noncontrolling interest in subsidiary	-	(6,988)
Indebtedness:		
Borrowings	-	14,200
Repayments	(750)	-
Deferred financing cost paid	(133)	(29)
Net cash used in financing activities	(19,632)	(11,590)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	2,967	(11,994)
Currency translation	208	185
Cash and cash equivalents at beginning of period	16,450	24,555
Cash and cash equivalents at end of period	$19,625	$12,746
Supplemental disclosures:		
Cash paid (received) for:		
Interest	$1,149	$470
Income taxes, net	1,631	(1,471)
Non-cash investing activity:		
Accrual for capital expenditures	143	54
Non-cash financing activity:		
Promissory note payable incurred in connection with litigation settlement	-	18,000

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority-owned by Valhi, Inc. (NYSE: VHI), which owns approximately 83% of our outstanding common stock at September 30, 2010. Approximately 94% of Valhi's outstanding common stock is held 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 (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran, Valhi and us.

Basis of presentation - Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. We also own 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, 2009 that we filed with the SEC on March 9, 2010 (the "2009 Annual Report"). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2009 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, 2009) 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 periods ended September 30, 2010 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 2009 Consolidated Financial Statements contained in our 2009 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, 2009	September 30, 2010
	(In thousands)	
Trade receivables	$12,204	$18,032
Accrued insurance recoveries	465	96
Other receivables	133	88
Receivable from affiliates:		
Income taxes from Valhi	2,880	508
Other	8	-
Refundable income taxes	1,844	12
Allowance for doubtful accounts	(481)	(377)
Total	$17,053	$18,359

Note 3 – Inventories, net:

	December 31, 2009	September 30, 2010
	(In thousands)	
Raw materials	$4,830	$6,425
Work in process	6,151	6,765
Finished products	5,285	4,843
Total	$16,266	$18,033

Note 4 - Marketable securities:

	December 31, 2009	September 30, 2010
	(In thousands)	
Current assets (available-for-sale):		
Restricted debt securities	$5,225	$-
Other marketable securities	-	52
Total	$5,225	$52
Noncurrent assets (available-for-sale):		
Valhi common stock	$66,930	$97,257
TIMET common stock	18,143	28,924
Total	$85,073	$126,181

	Total	Fair Value Measurements Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
		(in thousands)	
December 31, 2009:			
Current assets (available-for-sale)-			
Restricted debt securities	$5,225	$-	$5,225
Noncurrent assets (available-for-sale):			
Valhi common stock	$66,930	$66,930	$-
TIMET common stock	18,143	18,143	-
Total	$85,073	$85,073	$-
September 30, 2010:			
Current assets (available-for-sale)-			
Other marketable securities	$52	$52	$-
Noncurrent assets (available-for-sale):			
Valhi common stock	$97,257	$97,257	$-
TIMET common stock	28,924	28,924	-
Total	$126,181	$126,181	$-

We held no level 3 securities at September 30, 2010 or December 31, 2009. Restricted debt securities at December 31, 2009 collateralized certain of our outstanding letters of credit. Such investments matured during the first half of 2010 and are now held in investments classified as restricted cash equivalents at September 30, 2010.

Our investments in related parties' 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. We held approximately 4.2%, or 4.8 million shares, of Valhi's outstanding common stock and .8%, or 1.4 million shares, of TIMET's outstanding common stock at December 31, 2009 and September 30, 2010. At September 30, 2010, the quoted market price of Valhi's and TIMET's common stock was $20.30 and $19.96 per share, respectively. At December 31, 2009, such quoted market prices were $13.97 and $12.52 per share, respectively.

Note 5 – Investment in Kronos Worldwide, Inc.:

At December 31, 2009 and September 30, 2010, we owned approximately 17.6 million shares of Kronos common stock. At September 30, 2010, the quoted market price of Kronos' common stock was $39.84 per share, or an aggregate market value of $701.6 million. At December 31, 2009, the quoted market price was $16.25, or an aggregate market value of $286.2 million. We have pledged certain shares of our Kronos common stock (and a nominal number of shares of our CompX common stock), as indicated in Note 11.

The change in the carrying value of our investment in Kronos during the first nine months of 2010 is summarized below:

	Amount (In millions)
Balance at the beginning of the period	$112.8
Equity in net income of Kronos	33.9
Other, principally equity in other comprehensive income items of Kronos	.2
Balance at the end of the period	$146.9

Selected financial information of Kronos is summarized below:

	December 31, 2009	September 30, 2010
	(In millions)	
Current assets	$529.9	$ 568.6
Property and equipment, net	499.7	463.3
Investment in TiO2 joint venture	98.7	96.9
Other noncurrent assets	196.7	200.4
Total assets	$1,325.0	$1,329.2
Current liabilities	$215.4	$204.7
Long-term debt	611.1	539.9
Accrued pension and postretirement benefits	131.7	121.0
Other noncurrent liabilities	54.3	56.3
Stockholders' equity	312.5	407.3
Total liabilities and stockholders' equity	$1,325.0	$1,329.2

	Three months ended September 30,		Nine months ended September 30,	
	2009	2010	2009	2010
	(In millions)		(In millions)	
Net sales	$310.1	$376.6	$840.2	$1,076.4
Cost of sales	250.6	280.4	762.4	834.5
Income (loss) from operations	21.1	57.0	(26.9)	117.5
Net income (loss)	8.6	32.1	(39.9)	94.1

On October 28, 2010, Kronos announced the pricing of a public offering of 7.8 million shares of its common stock in an underwritten offering. Kronos intends to use the $293.5 million net proceeds of this offering for its general corporate purposes. Subject to customary closing conditions, the offering is expected to close on November 2, 2010. Kronos has also granted the underwriters a 30-day option to purchase up to an additional 1.17 million shares of its common stock to cover overallotments, if any, which if exercised in full would generate an additional $44.1 million net proceeds to Kronos. This disclosure does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of its common stock in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state or other jurisdiction. Upon completion of the offering, our ownership of Kronos would be reduced to 31.0% (30.4% if the underwriters' over-allotment option were to be exercised in full).

Note 6 – Intangible and other noncurrent assets:

	December 31, 2009	September 30, 2010
	(In thousands)	
Promissory note receivable	$15,000	$15,000
Patents and other intangible assets, net	1,408	974
Other	618	580
Total	$17,026	$16,554

Note 7 – Accrued liabilities:

	December 31, 2009	September 30, 2010
	(In thousands)	
Current:		
Employee benefits	$7,561	$8,875
Professional fees and legal settlements	6,747	2,748
Payable to affiliates:		
Accrued interest payable to TIMET	-	740
Other	583	471
Reserve for uncertain tax positions	59	-
Other	11,599	2,957
Total	$26,549	$15,791
Noncurrent:		
Reserve for uncertain tax positions	$16,936	$16,937
Insurance claims and expenses	659	617
Other	1,517	1,125
Total	$19,112	$18,679

Note 8 – Long-term debt:

	December 31, 2009	September 30, 2010
	(In thousands)	
NL:		
Promissory note payable to Valhi	$-	$9,200
Promissory note issued in conjunction with litigation settlement	-	18,000
Subtotal	-	27,200
Subsidiary debt:		

CompX credit facility	-	5,000
CompX promissory note payable to TIMET	42,540	42,230
Subtotal	42,540	47,230
Total debt	42,540	74,430
Less current maturities	-	9,950
Total long-term debt	$42,540	$64,480

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

The $18.0 million promissory note is discussed in Note 11.

CompX - During the first nine months of 2010, CompX borrowed $5.0 million under its revolving bank credit facility that matures in January 2012. The average interest rate on this outstanding borrowing at September 30, 2010 was 3.5%.

We are in compliance with all of our debt covenants at September 30, 2010. Our ability and the ability of our affiliates to borrow funds under credit facilities in the future will, in some instances, depend in part on our ability to comply with specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreement.

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

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,		Nine months ended September 30,	
	2009	2010	2009	2010
	(In thousands)			
Interest cost	$736	$717	$2,164	$2,173
Expected return on plan assets	(830)	(843)	(2,470)	(2,527)
Recognized actuarial losses	307	308	906	929
Total	$213	$182	$600	$575

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2010	2009	2010
	(In thousands)			
Interest cost	$137	$108	$413	$327

Amortization of prior service credit	(44)	(44)	(134)	(134)
Total	$93	$64	$279	$193

Contributions – We expect our 2010 contributions for our pension and other postretirement benefit plans to be consistent with the amount disclosed in our 2009 Annual Report.

Note 10 - Income tax provision:

	Nine months ended September 30, 2009	2010
	(In millions)	
Expected tax provision (benefit) at U.S. federal statutory income tax rate of 35%	$(4.9)	$8.2
Non-U.S. tax rates	-	(.4)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	1.8	2.1
U.S. state income taxes, net	(.6)	.2
Change in reserve for uncertain tax positions, net	.7	-
Nondeductible expenses	.2	.2
Nontaxable income	-	(.4)
Other, net	(.2)	(.2)
Total	$(3.0)	$9.7

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. We cannot guarantee these tax matters will be resolved in our favor due to the inherent uncertainties involved in settlement initiatives and court and tax proceedings. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will decrease by approximately $.1 million during the next twelve months due to certain statutes of limitations.

Under GAAP, we are required to recognize a deferred income tax liability with respect to the incremental U.S. (federal and state) and non-U.S. withholding taxes that would be incurred when undistributed earnings of a non-U.S. subsidiary are subsequently repatriated, unless management has determined that those undistributed earnings are permanently reinvested for the foreseeable future. Prior to March 31, 2010, we had not recognized a deferred income tax liability related to incremental income taxes on the pre-2005 undistributed earnings of CompX's Taiwanese subsidiary, as those earnings were deemed to be permanently reinvested. GAAP requires us to reassess the permanent reinvestment conclusion on an ongoing basis to determine if our intentions have changed. At the end of March 2010, and based primarily upon changes in our cash management plans, we determined that all of the undistributed earnings of CompX's Taiwanese subsidiary could no longer be considered to be permanently reinvested in Taiwan. Accordingly, in the first quarter of 2010 we recognized an aggregate $1.9 million provision for deferred income taxes on the pre-2005 undistributed earnings of CompX's Taiwanese subsidiary. Consequently, all of the undistributed earnings of CompX's non-U.S. operations are now considered to be not permanently reinvested.

Note 11 – 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 that seek recovery for injury allegedly caused by lead pigment and lead-based paint. Although we are not a defendant in these cases, the outcome of these cases may have an impact on cases that might be filed against us in the future.

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

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

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

Environmental matters and 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 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 also a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

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. Such further information or changed circumstances could include, among other things, new assertions of liability, revised expectations regarding the nature, timing and extent of any remediation required or revised estimates of the allocation of remediation costs among PRPs, and such further information or changed circumstances could result in an increase or reduction in our accrued environmental costs. 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, 2010, 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 2010 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	$45,846
Reductions charged against expense, net	(354)
Settlement agreement	(1,979)
Payments, net	(3,007)
Balance at the end of the period	$40,506
Amounts recognized in the balance sheet at the end of the period:	
Current liability	$ 7,522
Noncurrent liability	32,984
Total	$40,506

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, 2010, we had accrued approximately $41 million, related to approximately 50 sites, which are environmental 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 sites for which we believe it is possible to estimate costs is approximately $75 million, including the amount currently accrued. We have not discounted these estimates to present value.

We believe that it is not possible to estimate the range of costs for certain sites. At September 30, 2010, there were approximately 5 sites for which we are not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not we actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of our control, such as when the party alleging liability provides information to us. At certain of these previously inactive sites, we have received general and special notices of liability from the EPA and/or state agencies alleging that we, sometimes with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations. These notifications may assert that we, along with any other alleged PRPs, are liable for past and/or future clean-up costs that could be material to us if we are ultimately found liable.

In July 2010, we entered into a settlement agreement with another PRP pursuant to which, among other things, the other PRP reimbursed us for certain remediation costs we had previously incurred for certain sites related to one of our former business units, and such PRP also affirmed its full responsibility to indemnify us for all claims (environmental or otherwise) with respect to certain specified sites related to such former business unit as well as indemnify us for any future claims that may arise related to such former business unit. As a result of the July 2010 settlement agreement, in the third quarter of 2010 we recognized a litigation settlement gain of $5.3 million, consisting of $3.2 million related to the PRP's cash reimbursement of prior remediation costs, $2.0 million related to a reduction in our accrued environmental remediation costs and $.1 reversal of legal settlement costs resulting from the PRP's agreement to indemnify us.

Insurance coverage claims

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

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

For a complete discussion of certain litigation involving us and certain of our former insurance carriers, refer to our 2009 Annual Report.

Other litigation

In June 2010, the case captioned Contran Corporation, et al. v. Terry S. Casey, et al. (Case No. 07-04855, 192nd Judicial District Court, Dallas County, Texas) was dismissed with prejudice in accordance with the previously-reported settlement agreement. In May 2010, pursuant to such agreement, we paid $26.0 million in cash and we issued an $18.0 million long-term promissory note. The note bears interest, payable quarterly, at the prime rate. Fifty percent of the principal amount will be payable on each of December 1, 2011 and December 1, 2012. The note is collateralized by shares of Kronos and CompX common stock, owned by us, having an aggregate market value of at least 200% of the outstanding principal amount of the promissory note. Under certain conditions, we have agreed to prepay up to $4.0 million principal amount of such indebtedness.

For financial reporting purposes, we classified $32.2 million of the aggregate amount payable under the settlement agreement as a litigation settlement expense in respect of certain claims made by plaintiffs in the litigation. We had insurance coverage for a portion of such litigation settlement, and a substantial portion of the insurance recoveries we recognized in the first quarter of 2010 relates to such coverage. With respect to the other claim of the plaintiffs as it relates to the repurchase of their EMS noncontrolling interest, the resulting $2.5 million increase over our previous estimate of such payment is accounted for as a reduction in additional paid-in capital in accordance with GAAP.

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 NL. There are approximately 1,226 of these types of cases pending, involving a total of approximately 2,670 plaintiffs. In addition, the claims of approximately 7,500 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio, Indiana and Texas state courts. We do not expect these claims will be re-opened unless the plaintiffs meet the courts' medical criteria for asbestos-related claims. We have not accrued any amounts for this litigation because of the uncertainty of liability and inability to reasonably estimate the liability, if any. To date, we have not been adjudicated liable in any of these matters. Based on information available to us, including:

- facts concerning historical operations,
- the rate of new claims,
- the number of claims from which we have been dismissed and
- our prior experience in the defense of these matters,

we believe that the range of reasonably possible outcomes of these matters will be consistent with our historical costs (which are not material). 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, Humanscale Corporation ("Humanscale") filed a complaint with the U.S. International Trade Commission ("ITC") requesting that the ITC commence an investigation pursuant to the Tariff Act of 1930 to evaluate allegations concerning the unlawful importation of certain adjustable keyboard support products into the U.S. by CompX's Canadian subsidiary. The products were alleged to infringe certain claims under a U.S. patent held by Humanscale. The complaint sought as relief the barring of future imports of the products into the U.S. until the expiration of the related patent in March 2011. On July 9, 2010, the ITC issued its final ruling that CompX had not infringed on the Humanscale patent and that the patent is invalid. Humanscale has chosen not to appeal the ITC's ruling. Humanscale also had previously filed a complaint for patent infringement in the United States District Court for the Eastern District of Virginia against CompX involving the identical patent in question in the ITC case. That claim was stayed by the Court pending the outcome of the ITC case. With the issuance of the final determination in the ITC case, Humanscale has filed for dismissal of their action in the U.S. District Court.

On March 30, 2009, CompX filed in the U.S. District Court for the Eastern District of Virginia a counterclaim of patent infringement against Humanscale for infringement of certain of CompX's keyboard support patents by Humanscale's models 2G, 4G and 5G support arms. A jury trial was completed on February 25, 2010 relating to CompX's counterclaims with the jury finding that Humanscale infringed on its patents and awarded damages to CompX of approximately $20 million for past royalties. The judge issued the final judgment on October 19, 2010, which confirmed the dismissal of the Humanscale claims and the jury verdict and their award of damages in the amount of approximately $20 million. Humanscale appealed to the U.S. Court of Appeals for the Federal Circuit the outcome of the trial prior to the issuance of the final judgment by the District Court. Due to the uncertain nature of the ongoing legal proceedings, we have not accrued a receivable for the amount of the award at September 30, 2010.

While we currently believe the disposition of all claims and disputes, individually or in the aggregate, should not have a material long-term adverse effect on our consolidated financial condition, results of operations or liquidity, we may incur costs resolving such claims during the short-term that could be material.

For a discussion of other legal proceedings to which we are a party, refer to our 2009 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.

Note 12 - Financial instruments:

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

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure at December 31,
2009 and September 30, 2010:

	December 31, 2009		September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and cash equivalents, current restricted cash equivalents and current marketable securities	$36.9	$36.9	$19.1	$19.1
Promissory note receivable	15.0	15.0	15.0	15.0
Notes payable to affiliates	42.2	42.2	51.4	51.4
CompX bank credit facility	-	-	5.0	5.0
Promissory note payable	-	-	18.0	18.0
Noncontrolling interest in CompX common stock	11.1	12.2	10.9	21.4
NL stockholders' equity	174.6	337.4	195.4	441.6

The fair value of our noncurrent marketable equity securities, restricted marketable debt securities, noncontrolling interest in CompX and NL stockholder's equity are based upon quoted market prices at each balance sheet date, which represent Level 1 inputs. The fair value of our promissory note receivable and our variable interest rate debt is deemed to approximate book value. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. The fair values of our promissory note receivable, long-term debt and notes payable to affiliates are Level 2 inputs.

Note 13 – Assets held for sale:

Our 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. During the third quarter of 2010, and as weak economic conditions continued longer than expected, we obtained an independent appraisal for the larger of these two properties. Based on this appraisal we recorded a write-down of $500,000 during the third quarter of 2010 to reduce the carrying value of the asset to its aggregate estimated fair value less cost to sell. This charge is included in income from operations. The appraisal represents a Level 2 input. The carrying value of the other property is not significant. Both properties are being actively marketed; however we cannot be certain of the timing of the disposition of these assets.

Note 14 – Earnings per share:

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2010	2009	2010
	(in thousands)			
Net income (loss) attributable to NL stockholders	$3,120	$11,494	$(10,867)	$13,489
Paid-in capital adjustment	-	-	-	(2,513)
Adjusted net income (loss) attributable to NL Stockholders	$3,120	$11,494	$(10,867)	$10,976

The paid-in capital adjustment is discussed in Note 11.

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 noncontrolling 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% noncontrolling 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 in a diverse range of customer applications and end-use markets, including coatings, plastics, paper, food, cosmetics, inks, textile fibers, rubber, pharmaceuticals, glass, ceramics and other industrial and consumer markets.

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, which include, but are not limited to, the following:

- Future supply and demand for our products;
- The extent of the dependence of certain of our businesses on certain market sectors;
- The cyclicality of our businesses (such as Kronos' TiO2 operations);
- Customer inventory levels (such as the extent to which Kronos' customers may, from time to time, accelerate purchases of TiO2 in advance of anticipated price increases or defer purchases of TiO2 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, TiO2 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 prices, including increased competition from low-cost manufacturing sources (such as China);
- Customer and competitor strategies;
- Potential consolidation or solvency of Kronos' competitors;
- Demand for office furniture;
- Demand for high performance marine components;
- Substitute products;
- The impact of pricing and production decisions;
- Competitive technology positions;
- Our ability to protect our intellectual property rights in our technology;
- The introduction of trade barriers;
- Service industry employment levels;
- Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian krone, the Canadian dollar and the New Taiwan dollar);
- Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions);
- The timing and amounts of insurance recoveries,
- Our ability to maintain sufficient liquidity;
- The extent to which our subsidiaries were to become unable to pay us dividends;
- CompX's and Kronos' ability to renew or refinance debt;
- CompX's ability to comply with covenants contained in its revolving bank credit facility;
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters;
- Potential difficulties in integrating completed or future acquisitions,
- Decisions to sell operating assets other than in the ordinary course of business;
- Uncertainties associated with the development of new product features;
- Our ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which have been recognized under the more-likely-than-not recognition criteria;
- Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities or new developments regarding environmental remediation at sites related to our former operations);
- Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including us, with respect to asserted health concerns associated with the use of such products);
- The ultimate resolution of pending litigation (such as our lead pigment and environmental matters); and
- Possible future litigation.

Should one or more of these risks materialize or if the consequences of such a development worsen, or should the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

Results of Operations

Net Income (Loss) Overview

Quarter Ended September 30, 2010 Compared to Quarter Ended September 30, 2009

Our net income attributable to NL stockholders was $11.5 million, or $.24 per share, in the third quarter of 2010 compared to $3.1 million, or $.06 per share, in the third quarter of 2009. As more fully discussed below, our income per share increased from 2009 to 2010 primarily due to the net effect of:

- higher equity in net income from Kronos in 2010,
- income from operations from component products in 2010 as compared to a loss in 2009,
- a pre-tax litigation settlement gain of $5.3 million in 2010,
- an asset held for sale write-down of $.5 million in 2010,
- higher environmental remediation expense in 2009 and
- higher insurance recoveries in 2009.

Our 2010 net income attributable to NL stockholders includes a litigation settlement gain of $.07 per share related to a settlement agreement we entered into with another PRP for certain environmental matters.

Our 2009 net income attributable to NL stockholders includes income of $.02 per share related to certain insurance recoveries.

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Our net income attributable to NL stockholders was $13.5 million, or $.23 per share, in the first nine months of 2010 compared to a net loss of $10.9 million, or $.22 per share, in the first nine months of 2009. As more fully discussed below, the increase in our net income per share from 2009 to 2010 is primarily due to the net effect of:

- equity in net income from Kronos in 2010 as compared to equity in losses in 2009,
- a pre-tax litigation settlement gain of $11.3 million in 2009,
- a pre-tax litigation settlement gain of $5.3 million in 2010,
- income from operations from component products in 2010 as compared to a loss in 2009,
- a litigation settlement expense in 2010 as discussed below,
- lower environmental remediation expense in 2010,
- lower litigation and related expenses in 2010, and
- higher insurance recoveries in 2010 primarily related to the litigation settlement expense.

Our 2010 net income attributable to NL stockholders includes:

- income included in our equity in earnings of Kronos of $.17 per share related to an income tax benefit recognized by Kronos in the first quarter related to a European Court ruling that resulted in the favorable resolution of certain German income tax issues,
- income of $.25 per share related to certain insurance recoveries we recognized,
- income of $.07 per share related to a settlement agreement we entered into with another PRP for certain environmental matters,
- a charge of $.43 per share related to a litigation settlement expense,
- a charge of $.03 per share, net of noncontrolling interest, related to recognition of a deferred income tax liability associated with a determination that certain undistributed earnings of CompX's Taiwanese subsidiary can no longer be considered to be permanently reinvested, and
- a write-down of assets held for sale of $.01 per share.

Our 2009 net loss attributable to NL stockholders 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.

Income (loss) from Operations

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

	Three months ended September 30,		%	Nine months ended September 30,		%
	2009	2010	Change	2009	2010	Change
	(In millions)			(In millions)		
CompX	$(.2)	$3.1	n.m.	$(2.0)	$7.8	482%
Insurance recoveries	1.4	.3	(78)%	4.1	18.6	353%
Litigation settlement expense	-	-	-	-	(32.2)	-
Litigation settlement gain	-	5.3	-	11.3	5.3	(53)%
Corporate expense and other, net	(5.0)	(3.6)	(28)%	(14.3)	(10.8)	(24)%
Income (loss) from operations	$(3.8)	$5.1	234%	$(.9)	$(11.3)	n.m.

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

CompX International Inc.

	Three months ended September 30, 2009	2010	% Change	Nine months ended September 30, 2009	2010	% Change
	(In millions)			(In millions)		
Net sales	$29.4	$35.7	22 %	$87.1	$102.9	18 %
Cost of sales	22.4	26.1	16 %	69.1	75.3	9 %
Gross margin	$7.0	$9.6		$18.0	$27.6	
Income (loss) from operations	$(.2)	$3.1	n.m.	$(2.0)	$7.8	482 %
Percentage of net sales:						
Cost of sales	76 %	73 %		79 %	73 %	
Income (loss) from operations	(1)%	9 %		(2)%	8 %	

n.m. - not meaningful

Net sales – Net sales increased 22% in the third quarter of 2010 and increased 18% in the first nine months of 2010 as compared to the same periods of 2009. Net sales increased due to an increase in order rates from our customers resulting from improving economic conditions in North America. For the nine-month period comparison, CompX's Furniture Components, Security Products and Marine Components businesses accounted for approximately 59%, 31% and 10%, respectively, of the total increase in sales. Furniture Components sales were a greater percentage of the total increase because this business experienced a greater contraction in demand during the economic downturn in 2009 resulting in a greater relative increase as customer demand began to return. CompX's Marine Components business accounted for a smaller percentage of the total increase due to its smaller sales volume.

Cost of sales and gross margin – Cost of sales as a percentage of sales decreased by 3% in the third quarter of 2010 and decreased 6% in the first nine months compared to the same periods in 2009. As a result, gross margin increased over the same periods. The resulting increase in gross margin is primarily due to improved coverage of overhead and fixed manufacturing costs from higher sales volume and the related efficiency gains.

Income (loss) from operations - Our component products income (loss) from operations improved to income for both the third quarter and first nine months of 2010 compared to losses in the same periods in 2009. Income from operations improved for both comparative periods primarily due to the impact of higher sales and the related leveraging of fixed expenses as well as lower litigation expense, partially offset by a negative impact of relative changes in currency exchange rates. As a percentage of net sales, operating costs and expenses decreased 2% in the third quarter and in the first nine months of 2010 compared to the same periods in 2009 primarily due to selling, general and administrative costs increasing at a slower rate than sales volumes. In addition, CompX recorded lower patent litigation expenses relating to Furniture Components in both the three month and nine month periods of 2010 compared to the same periods of 2009, primarily due to the timing of litigation proceedings. See Note 11 to the Condensed Consolidated Financial Statements.

Assets held for sale - During the third quarter of 2010, CompX recorded a write-down on assets held for sale of $500,000. During the second quarter of 2009, CompX also recorded a write-down of assets held for sale of $717,000, See Note 13 to the Condensed Consolidated Financial Statements.

Currency - CompX's Furniture Components business has substantial operations and assets located outside the United States (in Canada and Taiwan). The majority of sales generated from our non-U.S. operations are denominated in the U.S. dollar, with the remainder denominated in non-U.S. currencies, principally the Canadian dollar and the New Taiwan dollar. Most raw materials, labor and other production costs for our non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of our non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. CompX's Furniture Component business's net sales were positively impacted while its income from operations was negatively impacted by currency exchange rates in the following amounts as compared to the impact of currency exchange rates during the corresponding periods in the prior year.

Impact of changes in currency exchange rates
Three months ended September 30, 2010 vs September 30, 2009

	Transaction gains/(losses)			Translation gain/loss- impact of rate	Total currency
	2009	2010	Change	changes	impact
			(in thousands)		
Impact on:					
Net sales	$-	$-	$-	$150	$150
Income from operations	(175)	(126)	49	(252)	(203)

Impact of changes in currency exchange rates
Nine months ended September 30, 2010 vs September 30, 2009

	Transaction gains/(losses)			Translation gain/loss- impact of rate	Total currency
	2009	2010	Change	changes	impact
		(in thousands)			
Impact on:					
Net sales	$-	$-	$-	$893	$893
Income from operations	(189)	(59)	130	(1,385)	(1,255)

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

Results by Reporting Unit

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

	Three months ended September 30, 2009	Three months ended September 30, 2010	% Change		Nine months ended September 30, 2009	Nine months ended September 30, 2010	% Change	
	(Dollars in thousands)							
Net sales:								
Security Products	$16,150	$17,723	10	%	$46,863	$51,740	10	%
Furniture Components	11,583	16,119	39	%	35,172	44,504	27	%
Marine Components	1,678	1,898	13	%	5,091	6,680	31	%
Total net sales	$29,411	$35,740	22	%	$87,126	$102,924	18	%
Gross margin:								
Security Products	$5,241	$5,770	10	%	$13,515	$16,617	23	%
Furniture Components	1,676	3,753	124	%	4,734	10,136	114	%
Marine Components	48							