NL INDUSTRIES INC
Form 10-Q
November 03, 2008

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 quarter ended September 30, 2008
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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Large accelerated filer Accelerated filer X Non-accelerated filer

Indicate by check mark 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 31, 2008: 48,598,634.

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, 2007	September 30, 2008 (unaudited)
Current assets:		
Cash and cash equivalents	$ 41,112	$ 19,313
Restricted cash and cash equivalents	4,970	9,386
Marketable securities	5,860	5,532
Accounts and other receivables, net	23,492	22,311
Inventories, net	24,277	25,441
Prepaid expenses and other	1,516	2,330
Deferred income taxes	6,474	6,437
Total current assets	107,701	90,750
Other assets:		
Marketable equity securities	113,393	101,198
Investment in Kronos Worldwide, Inc.	147,119	131,920
Pension asset	17,623	20,134
Goodwill	54,719	44,374
Assets held for sale	3,117	3,467
Other assets, net	7,856	8,232
Total other assets	343,827	309,325
Property and equipment:		
Land	12,346	12,345
Buildings	35,963	35,300
Equipment	127,801	123,040
Construction in progress	2,659	4,070
	178,769	174,755
Less accumulated depreciation	105,536	103,719
Net property and equipment	73,233	71,036
Total assets	$ 524,761	$ 471,111

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2007	September 30, 2008 (unaudited)
Current liabilities:		
Accounts payable	$ 8,769	$ 10,019
Accrued liabilities	27,188	27,285
Accrued environmental costs	11,863	9,397
Income taxes	136	571
Total current liabilities	47,956	47,272
Non-current liabilities:		
Note payable to affiliate	49,730	42,230
Accrued environmental costs	38,467	36,148
Accrued postretirement benefit (OPEB) costs	9,865	9,556
Accrued pension costs	1,665	1,398
Deferred income taxes	91,124	81,879
Other	25,126	25,089
Total non-current liabilities	215,977	196,300
Minority interest	14,366	12,264
Stockholders' equity:		
Common stock	6,073	6,074
Additional paid-in capital	345,338	330,891
Retained deficit	(6,525)	(13,270)
Accumulated other comprehensive loss	(98,424)	(108,420)
Total stockholders' equity	246,462	215,275
Total liabilities, minority interest and stockholders’ equity	$ 524,761	$ 471,111

Commitments and contingencies (Note 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, 2007	Three months ended September 30, 2008	Nine months ended September 30, 2007	Nine months ended September 30, 2008
	(unaudited)			
Net sales	$ 46,389	$ 43,909	$ 135,169	$ 128,137
Cost of sales	34,435	32,688	99,232	96,493
Gross margin	11,954	11,221	35,937	31,644
Selling, general and administrative expense	6,477	6,317	19,714	19,225
Other operating income (expense):				
Insurance recoveries	1,183	706	3,769	2,390
Facility consolidation expense	(808)	-	(808)	-
Goodwill impairment	-	(10,111)	-	(10,111)
Other expense, net	(447)	(1)	(1,239)	(89)
Corporate expense	(5,976)	(3,046)	(19,420)	(13,782)
Loss from operations	(571)	(7,548)	(1,475)	(9,173)
Equity in earnings (losses) of Kronos Worldwide, Inc.	(29,051)	(1,284)	(24,452)	661
Other income (expense):				
Interest and dividends	1,082	792	3,551	6,917
Securities transactions, net	(15)	(20)	41	(10)
Interest expense	(49)	(507)	(151)	(1,773)
Loss before income taxes and minority interest	(28,604)	(8,567)	(22,486)	(3,378)
Provision for income taxes (benefit)	(13,411)	(848)	(13,204)	165
Minority interest in after-tax earnings (loss)	834	(974)	2,509	(473)
Net loss	$ (16,027)	$ (6,745)	$ (11,791)	$ (3,070)
Net loss per basic and diluted share	$ (.33)	$ (.14)	$ (.24)	$ (.06)
Cash dividend per share	$ .125	$ .125	$ .375	$ .375
Weighted-average shares used in the calculation of net loss per share	48,592	48,599	48,589	48,595

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Nine months ended September 30, 2008

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive loss	Total stockholders' equity	Comprehensive income (loss)
			(unaudited)			
Balance at December 31, 2007	$ 6,073	$ 345,338	$ (6,525)	$ (98,424)	$ 246,462	
Net loss	-	-	(3,070)	-	(3,070)	$ (3,070)
Other comprehensive income, net	-	-	-	(9,996)	(9,996)	(9,996)
Issuance of common stock	1	102	-	-	103	-
Dividends	-	(14,549)	(3,675)	-	(18,224)	-
Balance at September 30, 2008	$ 6,074	$ 330,891	$ (13,270)	$ (108,420)	$ 215,275	
Comprehensive loss						$ (13,066)

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, 2007	2008
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (11,791)	$ (3,070)
Depreciation and amortization	8,549	7,117
Deferred income taxes	(15,791)	(3,743)
Minority interest	2,509	(473)
Equity in (earnings) losses of Kronos Worldwide, Inc.	24,452	(661)
Dividends from Kronos Worldwide, Inc.	13,137	13,137
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension expense	(1,837)	(2,239)
Other postretirement benefit expense	472	357
Goodwill impairment	-	10,111
Other, net	645	758
Change in assets and liabilities:		
Accounts and other receivables, net	96	(922)
Inventories, net	(4,390)	(1,391)
Prepaid expenses and other	(330)	(848)
Accrued environmental costs	(3,623)	(4,785)
Accounts payable and accrued liabilities	5,302	569
Income taxes	(589)	600
Accounts with affiliates	(11,685)	1,522
Other, net	(2,994)	(3,077)
Net cash provided by operating activities	2,132	12,962
Cash flows from investing activities:		
Capital expenditures	(9,994)	(5,482)
Collection of note receivable	1,306	1,306
Change in restricted cash equivalents and marketable debt securities, net	1,933	(4,453)
Proceeds from disposal of:		
Marketable securities	9,917	360
Property and equipment	48	255
Purchase of:		
CompX common stock	(2,194)	(1,006)
Marketable securities	(5,861)	-
Net cash used in investing activities	(4,845)	(9,020)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Nine months ended September 30, 2007	2008
	(unaudited)	
Cash flows from financing activities:		
Cash dividends paid	$ (18,221)	$ (18,224)
Principal payments on note to affiliate	-	(7,000)
Distributions to minority interest	(1,694)	(614)
Other, net	1,445	(50)
Net cash used in financing activities	(18,470)	(25,888)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(21,183)	(21,946)
Currency translation	924	147
Cash and cash equivalents at beginning of period	52,742	41,112
Cash and cash equivalents at end of period	$ 32,483	$ 19,313
Supplemental disclosures – cash paid for:		
Interest, net of amounts capitalized	$ 82	$ 1,789
Income taxes, net	14,968	1,957
Noncash investing activity - receipt of TIMET shares	$ 11,410	$ -
Accrual for capital expenditures	1,195	169

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(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, 2008. Valhi is majority-owned by subsidiaries of Contran Corporation. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly 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 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 included in our Annual Report on Form 10-K for the year ended December 31, 2007 that we filed with the SEC on March 12, 2008 (the “2007 Annual Report”), except as discussed in Note 12. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments, other than the goodwill impairment discussed in Note 6) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2007 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, 2007) normally included in financial statements prepared in accordance with accounting principals generally accepted in the United States of America (“GAAP”). Our results of operations for the interim period ended September 30, 2008 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 2007 Consolidated Financial Statements contained in our 2007 Annual Report.

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

Note 2 – Accounts and other receivables, net:

	December 31, 2007	September 30, 2008
	(In thousands)	
Trade receivables	$ 21,129	$ 21,719
Other receivables	1,535	1,206

Receivable from affiliates:		
Income taxes – Valhi	1,271	-
Refundable income taxes	217	30
Allowance for doubtful accounts	(660)	(644)
Total	$ 23,492	$ 22,311

Note 3 – Inventories, net:

	December 31, 2007	September 30, 2008
	(In thousands)	
Raw materials	$ 6,341	$ 8,477
Work in process	9,783	9,061
Finished products	8,153	7,903
Total	$ 24,277	$ 25,441

Note 4 - Marketable equity securities:

	December 31, 2007	September 30, 2008
	(In thousands)	
Current assets (available-for-sale):		
Restricted debt securities	$ 5,301	$ 5,338
Other marketable securities	559	194
Total	$ 5,860	$ 5,532
Noncurrent assets (available-for-sale):		
Valhi common stock	$ 75,064	$ 84,765
TIMET common stock	38,329	16,433
Total	$ 113,393	$ 101,198

Our investments in Valhi and Titanium Metals Corporation ("TIMET") common stock are accounted for as available-for-sale marketable equity securities carried at fair value based on quoted market prices, a Level 1 input as defined by SFAS No. 157. See Note 12. At December 31, 2007 and September 30, 2008, we owned approximately 4.7 million shares of Valhi common stock and 1.4 million shares of TIMET common stock. At September 30, 2008, the quoted market price of Valhi's and TIMET's common stock was $18.00 and $11.34 per share, respectively. At December 31, 2007, such quoted market prices were $15.94 and $26.45 per share, respectively.

Note 5 – Investment in Kronos:

At December 31, 2007 and September 30, 2008, we owned approximately 17.5 million shares of Kronos common stock. At September 30, 2008, the quoted market price of Kronos' common stock was $13.25 per share, or an aggregate market value of $232.1 million. At December 31, 2007, the quoted market price was $17.45, or an aggregate market value of $305.7 million. The change in the carrying value of our investment in Kronos during the first nine months of 2008 is summarized below:

	Amount (In millions)
Balance at the beginning of the period	$ 147.1
Equity in earnings of Kronos	.7
Dividends received from Kronos	(13.1)
Other, principally equity in other comprehensive income items of Kronos	(2.8)
Balance at the end of the period	$ 131.9

Selected financial information of Kronos is summarized below:

	December 31, 2007	September 30, 2008
	(In millions)	
Current assets	$ 621.7	$ 603.5
Property and equipment, net	526.5	522.6
Investment in TiO2 joint venture	118.5	113.6
Other noncurrent assets	188.3	191.0
Total assets	$ 1,455.0	$ 1,430.7
Current liabilities	$ 224.5	$ 210.1
Long-term debt	590.0	635.0
Accrued pension and postretirement benefits	149.9	140.0
Other non-current liabilities	79.6	77.2
Stockholders' equity	411.0	368.4
Total liabilities and stockholders' equity	$ 1,455.0	$ 1,430.7

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
	(In millions)			
Net sales	$ 343.3	$ 345.6	$ 999.9	$ 1,070.0
Cost of sales	276.4	295.2	799.0	903.3
Income from operations	22.1	7.9	75.0	27.3
Net income (loss)	(81.2)	(3.6)	(68.3)	1.8

Note 6 – Goodwill

Substantially all of our goodwill is related to our component products operations. We have assigned goodwill to each of CompX's reporting units (as that term is defined in Statement of Financial Accounting Standard ("SFAS") No. 142¸

Goodwill and Other Intangible Assets). In accordance with the requirements of SFAS No. 142, we test for goodwill impairment at each of our three component products reporting units during the third quarter of each year or when circumstances arise that indicate impairment might be present. In determining the estimated fair value of the reporting units, we use appropriate valuation techniques, such as discounted cash flows. Such discounted cash flows are a Level 3 input as defined by SFAS No. 157 (although SFAS No. 157 is not in effect with respect to estimating the fair value of a reporting unit under SFAS No. 142 until January 1, 2009). See Note 12. If the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recorded.

During the third quarter of 2008, we recorded a goodwill impairment charge of $10.1 million for CompX's marine components reporting unit, which represented all of the goodwill we had previously recognized for this reporting unit (including a nominal amount of goodwill inherent in our investment in CompX). We used a discounted cash flow methodology in determining the estimated fair value of CompX's marine components reporting unit. The factors that led us to conclude that goodwill associated with CompX's marine components reporting unit was fully impaired include the continued decline in consumer spending in the marine market as well as the overall negative economic outlook, both of which resulted in near-term and longer-term reduced revenue, profit and cash flow forecasts for the marine components unit. When we performed this analysis in the third quarter, we also reviewed the goodwill associated with CompX's security products and furniture components reporting units and concluded there was no impairment of the goodwill for those reporting units.

Note 7 – Accrued liabilities:

	December 31, 2007	September 30, 2008
	(In thousands)	
Employee benefits	$ 8,896	$ 9,325
Professional fees	4,322	3,195
Payable to affiliates:		
Income taxes – Valhi	-	255
Note payable to TIMET	250	750
Accrued interest payable to TIMET	559	451
Other	340	336
Reserve for uncertain tax positions	289	55
Other	12,532	12,918
Total	$ 27,188	$ 27,285

Note 8 – Other non-current liabilities:

	December 31, 2007	September 30, 2008
	(In thousands)	
Reserve for uncertain tax positions	$ 22,128	$ 22,365
Insurance claims and expenses	1,381	1,281
Other	1,617	1,443
Total	$ 25,126	$ 25,089

Note 9 - Provision (benefit) for income taxes:

	Nine months ended September 30, 2007	Nine months ended September 30, 2008
	(In millions)	
Expected tax expense (benefit) at U.S. federal statutory income tax rate of 35%	$ (7.9)	$ (1.2)
Non-U.S. tax rates	(.2)	(.2)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	(3.9)	(2.8)
U.S. state income taxes, net	.6	.6
Change in reserve for uncertain tax positions, net	(1.4)	(.1)
Nondeductible expenses	.2	.3
Goodwill impairment	-	3.5
Other, net	(.6)	.1
Total	$ (13.2)	$ .2

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. We cannot guarantee that these tax matters will be resolved in our favor due to the inherent uncertainties involved in settlement initiatives and court and tax proceedings. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will decrease by approximately $1.8 million during the next twelve months due to the resolution of certain examination and filing procedures related to one or more of our subsidiaries and to the expiration of certain statutes of limitations.

The goodwill impairment charge of $10.1 million recorded in the third quarter of 2008 (see Note 6) is non-deductible goodwill for income tax purposes. Accordingly, there is no income tax benefit associated with the goodwill for financial reporting purposes.

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, 2007	Three months ended September 30, 2008	Nine months ended September 30, 2007	Nine months ended September 30, 2008
	(In thousands)			
Interest cost	$ 758	$ 765	$ 2,291	$ 2,319
Expected return on plan assets	(1,449)	(1,560)	(4,348)	(4,681)
Recognized actuarial losses	73	41	219	123
Total	$ (618)	$ (754)	$ (1,838)	$ (2,239)

Future variances from assumed actuarial rates, including the rate of return on our defined benefit pension plan assets, as well as changes in the discount rate used to determine the projected benefit obligation, may result in increases or decreases to pension plan assets and liabilities, defined benefit pension expense (income) and credits and funding requirements in future periods. We use a December 31 measurement date for our defined benefit pension plans. Given the current uncertainty of the U.S. and global economy, our pension plan assets may be significantly lower at December 31, 2008, as compared to December 31, 2007.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
	(In thousands)			
Interest cost	$ 182	$ 163	$ 545	$ 491
Amortization of prior service credit	(28)	(44)	(84)	(134)
Recognized actuarial losses	3	-	11	-
Total	$ 157	$ 119	$ 472	$ 357

Contributions – We expect our 2008 contributions for our pension and postretirement benefit plans to be consistent with the amount disclosed in our 2007 Annual Report.

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

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

- we have never settled any of these cases,
- no final, non-appealable 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 foreign 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. In addition, we are a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

Environmental obligations are difficult to assess and estimate for numerous reasons including the:

- complexity and differing interpretations of governmental regulations,
- number of PRPs and their ability or willingness to fund such allocation of costs,
- financial capabilities of the PRPs and the allocation of costs among them,
- solvency of other PRPs,
- multiplicity of possible solutions, and
- number of years of investigatory, remedial and monitoring activity required.

In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or allocation of costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites or a determination that we are potentially responsible for the release of hazardous substances at other sites, could cause our expenditures to exceed our current estimates. Because we may be jointly and severally liable for the total remediation cost at certain sites, the amount for which we are ultimately liable may exceed our accruals due to, among other things, the reallocation of costs among PRPs or the insolvency of one or more PRPs. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. We adjust our environmental accruals as further information becomes available to us or as circumstances change. We generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the pay out. We recognize recoveries of remediation costs from other parties, if any, as assets when their receipt is deemed probable. At September 30, 2008, 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 2008 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	$ 50,330
Additions charged to expense, net	453
Payments, net	(5,238)
Balance at the end of the period	$ 45,545
Amounts recognized in the balance sheet at the end of the period:	
Current liability	$ 9,397
Noncurrent liability	36,148
Total	$ 45,545

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, 2008, we had accrued approximately $46 million for those environmental matters which we believe are reasonably estimable. We believe that it is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to us for sites for which we believe it is possible to estimate costs is approximately $66 million, including the amount currently accrued. We have not discounted these estimates to present value.

At September 30, 2008, there were approximately 25 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 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 alleging that we, along with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations conducted at the sites. These notifications may assert that we, along with other PRPs, are liable for past clean-up costs that could be material to us if we are ultimately found liable.

In 2005, certain real property we owned that is subject to environmental remediation, and for which we had a carrying value of approximately $6.3 million at September 30, 2008, was taken from us in a condemnation proceeding by a governmental authority in New Jersey. The condemnation proceeds, the adequacy of which we disputed, were placed into escrow with a court in New Jersey. Because such funds were in escrow with the court and were beyond our control, we never gave recognition to such condemnation proceeds for financial reporting purposes. In April 2008, we reached a tentative settlement agreement with such governmental authority and a real estate developer, among others, pursuant to which, among other things, we would receive certain agreed-upon amounts in satisfaction of our claim to just compensation for the taking of our property in the condemnation proceeding and we would be indemnified against certain environmental liabilities related to such property. The tentative settlement agreement was subject to certain conditions which ultimately were not met, and on May 2, 2008 we terminated such agreement. In late June 2008 the settlement agreement was reinstated, and the initial closing under the reinstated settlement agreement occurred in October 2008. At the October 2008 initial closing, we received aggregate proceeds of $54.6 million, comprising $39.6 million in cash plus a promissory note in the amount of $15.0 million, in exchange for the release of our equitable lien on a portion of the property. The agreement calls for two subsequent closings that are scheduled to take place in April 2009 and October 2010, respectively, and that are subject to, among other things, our receipt of certain additional payments. In exchange for the additional payments we would receive at the two subsequent closings, we would release our equitable lien on the remaining two portions of the property. The settlement agreement provides for the dismissal of the pending condemnation proceeding with prejudice.

The $15.0 million promissory note bears interest at LIBOR plus 2.75%, with interest payable monthly. All principal is due no later than October 2011. The promissory note is collateralized by the real estate developer's ground lease on the property, and all improvements to the property performed by the developer. Both the promissory note and our lien on the property are subordinated to certain senior indebtedness of the developer. In the event that the developer has not repaid the promissory note at its stated maturity, we have the right to demand repayment of up to $15.0 million due under the promissory note from one of the developer's equity partners, and such right is not subordinated to the developer's senior indebtedness.

For financial reporting purposes, we will account for the aggregate consideration received at the October 2008 closing by the full accrual method. Under this method, we will recognize a pre-tax gain related to the October 2008 closing based on the difference between the aggregate $54.6 million consideration received and the carrying value of the portion of the property for which we have released our equitable lien. Accordingly, we expect to recognize a pre-tax gain in the fourth quarter of 2008 of at least approximately $48 million.

In addition to the consideration we received at the October 2008 closing, as part of the April 2008 agreement we became entitled to receive the interest that had accrued on the escrow funds, and in May 2008 we received approximately $4.3 million of such interest, which we recognized as interest income during the second quarter of 2008.

Insurance coverage claims

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

We have agreements with two former insurance carriers pursuant to which the carriers reimburse us for a portion of our past and future lead pigment litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for past defense costs incurred by us, because of certain issues that arise regarding which past defense costs qualify for reimbursement. While we continue to seek additional insurance recoveries, we do not know if we will be successful in obtaining reimbursement for either defense costs or indemnity. We have not considered any additional potential insurance recoveries in determining accruals for lead pigment or asbestos litigation matters.

We recognize insurance recoveries in income only when receipt of the recovery is probable and we are able to reasonably estimate the amount of the recovery.

For a complete discussion of certain litigation involving us and certain of our former insurance carriers, refer to our 2007 Annual Report.

Other litigation

In May 2007, we filed a complaint in Texas state court (Contran Corporation, et al. v. Terry S. Casey, et al., Case No. 07-04855, 192nd Judicial District Court, Dallas County, Texas) in which we alleged negligence, conversion, and breach of contract against a former service provider of ours who was also a former minority shareholder of EMS. In February 2008, two other former minority shareholders of EMS filed counterclaims, a third-party petition and petition in intervention, seeking damages related to their former ownership in EMS. Our original claims were removed to arbitration, and the case is now captioned Industrial Recovery Capital Holdings Co. et al. v. Harold C. Simmons et al., Case No. 08-02589, District Court, Dallas County, Texas. The defendants are the Company, Contran, Valhi and certain of the Company's and EMS's current or former officers or directors. The plaintiffs claim that, in preparing the valuation of the former minority shareholders' preferred shares for purchase by EMS, defendants have committed fraud, breach of fiduciary duty, civil conspiracy, breach of contract and tortious interference with economic relations. We believe that these claims are without merit and have denied all liability therefor. The Company and EMS have also filed counterclaims against the former minority shareholders relating to the formation and management of EMS. Trial is scheduled for April 2009.

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. Approximately 460 of these types of cases remain pending, involving a total of approximately 5,500 plaintiffs. In addition, the claims of approximately 4,500 former plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio 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 and will continue to vigorously seek dismissal and/or a finding of no liability from each claim. In addition, from time to time, we have received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries, including notices provided to insurers with which we have entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from us.

For a discussion of other legal proceedings to which we are a party, refer to our 2007 Annual Report.

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

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

CompX stock repurchase program

CompX's board of directors previously authorized the repurchase of its Class A common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. CompX may repurchase its common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, CompX may terminate the program prior to its completion. CompX may use cash on hand or debt to acquire the shares. Repurchased shares will be added to CompX's treasury and cancelled. During the first nine months of 2008, CompX purchased approximately 126,000 shares of its Class A common stock in market transactions for an aggregate of $1.0 million in cash. At September 30, 2008 approximately 678,000 shares were available for purchase under these repurchase authorizations.

Note 12 – Recent accounting pronouncements:

Fair Value Measurements – In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements, which became effective for us on January 1, 2008. SFAS No. 157 generally provides a consistent, single fair value definition and measurement techniques for GAAP pronouncements. SFAS No. 157 also establishes a fair value hierarchy for different measurement techniques based on the objective nature of the inputs in various valuation methods. In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 which delays the provisions of SFAS No. 157 until January 1, 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Beginning with our first quarter 2008 filing, all of our fair value measurements are in compliance with SFAS No. 157, except for such nonfinancial assets and liabilities for which we will be required to be in compliance with SFAS No. 157 prospectively beginning in the first quarter of 2009. In addition, in accordance with the new standard we have expanded our disclosures regarding the valuation methods and level of inputs we utilize beginning with our first quarter 2008 filing, except for such nonfinancial assets and liabilities, which will require disclosure in the first quarter of 2009. The adoption of this standard did not have a material effect on our Consolidated Financial Statements.

Fair Value Option - In the first quarter of 2007 the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose, at specified election dates, to measure eligible items at fair value, with unrealized gains and losses included in the determination of net income. The decision to elect the fair value option is generally applied on an instrument-by-instrument basis, is irrevocable unless a new election date occurs, and is applied to the entire instrument and not to only specified risks or cash flows or a portion of the instrument. Items eligible for the fair value option include recognized financial assets and liabilities, other than an investment in a consolidated subsidiary, defined benefit pension plans, OPEB plans, leases and financial instruments classified in equity. An investment accounted for by the equity method is an eligible item. The specified election dates include the date the company first recognizes the eligible item, the date the company enters into an eligible commitment, the date an investment first becomes eligible to be accounted for by the equity method and the date SFAS No. 159 first becomes effective for the company. SFAS No. 159 became effective for us on January 1, 2008. We did not elect to measure any eligible items at fair value in accordance with this new standard either at the date we adopted the new standard or subsequently during the first nine months of 2008; therefore the adoption of this standard did not have a material effect on our Consolidated Financial Statements.

Noncontrolling Interest – In December 2007 the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51. SFAS No. 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. On a prospective basis any changes in ownership will be accounted for as equity transactions with no gain or loss recognized on the transactions unless there is a change in control; under existing GAAP such changes in ownership generally result either in the recognition of additional goodwill (for an increase in ownership) or a gain or loss included in the determination of net income (for a decrease in ownership). The statement standardizes the presentation of noncontrolling interest as a component of equity on the balance sheet and on a net income basis in the statement of operations. This Statement also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners of a subsidiary. Those expanded disclosures include a reconciliation of the beginning and ending balances of the equity attributable to the parent and the noncontrolling owners and a schedule showing the effects of changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent. This statement will be effective for us on a prospective basis in the first quarter of 2009. We will be required to reclassify our balance sheet and statement of operations to conform to the new presentation requirements and to include the expanded disclosures at that time. Because the new method of accounting for changes in ownership applies on a prospective basis, we are unable to predict the impact of the statement on our Consolidated Financial Statements. However, to the extent that we have subsidiaries that are not wholly owned at the date of adoption, any subsequent increase in ownership of such subsidiaries for an amount of consideration that exceeds the then-carrying value of the noncontrolling interest related to the increased ownership would result in a reduction in the amount of equity attributable to our shareholders.

Derivative Disclosures – In March 2008 the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities to provide enhanced disclosures about how and why we use derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect our financial position and performance and cash flows. This statement will become effective for us in the first quarter of 2009. We periodically use currency forward contracts to manage a portion of our foreign currency exchange rate market risk associated with trade receivables or future sales. We had no such contracts outstanding at December 31, 2007 or September 30, 2008. Because our prior disclosures regarding these forward contracts have substantially met all of the applicable disclosure requirements of the new standard, we do not believe the enhanced disclosure requirements of this new standard will have a significant effect on our Consolidated Financial Statements.

Note 13 – Subsequent events:

In October 2008, we completed the initial closing contained in a settlement agreement related to condemnation proceedings on certain property we owned in New Jersey. See Note 11.

From time to time, companies related to Contran will have loans and advances outstanding between them and various related parties pursuant to term and demand notes. These loans and advances are generally entered into for cash management purposes, in which the lender is generally able to earn a higher rate of return on the loan than would have been earned if the lender invested the funds in other investments, and the borrower is able to pay a lower rate of interest than would be paid if the borrower had incurred third-party indebtedness. While certain of these loans may be of a lesser credit quality than cash equivalent instruments otherwise available to the lender, the lender will evaluate the credit risks involved and appropriately reflect those credit risks in the terms of the applicable loan. In this regard, in October 2008 the independent members of the Board of Directors of both us and Kronos approved the terms for us lending up to $40 million to Kronos. Our loans to Kronos under the revolving note will be unsecured, bear interest at the prime rate minus 1.5% with all principal due on demand (and no later than December 31, 2009). The amount of our outstanding loans we have to Kronos at any time is solely at our discretion. Kronos intends to use any borrowings from us to reduce the outstanding balance under its U.S. revolving bank credit facility. At October 31, 2008, we had loans of $———33.3 million outstanding under this revolving note to Kronos, which Kronos used to repay borrowings under its U.S. bank credit facility.

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

RESULTS OF OPERATIONS

Business and results of operations overview

We are primarily a holding company. We operate in the component products industry through our majority-owned subsidiary, CompX International Inc. We also own a non-controlling interest in Kronos Worldwide, Inc. Both CompX (NYSE: CIX) and Kronos (NYSE: KRO) file periodic reports with the Securities and Exchange Commission (“SEC”).

CompX is a leading manufacturer of security products, precision ball bearing slides and ergonomic computer support systems used in the office furniture, transportation, tool storage and a variety of other industries. CompX is also a leading manufacturer of stainless steel exhaust systems, gauges and throttle controls for the performance marine industry.

We account for our 36% non-controlling interest in Kronos by the equity method. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments (“TiO2”). TiO2 is used for a variety of manufacturing applications including plastics, paints, paper and other industrial products.

Forward-looking information

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking in nature. Statements found in this report including, but not limited to, the statements found in Item 2 - "Management’s Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that represent our beliefs and assumptions based on currently available information. In some cases you can identify these forward-looking statements by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although we believe the expectations reflected in forward-looking statements are reasonable, we do not know if these expectations will be correct. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. While it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause our actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in our other filings with the SEC including, but not limited to, the following:

- Future supply and demand for our products,
- The extent of the dependence of certain of our businesses on certain market sectors,
- The 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 steel and energy costs),
- The possibility of labor disruptions,
- General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO2 and component products),
- Competitive products and substitute products, including increased competition from low-cost manufacturing sources (such as China),
- Customer and competitor strategies,
- Potential consolidation or solvency of our competitors,
- Demand for high performance marine components,
- The impact of pricing and production decisions,
- Competitive technology positions,
- Service industry employment levels,
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts,
- The introduction of trade barriers,
- Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian kroner and the Canadian 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,
- The ability to renew or refinance credit facilities,
- Our ability to maintain sufficient liquidity,
- The extent to which our subsidiaries were to become unable to pay us dividends,
- Potential difficulties in integrating completed or future acquisitions,
- Decisions to sell operating assets other than in the ordinary course of business,
- Uncertainties associated with new product development,
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- The ultimate ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefit of which has been recognized under the more likely than not recognition criteria (such as Kronos' ability to utilize its German net operating loss carryforwards),
- 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, including us, of lead pigment and lead-based paint, 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 litigation) 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, 2008 Compared to Quarter Ended September 30, 2007

Our net loss was $6.7 million, or $.14 per diluted share, in the third quarter of 2008 compared to a net loss of $16.0 million, or $.33 per diluted share, in the third quarter of 2007. Our diluted loss per share decreased from 2007 to 2008 due primarily to the net effects of:

- lower equity in losses from Kronos in 2008,
- lower litigation and related expenses in 2008, and
- a goodwill impairment charge incurred in 2008 of $.21 per diluted share related to the marine business line of our component products operations.

Our net loss in 2007 includes:

- a charge included in our equity in earnings of Kronos of $.43 per diluted share, related to a reduction in Kronos' net deferred income tax asset resulting from a change in German income tax rates as discussed below, and
- income of $.03 per diluted share due to a net reduction in our reserve for uncertain tax positions.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Our net loss was $3.1 million, or $.06 per diluted share, in the first nine months of 2008 compared to a net loss of $11.8 million, or $.24 per diluted share, in the first nine months of 2007.

The decrease in our diluted loss per share from 2007 to 2008 is due primarily to the net effects of:

- higher equity in net income of Kronos in 2008,
- a goodwill impairment charge incurred in 2008,
- lower litigation and related expenses in 2008,
- lower insurance recoveries in 2008, and
- higher interest income in 2008.

Our 2008 net loss includes:

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

Our net loss in 2007 includes:

- a charge included in our equity in earnings of Kronos of $.43 per diluted share, related to a reduction in Kronos' net deferred income tax asset resulting from a change in German income tax rates as discussed below,
- a charge included in our equity in earnings of Kronos of $.04 per diluted share, related to an adjustment of certain income tax attributes of Kronos in Germany,
- income of $.03 per diluted share due to a net reduction in our reserve for uncertain tax positions, and
- income of $.05 per diluted share related to certain insurance recoveries.

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,		%
	2007	2008	Change	2007	2008	Change
	(In millions)			(In millions)		

CompX	$	4.2	$	(5.2)	(224)%	$	14.1	$	2.2	(84)%
Insurance recoveries		1.2		.7	(40)%		3.8		2.4	(37)%
Corporate expense and other, net		(6.0)		(3.0)	(50)%		(19.4)		(13.8)	(29)%
Income (loss) from operations	$	(.6)	$	(7.5)	(1,222)%	$	(1.5)	$	(9.2)	(522)%

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

CompX International Inc.

	Three months ended September 30, 2007	2008	% Change	Nine months ended September 30, 2007	2008	% Change
	(In millions)			(In millions)		
Net sales	$ 46.4	$ 43.9	(5)%	$ 135.1	$ 128.1	(5)%
Cost of sales	34.4	32.7	(5)%	99.2	96.5	(3)%
Gross margin	$ 12.0	$ 11.2		$ 35.9	$ 31.6	
Income (loss) from operations	$ 4.2	$ (5.2)	(224)%	$ 14.1	$ 2.2	(84)%
Percentage of net sales:						
Cost of sales	74%	74%		73%	75%	
Income (loss) from operations	9%	(12)%		10%	2%	

Net sales – Our net sales decreased 5% in both the third quarter and first nine months of 2008 compared to the same periods in 2007. Net sales decreased principally due to lower order rates from many of our customers resulting from unfavorable economic conditions in North America, offset in part by the effect of sales price increases for certain products to mitigate the effect of higher raw material costs.

Cost of sales and gross margin – Our cost of sales decreased in both the third quarter and first nine months of 2008 as compared to the same periods in 2007 due to decreased sales volumes. As a percentage of sales, gross margin was flat for the quarter and decreased approximately 2% for the first nine months of 2008 compared to the same periods in 2007 primarily due to higher raw material costs, not all of which could be recovered through sales price increases or surcharges, combined with reduced coverage of fixed manufacturing costs from lower sales volume.

Goodwill impairment - During the third quarter of 2008, we recorded a non-cash goodwill impairment charge of $10.1 million for CompX's marine components reporting unit. See Note 6 to the Condensed Consolidated Financial Statements.

Income from operations – Excluding the goodwill impairment charge discussed above, our income from operations increased 17% for the third quarter of 2008 as compared to the third quarter of 2007. The increase in income from operations as a percentage of sales for the quarter is primarily the result of facility consolidation costs incurred during the third quarter of 2007, cost reductions and improved product mix. Excluding the goodwill impairment charge, income from operations as a percentage of sales was flat for the comparative nine-month period.

Currency - CompX has substantial operations and assets located outside the United States (in Canada and Taiwan). The majority of sales generated from CompX's non-U.S. operations are denominated in the U.S. dollar with the remainder denominated in foreign currencies, principally the Canadian dollar and the New Taiwan dollar. Most raw materials, labor and other production costs for these non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of 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. Overall, fluctuations in foreign currency exchange rates had the following effects on our net sales and income from operations in 2008 as compared to 2007.

	Three months ended September 30, 2008 vs. 2007	Nine months ended September 30, 2008 vs. 2007
	(In thousands)	
Impact on:		
Net sales	$ 34	$ 1,045
Income from operations	300	(60)

The positive impact on sales relates to sales denominated in non-U.S. dollar currencies 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 for the nine-month period results from the U.S. dollar denominated sales of non-U.S. operations converting 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 primarily denominated in local currency. The negative impact on the nine-month comparison was partially offset by lower currency exchange losses in the third quarter of 2008 as compared to 2007. This also resulted in the net positive impact of currency on third quarter income from operations.

Outlook – Demand continues to be slow across all of CompX's product lines as customers react to the condition of the overall economy. However, we are experiencing a greater softness in demand in the industries that we serve which are more directly connected to lower consumer spending, as further explained below.

- Our security products line is the least affected by the softness in consumer demand, because we sell products to a diverse number of business customers across a wide range of markets, most of which are not directly impacted by changes in consumer demand. While demand within this line is not as affected by softness in the overall economy, we expect sales to be lower in the short term.

- Our furniture components sales are primarily concentrated in the office furniture, toolbox, home appliance and a number of other industries. Several of these industries are more directly affected by consumer demand than those served by our security products line. We expect many of the markets served by furniture components to continue to experience low demand in the short term.

- Our marine line has been affected the most by the slowing economy as the decrease in consumer confidence, the decline in home values, a tighter credit market and higher fuel costs have resulted in a significant reduction in consumer spending in the marine market. The marine market is not currently expected to recover until consumer confidence returns and home values stabilize.

While changes in market demand are not within our control, we are focused on the areas that we can impact. We expect our lean manufacturing and cost cutting initiatives to continue to improve our productivity and result in a more efficient infrastructure that we can leverage when demand growth returns. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, expand into new markets and develop new products in order to mitigate the impact of reduced demand as well as broaden our sales base.

In addition to challenges with overall demand, volatility in the cost of raw materials is ongoing. We currently expect this to be a challenge for the remainder of 2008. We may not be able to fully recover these costs through price increases or surcharges due to the competitive nature of the markets we serve.

General corporate and other items

Insurance recoveries – Insurance recoveries relate to amounts we received from certain of our former insurance carriers, and relate principally to recovery of prior lead pigment litigation defense costs incurred by us. We have agreements with two former insurance carriers pursuant to which the carriers reimburse us for a portion of our past and future lead pigment litigation defense costs. The insurance recoveries we recognized in all periods presented include amounts we received from these carriers. We are not able to determine how much we will ultimately recover from these carriers for the past defense costs we incurred because of certain issues that arise regarding which past defense costs qualify for reimbursement.

While we continue to seek additional insurance recoveries for lead pigment and asbestos litigation matters, we do not know if we will be successful in obtaining additional reimbursement for either defense costs or indemnity. We have not considered any additional potential insurance recoveries in determining accruals for lead pigment litigation matters. Any additional insurance recoveries would be recognized when the receipt is probable and the amount is determinable.

Corporate expense – Corporate expenses were $3.0 million in the third quarter of 2008, $2.9 million or 49% lower than in the third quarter of 2007. Included in corporate expense are:

- litigation and related costs of $2.2 million in 2008 compared to $4.5 million in 2007 and
- environmental expenses of $87,000 in 2008, compared to $79,000 in 2007.

Corporate expenses were $13.8 million in the first nine months of 2008, $5.6 million or 29% lower, compared to the first nine months of 2007. Included in corporate expense are:

- litigation and related costs of $10.8 million in 2008 compared to $16.2 million in 2007, and
- environmental expenses of $495,000 in 2008 compared to a credit of $163,000 in 2007.

We expect corporate expenses in 2008 will continue to be lower than in 2007, in part due to lower expected litigation and related expenses. The level of our litigation and related expenses varies from period to period depending upon, among other things, the number of cases in which we are currently involved, the nature of such cases and the current stage of such cases (e.g. discovery, pre-trial motions, trial or appeal, if applicable).

Obligations for environmental remediation costs are difficult to assess and estimate, and it is possible that actual costs for environmental remediation will exceed accrued amounts or that costs will be incurred in the future for sites in which we cannot currently estimate our liability. If these events were to occur in the remainder of 2008, our corporate expenses would be higher than we currently estimate. See Note −−−−−11 to the Condensed Consolidated Financial Statements.

Other income – In the fourth quarter of 2008, we expect to recognize a pre-tax gain of at least approximately $48 million related to the initial closing contained in a settlement agreement related to condemnation proceedings on certain real property we owned in New Jersey. See Note 11 to the Condensed Consolidated Financial Statements.

Equity in earnings of Kronos Worldwide, Inc.

Three months ended September 30,	Nine months ended