

NL INDUSTRIES INC
Form 10-Q
November 06, 2012
[Table of Contents](#)

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 quarterly period ended September 30, 2012

Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of

13-5267260
(IRS Employer

Edgar Filing: NL INDUSTRIES INC - Form 10-Q

incorporation or organization)

5430 LBJ Freeway, Suite 1700

Identification No.)

Dallas, Texas 75240-2697

(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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 31, 2012: 48,668,884.

Table of Contents

NL INDUSTRIES, INC. AND SUBSIDIARIES

INDEX

	Page number
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets December 31, 2011; September 30, 2012 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Income (unaudited) Three and nine months ended September 30, 2011 and 2012</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) Three and nine months ended September 30, 2011 and 2012</u>	6
<u>Condensed Consolidated Statement of Stockholders Equity (unaudited) Nine months ended September 30, 2012</u>	7
<u>Condensed Consolidated Statements of Cash Flows (unaudited) Nine months ended September 30, 2011 and 2012</u>	8
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	46
Part II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	48
Item 1A. <u>Risk Factors</u>	48
Item 6. <u>Exhibits</u>	48
Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report	

Table of Contents

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2011	September 30, 2012 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,652	\$ 8,782
Restricted cash and cash equivalents	3,337	4,932
Accounts and other receivables, net	15,160	18,198
Inventories, net	19,578	19,253
Prepaid expenses and other	1,364	2,364
Deferred income taxes	7,213	7,213
Total current assets	58,304	60,742
Other assets:		
Marketable securities	311,419	193,942
Investment in Kronos Worldwide, Inc.	281,257	339,393
Goodwill	47,553	47,824
Other assets, net	10,907	9,721
Total other assets	651,136	590,880
Property and equipment:		
Land	11,639	11,745
Buildings	27,301	27,760
Equipment	129,685	125,687
Construction in progress	1,477	2,103
	170,102	167,295
Less accumulated depreciation	118,300	115,264
Net property and equipment	51,802	52,031
Total assets	\$ 761,242	\$ 703,653

Table of Contents**NL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)****(In thousands)**

	December 31, 2011	September 30, 2012 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 10,000	\$ 11,700
Accounts payable	8,184	7,713
Accrued and other current liabilities	13,994	14,400
Accrued environmental remediation and related costs	7,301	6,580
Income taxes	1,327	305
Total current liabilities	40,806	40,698
Noncurrent liabilities:		
Long-term debt	27,285	21,515
Accrued pension costs	16,743	13,785
Accrued postretirement benefit (OPEB) costs	4,373	4,116
Accrued environmental remediation and related costs	34,336	42,877
Deferred income taxes	192,492	170,909
Other	19,215	18,425
Total noncurrent liabilities	294,444	271,627
Equity:		
NL Stockholders' equity:		
Common stock	6,082	6,083
Additional paid-in capital	300,067	300,227
Retained earnings	113,555	152,334
Accumulated other comprehensive loss	(4,724)	(78,670)
Total NL stockholders' equity	414,980	379,974
Noncontrolling interest in subsidiary	11,012	11,354
Total equity	425,992	391,328
Total liabilities and equity	\$ 761,242	\$ 703,653
Commitments and contingencies (Notes 11 and 12)		

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**NL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share data)**

	Three months ended September 30,		Nine months ended September 30,	
	2011	2012	2011	2012
	(unaudited)			
Net sales	\$ 35,736	\$ 37,110	\$ 105,755	\$ 110,239
Cost of sales	27,202	26,948	78,704	80,578
Gross margin	8,534	10,162	27,051	29,661
Selling, general and administrative expense	5,745	6,190	17,807	18,851
Other operating income (expense):				
Insurance recoveries	16,142	1,197	16,600	2,604
Litigation settlement gain				14,964
Reversal of accrued contingent consideration		778		778
Patent litigation settlement gain			7,468	
Patent litigation expense			(227)	
Facility consolidation expense	(175)		(1,973)	
Assets held for sale write-down	(1,135)	(405)	(1,135)	(405)
Corporate expense and other, net	(4,733)	(3,436)	(20,401)	(24,552)
Income from operations	12,888	2,106	9,576	4,199
Equity in earnings of Kronos Worldwide, Inc.	26,097	10,715	71,487	71,951
Other income (expense):				
Interest and dividends	824	836	2,245	2,387
Interest expense	(464)	(244)	(1,288)	(816)
Income before taxes	39,345	13,413	82,020	77,721
Provision for income taxes	11,530	3,066	19,388	19,882
Net income	27,815	10,347	62,632	57,839
Noncontrolling interest in net income of subsidiary	141	340	872	810
Net income attributable to NL stockholders	\$ 27,674	\$ 10,007	\$ 61,760	\$ 57,029
Amounts attributable to NL stockholders:				
Basic and diluted net income per share	\$.57	\$.21	\$ 1.27	\$ 1.17
Cash dividend per share	\$.125	\$.125	\$.375	\$.375
Weighted-average shares outstanding used in the calculation of net income per share	48,663	48,669	48,657	48,666

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	2012	(Unaudited)	2012	
Net income	\$ 27,815	\$ 10,347	\$ 62,632	\$ 57,839
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(6,226)	8,405	(3,031)	4,015
Marketable securities adjustment	9,334	(482)	98,116	(79,099)
Pension plans	448	556	1,354	1,687
OPEB plan	(147)	(138)	(440)	(414)
Total other comprehensive income (loss)	3,409	8,341	95,999	(73,811)
Comprehensive income (loss)	31,224	18,688	158,631	(15,972)
Comprehensive income (loss) attributable to noncontrolling interest	130	(459)	(667)	(945)
Comprehensive income (loss) attributable to NL stockholders	\$ 31,354	\$ 18,229	\$ 157,964	\$ (16,917)

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents
NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine months ended September 30, 2012
(In thousands)

	NL Stockholders' Equity					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss (unaudited)	Noncontrolling interest in subsidiary	Total equity
Balance at December 31, 2011	\$ 6,082	\$ 300,067	\$ 113,555	\$ (4,724)	\$ 11,012	\$ 425,992
Net income			57,029		810	57,839
Other comprehensive income (loss), net				(73,946)	135	(73,811)
Issuance of NL common stock	1	74				75
Dividends			(18,250)		(613)	(18,863)
Other, net		86			10	96
Balance at September 30, 2012	\$ 6,083	\$ 300,227	\$ 152,334	\$ (78,670)	\$ 11,354	\$ 391,328

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30, 2011 2012 (unaudited)	
Cash flows from operating activities:		
Net income	\$ 62,632	\$ 57,839
Depreciation and amortization	5,299	4,346
Deferred income taxes	14,976	18,332
Equity in Kronos Worldwide, Inc.	(71,487)	(71,951)
Distributions from Kronos Worldwide, Inc.	32,578	15,849
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension plans	(195)	149
Other postretirement benefits	(423)	(480)
Litigation settlement gain		(14,964)
Reversal of accrued contingent consideration		(778)
Assets held for sale write-down	1,135	405
Other, net	472	383
Change in assets and liabilities:		
Accounts and other receivables, net	(18,118)	(2,825)
Inventories, net	(872)	338
Prepaid expenses and other	(835)	(442)
Accrued environmental remediation and related costs	1,660	7,820
Accounts payable and accrued liabilities	(5,191)	(1,404)
Income taxes	565	(1,432)
Accounts with affiliates	2,958	800
Other noncurrent assets and liabilities, net	(1,151)	(2,571)
Net cash provided by operating activities	24,003	9,414
Cash flows from investing activities:		
Capital expenditures	(1,838)	(3,172)
Acquisition, net of cash acquired	(4,903)	
Proceeds from real estate-related litigation settlement		15,603
Change in restricted cash equivalents	2,662	(1,736)
Proceeds from the sale of:		
Marketable securities	237	
Fixed assets		48
Purchase of marketable securities	(104)	
Other, net	151	
Net cash provided by (used in) investing activities	(3,795)	10,743

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

	Nine months ended September 30, 2011 2012 (unaudited)	
Cash flows from financing activities:		
Cash dividends paid	\$ (18,248)	\$ (18,250)
Distributions to noncontrolling interests in subsidiary	(611)	(613)
Proceeds from issuance of common stock:		
NL common stock	342	
CompX common stock	139	
Indebtedness:		
Borrowings	26,148	25,350
Repayments	(29,009)	(29,500)
Other, net	32	(60)
Net cash used in financing activities	(21,207)	(23,073)
Cash and cash equivalents net change from:		
Operating, investing and financing activities	(999)	(2,916)
Effect of exchange rate changes on cash	(245)	46
Cash and cash equivalents at beginning of period	15,461	11,652
Cash and cash equivalents at end of period	\$ 14,217	\$ 8,782
Supplemental disclosures:		
Cash paid for:		
Interest	\$ 2,073	\$ 684
Income taxes, net	763	2,181
Non-cash investing activity:		
Accrual for capital expenditures	320	546

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

Note 1 Organization and basis of presentation:

Organization At September 30, 2012, (i) Valhi, Inc. (NYSE: VHI) held approximately 83% of our outstanding common stock and (ii) Contran Corporation and its subsidiaries held an aggregate of approximately 95% of Valhi's outstanding common stock. 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 by Mr. Simmons or other persons or companies related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran, Valhi and us.

Basis of presentation Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. We also own 30% of Kronos Worldwide, Inc. 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, 2011 that we filed with the SEC on March 5, 2012 (the 2011 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, 2011 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, 2011) 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, 2012 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 2011 Consolidated Financial Statements contained in our 2011 Annual Report.

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

Table of Contents

Note 2 Accounts and other receivables, net:

	December 31, 2011	September 30, 2012
	(In thousands)	
Trade receivables CompX	\$ 14,647	\$ 17,530
Accrued insurance recoveries	586	520
Affiliate receivable	214	
Other receivables	106	71
Refundable income taxes	8	395
Allowance for doubtful accounts	(401)	(318)
Total	\$ 15,160	\$ 18,198

Accrued insurance recoveries are discussed in Note 12.

Note 3 Inventories, net:

	December 31, 2011	September 30, 2012
	(In thousands)	
Raw materials	\$ 6,757	\$ 6,949
Work in process	7,437	7,477
Finished goods	5,384	4,827
Total	\$ 19,578	\$ 19,253

Note 4 Marketable securities:

	Fair value measurement level	Market value	Cost basis (in thousands)	Unrealized gains
December 31, 2011:				
Noncurrent assets (available-for-sale):				
Valhi common stock	1	\$ 289,711	\$ 24,347	\$ 265,364
TIMET common stock	1	21,708	7,351	14,357
Total		\$ 311,419	\$ 31,698	\$ 279,721
September 30, 2012:				
Noncurrent assets (available-for-sale):				
Valhi common stock	1	\$ 175,350	\$ 24,347	\$ 151,003
TIMET common stock	1	18,592	7,351	11,241
Total		\$ 193,942	\$ 31,698	\$ 162,244

Edgar Filing: NL INDUSTRIES INC - Form 10-Q

Our marketable securities include investments in the publicly-traded shares of related parties: Valhi and Titanium Metals Corporation (TIMET). Contran, Mr. Harold Simmons and persons and other entities related to Mr. Simmons own a majority of Valhi's and TIMET's outstanding common stock. We account for our investments in Valhi and TIMET common stocks as available-for-sale marketable equity securities and any unrealized gains or losses on the securities are recognized through other comprehensive income. All of our marketable securities at December 31, 2011 and September 30, 2012 were carried at fair value based on quoted market prices, representing a Level 1 input within the fair value hierarchy.

- 11 -

Table of Contents

At December 31, 2011 and September 30, 2012, we held approximately 14.4 million shares of Valhi's common stock and 1.4 million shares of TIMET common stock. At September 30, 2012, the quoted market price of Valhi's and TIMET's common stock was \$12.20 and \$12.83 per share, respectively. At December 31, 2011, such quoted market prices were \$20.16 and \$14.98 per share, respectively. In May 2012, Valhi implemented a 3-for-1 split of its common stock. We have adjusted all share and per-share disclosures related to our investment in Valhi stock for all periods prior to May 2012 to give effect to the stock split. The stock split had no financial statement impact to us, and our ownership interest in Valhi did not change as a result of the split.

The Valhi and TIMET 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 Corporation Law, but we do receive dividends from Valhi on these shares, when declared and paid.

Note 5 Investment in Kronos Worldwide, Inc.:

At December 31, 2011 and September 30, 2012, we owned approximately 35.2 million shares of Kronos common stock. At September 30, 2012, the quoted market price of Kronos' common stock was \$14.94 per share, or an aggregate market value of \$526.2 million. At December 31, 2011, the quoted market price was \$18.04 per share, or an aggregate market value of \$635.3 million.

The change in the carrying value of our investment in Kronos during the first nine months of 2012 is summarized below:

	Amount (In millions)
Balance at the beginning of the period	\$ 281.3
Equity in earnings of Kronos	72.0
Dividends received from Kronos	(15.8)
Other, principally equity in other comprehensive income items of Kronos	1.9
Balance at the end of the period	\$ 339.4

Selected financial information of Kronos is summarized below:

	December 31, 2011	September 30, 2012
	(In millions)	
Current assets	\$ 865.0	\$ 1,054.6
Property and equipment, net	485.5	491.4
Investment in TiO ₂ joint venture	89.2	119.3
Other noncurrent assets	384.2	370.9
Total assets	\$ 1,823.9	\$ 2,036.2
Current liabilities	\$ 328.0	\$ 305.5
Long-term debt	362.9	416.1
Accrued pension and postretirement benefits	140.3	136.0
Other noncurrent liabilities	68.4	63.0
Stockholders' equity	924.3	1,115.6
Total liabilities and stockholders' equity	\$ 1,823.9	\$ 2,036.2

Table of Contents

	Three months ended September 30, 2011 2012		Nine months ended September 30, 2011 2012	
	(In millions)		(In millions)	
Net sales	\$ 548.0	\$ 472.9	\$ 1,505.9	\$ 1,579.5
Cost of sales	337.1	386.9	951.6	1,068.7
Income from operations	156.6	38.5	403.2	358.5
Net income	85.9	35.2	235.2	236.6

Note 6 Other noncurrent assets:

	December 31, 2011	September 30, 2012
	(In thousands)	
Assets held for sale	\$ 6,649	\$ 6,244
Patents and other intangible assets, net	2,045	1,620
Restricted cash	1,551	1,694
Other	662	163
Total	\$ 10,907	\$ 9,721

Note 7 Accrued and other current liabilities:

	December 31, 2011	September 30, 2012
	(In thousands)	
Employee benefits	\$ 8,954	\$ 8,640
Professional fees and legal settlements	2,704	2,469
Payable to affiliates:		
Accrued interest payable to TIMET		53
Income taxes payable to Valhi		586
Other	20	19
Other	2,316	2,633
Total	\$ 13,994	\$ 14,400

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

	December 31, 2011	September 30, 2012
(In thousands)		
NL:		
Promissory note payable to Valhi	\$ 4,100	\$ 5,600
Promissory note issued in conjunction with litigation settlement	9,000	5,100
Subtotal	13,100	10,700
Subsidiary debt:		
CompX credit facility	1,955	2,035
CompX promissory note payable to TIMET	22,230	20,480
Subtotal	24,185	22,515
Total debt	37,285	33,215
Less current maturities	10,000	11,700
Total long-term debt	\$ 27,285	\$ 21,515

NL During the first nine months of 2012, we borrowed a net \$1.5 million under our promissory note with Valhi. The interest rate on our outstanding borrowings from Valhi as of and for the nine months ended September 30, 2012 was 6.00%.

Following the May 2012 third and final closing associated with certain real property we formerly owned in New Jersey, we prepaid an aggregate \$3.9 million under the promissory note issued in conjunction with a litigation settlement. The interest rate on the outstanding balance of this indebtedness was 3.25% as of and for the nine months ended September 30, 2012. See Note 12.

CompX CompX repaid an aggregate of \$1.8 million on the promissory note payable to TIMET during the first nine months of 2012, including a principal prepayment of \$1.0 million. The average interest rate on the promissory note payable to TIMET as of and for the nine-month period ended September 30, 2012 was 1.5%. The average interest rate on the revolving bank credit facility as of and for the nine months ended September 30, 2012 was 3.3% and 3.6%, respectively.

Note 9 Other noncurrent liabilities:

	December 31, 2011	September 30, 2012
(In thousands)		
Reserve for uncertain tax positions	\$ 16,832	\$ 16,832
Insurance claims and expenses	594	567
Other	1,789	1,026
Total	\$ 19,215	\$ 18,425

Table of Contents**Note 10 Employee benefit plans:**

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2012	2011	2012
	(In thousands)			
Interest cost	\$ 690	\$ 627	\$ 2,081	\$ 1,898
Expected return on plan assets	(977)	(914)	(2,930)	(2,743)
Recognized actuarial losses	218	332	654	994
Total	\$ (69)	\$ 45	\$ (195)	\$ 149

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,	
	2011	2012	2011	2012
	(In thousands)			
Interest cost	\$ 59	\$ 39	\$ 177	\$ 118
Amortization of prior service credit	(200)	(175)	(600)	(524)
Recognized actuarial gain		(24)		(74)
Total	\$ (141)	\$ (160)	\$ (423)	\$ (480)

Contributions We currently expect our 2012 contributions to our defined benefit pension plans and other postretirement plans to be approximately \$3.1 million.

Note 11 Income tax provision:

	Nine months ended September 30,	
	2011	2012
	(In millions)	
Expected tax provision at U.S. federal statutory income tax rate of 35%	\$ 28.7	\$ 27.2
Non-U.S. tax rates	(.9)	(.7)
Incremental U.S. tax and rate differences on equity in earnings	(6.6)	(6.1)
U.S. state income taxes, net	.4	.4
Tax rate change	(1.4)	(1.4)
Other, net	(.8)	(.9)
Total	\$ 19.4	\$ 19.9

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

Table of Contents

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.

In 2011 and 2012, Kronos received notices of re-assessment from the Canadian federal and provincial tax authorities related to the years 2002 through 2004. Kronos objects to the re-assessments and believes the position is without merit. Accordingly, the re-assessments are being appealed. If the full amount of the proposed adjustment were ultimately to be assessed against Kronos, the cash tax liability would be approximately \$15.9 million. Kronos believes that it has adequate accruals for this matter.

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

We currently estimate that our unrecognized tax benefits will not change materially during the next twelve months.

Note 12 Commitments and contingencies:

Lead pigment litigation

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

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

Table of Contents

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

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

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

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

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.

Table of Contents

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

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

complexity and differing interpretations of governmental regulations,

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

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

solvency of other PRPs,

multipli