

NL INDUSTRIES INC
Form 10-K
March 12, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

X
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE
ACT OF 1934 - For the fiscal year ended December 31, 2008

Commission file number 1-640

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

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

13-5267260
(IRS Employer
Identification No.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas
(Address of principal executive offices)

75240-2697
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark:

If the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No X

If the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No X

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

If disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No X

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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 Act). Large accelerated filer Accelerated filer X Non-accelerated filer Smaller reporting company

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

The aggregate market value of the 6.8 million shares of voting stock held by nonaffiliates of NL Industries, Inc. as of June 30, 2008 (the last business day of the Registrant's most recently-completed second fiscal quarter) approximated \$65 million.

As of February 27, 2009, 48,602,584 shares of the Registrant's common stock were outstanding.

Documents incorporated by reference

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

The Company

NL Industries, Inc. was organized as a New Jersey corporation in 1891. Our common stock trades on the New York Stock Exchange, or the NYSE, under the symbol NL. References to "NL Industries," "NL," the "Company," the "Registrant," "we," "our," "us" and similar terms mean NL Industries, Inc. and its subsidiaries and affiliate, unless the context otherwise requires.

Our principal executive offices are located at Three Lincoln Center, 5430 LBJ Freeway, Suite 1700, Dallas, TX 75240. Our telephone number is (972) 233-1700. We maintain a website at www.nl-ind.com.

Business Summary

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

Organization

We are majority-owned by Valhi, Inc. (NYSE: VHI). At December 31, 2008, Valhi owned approximately 83% of our outstanding common stock. Subsidiaries of Contran Corporation owned approximately 94% of Valhi's outstanding common stock at December 31, 2008. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran, Valhi and us.

Forward-looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Annual Report that are not historical facts are forward-looking in nature and represent management's beliefs and assumptions based on currently available information. In some cases, you can identify forward-looking statements by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expects" or comparable terminology, or by discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. The factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Annual Report and those described from time to time in our other filings with the SEC include, but are not limited to, the following:

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

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

Operations and equity investment

Information regarding our operations and the companies conducting such operations is set forth below. Geographic financial information is included in Note 3 to the Consolidated Financial Statements, which is incorporated herein by reference.

Component Products

CompX International Inc. - 87%
owned at December 31, 2008

CompX is a leading manufacturer of security products, precision ball bearing slides and ergonomic computer support systems used in the office furniture, transportation, postal, tool storage, appliance 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. CompX has production facilities in North America and Asia.

Chemicals

Kronos Worldwide, Inc. – 36%
owned at December 31, 2008

Kronos is a leading global producer and marketer of value-added TiO₂ pigments, which are used for imparting whiteness, brightness and opacity to a diverse range of customer applications and end-use markets, including coatings, plastics, paper and other industrial and consumer "quality-of-life" products. Kronos has production facilities in Europe and North America. Sales of TiO₂ represented about 90% of Kronos' total sales in 2008, with sales of other products that are complementary to Kronos' TiO₂ business comprising the remainder.

COMPONENT PRODUCTS - COMPX INTERNATIONAL INC.

Industry Overview - Through our majority-owned subsidiary, CompX, we manufacture components that are sold to a variety of industries including office furniture, recreational transportation (including performance boats), mailboxes, tool boxes, appliances, banking equipment, vending equipment, computers and related equipment. Approximately 33% of CompX's total sales in 2008 are to the office furniture manufacturing industry, compared to 32% in 2007 and 36% in 2006. The decrease in the percentage of sales to the office furniture industry from 2006 is partially the result of our strategy to diversify our sales in order to strengthen our customer base. We believe that our emphasis on new product features and sales of our products to additional markets has resulted in our potential for higher rates of earnings growth and diversification of risk.

Manufacturing, Operations and Products – CompX's Security Products business, with a manufacturing facility in South Carolina and a facility in Illinois shared with the Marine Components business, manufactures locking mechanisms and other security products for sale to the postal, transportation, office furniture, banking, vending, and other industries. We believe that CompX is a North American market leader in the manufacture and sale of cabinet locks and other locking mechanisms. CompX's security products are used in a variety of applications including ignition systems, mailboxes, vending and gaming machines, parking meters, electrical circuit panels, storage compartments, office furniture and medical cabinet security. These products include:

- disc tumbler locks which provide moderate security and generally represent the lowest cost lock to produce;

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- pin tumbler locking mechanisms which are more costly to produce and are used in applications requiring higher levels of security, including CompX's KeSet high security system, which allows the user to change the keying on a single lock 64 times without removing the lock from its enclosure; and
- innovative eLock electronic locks which provide stand-alone security and audit trail capability for drug storage and other valuables through the use of a proximity card, magnetic stripe, or keypad credentials.

A substantial portion of CompX's Security Products' sales consist of products with specialized adaptations to an individual manufacturer's specifications, some of which are listed above. CompX also has a standardized product line suitable for many customers which is offered through a North American distribution network to lock distributors and to smaller original equipment manufacturers ("OEMs") via its STOCK LOCKS distribution program.

CompX's Furniture Components business, with facilities in Canada, Michigan and Taiwan, manufactures a complete line of precision ball bearing slides and ergonomic computer support systems for use in applications such as computer-related equipment, appliances, tool storage cabinets, imaging equipment, file cabinets, desk drawers, automated teller machines and other applications. These products include:

- the patented Integrated Slide Lock which allows a file cabinet manufacturer to reduce the possibility of multiple drawers being opened at the same time;
- the patented adjustable Ball Lock which reduces the risk of heavily-filled drawers, such as auto mechanic tool boxes, from opening while in movement;
- the Self-Closing Slide, which is designed to assist in closing a drawer and is used in applications such as bottom-mount freezers;
- articulating computer keyboard support arms (designed to attach to desks in the workplace and home office environments to alleviate possible user strains and stress and maximize usable workspace), along with the patented LeverLock keyboard arm, which is designed to make ergonomic adjustments to the keyboard arm easier;
 - CPU storage devices which minimize adverse effects of dust and moisture; and
- complementary accessories, such as ergonomic wrist rest aids, mouse pad supports and flat screen computer monitor support arms.

CompX's Marine Components business, with a facility in Wisconsin and a facility in Illinois shared with the Security Products business, manufactures and distributes marine instruments, hardware and accessories for performance boats. CompX's specialty marine component products are high performance components designed to operate within precise tolerances in the highly corrosive marine environment. These products include:

- original equipment and aftermarket stainless steel exhaust headers, exhaust pipes, mufflers and other exhaust components; and
 - high performance gauges such as GPS speedometers and tachometers;
 - controls, throttles, steering wheels and other billet accessories; and
 - dash panels, LED lighting, rigging and other accessories.

CompX operated six manufacturing facilities at December 31, 2008 including one facility in Grayslake, Illinois that houses operations relating to Security Products and Marine Components.

Security Products	Furniture Components	Marine Components
Mauldin, SC	Kitchener, Ontario	Neenah, WI
Grayslake, IL	Byron Center, MI	Grayslake, IL
	Taipei, Taiwan	

Raw Materials - CompX's primary raw materials are:

- zinc, copper and brass (used in the Security Products business for the manufacture of locking mechanisms);

- coiled steel (used in the Furniture Components business for the manufacture of precision ball bearing slides and ergonomic computer support systems);
- stainless steel (used in the Marine Components business for the manufacture of exhaust headers, pipes and other components); and
- plastic resins (primarily used in the Furniture Components business for injection molded plastics in the manufacture of ergonomic computer support systems).

These raw materials are purchased from several suppliers and are readily available from numerous sources.

CompX occasionally enters into raw material arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not necessarily commit us to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified purchase volumes. We utilize purchase arrangements to stabilize our raw material prices provided we meet the specified minimum monthly purchase quantities. Raw materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. Due to the competitive nature of the markets served by our products, it is often difficult to recover all increases in raw material costs through increased product selling prices or raw material surcharges. Consequently, overall operating margins can be affected by raw material cost pressures. All of our primary raw materials are impacted by related commodity markets where prices are cyclical, reflecting overall economic trends and specific developments in consuming industries.

Patents and Trademarks – CompX holds a number of patents relating to component products, certain of which are believed to be important to its continuing business activity. Patents generally have a term of 20 years, and CompX's patents have remaining terms ranging from less than one year to 15 years at December 31, 2008. CompX's major trademarks and brand names include:

Furniture Components	Security Products	Marine Components
CompX Precision Slides®	CompX Security Products®	Custom Marine®
CompX Waterloo®	National Cabinet Lock®	Livorsi Marine®
CompX ErgonomX®	Fort Lock®	CMI Industrial Mufflers™
CompX DurISlide®	Timberline®	Custom Marine Stainless
Dynaslide®	Chicago Lock®	Exhaust™
Waterloo Furniture	STOCK LOCKS®	The #1 Choice in
Components Limited®	KeSet®	Performance Boating®
	TuBar®	Mega Rim™
	CompX eLock®	Race Rim™
	Lockview® Software	CompX Marine™

Sales, marketing and distribution - CompX sells components directly to large OEM customers through factory-based sales and marketing professionals and with engineers working in concert with field salespeople and independent manufacturers' representatives. CompX selects manufacturers' representatives based on special skills in certain markets or relationships with current or potential customers.

A significant portion of CompX's sales are also made through distributors. CompX has a significant market share of cabinet lock sales as a result of the locksmith distribution channel. CompX supports distributor sales with a line of standardized products used by the largest segments of the marketplace. These products are packaged and merchandised for easy availability and handling by distributors and end users. Due to CompX's success with the STOCK LOCKS inventory program within the Security Products business, similar programs have been implemented for distributor sales of ergonomic computer support systems within the Furniture Components business.

In 2008, our ten largest customers accounted for approximately 35% of our total sales; however, no one customer accounted for sales of 10% or more in 2008. Of the 35%, 15% was related to Security Products and 20% was related to Furniture Components. Overall, our customer base is diverse and the loss of a single customer would not have a material adverse effect on our operations.

Competition - CompX operates in highly competitive markets, and competes primarily on the basis of product design, including ergonomic and aesthetic factors, product quality and durability, price, on-time delivery, service and technical support. CompX focuses efforts on the middle- and high-end segments of the market, where product design, quality, durability and service are valued by the customer.

CompX's Marine Components business competes with small domestic manufacturers and is minimally affected by foreign competitors. The Security Products and Furniture Components businesses compete against a number of domestic and foreign manufacturers. Suppliers, particularly Asian-based furniture component suppliers, have put intense price pressure on our Security Products and Furniture Components products. In some cases, we have lost sales to these lower-cost manufacturers. We have responded by

- shifting the manufacture of some products to our lower-cost facilities;
- working to reduce costs and gain operational efficiencies through workforce reductions and lean process improvements in all of our facilities; and
- working with our customers to be their value-added supplier of choice by offering customer support services which Asian-based suppliers are generally unable to provide.

International Operations - CompX has substantial operations and assets located outside the United States, principally Furniture Component operations in Canada and Taiwan. The majority of our 2008 non-U.S. sales are to customers located in Canada. These operations are subject to, among other things, currency exchange rate fluctuations. Our

results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. Political and economic uncertainties in certain of the countries in which we operate may expose us to risk of loss. We do not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar events. We cannot predict, however, whether events of this type in the future could have a material effect on our operations. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk."

Regulatory and Environmental Matters - CompX's operations are subject to federal, state, local and foreign laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, discharge, disposal, remediation of and exposure to hazardous and non-hazardous substances, materials and wastes ("Environmental Laws"). CompX's operations are also subject to federal, state, local and foreign laws and regulations relating to worker health and safety. We believe that CompX is in substantial compliance with all such laws and regulations. To date, the costs of maintaining compliance with such laws and regulations have not significantly impacted our results. We currently do not anticipate any significant costs or expenses relating to such matters; however, it is possible future laws and regulations may require us to incur significant additional expenditures.

Employees - As of December 31, 2008, CompX employed the following number of people:

United States	658
Canada(1)	237
Taiwan	81
Total	976

- (1) Approximately 75% of the Canadian employees are represented by a labor union covered by a collective bargaining agreement. A new collective bargaining agreement, providing for wage increases from 0% to 1%, was ratified in January 2009 and expires January 2012.

We believe our labor relations are good at all of our facilities.

CHEMICALS - KRONOS WORLDWIDE, INC.

Business Overview - Kronos is a leading global producer and marketer of value-added titanium dioxide pigments. Kronos, along with its distributors and agents, sells and provides technical services for its products to over 4,000 customers in approximately 100 countries with the majority of sales in Europe and North America. We believe that Kronos has developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products in domestic and international markets.

TiO₂ is an inorganic pigment used to impart whiteness, brightness and opacity for products such as coatings, plastics, paper, fibers, food, ceramics and cosmetics. TiO₂ is considered a "quality-of-life" product with demand and growth affected by gross domestic product and overall economic conditions in markets in various parts of the world. TiO₂ derives its value from its whitening properties and hiding power (opacity), which is the ability to cover or mask other materials effectively and efficiently. TiO₂ is the largest commercially-used whitening pigment because it has a high refractive rating giving it more hiding power than any other commercially-produced white pigment. In addition, TiO₂ has excellent resistance to interaction with other chemicals, good thermal stability and resistance to ultraviolet degradation. Kronos ships TiO₂ to customers in either a powder or slurry form via rail, truck or ocean carrier. Kronos, including its predecessors, has produced and marketed TiO₂ in North America and Europe for over 80 years.

We believe that Kronos is the second-largest producer of TiO₂ in Europe with an estimated 19% share of European TiO₂ sales volume. Approximately one-half of Kronos' 2008 sales volumes were attributable to markets in

Europe. Kronos has an estimated 16% share of North American TiO₂ sales volume. Per capita utilization of TiO₂ in the United States and Western Europe far exceeds that of other areas in the world. We expect these markets to continue to be the largest consumers of TiO₂ for the foreseeable future. It is probable that significant markets for TiO₂ could emerge in other areas of the world. China continues to develop into a significant market and as its economy continues to mature it is probable that quality-of-life products, including TiO₂, will experience greater demand in that country. In addition, growth in recent years in Eastern Europe and the Far East has been significant as the economies in these regions continue developing to the point that quality-of-life products, including TiO₂, experience greater demand.

Sales of TiO₂ were about 90% of Kronos' net sales in 2008. The remaining 10% of net sales is made up of other product lines that are complementary to TiO₂. These other products are described as follows:

- Kronos owns and operates an ilmenite mine in Norway pursuant to a governmental concession with an unlimited term, and Kronos is currently excavating a second mine located near the first mine. Ilmenite is a raw material used directly as a feedstock by some sulfate-process TiO₂ plants, including all of Kronos' European sulfate-process plants. Kronos also sells ilmenite ore to third-parties, some of which are its competitors. The mines have estimated aggregate reserves that are expected to last for at least another 60 years.
- Kronos manufactures and sells iron-based chemicals that are co-products and processed co-products of TiO₂ pigment production. These co-product chemicals are marketed through Kronos' Ecochem division and are used primarily as treatment and conditioning agents for industrial effluents and municipal wastewater as well as in the manufacture of iron pigments, cement and agricultural products.
- Kronos manufactures and sells titanium oxychloride and titanyl sulfate which are side-stream products from the production of TiO₂. Titanium oxychloride is used in specialty applications in the formulation of pearlescent pigments and in the production of electroceramic capacitors for cell phones and other electronic devices. Titanyl sulfate products are used primarily in pearlescent pigments.

Manufacturing and operation - Kronos currently produces over 40 different TiO₂ grades under the KronosTM trademark which provide a variety of performance properties to meet customers' specific requirements. Kronos' major customers include domestic and international paint, plastics and paper manufacturers.

Extenders, such as kaolin clays, calcium carbonate and polymeric opacifiers, are used in a number of the same end-use markets as white pigments. However, the opacity in these products is not able to duplicate the performance characteristics of TiO₂, and so we believe these products are not effective substitutes for TiO₂.

Kronos produces TiO₂ in two crystalline forms: rutile and anatase. Rutile TiO₂ is manufactured using both a chloride production process and a sulfate production process, whereas anatase TiO₂ is only produced using a sulfate production process. Chloride process rutile is preferred for the majority of customer applications. From a technical standpoint, chloride process rutile has a bluer undertone and higher durability than sulfate process rutile. Although many end-use applications can use either form, chloride process rutile is the preferred form for use in coatings and plastics, the two largest end-use markets. Sulfate process anatase represents a much smaller percentage of annual global TiO₂ production and is preferred for use in selected paper, ceramics, rubber tires, man-made fibers, food and cosmetics.

Chloride production process - Approximately three-fourths of Kronos' current production capacity is based on the chloride process. The chloride process is a continuous process in which chlorine is used to extract rutile TiO₂. The chloride process typically has lower manufacturing costs than the sulfate process due to newer technology, higher yield, less waste, lower energy requirements and lower labor costs. The chloride process produces less waste than the sulfate process because much of the chlorine is recycled and feedstock bearing higher titanium content is used.

Sulfate production process - The sulfate process is a batch chemical process that uses sulfuric acid to extract both rutile and anatase TiO₂.

Once an intermediate TiO₂ pigment has been produced by either the chloride or sulfate process, it is “finished” into products with specific performance characteristics for particular end-use applications through proprietary processes involving various chemical surface treatments and intensive micronizing (milling). Due to environmental factors and customer considerations, the proportion of TiO₂ industry sales represented by chloride process pigments has increased relative to sulfate process pigments and, in 2007, chloride process production facilities represented approximately 60% of industry capacity.

Kronos produced 514,000 metric tons of TiO₂ in 2008, up slightly from the 512,000 metric tons produced in 2007. Such production amounts include Kronos’ 50% interest in the TiO₂ manufacturing joint-venture discussed below. Kronos’ average production capacity utilization rates were near-full capacity in 2006, 2007 and 2008. Kronos’ production capacity has increased by approximately 30% over the past ten years due to debottlenecking programs, with only moderate capital expenditures. We believe that Kronos’ annual attainable production capacity for 2009 is approximately 532,000 metric tons; however, we do expect that Kronos’ production volumes in 2009 will be significantly lower than its attainable capacity.

Raw materials - The primary raw materials used in chloride process TiO₂ are titanium-containing feedstock (natural rutile ore or purchased slag), chlorine and coke. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited but increasing number of suppliers principally in Australia, South Africa, Canada, India and the United States. Kronos purchases chloride process grade slag from Rio Tinto Iron and Titanium under a long-term supply contract that expires at the end of 2011. Kronos purchases natural rutile ore primarily from Iluka Resources, Limited under a long-term supply contract that expires at the end of 2009. Kronos expects to be successful in obtaining long-term extensions to these and other existing supply contracts prior to their expiration. We expect the raw materials purchased under these contracts to meet Kronos’ chloride process feedstock requirements over the next several years.

The primary raw materials used in sulfate process TiO₂ are titanium-containing feedstock (primarily ilmenite from our Norwegian mine or purchased slag) and sulfuric acid. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers principally in Norway, Canada, Australia, India and South Africa. As one of the few vertically- integrated producers of sulfate process TiO₂, Kronos owns and operates a rock ilmenite mine in Norway, which provided all of the feedstock for its European sulfate process TiO₂ plants in 2008. We expect that ilmenite production from the mine will meet Kronos’ European sulfate process feedstock requirements for the foreseeable future. For Kronos’ Canadian sulfate process plant, Kronos also purchases sulfate grade slag primarily from Q.I.T. Fer et Titane Inc. (also a subsidiary of Rio Tinto Iron and Titanium) under a long-term supply contract that expires at the end of 2009 and Tinfos Titan and Iron KS under a supply contract that expires in 2010. We expect that the raw materials purchased under these contracts will meet Kronos’ sulfate process feedstock requirements over the next few years.

Many of Kronos’ raw material contracts contain fixed quantities it is required to purchase, although these contracts allow for an upward or downward adjustment in the quantity purchased. The pricing under these agreements is generally negotiated annually.

The following table summarizes raw materials Kronos purchased or mined in 2008.

Production Process/Raw Material	Raw Materials Procured or Mined (In thousands of metric tons)
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Chloride process plants:

Purchased slag or natural rutile ore 422

Sulfate process plants:

Raw ilmenite ore mined & used internally 305

Purchased slag 30

TiO₂ manufacturing joint venture - Kronos holds a 50% interest in a manufacturing joint venture with Huntsman Corporation (Huntsman). The joint venture owns and operates a chloride process TiO₂ facility located in Lake Charles, Louisiana. Kronos shares production from the plant equally with Huntsman pursuant to separate offtake agreements.

A supervisory committee directs the business and affairs of the joint venture, including production and output decisions. This committee is composed of four members, two of whom Kronos appoints and two of whom Huntsman appoints. Two general managers manage the operations of the joint venture acting under the direction of the supervisory committee. Kronos appoints one general manager and Huntsman appoints the other.

Kronos is required to purchase one-half of the TiO₂ produced by the joint venture. The joint venture is not consolidated in Kronos' financial statements because Kronos does not control it. Kronos accounts for its interest in the joint venture by the equity method. The joint venture operates on a break-even basis, and therefore Kronos does not have any equity in earnings of the joint venture. Kronos shares all costs and capital expenditures of the joint venture equally with Huntsman with the exception of raw material and packaging costs for the pigment grades produced. Kronos' share of the net costs is reported as cost of sales as the related TiO₂ is sold.

Competition – The TiO₂ industry is highly competitive. Kronos' principal competitors are E.I. du Pont de Nemours & Co.; Millennium Inorganic Chemicals, Inc. (a subsidiary of National Titanium Dioxide Company Ltd. (Cristal)); Tronox Incorporated; Huntsman; and Ishihara Sangyo Kaisha, Ltd. These competitors have estimated individual shares of TiO₂ production capacity ranging from 4% (for Ishihara) to 22% (for DuPont), and an estimated aggregate share of worldwide TiO₂ production volume in excess of 60%. DuPont has about one-half of total North American TiO₂ production capacity and is Kronos' principal North American competitor. Tronox filed for Chapter 11 bankruptcy protection in January 2009, and it is unclear how and to what extent Tronox or a successor will compete in the TiO₂ industry at the conclusion of Tronox's bankruptcy proceedings.

Kronos competes primarily on the basis of price, product quality, technical service and the availability of high-performance pigment grades. Although certain TiO₂ grades are considered specialty pigments, the majority of Kronos' grades and substantially all of Kronos' production are considered commodity pigments with price generally being the most significant competitive factor. We believe that Kronos is the leading seller of TiO₂ in several countries, including Germany, with an estimated 11% share of worldwide TiO₂ sales volume in 2008. Overall, Kronos is the world's fifth-largest producer of TiO₂.

Over the past ten years, Kronos and its competitors have increased industry capacity through debottlenecking projects. Given the current economic environment and reduced industry demand, we do not expect any significant efforts will be undertaken by Kronos or its competitors to further increase capacity through such projects in the foreseeable future. In addition, Huntsman announced the closure of one of its European facilities. Kronos believes further shutdowns or closures in the industry are possible. Even with these reductions in industry capacity, capacity utilization rates by Kronos and its competitors are expected to be lower in 2009 as compared to 2008 in response to a reduction in industry-wide demand, which in turn will result in downward pressure on average TiO₂ selling prices. Once the economic environment improves and industry-wide demand increases, the expected reduction in industry-wide capacity through plant shutdowns should have a favorable impact on production capacity utilization, selling prices and profitability. However, the volatility of the near-term economic environment makes it difficult to

forecast future demand. If actual developments differ from expectations, Kronos and the TiO₂ industry's performances could continue to be unfavorably affected longer than expected.

Worldwide capacity additions in the TiO₂ market resulting from construction of new plants require significant capital expenditures and substantial lead time (typically three to five years). We are not aware of any TiO₂ plants currently under construction, and we believe that it is not likely any new plants will be constructed in the foreseeable future.

Research and development – Kronos' research and development activities are directed primarily on improving the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications. Kronos conducts research and development activities at its Leverkusen, Germany facility. Kronos' expenditures for research and development and certain technical support programs were approximately \$11 million in 2006 and \$12 million in each of 2007 and 2008. Kronos plans to scale back its research and development activities in 2009 due to the current adverse economic environment, consequently research and development expenditures in 2009 are expected to be lower as compared to recent history.

Kronos continually seeks to improve the quality of its grades and has been successful at developing new grades for existing and new applications to meet the needs of customers and increase product life cycle. Since 2002, Kronos has added 15 new grades for plastics, coatings, fibers and paper laminate applications.

Patents and trademarks - We believe that Kronos' patents held for products and production processes are important to us and Kronos' continuing business activities. Kronos seeks patent protection for technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties. Kronos' existing patents generally have terms of 20 years from the date of filing, and have remaining terms ranging from 1 to 19 years. Kronos seeks to protect its intellectual property rights, including its patent rights, and from time to time Kronos engages in disputes relating to the protection and use of intellectual property relating to its products.

Kronos' trademarks, including KronosTM, are protected by registration in the United States and elsewhere with respect to those products Kronos manufactures and sells. Kronos also relies on unpatented proprietary knowledge, continuing technological innovation and other trade secrets to develop and maintain competitive position. Kronos' proprietary chloride production process is an important part of its technology, and Kronos' business could be harmed if it failed to maintain confidentiality of trade secrets used in this technology.

Customer base and seasonality - Kronos sells to a diverse customer base, and no single customer made up more than 10% of sales for 2008. Kronos' largest ten customers accounted for approximately 27% of sales in 2008.

Neither Kronos' business as a whole, nor any of its principal product groups is seasonal to any significant extent. However, TiO₂ sales are generally higher in the first half of the year. This is due in part to the increase in paint production in the spring to meet demand during the spring and summer painting season.

Employees - As of December 31, 2008, Kronos employed approximately 2,450 persons (excluding employees of the Louisiana joint venture), with 50 employees in the United States, 400 employees in Canada and 2,000 employees in Europe.

Kronos' hourly employees in production facilities worldwide, including the TiO₂ joint venture, are represented by a variety of labor unions under labor agreements with various expiration dates. Kronos' European Union employees are covered by master collective bargaining agreements in the chemicals industry that are generally renewed annually. Kronos' Canadian union employees are covered by a collective bargaining agreement that expires in June 2010.

Regulatory and environmental matters – Kronos’ operations are governed by various environmental laws and regulations. Certain of Kronos’ operations are, or 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 past and current operations and products of Kronos have the potential to cause environmental or other damage. Kronos has implemented and continues to implement various policies and programs in an effort to minimize these risks. Kronos’ policy is to maintain compliance with applicable environmental laws and regulations at all of its facilities and to strive to improve our environmental performance. It is possible that future developments, such as stricter requirements in environmental laws and enforcement policies, could adversely affect Kronos’ production, handling, use, storage, transportation, sale or disposal of such substances and could adversely effect Kronos’ consolidated financial position and results of operations or liquidity.

Kronos’ U.S. manufacturing operations are governed by federal environmental and worker health and safety laws and regulations. These primarily consist of the Resource Conservation and Recovery Act (“RCRA”), the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act (“CERCLA”), as well as the state counterparts of these statutes. We believe the TiO₂ plant owned by the joint venture and a TiO₂ slurry facility Kronos owns in Lake Charles, Louisiana are in substantial compliance with applicable requirements of these laws or compliance orders issued there under. These are Kronos’ only U.S. manufacturing facilities.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory framework is provided by the EU. Germany and Belgium are members of the EU and follow its initiatives. Norway is not a member but generally patterns its environmental regulatory actions after the EU. We believe that Kronos has obtained all required permits and is in substantial compliance with applicable environmental requirements for its European and Canadian facilities.

At Kronos’ sulfate plant facilities in Germany, Kronos recycles weak sulfuric acid either through contracts with third parties or at its own facilities. In addition, at its German locations Kronos has a contract with a third party to treat certain sulfate-process effluents. At its Norwegian plant, Kronos ships spent acid to a third party location where it is used as a neutralization agent. These contracts may be terminated by either party after giving three or four years advance notice, depending on the contract.

From time to time, Kronos’ facilities may be subject to environmental regulatory enforcement under U.S. and foreign statutes. Typically Kronos establishes compliance programs to resolve these matters. Occasionally, Kronos may pay penalties. To date such penalties have not involved amounts having a material adverse effect on Kronos’ consolidated financial position, results of operations or liquidity. We believe that all of Kronos’ facilities are in substantial compliance with applicable environmental laws.

In December 2006, the EU approved Registration, Evaluation and Authorization of Chemicals (“REACH”), which took effect on June 1, 2007 and will be phased in over 11 years. Under REACH, companies that manufacture or import more than one ton of a chemical substance per year will be required to register such chemical substances in a central data base. REACH affects Kronos’ European operations by imposing a testing, evaluation and registration program for many of the chemicals Kronos uses or produces in Europe. Kronos has established a REACH team that is working to identify and list all substances purchased, manufactured or imported by or for Kronos in the EU. Kronos spent \$.4 million in 2007 and \$.5 million in 2008 on REACH compliance, and we do not anticipate that future compliance costs will be material to Kronos.

Kronos’ capital expenditures in 2008 related to ongoing environmental compliance, protection and improvement programs were \$11.9 million, and are currently expected to be approximately \$1 million in 2009.

OTHER

In addition to our 87% ownership of CompX and our 36% ownership of Kronos at December 31, 2008, we also own 100% of EWI Re. Inc., an insurance brokerage and risk management services company. We also hold certain marketable securities and other investments. See Notes 4 and 17 to the Consolidated Financial Statements.

Regulatory and environmental matters – We have discussed regulatory and environmental matters in the respective business sections contained elsewhere herein and in Item 3 - "Legal Proceedings." In addition, the information included in Note 19 to the Consolidated Financial Statements under the captions "Lead pigment litigation" and "Environmental matters and litigation" is incorporated herein by reference.

Insurance – We maintain insurance for our businesses and operations, with customary levels of coverage, deductibles and limits. See also Item 3 – "Legal Proceedings – Insurance coverage claims" and Note 17 to our Consolidated Financial Statements.

Business Strategy – We routinely compare our liquidity requirements and alternative uses of capital against the estimated future cash flows we expect to receive from our subsidiaries and affiliates. As a result of this process, we have in the past and may in the future seek to raise additional capital, incur debt, repurchase indebtedness in the market or otherwise, modify our dividend policies, consider the sale of our interests in our subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of these and other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies. From time to time, we also evaluate the restructuring of ownership interests among our respective subsidiaries and related companies.

We and other entities that may be deemed to be controlled by or that are affiliated with Mr. Harold C. Simmons routinely evaluate acquisitions of interests in, or combinations with, companies, including related companies, perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to our current businesses. In some instances, we have actively managed the businesses acquired with a focus on maximizing return-on-investment through cost reductions, capital expenditures, improved operating efficiencies, selective marketing to address market niches, disposition of marginal operations, use of leverage and redeployment of capital to more productive assets. In other instances, we have disposed of the acquired interest in a company prior to gaining control. We intend to consider such activities in the future and may, in connection with such activities, consider issuing additional equity securities and increasing our indebtedness.

Available information – Our fiscal year ends December 31. We furnish our shareholders with annual reports containing audited financial statements. In addition, we file annual, quarterly and current reports, proxy and information statements and other information with the SEC. Our consolidated subsidiary (CompX) and our significant equity method investee (Kronos) also file annual, quarterly, and current reports, proxy and information statements and other information with the SEC. We also make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto, available free of charge through our website at www.nl-ind.com as soon as reasonably practicable after they have been filed with the SEC. We also provide to anyone, without charge, copies of such documents upon written request. Such requests should be directed to the attention of the Corporate Secretary at our address on the cover page of this Form 10-K.

Additional information, including our Audit Committee charter, our Code of Business Conduct and Ethics and our Corporate Governance Guidelines can be found on our website. Information contained on our website is not part of this Annual Report.

The general public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer. The SEC maintains an Internet website at

www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including us.

ITEM 1A. RISK FACTORS

Listed below are certain risk factors associated with us and our businesses. In addition to the potential effect of these risk factors discussed below, any risk factor which could result in reduced earnings or operating losses, or reduced liquidity, could in turn adversely affect our ability to service our liabilities or pay dividends on our common stock or adversely affect the quoted market prices for our securities.

We could incur significant costs related to legal and environmental matters.

We formerly manufactured lead pigments for use in paint. We and others 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. 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. As with all legal proceedings, the outcome is uncertain. Any liability we might incur in the future could be material. See also Item 3 - "Legal Proceedings – Lead pigment litigation."

Certain properties and facilities used in our former operations are the subject of litigation, administrative proceedings or investigations arising under various environmental laws. These proceedings seek cleanup costs, personal injury or property damages and/or damages for injury to natural resources. Some of these proceedings involve claims for substantial amounts. Environmental obligations are difficult to assess and estimate for numerous reasons, and we may incur costs for environmental remediation in the future in excess of amounts currently estimated. Any liability we might incur in the future could be material. See also Item 3 - "Legal Proceedings – Environmental matters and litigation."

Our assets consist primarily of investments in our operating subsidiaries and affiliates, and we are dependent upon distributions from our subsidiaries and affiliates.

The majority of our operating cash flows are generated by our operating subsidiaries, and our ability to service liabilities and to pay dividends on our common stock depends to a large extent upon the cash dividends or other distributions we receive from our subsidiaries and affiliates. Our subsidiaries and affiliates are separate and distinct legal entities and they have no obligation, contingent or otherwise, to pay such cash dividends or other distributions to us. In addition, the payment of dividends or other distributions from our subsidiaries could be subject to restrictions on or taxation of dividends or repatriation of earnings under applicable law, monetary transfer restrictions, foreign currency exchange regulations in jurisdictions in which our subsidiaries operate, any other restrictions imposed by current or future agreements to which our subsidiaries may be a party, including debt instruments. Events beyond our control, including changes in general business and economic conditions, could adversely impact the ability of our subsidiaries to pay dividends or make other distributions to us. If our subsidiaries were to become unable to make sufficient cash dividends or other distributions to us, our ability to service our liabilities and to pay dividends on our common stock could be adversely affected.

In this regard, in the first quarter of 2009 Kronos announced the suspension of its regularly quarterly dividend in consideration of the challenges and opportunities that exist in the TiO₂ pigment industry. We currently believe that we will have sufficient liquidity to service our liabilities in 2009. See Item 7. "Management's Discussion and Analysis

of Financial Condition and Results of Operations – Liquidity.”

In February 2009, our Board of Directors declared a first quarter 2009 cash dividend of \$.125 per share to shareholders of record as of March 10, 2009 to be paid on March 26, 2009. However, the declaration and payment of future dividends, and the amount thereof, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for businesses, contractual restrictions and other factors deemed relevant by our Board of Directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which might be paid. There are currently no contractual restrictions on the amount of dividends which we may pay.

In addition, a significant portion of our assets consist of ownership interests in our subsidiaries and affiliates. If we were required to liquidate any of such securities in order to generate funds to satisfy our liabilities, we may be required to sell such securities at a time or times at which we would not be able to realize what we believe to be the actual value of such assets.

Many of the markets in which we operate are mature and highly competitive resulting in pricing pressure and the need to continuously reduce costs.

Many of the markets CompX and Kronos serve are highly competitive, with a number of competitors offering similar products. CompX focuses efforts on the middle and high-end segment of the market where we feel that we can compete due to the importance of product design, quality and durability to the customer. However, our ability to effectively compete is impacted by a number of factors. The occurrence of any of these factors could result in reduced earnings or operating losses.

- Competitors may be able to drive down prices for our products because their costs are lower than our costs, especially those located in Asia.
- Competitors' financial, technological and other resources may be greater than our resources, which may enable them to more effectively withstand changes in market conditions.
- Competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements.
- Consolidation of our competitors or customers in any of the markets in which we compete may result in reduced demand for our products.
- New competitors could emerge by modifying their existing production facilities to manufacture products that compete with our products.
 - Our ability to sustain a cost structure that enables us to be cost-competitive.
 - Our ability to adjust costs relative to our pricing.
- Customers may no longer value our product design, quality or durability over lower cost products of our competitors.

Demand for, and prices of, certain of Kronos' products are influenced by changing market conditions and Kronos is currently operating in a depressed worldwide market for its products, which may result in reduced earnings or operating losses.

A significant portion of our net income is attributable to sales of TiO₂ by Kronos. Approximately 90% of Kronos' revenues are attributable to sales of TiO₂. Pricing within the global TiO₂ industry over the long term is cyclical, and changes in economic conditions, especially in Western industrialized nations, can significantly impact our earnings and operating cash flows. The current world-wide economic downturn has depressed sales volumes in the fourth quarter of 2008, and we are unable to predict with a high degree of certainty when demand will return to the levels experience prior to the fourth quarter of 2008. This may result in reduced earnings or operating losses.

Historically, the markets for many of Kronos' products have experienced alternating periods of increasing and decreasing demand. Relative changes in the selling prices for Kronos' products are one of the main factors that affect the level of its profitability. In periods of increasing demand, Kronos' selling prices and profit margins generally will tend to increase, while in periods of decreasing demand Kronos' selling prices and profit margins generally tend to decrease. Huntsman announced the closure of one of its European facilities, and we believe that further shutdowns or closures in the industry are possible. The closures may not be sufficient to alleviate the current excess industry capacity and such conditions may be further aggravated by anticipated or unanticipated capacity additions or other events.

The demand for TiO₂ during a given year is also subject to seasonal fluctuations. TiO₂ sales are generally higher in the first half of the year. This is due in part to the increase in paint production in the spring to meet demand during the spring and summer painting season.

Higher costs or limited availability of our raw materials may decrease our liquidity.

Certain of the raw materials used in CompX's products are commodities that are subject to significant fluctuations in price in response to world wide supply and demand. Coiled steel is the major raw material used in the manufacture of precision ball bearing slides and ergonomic computer support systems. Plastic resins for injection molded plastics are also an integral material for ergonomic computer support systems. Zinc is a principal raw material used in the manufacture of security products. Stainless steel tubing is the major raw material used in the manufacture of marine exhaust systems. These raw materials are purchased from several suppliers and are generally readily available from numerous sources. We occasionally enter into raw material supply arrangements to mitigate the short-term impact of future increases in raw material costs. Materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. Should our vendors not be able to meet their contractual obligations or should we be otherwise unable to obtain necessary raw materials, we may incur higher costs for raw materials or may be required to reduce production levels, either of which may decrease our liquidity as we may be unable to offset the higher costs with increased selling prices for our products.

For Kronos, the number of sources for, and availability of, certain raw materials is specific to the particular geographic region in which a facility is located. For example, titanium-containing feedstocks suitable for use in TiO₂ facilities are available from a limited number of suppliers around the world. Political and economic instability in the countries from which Kronos purchases raw material supplies could adversely affect their availability. If Kronos' worldwide vendors were not able to meet their contractual obligations and Kronos was unable to obtain necessary raw materials, Kronos might incur higher costs for raw materials or it might be required to reduce production levels. Kronos may not always be able to increase selling prices to offset the impact of any higher costs or reduced production levels, which could reduce its earnings and decrease liquidity.

Our development of innovative features for our current component products is critical to sustaining and growing our sales.

Historically, CompX's ability to provide value-added custom engineered component products that address requirements of technology and space utilization has been a key element of its success. We spend a significant amount of time and effort to refine, improve and adapt our existing products for new customers and applications. Since expenditures for these types of activities are not considered research and development expense under accounting principles generally accepted in the United States of America, the amount of our research and development expenditures, which is not significant, is not indicative of the overall effort involved in the development of new product features. The introduction of new products and features requires the coordination of the design, manufacturing and marketing of such products with potential customers. The ability to coordinate these activities may be affected by factors beyond CompX's control. While we will continue to emphasize the introduction of innovative new product features that target customer-specific opportunities, we cannot assure you that any new products CompX introduces will achieve the same degree of success that it has achieved with its existing products. Introduction of new

products typically requires us to increase production volume on a timely basis while maintaining product quality. Manufacturers often encounter difficulties in increasing production volumes, including delays, quality control problems and shortages of qualified personnel. As CompX attempts to introduce new product features in the future, we cannot assure you that CompX will be able to increase production volume without encountering these or other problems, which might negatively impact our financial condition or results of operations.

Recent and future acquisitions could subject us to a number of operational risks.

A key component of CompX's strategy is to grow and diversify its business through acquisitions. Our ability to successfully execute this component of our strategy entails a number of risks, including:

- the identification of suitable growth opportunities;
- an inaccurate assessment of acquired liabilities;
- the entry into markets in which we may have limited or no experience;
 - the diversion of management's attention from our core businesses;
- the potential loss of key employees or customers of the acquired businesses;
- difficulties in realizing projected efficiencies, synergies and cost savings; and
- an increase in our indebtedness and a limitation in our ability to access additional capital when needed.

Kronos' leverage may impair our financial condition or limit our ability to operate our businesses.

As of December 31, 2008, Kronos had consolidated debt of approximately \$638.5 million, the majority of which relates to Senior Secured Notes, a revolving credit facility of its wholly-owned subsidiary, Kronos International, Inc. and a note payable to us. Kronos' level of debt could have important consequences to its stockholders (including us) and creditors, including:

- making it more difficult for Kronos to satisfy its obligations with respect to its liabilities;
 - increasing its vulnerability to adverse general economic and industry conditions;
- requiring that a portion of Kronos' cash flows from operations be used for the payment of interest on its debt, which reduces its ability to use cash flow to fund working capital, capital expenditures, dividends on our common stock, acquisitions or general corporate requirements;
- limiting its ability to obtain additional financing to fund future working capital, capital expenditures, dividends on its common stock, acquisitions or general corporate requirements;
- limiting its flexibility in planning for, or reacting to, changes in Kronos' business and the industry in which it operates; and
 - placing it at a competitive disadvantage relative to other less leveraged competitors.

In addition to Kronos' indebtedness, Kronos is party to various lease and other agreements pursuant to which it is committed to pay approximately \$365.5 million in 2009. Kronos' ability to make payments on and refinance its debt, and to fund planned capital expenditures, depends on Kronos' future ability to generate cash flow. To some extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, Kronos' ability to borrow funds under its subsidiaries' credit facilities in the future will in some instances depend in part on these subsidiaries' ability to maintain specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreement. In this regard, we currently believe it is probable that one of Kronos' required financial ratios associated with its European credit facility will not be maintained at some point during 2009, most likely commencing at March 31, 2009.

Kronos has begun discussions with the lenders to amend the terms of the existing European credit facility to eliminate the requirement to maintain this financial ratio until at least March 31, 2010. While we believe it is possible that Kronos can obtain such an amendment to eliminate this financial ratio through at least March 31, 2010, there is no assurance that such amendment will be obtained, or if obtained that the requirement to maintain the financial ratio will be eliminated (or waived, in the event the lenders would only agree to a waiver and not an amendment to eliminate the

covenant itself) through at least March 31, 2010. Any such amendment or waiver which Kronos might obtain could increase Kronos' future borrowing costs, either from a requirement that it pay a higher rate of interest on outstanding borrowings or pay a fee to the lenders as part of agreeing to such amendment or waiver.

In the event that Kronos would not be successful in obtaining the amendment or waiver of the existing European credit facility to eliminate the requirement to maintain the financial ratio, it would seek to refinance such facility with a new group of lenders with terms that did not include such financial covenant or, if required, it will use existing liquidity resources (which could include funds provided by affiliates). While there is no assurance that Kronos would be able to refinance the existing European credit facility with a new group of lenders, we believe these other sources of liquidity available to Kronos would allow it to refinance the existing European credit facility. If required, Kronos believes by undertaking one or more of these steps it will be successful in maintaining sufficient liquidity to meet its future obligations including operations, capital expenditures and debt service for the next 12 months.

Kronos' business may not generate cash flows from operating activities sufficient to enable Kronos to pay its debts when they become due and to fund its other liquidity needs. As a result, Kronos may need to refinance all or a portion of its debt before maturity. Kronos may not be able to refinance any of its debt in a timely manner on favorable terms, if at all. Any inability to generate sufficient cash flows or to refinance Kronos' debt on favorable terms could have a material adverse effect on our financial condition.

Negative worldwide economic conditions could continue to result in a decrease in our sales and an increase in our operating costs, which could continue to adversely affect our business and operating results.

If the current worldwide economic downturn continues, many of CompX's direct and indirect customers may continue to delay or reduce their purchases of the components we manufacture or of the products that utilize our components. In addition, many of CompX's customers rely on credit financing for their working capital needs. If the negative conditions in the global credit markets continue to prevent CompX's customers' access to credit, product orders may continue to decrease which could result in lower sales. Likewise, if suppliers continue to face challenges in obtaining credit, in selling their products or otherwise in operating their businesses, they may become unable to continue to offer the materials CompX uses to manufacture our products. These actions could continue to result in reductions in our sales, increased price competition and increased operating costs, which could adversely affect our business, results of operations and financial condition.

Negative global economic conditions increase the risk that we could suffer unrecoverable losses on our customers' accounts receivable which would adversely affect our financial results.

CompX and Kronos extend credit and payment terms to some customers. Although we have an ongoing process of evaluating customers' financial conditions, we could suffer significant losses if a customer fails and is unable to pay. A significant loss of an account receivable would have a negative impact on our financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in an office building located at 5430 LBJ Freeway, Dallas, Texas, 75240-2697. The principal properties used in the operations of our subsidiaries and affiliates, including certain risks and uncertainties related thereto, are described in the applicable business sections of Item 1 – “Business.” We believe that our facilities are generally adequate and suitable for our respective uses.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings. In addition to information that is included below, we have included certain of the information called for by this Item in Note 19 to our Consolidated Financial Statements, and we are incorporating that information here by reference.

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 unspecified unless otherwise indicated below. 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 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 have never settled any of these cases, nor have any final, non-appealable, adverse judgments against us been entered.

We have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases. Liability that may result, if any, cannot be reasonably estimated. In addition, 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.

In September 1999, an amended complaint was filed in *Thomas v. Lead Industries Association, et al.* (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411) adding as defendants the former pigment manufacturers to a suit originally filed against plaintiff's landlords. Plaintiff, a minor, alleged injuries purportedly caused by lead on the surfaces of premises in homes in which he resided and sought compensatory and punitive damages. The case was tried in October 2007, and in November 2007 the jury returned a verdict in favor of all defendants. In April 2008, plaintiff filed an appeal, and in February 2009, the appeal was stayed after the appellate court received notice that one of the defendants, Millennium Chemicals, Inc., had filed for bankruptcy.

In April 2000, we were served with a complaint in *County of Santa Clara v. Atlantic Richfield Company, et al.* (Superior Court of the State of California, County of Santa Clara, Case No. CV788657) brought against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara seeks to recover compensatory damages for funds the plaintiffs have expended or will in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. Solano, Alameda, San Francisco, Monterey and San Mateo counties, the cities of San Francisco, Oakland, Los Angeles and San Diego, the Oakland and San Francisco unified school districts and housing authorities and the Oakland Redevelopment Agency have joined the case as plaintiffs. In January 2007, plaintiffs amended the complaint to drop all of the claims except for the public nuisance claim. In April 2007, the trial court ruled that the contingency fee arrangement between plaintiffs and their counsel was illegal. In May 2007, plaintiffs appealed the ruling and all proceedings in the trial court were stayed pending review by the appellate court. The appellate court reversed the trial court's ruling, thereby allowing contingent fee arrangements in the case. In May 2008, the defendants filed a petition for review by the California Supreme Court, which was granted in July 2008.

In June 2000, a complaint was filed in Illinois state court, *Lewis, et al. v. Lead Industries Association, et al.* (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). Plaintiffs seek to represent two classes, one consisting of minors between the ages of six months and six years who resided in housing in Illinois built before 1978, and another consisting of individuals between the ages of six and twenty years who lived in Illinois housing built before 1978 when they were between the ages of six months and six years and who had blood lead levels of 10 micrograms/deciliter or more. The complaint seeks damages jointly and severally from the former pigment manufacturers and the LIA to establish a medical screening fund for the first class to determine blood lead levels, a medical monitoring fund for the second class to detect the onset of latent diseases, and a fund for a public education campaign. In April 2008, the trial court judge certified a class of children whose blood lead levels were screened venously between August 1995 and February 2008 and who had incurred expenses associated with such screening. Certain defendants filed a motion to decertify the class in January 2009. The case is proceeding in the trial court.

In May 2001, we were served with a complaint in *City of Milwaukee v. NL Industries, Inc. and Mautz Paint* (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV003066). Plaintiff sought compensatory and equitable relief for lead hazards in Milwaukee homes, restitution for amounts it has spent to abate lead and punitive damages. The case was tried in May and June 2007, and in June 2007, the jury returned a verdict in favor of NL. In December 2007, plaintiff filed a notice of appeal, and in November 2008, the appellate court affirmed the verdict. In December 2008, the plaintiff petitioned the Wisconsin Supreme Court for review.

In November 2003, we were served with a complaint in *Lauren Brown v. NL Industries, Inc., et al.* (Circuit Court of Cook County, Illinois, County Department, Law Division, Case No. 03L 012425). The complaint seeks damages against us and two local property owners on behalf of a minor for injuries alleged to be due to exposure to lead paint contained in the minor's residence. We have denied all allegations of liability. In January 2009, NL filed a motion for summary judgment seeking dismissal of the case. The case is proceeding in the trial court.

In January 2006, we were served with a complaint in *Hess, et al. v. NL Industries, Inc., et al.* (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 052-11799). Plaintiffs are two minor children who allege injuries purportedly caused by lead on the surfaces of the home in which they resided. Plaintiffs seek compensatory and

punitive damages. We have denied all allegations of liability. The case is proceeding in the trial court.

In January and February 2007, we were served with several complaints, the majority of which were filed in Circuit Court in Milwaukee County, Wisconsin. In some cases, complaints have been filed elsewhere in Wisconsin. The plaintiffs are minor children who allege injuries purportedly caused by lead on the surfaces of the homes in which they reside. Plaintiffs seek compensatory and punitive damages. The defendants in these cases include us, American Cyanamid Company, Armstrong Containers, Inc., E.I. Du Pont de Nemours & Company, Millennium Holdings, LLC, Atlanta Richfield Company, The Sherwin-Williams Company, Conagra Foods, Inc. and the Wisconsin Department of Health and Family Services. In some cases, additional lead paint manufacturers and/or property owners are also defendants. Of the cases filed, five remain pending, four of the remaining cases have been removed to Federal court and all of the cases have been stayed. We have denied all liability in these cases.

In May 2007, we were served with a complaint in State of Ohio, ex rel. Marc Dann Attorney General v. Sherwin-Williams Company et al (U.S. District Court, Southern District of Ohio, Eastern Division, Case No. 2:08-cv-079). NL filed a motion to dismiss the claims in October 2008. In February 2009, the state voluntarily dismissed its complaint.

In October 2007, we were served with a complaint in Jones v. Joaquin Coe et al. (Superior Court of New Jersey, Essex County, Case No. ESX-L-9900-06). Plaintiff seeks compensatory and punitive damages for injuries purportedly caused by lead paint on the surfaces of the apartments in which he resided as a minor. Other defendants include three former owners of the apartment building at issue in this case. We have denied all liability. In October 2008, the complaint was amended to add as defendants, former owners of other residences in which the plaintiff lived. The case is proceeding in the trial court.

In addition to the foregoing litigation, various legislation and administrative regulations have, from time to time, been proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn court decisions in which we and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date that are expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity, the imposition of market share liability or other legislation could have such an effect.

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 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 December 31, 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.

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. See Note 19 to our Consolidated Financial Statements. At December 31, 2008, we had accrued approximately \$50 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 \$76 million, including the amount currently accrued. We have not discounted these estimates to present value.

At December 31, 2008, there are approximately 20 sites for which we are not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not we actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at 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 December 2003, we were served with a complaint in *The Quapaw Tribe of Oklahoma et al. v. ASARCO Incorporated et al.* (United States District Court, Northern District of Oklahoma, Case No. 03-CII-846H(J)). The complaint alleges public nuisance, private nuisance, trespass, strict liability, deceit by false representation and was subsequently amended to assert claims under CERCLA against us, six other mining companies and the United States of America with respect to former operations in the Tar Creek mining district in Oklahoma. Among other things, the complaint seeks actual and punitive damages from defendants. We have moved to dismiss the complaint, asserted certain counterclaims and have denied all of plaintiffs' allegations. In February 2006, the court of appeals affirmed the trial court's ruling that plaintiffs waived their sovereign immunity to defendants' counter claim for contribution and indemnity. In December 2007, the court granted the defendants' motion to dismiss the Tribe's medical monitoring claims. In July 2008, the court granted the defendants' motion to dismiss the Tribe's CERCLA natural resources damages claim. In January 2009, the defendants filed a motion for partial summary judgment, seeking dismissal of certain plaintiffs' claims for lack of standing.

In February 2004, we were served in *Evans v. ASARCO* (United States District Court, Northern District of Oklahoma, Case No. 04-CV-94EA(M)), a purported class action on behalf of two classes of persons living in the town of Quapaw, Oklahoma: (1) a medical monitoring class of persons who have lived in the area since 1994, and (2) a property owner class of residential, commercial and government property owners. Four individuals are named as plaintiffs, together with the mayor of the town of Quapaw, Oklahoma, and the School Board of Quapaw, Oklahoma. Plaintiffs allege causes of action in nuisance and seek a medical monitoring program, a relocation program, property damages and punitive damages. We answered the complaint and denied all of plaintiffs' allegations. The trial court subsequently stayed all proceedings in this case pending the outcome of a class certification decision in another case that had been pending in the same U.S. District Court, a case from which we have been dismissed with prejudice.

In January 2006, we were served in *Brown et al. v. NL Industries, Inc. et al.* (Circuit Court Wayne County, Michigan, Case No. 06-602096 CZ). Plaintiffs, property owners and other past or present residents of the Krainz Woods Neighborhood of Wayne County, Michigan, allege causes of action in negligence, nuisance, trespass and under the Michigan Natural Resources and Environmental Protection Act with respect to a lead smelting facility formerly operated by us and another defendant. Plaintiffs seek property damages, personal injury damages, loss of income and medical expense and medical monitoring costs. In October 2007, we moved to dismiss several plaintiffs who failed to respond to discovery requests, and in February 2008, the motion was granted with respect to all such plaintiffs. In February 2008, the trial court entered a case management order pursuant to which the case will proceed as to eight of the plaintiffs' claims, and the claims of the remaining plaintiffs have been stayed in the meantime. In April 2008, the other defendant in the case agreed to a settlement with the plaintiffs, and we are the only remaining defendant. The case is proceeding in the trial court.

In June 2008, we were served in *Barton, et al. v. NL Industries, Inc.*, (U.S. District Court, Eastern District of Michigan, Case No.: 2:08-CV-12558). In January 2009, we were served in *Brown, et al. v. NL Industries, Inc. et al.*

(Circuit Court Wayne County, Michigan, Case No. 09-002458 CE). The plaintiffs in both of these cases are additional property owners and other past or present residents of the Krainz Woods Neighborhood, and the claims raised in these cases are identical to those in the Brown case described above. We intend to deny liability in both subsequent cases and will defend vigorously against all claims.

In June 2006, we and several other PRPs received a Unilateral Administrative Order (“UAO”) from the EPA regarding a formerly-owned mine and milling facility located in Park Hills, Missouri. The Doe Run Company is the current owner of the site, which was purchased by a predecessor of Doe Run from us in approximately 1936. Doe Run is also named in the Order. In April 2008, the parties signed a definitive cost sharing agreement for sharing of the costs anticipated in connection with the order. In May 2008, the parties began work at the site as required by the UAO and in accordance with the cost sharing agreement.

In October 2006, we entered into a consent decree in the United States District Court for the District of Kansas, in which we agreed to perform remedial design and remedial actions in Operating Unit 6 of the Waco Subsite of the Cherokee County Superfund Site. We conducted milling activities on the portion of the site which we have agreed to remediate. We are also sharing responsibility with other PRPs as well as the EPA for remediating a tributary that drains the portions of the site in which the PRPs operated. We will also reimburse the EPA for a portion of its past and future response costs related to the site.

In June 2008, we received a Directive and Notice to Insurers from the New Jersey Department of Environmental Protection (“NJDEP”) regarding the Margaret’s Creek site in Old Bridge Township, New Jersey. NJDEP alleged that a waste hauler transported waste from one of our former facilities for disposal at the site in the early 1970s. We are involved in an ongoing dialogue with the NJDEP regarding the scope of the remedial activities that may be necessary at the site and the identification of other parties who may have liability for the site.

In September 2008, we received a Special Notice letter from the EPA for liability associated with the Tar Creek site and a demand for related past and relocation costs. We responded with a good-faith offer to pay certain of the past costs and to complete limited work in the areas in which it operated, but declined to pay for other past costs and declined to pay for any relocation costs. We are involved in an ongoing dialogue with the EPA regarding a potential settlement with the EPA.

Other litigation

In addition to the matters 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 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.

Insurance coverage claims

We are involved in certain legal proceedings with a number of our former insurance carriers regarding the nature and extent of the carriers’ obligations to us under insurance policies with respect to certain lead pigment and asbestos lawsuits. In addition to information that is included below, we have included certain of the information called for by this Item in Note 19 to our Consolidated Financial Statements, and we are incorporating that information here by reference.

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

We have settled insurance coverage claims concerning environmental claims with certain of our principal former carriers. We do not expect further material settlements relating to environmental remediation coverage.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed and traded on the New York Stock Exchange (symbol: NL). As of February 28, 2009, there were approximately 3,480 holders of record of our common stock. The following table sets forth the high and low closing per share sales prices for our common stock for the periods indicated, according to Bloomberg, and cash dividends paid during such periods. On February 27, 2009 the closing price of our common stock was \$9.27.

	High	Low	Cash dividends paid
Year ended December 31, 2007			
First Quarter	\$ 12.09	\$ 10.02	\$.125
Second Quarter	13.52	10.02	.125
Third Quarter	13.05	9.49	.125
Fourth Quarter	12.33	9.34	.125
Year ended December 31, 2008			
First Quarter	\$ 11.63	\$ 8.65	\$.125
Second Quarter	11.89	9.53	.125

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Third Quarter	10.93	9.37	.125
Fourth Quarter	13.96	8.09	.125
January 1, 2009 through February 27, 2009	\$ 14.35	\$ 9.21	\$.125

In February 2009, our Board of Directors declared a first quarter 2009 cash dividend of \$.125 per share to shareholders of record as of March 10, 2009 to be paid on March 26, 2009. However, the declaration and payment of future dividends, and the amount thereof, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for businesses, contractual restrictions and other factors deemed relevant by our Board of Directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which might be paid. There are currently no contractual restrictions on the amount of dividends which we may pay.

Performance Graph - Set forth below is a line graph comparing the yearly change in our cumulative total stockholder return on our common stock against the cumulative total return of the S&P 500 Composite Stock Price Index and the S&P 500 Industrial Conglomerates Index for the period from December 31, 2003 through December 31, 2008. The graph shows the value at December 31 of each year assuming an original investment of \$100 at December 31, 2003 and the reinvestment of dividends.

	2003	2004	2005	2006	2007	2008
NL common stock	\$ 100	\$ 213	\$ 144	\$ 111	\$ 128	\$ 157
S&P 500 Composite Stock Price Index	100	111	116	135	142	90
S&P 500 Industrial Conglomerates Index	100	119	115	125	130	63

The information contained in the performance graph shall not be deemed "soliciting material" or "filed" with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act, except to the extent we specifically request that the material be treated as soliciting material or specifically incorporate this performance graph by reference into a document filed under the Securities Act or the Securities Exchange Act.

Equity compensation plan information

We have an equity compensation plan, which was approved by our shareholders, providing for the discretionary grant to our employees and directors of, among other things, options to purchase our common stock and stock awards. As of December 31, 2008, there were 95,050 options outstanding to purchase shares of our common stock, and approximately 4,086,000 shares were available for future grant or issuance. We do not have any equity compensation plans that were not approved by our shareholders. See Note 13 to the Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our Consolidated Financial Statements and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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	Years ended December 31,				
	2004	2005	2006	2007	2008
	(In millions, except per share data)				
STATEMENTS OF OPERATIONS DATA:					
Net sales:					
Component products	\$ 182.6	\$ 186.4	\$ 190.1	\$ 177.7	\$ 165.5
Chemicals (1)	559.1	-	-	-	-
	\$ 741.7	\$ 186.4	\$ 190.1	\$ 177.7	\$ 165.5
Income from operations:					
Component products	\$ 16.2	\$ 19.3	\$ 20.5	\$ 15.4	\$ 5.3
Chemicals (1)	66.7	-	-	-	-
	\$ 82.9	\$ 19.3	\$ 20.5	\$ 15.4	\$ 5.3
Equity in earnings(losses) of Kronos (1)	\$ 9.1	\$ 25.7	\$ 29.3	\$ (23.9)	\$ 3.2
Income (loss) from continuing operations	\$ 159.1	\$ 33.3	\$ 26.1	\$ (1.7)	\$ 33.2
Discontinued operations	3.5	(.3)	-	-	-
Net income (loss)	\$ 162.6	\$ 33.0	\$ 26.1	\$ (1.7)	\$ 33.2
DILUTED EARNINGS PER SHARE DATA:					
Income (loss) from continuing operations	\$ 3.29	\$.68	\$.54	\$ (.04)	\$.68
Discontinued operations	.07	-	-	-	-
Net income (loss)	\$ 3.36	\$.68	\$.54	\$ (.04)	\$.68
Dividends per share (2)	\$.80	\$ 1.00	\$.50	\$.50	\$.50
Weighted average common shares outstanding	48,419	48,587	48,584	48,590	48,605
BALANCE SHEET DATA (at year end):					
Total assets	\$ 552.5	\$ 485.6	\$ 529.3	\$ 524.8	\$ 419.5
Long-term debt, including current maturities (3)	.1	1.4	-	50.0	43.0
Stockholders' equity	234.2	220.3	248.5	246.5	188.4
STATEMENT OF CASH FLOW DATA:					
Net cash provided by(used in):					
Operating activities	\$ 92.7	\$ (5.3)	\$ 29.0	\$ (2.8)	\$.8
Investing activities	34.5	18.5	(25.2)	17.5	7.1
Financing activities	(28.7)	(35.8)	(27.7)	(27.3)	(32.2)

(1)

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We ceased to consolidate the Kronos chemicals segment effective July 1, 2004, at which time we commenced to account for our interest in Kronos by the equity method.

- (2) Amounts paid in 2005 (last three quarters), 2006, 2007 and 2008 were cash dividends, while amounts paid in 2004 and the first quarter of 2005 were in the form of shares of Kronos common stock.
 - (3) Long-term debt in 2007 and 2008 represents a promissory note payable to an affiliate. See Note 17 to the Consolidated Financial Statements.
-

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Business Overview

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

CompX is a leading manufacturer of security products, precision ball bearing slides and ergonomic computer support systems used in the office furniture, transportation, postal, tool storage, appliance 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 is used for a variety of manufacturing applications including plastics, paints, paper and other industrial products.

Net Income Overview

We had net income of \$33.2 million, or \$.68 per diluted share, in 2008 compared to a net loss of \$1.7 million, or \$.04 per diluted share, in 2007 and net income of \$26.1 million, or \$.54 per diluted share, in 2006.

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

- a litigation settlement pre-tax gain of \$48.8 million in 2008;
- a goodwill impairment charge of \$10.1 million in 2008;
 - higher equity in earnings from Kronos in 2008;
 - lower litigation and related expenses in 2008;
 - higher environmental costs in 2008; and
 - higher insurance recoveries in 2008.

The decrease in our diluted earnings per share from 2006 to 2007 is due primarily to the net effects of:

- lower equity in earnings from Kronos in 2007;
 - lower insurance recoveries in 2007;
 - higher legal defense costs in 2007;
- higher securities transaction gains in 2007; and
- lower component products income from operations in 2007.

Our net income in 2008 includes:

- a litigation settlement gain of \$.65 per diluted share related to the settlement of condemnation proceedings on real property we owned;
- 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 \$.13 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 \$.30 per diluted share from a gain on sale of TIMET common stock;
 - income of \$.08 per diluted share related to certain insurance recoveries we received; and
- income of \$.03 per diluted share due to a net reduction in our reserve for uncertain tax positions.

Our net income in 2006 includes:

- a charge included in our equity in earnings of Kronos of \$.07 per diluted share related to Kronos' redemption of its 8.875% Senior Secured Notes;
- income included in our equity in earnings of Kronos of \$.16 per diluted share related to Kronos' aggregate income tax benefit associated with the net effects of the withdrawal of certain income tax assessments previously made by the Belgian and Norwegian tax authorities, the resolution of certain income tax issues related to German and Belgian operations and the enactment of a reduction in the Canadian federal income tax rate; and
 - income of \$.10 per diluted share related to certain insurance recoveries we received.

Outlook for 2009

We currently expect our net income in 2009 to be significantly lower than 2008 due to the net effects of:

- lower income from operations in 2009 as a result of higher legal defense costs;
 - lower equity in earnings from Kronos in 2009; and
 - lower litigation settlement gains in 2009.

Critical accounting policies and estimates

The accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. On an ongoing basis, we evaluate our estimates, including those related to the recoverability of long-lived assets, pension and other postretirement benefit obligations and the underlying actuarial assumptions related thereto, the realization of deferred income tax assets and accruals for litigation, income tax and other contingencies. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ significantly from previously-estimated amounts under different assumptions or conditions.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

- Investments - We own investments in certain companies that we account for as marketable securities carried at fair value (Level 1 inputs) or that we account for under the equity method. For all such investments, we record an impairment charge when we believe that an investment has experienced a decline in fair value below its cost basis (for marketable securities) or below its carrying value (for equity method investees) that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could

result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

At December 31, 2008, the carrying value (which equals fair value) of substantially all of our marketable securities equaled or exceeded the cost basis of each of such investments. With respect to our investment in Valhi, the \$51.2 million carrying value exceeded its \$24.3 million cost basis by about 111%, and the \$12.8 million carrying value of our investment in TIMET exceeded its \$11.4 million cost basis by about 12%. At December 31, 2008, the \$11.65 per share quoted market price of our investment in Kronos (our only equity method investee) exceeded its per share net carrying value by about 79%.

- Long-lived assets. We recognize an impairment charge associated with our long-lived assets, including property and equipment, whenever we determine that recovery of such long-lived asset is not probable. Such determination is made in accordance with the applicable GAAP requirements of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and is based upon, among other things, estimates of the amount of future net cash flows to be generated by the long-lived asset (Level 3 inputs) and estimates of the current fair value of the asset. Significant judgment is required in estimating such cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans. We do not assess our property and equipment for impairment unless certain impairment indicators specified in SFAS No. 144 are present. We did not evaluate any long-lived assets for impairment during 2008 because no such impairment indicators were present.
- Goodwill - In accordance with SFAS No. 142, Goodwill and other Intangible Assets, we review goodwill for impairment at least on an annual basis. We are also required to review goodwill for impairment at other times during each year when impairment indicators, as defined, are present. The estimated fair values of CompX's three reporting units are determined based on discounted cash flow projections (Level 3 inputs). See Note 8 to the Consolidated Financial Statements. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

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. While we continue to believe in the long term potential of the Marine Components unit, due to the extraordinary economic downturn in the marine industry we are not currently able to foresee when the industry and our business will recover. In response to the present economic conditions, we have taken steps to reduce operating costs without inhibiting our ability to take advantage of opportunities to expand our market share.

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 or the other intangible assets of our Marine Components unit. The estimated fair values were also determined based on discounted cash flow projections. Assumptions used in these impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans. However, different assumptions and estimates could result in materially different findings which could result in the recognition of a material asset impairment. Due to the continued weakening of the economy, we re-evaluated the goodwill associated with our Furniture Components reporting unit again in the fourth quarter of 2008 and concluded no additional impairments were present.

If our future results were to be significantly below our current expectations, it is reasonably likely that we would conclude additional impairments of the goodwill and intangible assets associated with our Furniture Components reporting unit would be present. As of December 31, 2008 our Furniture Components reporting unit had approximately \$7.1 million of goodwill. Holding all other assumptions constant at the re-evaluation date, a 100 to 200 basis point increase in the discount rate would reduce the enterprise value for our Furniture Components reporting unit, indicating potential impairment. If we record additional impairment charges in the future, it could cause CompX to fail to comply with one or more of the financial covenants contained in its credit facility. See Note 12 to the Consolidated Financial Statements. In the event CompX were to fail to comply with one or more covenants, we would attempt to negotiate waivers of any noncompliance; however, there can be no assurance that we would be able to negotiate any waivers. In addition the costs or conditions associated with any waivers could be significant. At December 31, 2008 we had no balances outstanding under the facility and we do not anticipate needing to utilize the facility for operations in 2009.

- **Benefit plans** - We maintain various defined benefit pension plans and postretirement benefits other than pensions (“OPEB”). The amounts recognized as defined benefit pension and OPEB expenses, and the reported amounts of prepaid and accrued pension and OPEB costs, are actuarially determined based on several assumptions, including discount rates, expected rates of return on plan assets and expected health care trend rates. Variances from these actuarially assumed rates will result in increases or decreases, as applicable, in the recognized pension and OPEB obligations, pension and OPEB expenses and funding requirements. These assumptions are more fully described below under “Defined Benefit Pension Plans” and “OPEB Plans.”
- **Income taxes** - Deferred taxes are recognized for future tax effects of temporary differences between financial and income tax reporting in accordance with the recognition criteria of SFAS No. 109, Accounting for Income Taxes. We record a reserve for uncertain tax positions in accordance with Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertain Tax Positions for tax positions where we believe that it is more-likely-than-not our position will not prevail with the applicable tax authorities. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, it is possible that in the future we may change our estimate of the amount of the deferred income tax assets that would more-likely-than-not be realized in the future resulting in an adjustment to the deferred income tax asset valuation allowance that would either increase or decrease, as applicable, reported net income in the period such change in estimate was made.

In addition, we make an evaluation at the end of each reporting period as to whether or not some or all of the undistributed earnings of our foreign subsidiaries are permanently reinvested (as that term is defined by GAAP). While we may have concluded in the past that some of such undistributed earnings are permanently reinvested, facts and circumstances can change in the future, and it is possible that a change in facts and circumstances, such as a change in the expectation regarding the capital needs of our foreign subsidiaries, could result in a conclusion that some or all of such undistributed earnings are no longer permanently reinvested. In such an event, we would be required to recognize a deferred income tax liability in an amount equal to the estimated incremental U.S. income tax and withholding tax liability that would be generated if all of such previously-considered permanently reinvested undistributed earnings were distributed to us in the U.S.

- **Accruals** - We record accruals for environmental, legal and other contingencies and commitments when estimated future expenditures associated with such contingencies become probable, and the amounts can be reasonably estimated. However, new information may become available, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount required to be accrued for such matters (and therefore a decrease or increase in reported net income in the period of such change).

Net income from operations of CompX and Kronos is impacted by certain of these significant judgments and estimates, as summarized below:

- Chemicals – allowance for doubtful accounts, reserves for obsolete or unmarketable inventories, impairment of equity method investees, long-lived assets, defined benefit pension and OPEB plans and loss accruals, and
- Component products – reserves for obsolete or unmarketable inventories, impairment of goodwill and long-lived assets and loss accruals.

In addition, general corporate and other items are impacted by the significant judgments and estimates for impairment of marketable securities and equity method investments, defined benefit pension and OPEB plans, deferred income tax asset valuation allowances and loss accruals.

Income from operations

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

	Year ended December 31,			% Change	
	2006	2007	2008	2006-07	2007-08
	(Dollars in millions)				
CompX	\$ 20.5	\$ 15.4	\$ 5.3	(25)%	(66)%
Insurance recoveries	7.7	5.6	9.6	(27)%	70%
Litigation settlement gain	-	-	48.8	-	100%
Corporate expense and other	(24.3)	(31.3)	(24.9)	29%	(20)%
Income (loss) from operations	\$ 3.9	\$ (10.3)	\$ 38.8	(364)%	477%

CompX International Inc.

	Year ended December 31,			% Change	
	2006	2007	2008	2006-07	2007-08
	(Dollars in millions)				
Net sales	\$ 190.1	\$ 177.7	\$ 165.5	(7)%	(7)%
Cost of goods sold	143.6	132.5	125.7	(8)%	(5)%
Gross margin	46.5	45.2	39.8	(3)%	(12)%
Operating costs and expenses	26.0	29.8	34.5	15%	16%
Income from operations	\$ 20.5	\$ 15.4	\$ 5.3	(25)%	(66)%
Percentage of net sales:					
Cost of goods sold	76%	75%	76%		
Gross margin	24%	25%	24%		
Operating costs and expenses	14%	16%	21%		
Income from operations	11%	9%	3%		

Net Sales – Net sales decreased in 2008 as compared to 2007 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.

Net sales decreased in 2007 as compared to 2006 principally due to lower sales of certain products to the office furniture market where Asian competitors have established selling prices at a level below which we consider would return a minimally sufficient margin to us as well as to lower order rates from many of our customers due to unfavorable economic conditions, offset in part by the effect of sales price increases for certain products to mitigate the effect of higher raw material costs.

Costs of Goods Sold and Gross Margin – Cost of goods sold decreased from 2007 to 2008 primarily due to decreased sales volumes. As a percentage of sales, gross margin decreased in 2008 from the prior year. The decrease in gross

margin is 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 partially offset by lower depreciation expense in 2008 due to a reduction in capital expenditure requirements for shorter lived assets over the last several years in response to lower sales.

Cost of goods sold as a percentage of net sales decreased from 2006 to 2007, and gross margin percentage increased from the prior year. During 2007, we experienced the favorable effects of an improved product mix and improvements in our operating efficiency through cost reductions partially offset by the unfavorable effect of relative changes in foreign currency exchange rates, lower sales to the office furniture industry due to competition from lower-priced Asian manufacturers and lower order rates from many of our customers due to unfavorable economic conditions.

Goodwill Impairment – During 2008, we recorded a non-cash goodwill impairment charge of \$10.1 million for CompX’s marine components reporting unit. See Note 8 to our Consolidated Financial Statements.

Income from operations – Excluding the goodwill impairment charge discussed above, the comparison of income from operations for 2008 compared to 2007 includes the net effects of:

- a negative impact of approximately \$5.4 million relating to lower order rates from many of our customers resulting from unfavorable economic conditions in North America,
- increased raw material costs that we were not able to fully recover through sales price increases by approximately \$1 million due to the competitive nature of the markets we serve,
 - the one-time \$2.7 million charge for facility consolidation costs incurred in 2007,
- \$1.8 million in lower depreciation expense in 2008 due to a reduction in capital expenditures for shorter lived assets over the last several years in response to lower sales, and
 - \$1.3 million favorable effect on operating income from changes in foreign currency exchange rates.

Income from operations for 2007 decreased \$5.1 million, or 25% compared to 2006 and operating margins decreased to 9% in 2007 compared to 11% for 2006. 2007 income from operations includes the net effects of:

- a higher portion of the sales decline in 2007 occurring among lower margin products,
 - an increased percentage of sales from our higher margin Marine business,
 - the \$2.7 million charge for facility consolidation costs,
- a \$2.4 million unfavorable effect of relative changes in foreign currency exchange rates (including the \$1.2 million related to foreign exchange transaction losses noted above),
 - lower sales to the office furniture industry due to competition from lower priced Asian manufacturers, and
 - lower order rates from many of our customers due to unfavorable economic conditions.

The \$2.7 million facility consolidation costs incurred in 2007 include abnormal manufacturing costs such as physical move costs, equipment installation, redundant labor and recruiting fees, and fixed asset write-downs of \$765,000. Approximately \$600,000 of the write-down relates to the classification of our vacated River Grove facility as an “asset held for sale.” See Note 14 to the Consolidated Financial Statements.

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 other currencies, principally the Canadian dollar and the New Taiwan dollar. Most raw materials, labor and other production costs for our non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of our non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. 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.

Increase (decrease) –

	Year ended December 31,	
	2007 vs. 2006	2008 vs. 2007
	(In thousands)	
Impact on:		
Net sales	\$ 886	\$ 406
Income from operations	(2,384)	1,304

The positive impact on sales relates to sales denominated in non-U.S. dollar currencies translating 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 operating income for the 2007 versus 2006 comparison results from the U.S. dollar denominated sales of non-U.S. operations converted into lower local currency amounts due to the weakening of the U.S. dollar. This negatively impacts margin as it results in less local currency generated from sales to cover the costs of non-U.S. operations which are denominated in the local currency. The positive impact on operating income for the 2008 versus 2007 comparison is due to lower currency exchange losses in 2008 as compared to 2007.

General – CompX’s profitability primarily depends on our ability to utilize production capacity effectively, which is affected by, among other things, the demand for our products and our ability to control our manufacturing costs, primarily comprising labor costs and raw materials such as zinc, copper, coiled steel, stainless steel and plastic resins. Raw material costs represent approximately 51% of our total cost of sales. During 2006, 2007 and most of 2008, worldwide raw material costs increased significantly. We occasionally enter into raw material supply arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not necessarily commit us to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified volume purchase levels. This allows us to stabilize raw material purchase prices to a certain extent, provided the specified minimum monthly purchase quantities are met. We enter into such arrangements for zinc, coiled steel and plastic resins. While raw material purchase prices have recently declined, it is uncertain whether the current prices will stabilize during 2009. Materials purchased on the spot market are sometimes subject to unanticipated and sudden price increases. Due to the competitive nature of the markets served by our products, it is often difficult to recover increases in raw material costs through increased product selling prices or raw material surcharges. Consequently, overall operating margins may be affected by raw material cost pressures.

Outlook – Demand for CompX’s products continues to slow, especially during the fourth quarter of 2008, as customers react to the condition of the overall economy. While all of CompX’s product lines are being affected, we are experiencing a greater softness in demand in the industries we serve which are more directly connected to lower consumer spending, as further explained below.

- Our Security Products business is the least affected by the softness in consumer demand, because we sell products to a diverse number of customers across a wide range of markets, most of which are not directly impacted by changes in consumer demand. While demand within this business is not as significantly affected by softness in the overall economy, we do expect sales to be lower over the next twelve months.
- Our Furniture Components sales are primarily concentrated in the office furniture, toolbox, home appliance and a number of other industries. Several of these industries, primarily toolbox and home appliance, are more directly affected by consumer demand than those served by our Security Products business. We expect many of the markets served by Furniture Components to continue to experience low demand over the next twelve months.
- Our Marine business has been the most affected by the slowing economy as the decrease in consumer confidence, the decline in home values, a tighter credit market and volatile fuel costs have resulted in a significant reduction in consumer spending in the marine market. We do not expect the marine market 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 we can impact. We expect our lean manufacturing and cost improvement initiatives to continue to positively impact 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 product features 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. While the cost of commodity raw materials declined in the second half of 2008, we currently expect these costs to continue to be volatile in 2009. If raw material prices increase, we may not be able to fully recover the cost by passing them on to our customers through price increases due to the competitive nature of the markets we serve and the depressed economic conditions.

Kronos Worldwide, Inc.

	Years ended December 31,			% Change	
	2006	2007	2008	2006-07	2007-08
	(Dollars in millions)				
Net sales	\$ 1,279.4	\$ 1,310.3	\$ 1,316.9	2%	1%
Cost of sales	968.9	1,058.9	1,096.3	9%	4%
Gross margin	\$ 310.5	\$ 251.4	\$ 220.6		
Income from operations	\$ 143.2	\$ 84.9	\$ 47.2	(41)%	(44)%
Other general corporate, net	3.6	2.5	1.0		
Loss on prepayment of debt	(22.3)	-	-		
Interest expense	(43.2)	(39.4)	(42.2)		
Income before income taxes	81.3	48.0	6.0		
Provision for income taxes (benefit)	(.7)	114.7	(3.0)		
Net income (loss)	\$ 82.0	\$ (66.7)	\$ 9.0		
Percentage of net sales:					
Cost of sales	76%	81%	83%		
Income from operations	11%	6%	4%		
Equity in earnings (losses) of Kronos Worldwide, Inc.	\$ 29.3	\$ (23.9)	\$ 3.2		
TiO2 operating statistics:					
Sales volumes*	511	519	478	1%	(8)%
Production volumes*	516	512	514	(1)%	-%
Change in TiO2 net sales:					
TiO2 product pricing				(4)%	2%
TiO2 sales volume				1	(8)
TiO2 product mix				-	2
Changes in currency exchange rates				5	5