SYNNEX CORP
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11

Interest and dividends

2,966

3,200

2,927

Interest expense

(1,541

)

(1,023

)

(127

)

Income (loss) from continuing operations before taxes

98,335

77,122

(96,454

)

Income tax expense (benefit)

19,751

19,933

(41,911

)

Income (loss) from continuing operations

78,584

57,189

(54,543

)

Income from discontinued operations, net of tax

4,071

21,893

-

Net income (loss)

82,655

79,082

(54,543

)

Noncontrolling interest in net income of subsidiary

998

4,546

790

Net income (loss) attributable to NL stockholders	$ 81,657	$ 74,536	$ (55,333)

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

(In thousands, except per share data)

	Years ended December 31,		
	2011	2012	2013
Amounts attributable to NL stockholders:			
Income (loss) from continuing operations	$78,128	$56,730	$(55,333)
Income from discontinued operations	3,529	17,806	-
Net income (loss) attributable to NL stockholders	$81,657	$74,536	$(55,333)
Basic and diluted net income (loss) per share:			
Continuing operations	$1.61	$1.16	$(1.14)
Discontinued operations	.07	.37	-
Net income (loss) per share	$1.68	$1.53	$(1.14)
Cash dividends per share	$.50	$.50	$.50
Weighted average shares used in the calculation of net income (loss) per share	48,658	48,667	48,672

See accompanying Notes to Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Years ended December 31,		
	2011	2012	2013
Net income (loss)	$82,655	$79,082	$(54,543)
Other comprehensive income (loss), net of tax:			
Marketable securities	118,304	(81,032)	48,750
Currency translation	(6,105)	(3,606)	1,349
Defined benefit pension plans	(7,944)	(6,924)	9,758
Other postretirement benefit plans	(248)	(449)	380
Total other comprehensive income (loss), net	104,007	(92,011)	60,237
Comprehensive income (loss)	186,662	(12,929)	5,694
Comprehensive income attributable to noncontrolling interest	902	3,064	790
Comprehensive income (loss) attributable to NL stockholders	$185,760	$(15,993)	$4,904

See accompanying Notes to Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2011, 2012 and 2013

(In thousands, except per share data)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interest in subsidiary	Total equity
Balance at December 31, 2010	$6,078	$299,469	$56,229	$(108,827)	$10,906	$263,855
Net income	-	-	81,657	-	998	82,655
Other comprehensive income (loss), net of tax	-	-	-	104,103	(96)	104,007
Issuance of common stock	4	560	-	-	18	582
Cash dividends - $.50 per share	-	-	(24,331)	-	(814)	(25,145)
Other, net	-	38	-	-	-	38
Balance at December 31, 2011	6,082	300,067	113,555	(4,724)	11,012	425,992
Net income	-	-	74,536	-	4,546	79,082
Other comprehensive loss, net of tax	-	-	-	(90,529)	(1,482)	(92,011)
Issuance of common stock	1	74	-	-	-	75
Cash dividends - $.50 per share	-	-	(24,333)	-	(818)	(25,151)
Other, net	-	86	-	-	10	96
Balance at December 31, 2012	6,083	300,227	163,758	(95,253)	13,268	388,083
Net loss	-	-	(55,333)	-	790	(54,543)
Other comprehensive income, net of tax	-	-	-	60,237	-	60,237
Issuance of common stock	1	58	-	-	-	59
Cash dividends - $.50 per share	-	-	(24,336)	-	(451)	(24,787)
Other, net	-	(62)	-	-	8	(54)
Balance at December 31, 2013	$6,084	$300,223	$84,089	$(35,016)	$13,615	$368,995

See accompanying Notes to Consolidated Financial Statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31,		
	2011	2012	2013
Cash flows from operating activities:			
Net income (loss)	$82,655	$79,082	$(54,543)
Depreciation and amortization	6,829	5,826	3,335
Deferred income taxes	21,002	27,433	(41,891)
Provision for inventory reserves	255	454	228
Benefit plan expense greater (less) than cash funding:			
Defined benefit pension plans	(245)	209	(495)
Other postretirement benefit plans	(564)	(640)	(729)
Equity in (earnings) loss of Kronos Worldwide, Inc.	(97,577)	(66,437)	31,007
Distributions from Kronos Worldwide, Inc.	37,861	21,132	21,132
Net gains from:			
Real estate-related litigation settlement	-	(14,964)	-
Securities transaction	-	(16,567)	(11)
Sale of business unit	-	(23,674)	-
Reversal of accrued contingent consideration	-	(778)	-
Goodwill impairment	-	6,406	-
Assets held for sale write-down	1,135	1,162	-
Other, net	339	(3,103)	81
Change in assets and liabilities:			
Accounts and other receivables, net	57	(476)	(1,461)
Inventories, net	(439)	174	(2,240)
Prepaid expenses and other	(126)	(1,871)	166
Accounts payable and accrued liabilities	(4,403)	1,550	(3,347)
Income taxes	463	(1,450)	-
Accounts with affiliates	1,087	729	(369)
Accrued environmental remediation and related costs	1,237	6,369	65,630
Other noncurrent assets and liabilities, net	(1,332)	(2,566)	(1,588)
Net cash provided by operating activities	48,234	18,000	14,905
Cash flows from investing activities:			
Capital expenditures	(3,276)	(4,564)	(3,541)
Acquisition, net of cash acquired	(4,752)	-	-
Proceeds from real estate-related litigation settlement	-	15,603	-
Collection of promissory notes receivable	15,000	-	3,034
Change in restricted cash equivalents, net	2,524	(2,159)	2,018
Net proceeds from disposal of:			
Assets held for sale	-	3,555	1,559
Marketable securities	239	24,146	272
Property, plant and equipment and other assets	184	3,290	5
Proceeds from disposal of operations	-	58,027	-

Cash of disposed business unit	-	(5,426)	-
Purchase of marketable securities	(104)	(227)	(261)
Other	-	-	(102)
Net cash provided by investing activities	9,815	92,245	2,984

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Years ended December 31,		
	2011	2012	2013
Cash flows from financing activities:			
Cash dividends paid	$(24,331)	$(24,333)	$(24,336)
Distributions to noncontrolling interests in subsidiary	(814)	(818)	(451)
Proceeds from issuance of stock:			
NL common stock	342	-	-
CompX common stock	58	-	-
Indebtedness:			
Borrowings	31,494	40,550	-
Repayments	(68,298)	(59,406)	(18,480)
Deferred financing costs paid	-	(79)	-
Other	4	-	-
Net cash used in financing activities	(61,545)	(44,086)	(43,267)
Net change for the year	$(3,496)	$66,159	$(25,378)
Cash and cash equivalents - net change from:			
Operating, investing and financing activities	$(3,496)	$66,159	$(25,378)
Effect of exchange rate changes on cash	(313)	176	-
Cash and cash equivalents at beginning of year	15,461	11,652	77,987
Cash and cash equivalents at end of year	$11,652	$77,987	$52,609
Supplemental disclosures:			
Cash paid (received) for:			
Interest	$2,430	$982	$222
Income taxes, net	1,737	2,525	302
Non-cash investing and financing activities - accrual for capital expenditures	$178	$484	$(313)

See accompanying Notes to Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

Note 1 - Summary of significant accounting policies:

Nature of our business - NL Industries, Inc. (NYSE: NL) is primarily a holding company. We operate in the component products industry through our majority-owned subsidiary, CompX International Inc. (NYSE MKT: CIX). We operate in the chemicals industry through our noncontrolling interest in Kronos Worldwide, Inc. (NYSE: KRO).

Organization - At December 31, 2013, (i) Valhi, Inc. (NYSE: VHI) held approximately 83% of our outstanding common stock and (ii) Contran Corporation and its subsidiaries own an aggregate of 94% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by family trusts established for the benefit of Lisa K. Simmons and Serena Simmons Connelly, daughters of Harold C. Simmons, and their children (for which Ms. Lisa Simmons and Ms. Connelly are co-trustees) or is held directly by Ms. Lisa Simmons and Ms. Connelly or persons or entities related to them, including their step-mother Annette C. Simmons, the widow of Mr. Simmons. Prior to his death in December 2013, Mr. Simmons served as sole trustee of the family trusts. Under a voting agreement entered into in February 2014 by all of the voting stockholders of Contran, the size of the board of directors of Contran was fixed at five members, each of Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons have the right to designate one of the five members of the Contran board and the other two members of the Contran board must consist of members of Contran management. Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons each serve as members of the Contran board. The voting agreement expires in February 2017 (unless Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons otherwise mutually agree), and the ability of Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons to each designate one member of the Contran board is dependent upon each of their continued beneficial ownership of at least 5% of the combined voting stock of Contran. Consequently, Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons may be deemed to control Contran, Valhi and us.

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

Management's estimates - In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), we are required to make estimates and assumptions that affect the reported amounts of our assets and liabilities and disclosures of contingent assets and liabilities at each balance sheet date and the reported amounts of our revenues and expenses during each reporting period. Actual results may differ significantly from previously-estimated amounts under different assumptions or conditions.

Principles of consolidation - Our consolidated financial statements include the financial position, results of operations and cash flows of NL and our wholly-owned and majority-owned subsidiaries, including CompX. We account for the 13% of CompX stock we do not own as a noncontrolling interest. We eliminate all material intercompany accounts and balances. Changes in ownership of our wholly-owned and majority-owned subsidiaries are accounted for as equity transactions with no gain or loss recognized on the transaction unless there is a change in control.

Currency translation - The financial statements of Kronos' non-U.S. subsidiaries (and prior to December 2012, our non-U.S. consolidated subsidiaries) are translated to U.S. dollars. The functional currency of our non-U.S. subsidiaries is generally the local currency of their country. Accordingly, we translate the assets and liabilities at year-end rates of exchange, while we translate their revenues and expenses at average exchange rates prevailing during the year. We accumulate the resulting translation adjustments in stockholders' equity as part of accumulated other comprehensive income, net of related deferred income taxes and noncontrolling interest. We recognize currency transaction gains and losses in income. In December 2012 we sold CompX's Furniture Components business, which comprised all of CompX's consolidated subsidiaries whose functional currency was not the U.S. dollar. See Note 2.

Cash and cash equivalents - We classify bank time deposits and government and commercial notes and bills with original maturities of three months or less as cash equivalents.

Restricted cash equivalents - We classify cash equivalents that have been segregated or are otherwise limited in use as restricted. To the extent the restricted amount relates to a recognized liability, we classify such restricted amount as either a current or noncurrent asset to correspond with the classification of the liability. To the extent the restricted amount does not relate to a recognized liability, we classify restricted cash as a current asset. See Note 9.

Marketable securities and securities transactions - We carry marketable securities at fair value. ASC Topic 820, Fair Value Measurements and Disclosures, establishes a consistent framework for measuring fair value and, with certain exceptions, this framework is generally applied to all financial statement items required to be measured at fair value. The standard requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 - Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the assets or liability; and
Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

We classify all of our marketable securities as available-for-sale and unrealized gains or losses on these securities are recognized through other comprehensive income, net of related deferred income taxes. We base realized gains and losses upon the specific identification of securities sold. See Note 6.

Accounts receivable - We provide an allowance for doubtful accounts for known and estimated potential losses arising from sales to customers based on a periodic review of these accounts.

Inventories and cost of sales - We state inventories at the lower of cost or market, net of allowance for obsolete and slow-moving inventories. We generally base inventory costs for all inventory categories on an average cost that approximates the first-in, first-out method. Inventories include the costs for raw materials, the cost to manufacture the raw materials into finished goods and overhead. Depending on the inventory’s stage of completion, our manufacturing costs can include the costs of packing and finishing, utilities, maintenance and depreciation, shipping and handling, and salaries and benefits associated with our manufacturing process. We allocate fixed manufacturing overhead based on normal production capacity. Unallocated overhead costs resulting from periods with abnormally low production levels are charged to expense as incurred. As inventory is sold to third parties, we recognize the cost of sales in the same period that the sale occurs. We periodically review our inventory for estimated obsolescence or instances when inventory is no longer marketable for its intended use and we record any write-down equal to the difference between the cost of inventory and its estimated net realizable value based on assumptions about alternative uses, market conditions and other factors.

Investment in Kronos Worldwide, Inc. - We account for our 30% non-controlling interest in Kronos by the equity method. See Note 7.

Goodwill and other intangible assets; amortization expense - Goodwill represents the excess of cost over fair value of individual net assets acquired in business combinations. Goodwill is not subject to periodic amortization. We amortize other intangible assets, consisting principally of certain acquired patents and tradenames, using the straight-line method over their estimated lives and state them net of accumulated amortization. We evaluate goodwill for impairment annually, or when circumstances indicate the carrying value may not be recoverable. In September 2011, the Financial Accounting Standards Board issued ASU No. 2011-08, which provided new guidance on testing

goodwill for impairment. The new guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment considering the totality of relevant events and circumstances, that it is more likely than

not that its fair value of the reporting unit is less than its carrying amount. We adopted this accounting standard in the third quarter of 2013. See Note 8.

Property and equipment; depreciation expense - We state property and equipment, including purchased computer software for internal use, at cost. We compute depreciation of property and equipment for financial reporting purposes principally by the straight-line method over the estimated useful lives of 15 to 40 years for buildings and 3 to 20 years for equipment and software. We use accelerated depreciation methods for income tax purposes, as permitted. Depreciation expense was $3.6 million in 2011, $3.2 million in 2012, and $3.3 million in 2013. Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized in income currently. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized.

We perform impairment tests when events or changes in circumstances indicate the carrying value may not be recoverable. We consider all relevant factors. We perform impairment tests by comparing the estimated future undiscounted cash flows associated with the asset to the asset's net carrying value to determine whether impairment exists.

Employee benefit plans - Accounting and funding policies for our retirement and post retirement benefits other than pensions (OPEB) plans are described in Note 15.

Income taxes - We, Valhi and our qualifying subsidiaries are members of Contran's consolidated U.S. federal income tax group (the Contran Tax Group) and we and certain of our qualifying subsidiaries also file consolidated unitary state income tax returns with Contran in qualifying U.S. jurisdictions. As a member of the Contran Tax Group, we are jointly and severally liable for the federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. See Note 18. We are party to a tax sharing agreement with Valhi and Contran pursuant to which we generally compute our provision for income taxes on a separate-company basis and we make payments to or receive payments from Valhi in amounts that we would have paid to or received from the U.S. Internal Revenue Service or the applicable state tax authority had we not been a member of the Contran Tax Group. Refunds are limited to amounts previously paid under the Contran Tax Agreement unless the individual company was entitled to a refund from the U.S. Internal Revenue Service on a separate company basis. The separate company provisions and payments are computed using the tax elections made by Contran. We received net income tax refunds from Valhi of $.4 million in 2011 and $.2 million in 2012, and we made net payments to Valhi for income taxes of $.3 million in 2013.

We recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of our assets and liabilities, including investments in our subsidiaries and affiliates who are not members of the Contran Tax Group and undistributed earnings of non-U.S. subsidiaries which are not permanently reinvested. In addition, we recognize deferred income taxes with respect to the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos common stock because the exemption under GAAP to avoid recognition of such deferred income taxes is not available to us. In December 2012, we sold CompX's Furniture Components operations, which comprised all of CompX's non-U.S. operating subsidiaries. See Note 2. We periodically evaluate our deferred tax assets in the various taxing jurisdictions in which we operate and adjust any related valuation allowance based on the estimate of the amount of such deferred tax assets which we believe do not meet the more-likely-than-not recognition criteria.

We record a reserve for uncertain tax positions where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. The amount of the benefit associated with our uncertain tax positions that we recognize is limited to the largest amount for which we believe the likelihood of realization is greater than

50%. We accrue penalties and interest on the difference between tax positions taken on our tax returns and the amount of benefit recognized for financial reporting purposes. We classify our reserves for uncertain tax positions in a separate current or noncurrent liability, depending on the nature of the tax position. See Note 14.

Environmental remediation costs - We record liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. We adjust these accruals as further information becomes available to us or as circumstances change. We generally do not discount estimated future

expenditures to present value. We recognize any recoveries of remediation costs from other parties when we deem their receipt probable. We expense any environmental remediation related legal costs as incurred. At December 31, 2012 and 2013, we had not recognized any receivables for recoveries. See Note 18.

Net sales - We record sales when products are shipped and title and other risks and rewards of ownership have passed to the customer. Amounts charged to customers for shipping and handling costs are not material. We state sales net of price, early payment and distributor discounts and volume rebates. We report taxes assessed by a governmental authority that we collect from our customers that is both imposed on and concurrent with our revenue producing activities (such as sales and use taxes) on a net basis (meaning we do not recognize these taxes in either our revenues or in our costs and expenses).

Selling, general and administrative expenses; advertising costs; research and development costs - Selling, general and administrative expenses include costs related to marketing, sales, distribution, research and development, and administrative functions such as accounting, treasury and finance, as well as costs for salaries and benefits, travel and entertainment, promotional materials and professional fees. Advertising costs related to continuing operations, expensed as incurred, were approximately not material in each of 2011, 2012 and 2013. Research, development and certain sales technical support costs related to continuing operations, expensed as incurred, were not material in 2011, 2012 or 2013.

Corporate expenses - Corporate expenses include environmental, legal and other costs attributable to formerly-owned business units.

Earnings per share - Basic and diluted earnings per share of common stock is based upon the weighted average number of our common shares actually outstanding during each period. A nominal number of stock options were outstanding during 2011 the dilutive effect of which was not material.

Note 2 - Discontinued operations:

In December 2012, we completed the sale of CompX's Furniture Components operations for proceeds, net of expenses, of approximately $58.0 million in cash. We recognized a pre-tax gain of $23.7 million on the disposal of these operations ($14.5 million, or $.30 per basic and diluted share, net of income taxes and noncontrolling interest in CompX, as shown in the table below). Such pre-tax gain includes income of $10.4 million associated with the reclassification out of accumulated other comprehensive income related to currency translation. The income taxes associated with the pre-tax gain on disposal is less than the U.S. statutory income tax rate of 35% principally due to the utilization of foreign tax credits, the benefit of which had previously not been recognized under the "more-likely-than-not" recognition criteria. The Furniture Components operations primarily sold products with lower average margins and higher commodity raw material content than other operations of CompX's business. We believe disposing of CompX's Furniture Components operations has enabled us to focus more effort on continuing to develop the remaining portion of CompX's business that we believe has greater opportunity for higher returns and with less volatility relating to changes in the cost of commodity raw materials.

Selected financial data for the operations of the disposed Furniture Components business is presented below:

	Years ended December 31,	
	2011	2012
	(In thousands)	
Net sales	$ 59,021	$ 60,722
Income from operations	$ 9,061	$ 7,364
Income from discontinued operations:		
Income before taxes	$ 9,045	$ 7,284
Income tax expense	4,974	3,484
Income from discontinued operations, net of tax	4,071	3,800
Gain on sale of discontinued operations:		
Gain on sale	-	23,674
Income tax expense	-	5,581
Gain on sale discontinued operations, net of tax	-	18,093
Total discontinued operations, net of tax	4,071	21,893
Noncontrolling interest in income from discontinued operations, net of tax	542	494
Noncontrolling interest in gain on sale of discontinued operations, net of tax	-	3,593
Total noncontrolling interest in discontinued operations, net of tax	542	4,087
Total discontinued operations, net of tax and noncontrolling interest	$ 3,529	$ 17,806

In accordance with generally accepted accounting principles, the assets and liabilities relating to the Furniture Components business were eliminated from the 2012 Consolidated Balance Sheet at the date of sale. We have reclassified our Consolidated Statements of Operations to reflect the disposed business as discontinued operations for all periods presented. We have not reclassified our December 31, 2011 or 2012 Consolidated Statement of Cash Flows to reflect discontinued operations.

In conjunction with the sale of CompX's Furniture Components business, the buyer was not interested in retaining certain undeveloped land located in Taiwan owned by our Taiwanese Furniture Component business. We had no additional use for the undeveloped land in Taiwan and therefore expected the land to be sold to a third party with CompX receiving the net proceeds. Based on the legal form of how we completed the disposal transaction, our interest in such land was represented by a $3.0 million promissory note receivable at December 31, 2012, issued to us by our former Taiwanese business which retained legal ownership in the land to facilitate the future sale of the land to a third party. The proceeds from the sale of the land were required to be used to settle the note receivable. In 2013, an agreement was entered into with a third party to sell the land for $3.0 million, all of which was received during 2013. The note receivable was classified as part of accounts receivable in our Consolidated Balance Sheet at December 31, 2012.

Note 3 - Geographic information:

We operate in the security products industry and marine components industry through our majority ownership of CompX. CompX manufactures and sells security products including locking mechanisms and other security products for sale to the transportation, postal, office and institutional furniture, cabinetry, tool storage, healthcare and other industries with a facility in South Carolina and a facility shared with Marine Components in Illinois. CompX also manufactures and distributes stainless steel exhaust systems, gauges and throttle controls primarily for recreational

boats.

For geographic information, the point of origin (place of manufacture) for all net sales is the U.S., the point of destination for net sales is based on the location of the customer.

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Net sales - point of destination:			
United States	$75,594	$78,268	$87,307
Canada	1,982	2,194	2,195
Other	2,239	2,734	2,543
Total	$79,815	$83,196	$92,045

All of our net property and equipment is located in the United States at December 31, 2012 and 2013.

At December 31, 2012, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $3.1 million.

Note 4 - Accounts and other receivables, net:

	December 31,	
	2012	2013
	(In thousands)	
Trade receivables	$8,696	$8,706
Promissory note receivable	3,034	-
Accrued insurance recoveries*	476	1,877
Other receivables	51	54
Refundable income taxes	8	8
Allowance for doubtful accounts	(216)	(128)
Total	$12,049	$10,517

*Accrued insurance recoveries are discussed in Note 18.

Note 5 - Inventories, net:

December 31,	
2012	2013
(In thousands)	

Raw materials	$3,253	$3,565
Work in process	5,902	6,696
Finished products	2,068	2,974
Total	$11,223	$13,235

Note 6 - Marketable securities:

	Fair value measurement level	Market value	Cost basis	Unrealized gains
	(In thousands)			
December 31, 2012				
Noncurrent assets				
Valhi common stock	1	$179,662	$24,347	$155,315
December 31, 2013				
Noncurrent assets				
Valhi common stock	1	$252,677	$24,347	$228,330

At December 31, 2012 and 2013, we held approximately 14.4 million shares of our immediate parent company, Valhi. See Note 1. We account for our investment in Valhi common stock as available-for-sale marketable equity securities and any unrealized gains or losses on the securities are recognized through other comprehensive income, net of deferred income taxes. Our shares of Valhi common stock are carried at fair value based on quoted market prices, representing a Level 1 input within the fair value hierarchy. At December 31, 2012 and 2013, the quoted market prices of Valhi common stock were $12.50 and $17.58 per share, respectively.

Prior to December 2012, we held approximately 1.4 million shares, or .8%, of Titanium Metals Corporation's (TIMET) outstanding common stock. TIMET was also an affiliate of ours, as Contran, Mr. Harold Simmons and persons and other entities related to Mr. Simmons (including us) owned a majority of TIMET's outstanding common stock. In December 2012, we sold all of our shares of TIMET common stock for $23.9 million ($16.50 per share) pursuant to a cash tender offer by a third party, and all of our affiliates also sold their shares of TIMET common stock for the same price. Securities transactions in 2012 consist of a $16.6 million pre-tax gain we recognized on the sale of these TIMET shares.

The Valhi common stock we own is subject to the restrictions on resale pursuant to certain provisions of the SEC Rule 144. In addition, as a majority-owned subsidiary of Valhi we cannot vote our shares of Valhi common stock under Delaware Corporation Law, but we do receive dividends from Valhi on these shares, when declared and paid.

Note 7 - Investment in Kronos Worldwide, Inc.:

At December 31, 2012 and 2013, we owned approximately 35.2 million shares of Kronos common stock. The per share quoted market price of Kronos at December 31, 2012 and 2013 was $19.50 and $19.05 per share, respectively, or an aggregate market value of $686.8 million and $670.9 million, respectively.

At December 31, 2013, we had an aggregate of 275,000 shares of our Kronos common stock pledged in connection with certain liabilities incurred in environmental-related settlement obligations, of which 25,000 shares were released to us in January 2014 pursuant to the terms of the applicable settlement agreement.

The change in the carrying value of our investment in Kronos during the past three years is summarized below:

	Year ended December 31, 2011	2012	2013
	(In millions)		
Balance at the beginning of the year	$ 231.7	$ 281.3	$ 323.1
Equity in earnings (loss) of Kronos	97.6	66.4	(31.0)
Dividends received from Kronos	(37.9)	(21.1)	(21.1)
Other, principally equity in Kronos' other comprehensive income (loss)	(10.1)	(3.5)	13.5
Balance at the end of the year	$ 281.3	$ 323.1	$ 284.5

Selected financial information of Kronos is summarized below:

	December 31, 2012	2013
	(In millions)	
Current assets	$1,223.4	$781.2
Property and equipment, net	522.5	536.3
Investment in TiO_2 joint venture	109.9	102.3
Other noncurrent assets	171.2	199.3
Total assets	$2,027.0	$1,619.1
Current liabilities	$328.4	$278.0
Long-term debt	378.9	180.4
Accrued pension and post retirement benefits	203.3	171.6
Other non-current liabilities	54.3	54.0
Stockholders' equity	1,062.1	935.1
Total liabilities and stockholders' equity	$2,027.0	$1,619.1

	Year ended December 31, 2011	2012	2013
	(In millions)		

Net sales	$1,943.3	$1,976.3	$1,732.4
Cost of sales	1,194.9	1,415.9	1,620.2
Income (loss) from operations	546.5	359.6	(132.6)
Net income (loss)	321.0	218.5	(102.0)

Note 8 - Goodwill:

Substantially all of our goodwill is related to our component products operations and was generated from CompX's acquisitions of certain business units. Prior to December 31, 2012, we also had approximately $6.4 million of goodwill which resulted from our acquisition of our subsidiary, EWI Re, Inc., (EWI), an insurance brokerage and risk management services company. EWI brokers certain insurance policies for Contran and certain of its affiliates, including us and Kronos, as well as certain third parties. See Note 16.

We have assigned goodwill related to the component products operations to three reporting units (as that term is defined in ASC Topic 350-20-20 Goodwill): one consisting of CompX's security products operations, one consisting of CompX's furniture components operations and one consisting of CompX's marine component

operations. Prior to 2011, all of the goodwill related to CompX's marine components operations (which aggregated $10.1 million) was impaired. Our gross goodwill at December 31, 2013 was $43.7 million.

We test for goodwill impairment at the reporting unit level. In accordance with the requirements of ASC Topic 350-20-20, we test for goodwill impairment during the third quarter of each year or when circumstances arise that indicate impairment might be present. Prior to 2013, we used a quantitative assessment in determining the estimated fair value of the reporting units, using appropriate valuation techniques such as discounted cash flows. Such discounted cash flows are a Level 3 input as defined by ASC 820-10-35. If the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recorded. In 2013 we adopted the guidance in ASU No. 2011-08 for testing goodwill for impairment by assessing qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Based on our qualitative assessment, a quantitative assessment was not required for 2013.

During 2011, 2012 and 2013, no impairment was indicated as part of such annual review of goodwill. However, as a result of the December 2012 disposition of CompX's furniture components business and the December 2012 sale of all common stock of TIMET owned by Contran Corporation and its affiliates (including us), a significant portion of EWI's insurance brokerage business was lost. Consequently, we reevaluated goodwill associated with EWI due to the triggering event caused by the significant impact these dispositions had on EWI's business and concluded that all of our goodwill related to EWI was impaired. Accordingly, we recognized a $6.4 million goodwill impairment in December 2012. In addition, we had goodwill of approximately $14.3 million attributable to the disposed CompX furniture components operations, see Note 2.

Changes in the carrying amount of our goodwill related to CompX's two reporting units as well as the goodwill related to EWI during the past three years are presented in the table below. Goodwill acquired in 2011 relates to the acquisition of an ergonomic components product business included in CompX's disposed operations.

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Balance at the beginning of the year	$44,819	$47,553	$27,156
Goodwill acquired during the year	3,111	-	-
Sale of disposed operations	-	(14,286)	-
Goodwill impairment	-	(6,406)	-
Changes in currency exchange rates	(377)	295	-
Total	$47,553	$27,156	$27,156

Note 9 - Other assets:

December 31,	
2012	2013

	(In thousands)	
Restricted cash	$1,694	$1,687
Assets held for sale	1,965	532
Pension asset	-	364
Other	195	124
Total	$3,854	$2,707

Prior to 2012, our assets held for sale consisted of two facilities (land, building and building improvements) and certain unimproved land, all of which were formerly used in CompX's operations. These assets were classified as "assets held for sale" when they ceased to be used in our operations and met all of the applicable criteria under U.S. GAAP. During 2012, we obtained updated independent appraisals of the significant assets. Based on these

appraisals, we recognized a write-down in the third quarter of $.4 million to reduce the carrying value of the assets to their estimated fair value less cost to sell. Subsequently, we sold one of the facilities in December 2012 for net proceeds of $3.6 million, which net proceeds were less than the carrying amount of the assets and we therefore recognized a loss on the sale of the facility of approximately $.8 million in 2012. At December 31, 2012 our assets held for sale consisted of the remaining facility and the unimproved land. In 2013, we sold the remaining facility for net proceeds of $1.6 million, which approximated the carrying value of the assets as of the date of the sale. At December 31, 2013, our assets held for sale consisted only of the unimproved land.

We also recognized an asset held for sale write-down of $1.1 million in 2011 related to these properties, associated with obtaining updated appraisals on the properties. These appraisals represent a Level 2 input as defined by ASC 820-10-35.

The write-downs on assets held for sale in 2011 and 2012 and loss on the sale of the facility are included in loss from operations.

Note 10 - Accrued liabilities:

	December 31,	
	2012	2013
	(In thousands)	
Employee benefits	$7,611	$7,653
Professional fees and settlements	2,805	1,855
Other	1,805	1,642
Total	$12,221	$11,150

Note 11 - Other noncurrent liabilities:

	December 31,	
	2012	2013
	(In thousands)	
Insurance claims and expenses	$586	$575
Reserve for uncertain tax positions	16,832	16,832
Other	1,154	922
Total	$18,572	$18,329

Our reserve for uncertain tax positions is discussed in Note 14.

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Note 12 - Long-term debt:

	December 31,	
	2012	2013
	(In thousands)	
Subsidiary debt:		
CompX note payable to TIMET Finance Management Company	$ 18,480	$ -
Less current maturities	1,000	-
Total long-term debt	$ 17,480	$ -

NL - We have a revolving promissory note with Valhi that, as amended, allows us to borrow up to $40 million. Our borrowings from Valhi under this revolving note are unsecured bear interest at prime rate plus 2.75% with all principal due on demand, but in any event no earlier than March 31, 2015 and no later than December 31, 2015. The amount of the outstanding borrowings at any time is solely at the discretion of Valhi. See Note 16.

CompX - Prior to 2011, CompX purchased and/or cancelled certain shares of its Class A common stock from Timet Finance Management Company (TFMC) a former affiliate. We paid for the shares acquired in the form of a promissory note which, as amended, bore interest at LIBOR plus 1% and provided for quarterly principal repayments of $.3 million, with the balance due at maturity in September 2014. The promissory note was prepayable, in whole or in part, at any time at our option without penalty. In July of 2013, we prepaid the remaining outstanding principal amount of the note, plus accrued interest, without penalty. We had net repayments on the note payable of $20 million in 2011 (including $15.0 million of repayments using cash we received upon collection of our promissory note receivable discussed in Note 18), $3.8 million in 2012 and $18.5 million in 2013 (including the amount paid upon final payment). The average interest rate on the promissory note payable was 1.3% in 2011, 1.5% in 2012 and 1.3% for the year-to-date period ended July 18, 2013 (the pay-off date). We recognized interest expense of approximately $.5 million in 2011, $.3 million in 2012, and $.1 million in 2013 on this promissory note.

Note 13 - Stockholders' equity:

Changes in our outstanding stock for the periods ended December 31, 2011, 2012, and 2013 are presented in the table below.

	Years ended December 31,		
	2011	2012	2013
	(Shares in thousands)		
Common stock outstanding at the beginning of the year	48,631	48,663	48,669
Common stock issued	32	6	5
Common stock at end of the year	48,663	48,669	48,674

Long-term incentive compensation plan - The NL Industries, Inc. 1998 Long-Term Incentive Plan provided for the discretionary grant of restricted common stock, stock options, stock appreciation rights (SARs) and other incentive compensation to our officers and other key employees and non-employee directors, including individuals who are employed by Kronos. All options under this plan expired or were exercised in 2011. In 2012, we adopted the NL

Industries, Inc. 2012 Director Stock Plan pursuant to which an aggregate of up to 200,000 shares of our common stock can be awarded to members of our board of directors, and the 1998 Long-Term Incentive Plan was terminated. At December 31, 2013, 195,000 shares were available for future grants under the 2012 Director Stock Plan.

Long-term incentive compensation plan of subsidiaries and affiliates - CompX and Kronos each have a share based incentive compensation plan pursuant to which an aggregate of up to 200,000 shares of their common

stock can be awarded to members of their board of directors. At December 31, 2013, Kronos had 193,000 shares available for award and CompX had 195,000 shares available for award.

Accumulated other comprehensive income (loss) - Changes in accumulated other comprehensive income (loss) attributable to NL stockholders for 2011, 2012 and 2013 are presented in the table below.

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Accumulated other comprehensive income (loss), net of tax:			
Marketable securities:			
Balance at beginning of year	$68,147	$186,451	$105,419
Other comprehensive income (loss):			
Unrealized gain (loss) arising during the year	118,304	(71,184)	48,514
Less reclassification adjustment for amounts included in realized gain	-	(9,848)	236
Balance at end of year	$186,451	$105,419	$154,169
Currency translation:			
Balance at beginning of year	$(127,032)	$(133,041)	$(135,165)
Other comprehensive income (loss):			
Arising during the year	(6,009)	6,605	1,349
Less reclassification adjustment for amounts included in gain on disposal	-	(8,729)	-
Balance at end of year	$(133,041)	$(135,165)	$(133,816)
Defined benefit pension plans:			
Balance at beginning of year	$(51,534)	$(59,478)	$(66,402)
Other comprehensive income (loss):			
Amortization of prior service cost and net losses included in net periodic pension cost	1,824	2,254	2,776
Net actuarial gain (loss) arising during year	(9,768)	(9,178)	5,952
Plan curtailment	-	-	1,030
Balance at end of year	$(59,478)	$(66,402)	$(56,644)
OPEB plans:			
Balance at beginning of year	$1,592	$1,344	$895
Other comprehensive income (loss):			
Amortization of prior service credit and net losses included in net periodic OPEB cost	(581)	(552)	(663)
Net actuarial gain arising during year	333	103	395
Plan amendment	-	-	648
Balance at end of year	$1,344	$895	$1,275
Total accumulated other comprehensive income (loss), net of tax:			
Balance at beginning of year	$(108,827)	$(4,724)	$(95,253)
Other comprehensive income (loss)	104,103	(90,529)	60,237
Balance at end of year	$(4,724)	$(95,253)	$(35,016)

The marketable securities reclassification adjustment in 2012 consists principally of the securities transaction gain related to the sale of TIMET common stock discussed in Note 6. The currency translation reclassification adjustment in 2012 relates to CompX's disposition of its furniture components operations discussed in Note 2. See Note 15 for amounts related to our defined benefit pension plans and OPEB plans.

Note 14 - Income taxes:

The provision for income taxes attributable to continuing operations, the difference between such provision for income taxes, the amount that would be expected using the U.S. federal statutory income tax rate of 35% and the comprehensive provision for income taxes are presented below.

	Years ended December 31,		
	2011	2012	2013
	(In millions)		
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35%	$34.4	$27.0	$(33.8)
Incremental U.S. tax and rate differences on equity in earnings	(13.3)	(7.4)	(7.4)
Tax rate changes	(1.4)	-	-
Nondeductible goodwill impairment	-	2.2	-
U.S. state income taxes other, net	.1	(1.9)	(.7)
Income tax expense (benefit)	$19.8	$19.9	$(41.9)

	Years ended December 31,		
	2011	2012	2013
	(In millions)		
Components of income tax expense (benefit):			
Currently payable (receivable)	$.9	$(15.0)	$-
Deferred income taxes (benefit)	18.9	34.9	(41.9)
Income tax expense (benefit)	$19.8	$19.9	$(41.9)

	Years ended December 31,		
	2011	2012	2013
	(In millions)		
Comprehensive provision for income taxes (benefit) allocable to:			
Income (loss) from continuing operations	$19.8	$19.9	$(41.9)
Discontinued operations	4.9	9.1	-
Other comprehensive income (loss):			
Marketable securities	63.8	(43.6)	26.2
Currency translation	(3.1)	3.0	.7
Pension liabilities	(4.3)	(3.7)	5.3
OPEB plans	(.1)	(.2)	.2
Total	$81.0	$(15.5)	$(9.5)

The components of the net deferred tax liability at December 31, 2012 and 2013 are summarized in the following table.

	December 31, 2012		2013	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Tax effect of temporary differences related to:				
Inventories	$1.0	$-	$.9	$-
Marketable securities	-	(62.5)	-	(88.1)
Property and equipment	-	(3.8)	-	(4.1)
Accrued OPEB costs	1.6	-	1.3	-
Accrued pension cost	4.9	-	1.7	-
Accrued environmental liabilities	16.9	-	40.1	-
Other accrued liabilities and deductible differences	3.0	-	2.5	-
Other taxable differences	-	(8.7)	-	(7.7)
Investment in Kronos Worldwide, Inc.	-	(120.0)	-	(106.5)
Tax loss and tax credit carryforwards	.1	-	1.8	-
Valuation allowance	(.1)	-	-	-
Adjusted gross deferred tax assets(liabilities)	27.4	(195.0)	48.3	(206.4)
Netting of items by tax jurisdiction	(23.1)	23.1	(44.5)	44.5
	4.3	(171.9)	3.8	(161.9)
Less net current deferred tax asset	4.3	-	3.8	-
Net noncurrent deferred tax liability	$-	$(171.9)	$-	$(161.9)

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

In 2011 and 2012, Kronos received notices of re-assessment from the Canadian federal and provincial tax authorities related to the years 2002 through 2004. Kronos objects to the re-assessments and believes the position is without merit. Accordingly, the re-assessments are being appealed. If the full amount of the proposed adjustment were ultimately to be assessed against Kronos the cash tax liability would be approximately $15.7 million. Kronos believes that it has adequate accruals for this matter.

We accrue interest and penalties on our uncertain tax positions as a component of our provision for income taxes. The amount of interest and penalties we accrued during 2011, 2012 and 2013 was not material.

At December 31, 2011, 2012, and 2013, the amount of our uncertain tax positions (exclusive of the effect of interest and penalties) was $16.8 million, and there was no change in such amount during the past three years. We currently estimate that our unrecognized tax position will not change materially during the next twelve months. If our uncertain tax positions were recognized, a benefit of $15.2 million would affect our effective income tax rate in each of 2011, 2012 and 2013.

We file income tax returns in various U.S. federal, state and local jurisdictions. Prior to 2012, we also filed income tax returns in various non-U.S. jurisdictions, principally in Canada and Taiwan. Our U.S. income tax returns prior to 2010 are generally considered closed to examination by applicable tax authorities.

Note 15 - Employee benefit plans:

Defined contribution plans - We maintain various defined contribution pension plans worldwide. Company contributions are based on matching or other formulas. Defined contribution plan expense attributable to continuing operations approximated $1.8 million in 2011, $1.9 million in 2012 and $2.1 million in 2013.

Accounting for defined benefit pension and postretirement benefits other than pension (OPEB) plans - We recognize all changes in the funded status of these plans through other income. Any future changes will be recognized either in net income, to the extent they are reflected in periodic benefit cost, or through other comprehensive income.

Defined benefit plans - We maintain a defined benefit pension plan in the U.S. We also maintain a plan in the United Kingdom related to a former disposed business unit in the U.K. The benefits under our defined benefit plans are based upon years of service and employee compensation. The plans are closed to new participants and no additional benefits accrue to existing plan participants. Our funding policy is to contribute annually the minimum amount required under ERISA (or equivalent non-U.S.) regulations plus additional amounts as we deem appropriate.

We expect to contribute approximately $1.7 million to all of our defined benefit pension plans during 2014. Benefit payments to all plan participants out of plan assets are expected to be the equivalent of:

Years ending December 31,	Amount (In millions)
2014	$ 3.6
2015	3.7
2016	3.8
2017	3.9
2018	3.9
Next 5 years	20.1

The funded status of our defined benefit pension plans is presented in the table below.

	Years ended December 31, 2012	2013
	(In thousands)	
Change in projected benefit obligations (PBO):		
Balance at beginning of the year	$57,000	$59,415
Interest cost	2,379	2,161
Participant contributions	7	7
Actuarial losses (gains)	2,874	(3,696)
Change in currency exchange rates	454	223
Benefits paid	(3,299)	(3,452)
Benefit obligation at end of the year	59,415	54,658
Change in plan assets:		
Fair value at beginning of the year	40,087	45,498
Actual return on plan assets	6,083	5,589
Employer contributions	2,247	1,510
Participant contributions	7	7
Change in currency exchange rates	373	250
Benefits paid	(3,299)	(3,452)
Fair value of plan assets at end of year	45,498	49,402
Funded status	$(13,917)	$(5,256)
Amounts recognized in the consolidated balance sheets:		
Noncurrent pension asset	$-	$364
Accrued pension costs:		
Current	(170)	(167)
Noncurrent	(13,747)	(5,453)
	$(13,917)	$(5,256)
Accumulated other comprehensive loss – actuarial losses, net	$31,100	$24,557
Accumulated benefit obligation (ABO)	$59,415	$54,658

The amounts shown in the table above for actuarial losses at December 31, 2012 and 2013 have not been recognized as components of our periodic defined benefit pension cost as of those dates. These amounts will be recognized as components of our periodic defined benefit cost in future years. These amounts, net of deferred income taxes, are recognized in our accumulated other comprehensive income (loss) at December 31, 2012 and 2013. We expect that $.9 million of the unrecognized actuarial losses at December 31, 2013 will be recognized as a component of our periodic defined benefit pension cost in 2014.

The table below details the changes in other comprehensive income during 2011, 2012 and 2013.

	Years ended December 31, 2011	2012	2013
	(In thousands)		
Changes in plan assets and benefit obligations recognized in other comprehensive income (loss):			

Net actuarial gain (loss) arising during the year	$(10,360)	$(426)	$5,305
Amortization of unrecognized net actuarial loss	900	1,353	1,238
Total	$(9,460)	$927	$6,543

The components of our net periodic defined benefit pension cost are presented in the table below. The amount shown below for the amortization of unrecognized actuarial losses in 2011, 2012 and 2013, net of deferred income taxes, was recognized as a component of our accumulated other comprehensive income (loss) at December 31, 2010, 2011 and 2012, respectively.

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Net periodic pension cost (income):			
Interest cost on PBO	$2,615	$2,379	$2,161
Expected return on plan assets	(3,905)	(3,658)	(3,975)
Recognized net actuarial loss	900	1,353	1,238
Total	$(390)	$74	$(576)

Certain information concerning our defined benefit pension plans is presented in the table below.

	December 31,	
	2012	2013
	(In thousands)	
PBO at end of the year:		
U.S. plan	$50,022	$44,850
U.K. plan	9,393	9,808
Total	$59,415	$54,658
Fair value of plan assets at end of the year:		
U.S. plan	$36,346	$39,230
U.K. plan	9,152	10,172
Total	$45,498	$49,402
Plans for which the accumulated benefit obligation exceeds plan assets:		
PBO	$59,415	$44,850
ABO	59,415	44,850
Fair value of plan assets	45,498	39,230

The weighted-average discount rate assumptions used in determining the actuarial present value of our benefit obligations as of December 31, 2012 and 2013 are 3.7% and 4.5%, respectively. Such weighted-average rates were determined using the projected benefit obligations at each date. Since our plans are closed to new participants and no new additional benefits accrue to existing plan participants, assumptions regarding future compensation levels are not applicable. Consequently, the accumulated benefit obligations for all of our defined benefit pension plans were equal to the projected benefit obligations at December 31, 2012 and 2013.

The weighted-average rate assumptions used in determining the net periodic pension cost for 2011, 2012 and 2013 are presented in the table below. Such weighted-average discount rates were determined using the projected benefit obligations as of the beginning of each year and the weighted-average long-term return on plan assets was determined using the fair value of plan assets as of the beginning of each year.

Rate	Years ended December 31, 2011	2012	2013
Discount rate	5.2%	4.3%	3.7%
Long-term return on plan assets	9.3%	9.2%	9.2%

Variances from actuarially assumed rates will result in increases or decreases in accumulated pension obligations, pension expense and funding requirements in future periods.

At December 31, 2012 and 2013, substantially all of the assets attributable to our U.S. plan were invested in the Combined Master Retirement Trust (CMRT), a collective investment trust sponsored by Contran to permit the collective investment by certain master trusts that fund certain employee benefits plans sponsored by Contran and certain of its affiliates. The CMRT's long-term investment objective is to provide a rate of return exceeding a composite of broad market equity and fixed income indices (including the S&P 500 and certain Russell indices) while utilizing both third-party investment managers as well as investments directed by Mr. Simmons (prior to his death in December 2013). Prior to his death, Mr. Simmons was the sole trustee of the CMRT, and he, along with the CMRT's investment committee, of which Mr. Simmons was a member, actively managed the investments of the CMRT.

The CMRT trustee and investment committee did not maintain a specific target asset allocation in order to achieve their objectives, but instead they periodically changed the asset mix of the CMRT based upon, among other things, advice they received from third-party advisors and their expectations regarding potential returns for various investment alternatives and what asset mix would generate the greatest overall return. Prior to December 2012, the CMRT had an investment in TIMET common stock; however, in December 2012 the CMRT sold its shares of common stock in conjunction with the tender offer discussed in Note 6. During the history of the CMRT from its inception in 1988 through December 31, 2013, the average annual rate of return has been 14%. For the years ended December 31, 2011, 2012 and 2013, the assumed long-term rate of return for plan assets invested in the CMRT was 10%. In determining the appropriateness of the long-term rate of return assumption, we primarily relied on the historical rates of return achieved by the CMRT, although we considered other factors as well including, among other things, the investment objectives of the CMRT's managers and their expectation that such historical returns would in the future continue to be achieved over the long-term.

Following the death of Mr. Simmons in December 2013, the Contran board of directors in January 2014 appointed a financial institution as the new directed trustee of the CMRT, and the Contran board appointed five individuals (all executive officers of Contran) as the new investment committee of the CMRT. The new investment committee intends to reallocate to current and/or new investment managers or various mutual funds the portion of the CMRT assets that had previously been under the direct and active management by Mr. Simmons. Such reallocation will be done prudently over a period of time, given the asset composition of this portion of the portfolio. Concurrent with this change in investment strategy in which there is no longer a portion of the CMRT's assets under the direct and active management by Mr. Simmons, and considering the long-term asset mix for the assets of the CMRT and the expected long-term rates of return for such asset components as well as advice from Contran's actuaries, beginning in 2014 the assumed long-term rate of return for plan assets invested in the CMRT will be reduced to 7.5%.

The CMRT unit value is determined semi-monthly, and the plans have the ability to redeem all or any portion of their investment in the CMRT at any time based on the most recent semi-monthly valuation. However, the plans do not have the right to individual assets held by the CMRT and the CMRT has the sole discretion in determining how to meet any redemption request. For purposes of our plan asset disclosure, we consider the investment in the CMRT a Level 2 input because (i) the CMRT value is established semi-monthly and the plans have the right to redeem their investment in the CMRT, in part or in whole, at any time based on the most recent value and (ii) observable inputs from Level 1 or Level 2 were used to value approximately 83% of the assets of the CMRT at each of December 31, 2012 and 2013 as noted below. The aggregate fair value of all of the CMRT assets, including funds of Contran and its other affiliates that also invest in the CMRT and supplemental asset mix details of the CMRT are as follows:

	December 31,	
	2012	2013
	(In thousands)	
CMRT asset value	$726,410	$722,764

CMRT fair value input:				
Level 1	82	%	79	%
Level 2	1		4	
Level 3	17		17	
	100	%	100	%

	December 31,	
	2012	2013
	(In thousands)	
CMRT asset mix:		
Domestic equities, principally publicly traded	43 %	53 %
International equities, publicly traded	2	-
Fixed income securities, publicly traded	12	35
Privately managed limited partnerships	8	11
Other, primarily cash	35	1
	100%	100%

The relatively large percentage of the CMRT invested in cash and other assets at December 31, 2012 is the result of the CMRT's December 2012 disposition of its shares of TIMET common stock, which generated aggregate proceeds to the CMRT of $254.7 million (or approximately 35% of the CMRT's total asset value at December 31, 2012), and which funds were invested in a cash equivalent at the end of 2012. Subsequently in January 2013, the CMRT redeployed such proceeds into other investments.

The composition of our December 31, 2012 and 2013 pension plan assets by fair value level is shown in the table below. The amounts shown for plan assets invested in the CMRT include a nominal amount of cash held by our U.S. pension plan which is not part of the plans investment in the CMRT.

	Fair Value Measurements		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In thousands)		
December 31, 2012:			
CMRT	$36,346	$ -	$ 36,346
Other	9,152	9,152	-
Total	$45,498	$ 9,152	$ 36,346
December 31, 2013:			
CMRT	$39,230	$ -	$ 39,230
Other	10,172	10,172	-
Total	$49,402	$ 10,172	$ 39,230

Postretirement benefits other than pensions - We provide certain health care and life insurance benefits for eligible retired employees. These plans are closed to new participants, and no additional benefits accrue to existing plan participants. The majority of all retirees are required to contribute a portion of the cost of their benefits and certain current and future retirees are eligible for reduced health care benefits at age 65. We have no OPEB plan assets, rather, we fund postretirement benefits as they are incurred, net of any contributions by the retiree. At December 31, 2013, we currently expect to contribute approximately $.6 million to all OPEB plans during 2014. Contribution to our OPEB plans to cover benefit payments, net of estimated Medicare Part D subsidy of approximately $43,000 per year, expected to be paid to OPEB plan participants are summarized in the table below:

Years ending December 31,	Amount

	(In millions)
2014	$ .6
2015	.5
2016	.5
2017	.4

2018	.4
Next 5 years	1.3

The funded status of our OPEB plans is presented in the table below.

	Years ended December 31,	
	2012	2013
	(In thousands)	
Change in accumulated OPEB obligations:		
Balance at beginning of the year	$5,106	$4,505
Interest cost	157	105
Actuarial gain	(282)	(240)
Net benefits paid	(476)	(506)
Obligations at end of the year	4,505	3,864
Fair value of plan assets at end of year	-	-
Funded status	$(4,505)	$(3,864)
Accrued OPEB costs recognized in the Consolidated Balance Sheets:		
Current	$(644)	$(596)
Noncurrent	(3,861)	(3,268)
Total	$(4,505)	$(3,864)
Accumulated other comprehensive income (loss):		
Unrecognized net actuarial losses	$558	$464
Unrecognized prior service credit	(2,494)	(1,806)
Total	$(1,936)	$(1,342)

The amounts shown in the table above for unrecognized actuarial losses and prior service credit at December 31, 2012 and 2013 have not been recognized as components of our periodic OPEB cost as of those dates. These amounts will be recognized as components of our periodic OPEB cost in future years. These amounts, net of deferred income taxes, are now recognized in our accumulated other comprehensive income at December 31, 2012 and 2013. We expect to recognize approximately $.6 million of the prior service credit and approximately $.2 million of actuarial gains as a component of our periodic OPEB cost in 2014.

The table below details the changes in other comprehensive income during 2011, 2012 and 2013.

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Changes in benefit obligations recognized in other comprehensive income (loss):			
Net actuarial gain arising during the year	$949	$282	$240
Amortization of unrecognized:			
Actuarial gain	-	(99)	(146)
Prior service credit	(800)	(698)	(688)
Total	$149	$(515)	$(594)

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The components of our periodic OPEB cost are presented in the table below. The amounts shown below for the amortization of unrecognized actuarial losses and prior service credit in 2012 and 2013, net of deferred income taxes, were recognized as components of our accumulated other comprehensive income at December 31, 2011, 2012 and 2013 respectively.

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Net periodic OPEB cost (income):			
Interest cost	$236	$157	$105
Amortization of actuarial gain	-	(99)	(146)
Amortization of prior service credit	(800)	(698)	(688)
Total	$(564)	$(640)	$(729)

A summary of our key actuarial assumptions used to determine the net benefit obligation as of December 31, 2012 and 2013 follows:

	2012	2013
Health care inflation:		
Initial rate	7.5 %	7.0 %
Ultimate rate	5.0 %	5.0 %
Year of ultimate rate achievement	2018	2018
Discount rate	2.5 %	3.2 %

The assumed health care cost trend rates have an effect on the amount we report for health care plans. A one-percent change in assumed health care cost trend rates would not have a material effect on the net periodic OPEB cost for 2013 or on the accumulated OPEB obligation at December 31, 2013.

	1% Increase	1% Decrease
	(In thousands)	
Effect on net OPEB cost during 2013	$2	$ (2)
Effect at December 31, 2013 on Postretirement obligation	98	(91)

The weighted-average discount rate used in determining the net periodic OPEB cost for 2013 was 2.5% (the rate was 3.3% in 2012 and 4.0% in 2011). The weighted-average rate was determined using the projected benefit obligation as of the beginning of each year.

Note 16 - Related party transactions:

We may be deemed to be controlled by Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with such individuals sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held noncontrolling interest in another related party. While no transactions of the type described above are planned or proposed with respect to us other than as set forth in these financial statements, we continuously consider, review and evaluate, and understand that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that we might be a party to one or more such transactions in the future.

Current receivables from and payables to affiliates are summarized in the table below:

	December 31,	
	2012	2013
	(In thousands)	
Current receivables from affiliates:		
Income taxes receivable from Valhi	$-	$54
Other - trade items	-	61
Total	$-	$115
Current payables to affiliates:		
Income taxes payable to Valhi	$270	$-
Other - trade items	258	49
Total	$528	$49

From time to time, we will have loans and advances outstanding between us and various related parties, pursuant to term and demand notes. We generally enter into these loans and advances for cash management purposes. When we loan funds to related parties, we are generally able to earn a higher rate of return on the loan than the lender would earn if the funds were invested in other instruments. While certain of such loans may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe that we have evaluated the credit risks involved and reflected those credit risks in the terms of the applicable loans. When we borrow from related parties, we are generally able to pay a lower rate of interest than we would pay if we borrowed from unrelated parties. In this regard, in June 2010, we entered into a promissory note with Valhi, whereby, as subsequently amended, we may borrow up to $40 million. Interest expense on our promissory note to Valhi aggregated approximately $.3 million in each of 2011 and 2012. During 2013 we had no borrowings under this note. See Note 12.

Under the terms of various intercorporate services agreements (ISAs) we enter into with Contran, employees of Contran will provide certain management, tax planning, financial and administrative services to the other company on a fee basis. Such charges are based upon estimates of the time devoted by the Contran employees to our affairs and the compensation and other expenses associated with those persons. Because of the large number of companies affiliated with Contran, we believe we benefit from cost savings and economies of scale gained by not having certain

management, financial and administrative staffs duplicated at each entity, thus allowing certain Contran employees to provide services to multiple companies but only be compensated by Contran. The net ISA fees charged to us by Contran, (including amounts attributable to Kronos for all periods), approved by the independent members of the applicable board of directors, aggregated approximately $18.2 million in 2011, $21.2 million in 2012 and $24.1 million in 2013. This agreement is renewed annually, and we expect to pay approximately $21.9 million under the ISA during 2014.

Tall Pines Insurance Company and EWI RE, Inc. provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including ourselves. Tall Pines and EWI are subsidiaries of Valhi. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. These amounts principally included payments for insurance and reinsurance premiums paid to third parties, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance from third-party insurance carriers with an A.M. Best Company rating of generally at least A- (excellent) for substantially all of the risks it underwrites. We expect these relationships with Tall Pines and EWI will continue in 2014.

Contran and certain of its subsidiaries and affiliates, including us, purchase certain of their insurance policies as a group, with the costs of the jointly-owned policies being apportioned among the participating companies. With respect to certain of such policies, it is possible that unusually large losses incurred by one or more insured party during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of the policy period. As a result, Contran and certain of its subsidiaries and affiliates, including us, have entered into a loss sharing agreement under which any uninsured loss is shared by those entities who have submitted claims under the relevant policy. We believe the benefits in the form of reduced premiums and broader coverage associated with the group coverage for such policies justifies the risk associated with the potential for any uninsured loss.

Note 17 - Other operating income (expense):

We have agreements with certain insurance carriers pursuant to which the carriers reimburse us for a portion of our past lead pigment and asbestos litigation defense costs. Insurance recoveries include amounts we received from these insurance carriers. The majority of the $16.9 million of insurance recoveries we recognized in 2011 relate to a new settlement we reached with one of our insurance carriers in September 2011 in which they agreed to reimburse us for a portion of our past litigation defense costs.

The agreements with certain of our insurance carriers also include reimbursement for a portion of our future litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. Accordingly, these insurance recoveries are recognized when the receipt is probable and the amount is determinable. Substantially all of the insurance recoveries received in 2012 and 2013 are reimbursement for ongoing litigation defense costs. See Note 18.

The litigation settlement gain we recognized in 2012 is discussed in Note 18. Other operating income, net, in 2012 includes $3.2 million from the sale of certain real property owned by us for which we had a nominal carrying value.

Note 18 - Commitments and contingencies:

Lead pigment litigation

Our former operations included the manufacture of lead pigments for use in paint and lead-based paint. We, other former manufacturers of lead pigments for use in paint and lead-based paint (together, the “former pigment manufacturers”), and the Lead Industries Association (LIA), which discontinued business operations in 2002, have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and

governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, counties, cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share or risk contribution liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury,

contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. To the extent the plaintiffs seek compensatory or punitive damages in these actions, such damages are generally unspecified. In some cases, the damages are unspecified pursuant to the requirements of applicable state law. A number of cases are inactive or have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings or a trial verdict in favor of either the defendants or the plaintiffs.

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

we have never settled any of the market share, risk contribution, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases,
no final, non-appealable adverse verdicts have ever been entered against us, and
we have never ultimately been found liable with respect to any such litigation matters, including over 100 cases over a twenty-year period for which we were previously a party and for which we have been dismissed without any finding of liability.

Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases. In addition, we have determined that liability to us which may result, if any, cannot be reasonably estimated because there is no prior history of a loss of this nature on which an estimate could be made and there is no substantive information available upon which an estimate could be based.

In one of these lead pigment cases, in April 2000 we were served with a complaint in County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. 1-00-CV-788657) brought by a number of California government entities against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara sought to recover compensatory damages for funds the plaintiffs have expended or will in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. In July 2003, the trial judge granted defendants' motion to dismiss all remaining claims. Plaintiffs appealed and the intermediate appellate court reinstated public nuisance, negligence, strict liability, and fraud claims in March 2006. A fourth amended complaint was filed in March 2011 on behalf of The People of California by the County Attorneys of Alameda, Ventura, Solano, San Mateo, Los Angeles and Santa Clara, and the City Attorneys of San Francisco, San Diego and Oakland. That complaint alleged that the presence of lead paint created a public nuisance in each of the prosecuting attorney jurisdictions and seeks its abatement. In July and August 2013, the case was tried. In January 2014, the Judge issued a judgment finding us, The Sherwin Williams Company and ConAgra jointly and severally liable for the abatement of lead paint in pre-1980 homes, and ordered the defendants to pay an aggregate $1.15 billion to the State of California to fund such abatement. NL believes that this judgment is inconsistent with California law and is unsupported by the evidence, and we will appeal in the first quarter of 2014. In February 2014, we filed a motion for a new trial.

The Santa Clara case is unique in that this is the second time that an adverse verdict in the lead pigment litigation has been entered against NL (the first adverse verdict against NL was ultimately overturned on appeal). We have concluded that the likelihood of a loss in this case has not reached a standard of "probable" as contemplated by ASC 450, given (i) the substantive, substantial and meritorious grounds on which the adverse verdict in the Santa Clara case will be appealed (assuming our motion for a new trial is not granted), (ii) the uniqueness of the Santa Clara verdict (i.e. no final, non-appealable verdicts have ever been rendered against us, or any of the other former lead pigment manufacturers, based on the public nuisance theory of liability or otherwise), and (ii) the rejection of the public nuisance theory of liability as it relates to lead pigment matters in many other jurisdictions (no jurisdiction in

which a plaintiff has asserted a public nuisance theory of liability has ever successfully been upheld). In addition, liability that may result, if any, cannot be reasonably estimated, as NL continues to have no basis on which an estimate of liability could be made, as discussed above. However, as with any legal proceeding, there is no assurance that any of any appeal would be successful, and it is reasonably possible,

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based on the outcome of the appeals process, that NL may in the future incur some liability resulting in the recognition of a loss contingency accrual that could have a material adverse impact on our results of operations, financial position and liquidity.

New cases may continue to be filed against us. We cannot assure you that we will not incur liability in the future in respect of any of the pending or possible litigation in view of the inherent uncertainties involved in court and jury rulings. In the future, if new information regarding such matters becomes available to us (such as a final, non-appealable adverse verdict against us or otherwise ultimately being found liable with respect to such matters), at that time we would consider such information in evaluating any remaining cases then-pending against us as to whether it might then have become probable we have incurred liability with respect to these matters, and whether such liability, if any, could have become reasonably estimable. The resolution of any of these cases could result in the recognition of a loss contingency accrual that could have a material adverse impact on our net income for the interim or annual period during which such liability is recognized and a material adverse impact on our consolidated financial condition and liquidity.

Environmental matters and litigation

Our operations are governed by various environmental laws and regulations. Certain of our businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to maintain compliance with applicable environmental laws and regulations at all of our plants and to strive to improve environmental performance. From time to time, we may be subject to environmental regulatory enforcement under U.S. and non-U.S. statutes, the resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies, could adversely affect our production, handling, use, storage, transportation, sale or disposal of such substances. We believe that all of our facilities are in substantial compliance with applicable environmental laws.

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws and common law. Additionally, in connection with past operating practices, we are currently involved as a defendant, potentially responsible party (PRP) or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act (CERCLA), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities that we or our predecessors, our subsidiaries or their predecessors currently or previously owned, operated or used, certain of which are on the United States Environmental Protection Agency's (EPA) Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable, and among whom costs may be shared or allocated. In addition, we are also a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

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

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

uncertainty over the extent, if any, to which our former operations might have contributed to the conditions allegedly giving rise to such personal injury, property damage, natural resource and related claims and
number of years between former operations and notice of claims and lack of information and documents about the former operations.

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

We record liabilities related to environmental remediation and related matters when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available to us or as circumstances change. Unless the amounts and timing of such estimated future expenditures are fixed and reasonably determinable, we generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the payout. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. At December 31, 2012 and 2013, we have not recognized any receivables for recoveries.

We do not know and cannot estimate the exact time frame over which we will make payments for our accrued environmental and related costs. The timing of payments depends upon a number of factors, including but not limited to the timing of the actual remediation process; which in turn depends on factors outside of our control. At each balance sheet date, we estimate the amount of our accrued environmental and related costs which we expect to pay within the next twelve months, and we classify this estimate as a current liability. We classify the remaining accrued environmental costs as a noncurrent liability.

The table below presents a summary of the activity in our accrued environmental costs during the past three years. The amount charged to expense is included in corporate expense on our Consolidated Statements of Operations.

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Balance at the beginning of the year	$40,400	$41,637	$48,006
Additions charged to expense, net	11,326	14,467	68,929
Payments, net	(10,089)	(8,098)	(3,299)
Balance at the end of the year	$41,637	$48,006	$113,636
Amounts recognized in the balance sheet:			
Current liability	$7,301	$5,667	$4,859
Noncurrent liability	34,336	42,339	108,777
Total	$41,637	$48,006	$113,636

Of the $11.3 million net additions charged to expense in 2011, $5.6 million relates to certain payments which have been discounted to their present value because the timing and amounts of such payments are fixed and determinable. Such payments aggregate $6.0 million on an undiscounted basis ($2.0 million that was paid in 2012 and $1.0 million that was paid in 2013, and $1 million that is due in each of 2014 through 2016) and were discounted

to present value using a 3.0% discount rate. The aggregate $.4 million discount is being charged to expense using the interest method in 2011 through 2016, and the amount of such discount charged to expense in any individual year is not material.

On a quarterly basis, we evaluate the potential range of our liability for environmental remediation and related costs at sites where we have been named as a PRP or defendant, including sites for which our wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc., (EMS), has contractually assumed our obligations. At December 31, 2013, we had accrued approximately $114 million related to approximately 45 sites associated with remediation and related matters that we believe are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to us for remediation and related matters for which we believe it is possible to estimate costs is approximately $154 million, including the amount currently accrued. Other than as indicated above, these accruals have not been discounted to present value.

We believe that it is not possible to estimate the range of costs for certain sites. At December 31, 2013, there were approximately 5 sites for which we are not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not we actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of our control, such as when the party alleging liability provides information to us. At certain of these previously inactive sites, we have received general and special notices of liability from the EPA and/or state agencies alleging that we, sometimes with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations. These notifications may assert that we, along with any other alleged PRPs, are liable for past and/or future clean-up costs. As further information becomes available to us for any of these sites which would allow us to estimate a range of costs, we would at that time adjust our accruals. Any such adjustment could result in the recognition of an accrual that would have a material effect on our consolidated financial statements, results of operations and liquidity.

Insurance coverage claims

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

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

In October 2005 we were served with a complaint in OneBeacon American Insurance Company v. NL Industries, Inc., et al. (Supreme Court of the State of New York, County of New York, Index No. 603429-05). The plaintiff, a former insurance carrier, sought a declaratory judgment of its obligations to us under insurance policies issued to us by the plaintiff's predecessor with respect to certain lead pigment lawsuits filed against us. In March 2006, the trial court denied our motion to dismiss. In April 2006, we filed a notice of appeal of the trial court's ruling, and in September 2007, the Supreme Court – Appellate Division (First Department) reversed and ordered that the OneBeacon complaint be dismissed. The Appellate Division did not dismiss the counterclaims and cross claims.

In February 2006, we were served with a complaint in Certain Underwriters at Lloyds, London v. Millennium Holdings LLC et al. (Supreme Court of the State of New York, County of New York, Index No. 06/60026). The plaintiff, a former insurance carrier of ours, sought a declaratory judgment of its obligations to us under insurance policies issued to us by the plaintiff with respect to certain lead pigment lawsuits. This case is currently stayed.

Prior to 2011, we reached partial settlements with the plaintiffs in the two cases discussed above, pursuant to which the two former insurance carriers paid us an aggregate of approximately $7.2 million in settlement of certain counter-claims related to past lead pigment and asbestos defense costs. In connection with these partial settlements, we agreed to dismiss the case captioned NL Industries, Inc. v. OneBeacon America Insurance Company, et al. (District Court for Dallas County, Texas, Case No. 05-11347), and in January 2009 we filed a notice of non-suit without prejudice in that matter. In March 2010, we filed a complaint in NL Industries, Inc. v. OneBeacon America Insurance Company (Supreme Court of the State of New York, County of New York, Index No. 108881-2009), to address the remaining claims from the New York state cases. In December 2013, we entered into a settlement agreement with OneBeacon, pursuant to which they agreed to reimburse us for certain contested past lead pigment litigation costs in the amount of $3.9 million.

In January 2014, we were served with a complaint in Certain Underwriters at Lloyds, London, et al v. NL Industries, Inc. (Supreme Court of the State of New York, County of New York, Index No. 14/650103). The plaintiff, a former insurance carrier of ours, is seeking a declaratory judgment of its obligations to us under insurance policies issued to us by the plaintiff with respect to certain lead pigment lawsuits. The case is now proceeding in the trial court. We believe the action is without merit and intend to defend NL's rights in this action vigorously.

In February 2014, we were served with a complaint in Zurich American Insurance Company, as successor-in-interest to Zurich Insurance Company, U.S. Branch vs. NL Industries, Inc, and The People of the State of California, acting by and through county Counsels of Santa Clara, Alameda, Los Angeles, Monterey, San Mateo, Solano and Ventura Counties and the city Attorneys of Oakland, San Diego, and San Francisco, et al (Superior Court of California, County of Santa Clara, Case No.: 1-14-CV-259924). The Plaintiff, a former insurance carrier of ours, is seeking an Order of Deposit Under C.C.P § 572. This case is now proceeding in the trial court. We intend to defend NL's coverage rights in this action vigorously.

Other litigation

In 2005, certain real property we owned that is subject to environmental remediation was taken from us in a condemnation proceeding by a governmental authority in New Jersey. The condemnation proceeds, the adequacy of which we disputed, were placed into escrow with a court in New Jersey. Because the funds were in escrow with the court and were beyond our control, we never gave recognition to such condemnation proceeds for financial reporting purposes. In October 2008 we reached a definitive settlement agreement with such governmental authority and a real estate developer, among others, pursuant to which, among other things, we would receive certain agreed-upon amounts in satisfaction of our claim to just compensation for the taking of our property in the condemnation proceeding at three separate closings, and we would be indemnified against certain environmental liabilities related to such property, in exchange for the release of our equitable lien on specified portions of the property at each closing. At the initial October 2008 closing, we received aggregate proceeds of $54.6 million, comprising $39.6 million in cash plus a promissory note in the amount of $15.0 million in exchange for the release of our equitable lien on a portion of the property. The $15.0 million promissory note bore interest at LIBOR plus 2.75%, with interest payable monthly and all principal due no later than October 2011. In April 2009, the second closing was completed, pursuant to which we received an aggregate of $11.8 million in cash. In October 2011, we collected the full $15.0 million due to us under the promissory note issued in connection with the first closing.

In May 2012, we reached an agreement with the New Jersey governmental authority and the real estate developer pursuant to which we received an aggregate of $15.6 million cash for the third and final closing contemplated by the October 2008 settlement agreement associated with certain real property NL formerly owned in New Jersey. Upon receipt of these cash proceeds, our equitable lien on a portion of such property was released. For financial reporting purposes, we have accounted for the consideration received in each of the first, second and third closings contemplated by the October 2008 settlement agreement by the full accrual method of accounting for real estate sales

(since the settlement agreement arose out of a dispute concerning the adequacy of the condemnation proceeds of our former real property in New Jersey). Under this method, we recognized a pre-tax gain of $15 million in the second quarter of 2012 related to the third and final closing, based on the excess of the $15.6 million cash received over our carrying value of the property from which our equitable lien was released. Similarly, the

cash consideration we received in each closing is reflected as an investing activity in our Consolidated Statement of Cash Flows.

We have been named as a defendant in various lawsuits in several jurisdictions, alleging personal injuries as a result of occupational exposure primarily to products manufactured by our former operations containing asbestos, silica and/or mixed dust. In addition, some plaintiffs allege exposure to asbestos from working in various facilities previously owned and/or operated by us. There are 1,130 of these types of cases pending, involving a total of approximately 1,643 plaintiffs. In addition, the claims of approximately 8,298 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio, Indiana and Texas state courts. We do not expect these claims will be re-opened unless the plaintiffs meet the courts' medical criteria for asbestos-related claims. We have not accrued any amounts for this litigation because of the uncertainty of liability and inability to reasonably estimate the liability, if any. To date, we have not been adjudicated liable in any of these matters. Based on information available to us, including:

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

We believe that the range of reasonably possible outcomes of these matters will be consistent with our historical costs (which are not material). Furthermore, we do not expect any reasonably possible outcome would involve amounts material to our consolidated financial position, results of operations or liquidity. We have sought and will continue to vigorously seek, dismissal and/or a finding of no liability from each claim. In addition, from time to time, we have received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries, including notices provided to insurers with which we have entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from us.

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

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

Concentrations of credit risk

Component products are sold primarily in North America to original equipment manufacturers. The ten largest customers related to our continuing operations accounted for approximately 39% in 2011, 38% in 2012 and 42% in 2013. San Mateo Postal Data, a customer of CompX's Security Products business accounted for 13% of total sales in 2013. Harley Davidson, also a customer of CompX's Security Products business, accounted for approximately 13% of total sales in 2011 and 12% of total sales in each of 2012 and 2013.

Other

Rent expense related to continuing operations, principally for CompX operating facilities and equipment was not significant in 2011, 2012 or 2013 and at December 31, 2013, future minimum rentals under noncancellable operating leases are also not significant.

Income taxes

We and Valhi have agreed to a policy providing for the allocation of tax liabilities and tax payments as described in Note 1. Under applicable law, we, as well as every other member of the Contran Tax Group, are each jointly and severally liable for the aggregate federal income tax liability of Contran and the other companies

included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. Valhi has agreed, however, to indemnify us for any liability for income taxes of the Contran Tax Group in excess of our tax liability computed in accordance with the tax allocation policy.

Note 19 - Financial instruments:

The following table summarizes the valuation of our short-term investments and marketable securities, all classified as a noncurrent asset, by the ASC Topic 820 categories as of December 31, 2012 and 2013:

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
December 31, 2012 -				
Marketable securities	$179,662	$179,662	-	-
December 31, 2013 -				
Marketable securities	$252,677	$252,677	-	-

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure as December 31, 2012 and 2013:

	December 31, 2012		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Cash and cash equivalents, restricted cash equivalents and current marketable securities	$85,035	$85,035	$57,639	$57,639
CompX promissory note payable to TFMC	18,480	18,480	-	-
Noncontrolling interest in CompX common stock	13,268	23,409	13,615	23,119
NL stockholders' equity	374,815	557,259	355,380	544,174

The fair value of our noncontrolling interest in CompX and NL stockholder's equity are based upon quoted market prices at each balance sheet date, which represent Level 1 inputs as defined by ASC Topic 820-10-35. The fair value of our promissory notes payable and our variable interest rate debt represent Level 2 inputs and are deemed to approximate book value. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

Note 20 - Quarterly results of operations (unaudited):

	Quarter ended March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share data)			
Year ended December 31, 2012				
Net sales	$20,428	$22,147	$21,281	$19,340
Gross margin	6,012	6,509	6,310	5,496
Net income	21,247	26,245	10,347	21,243
Amounts attributable to NL stockholders:				
Income from continuing operations	$20,475	$25,199	$8,508	$2,548
Income from discontinued operations	574	774	1,499	14,959
Net income attributable to NL stockholders	$21,049	$25,973	$10,007	$17,507
Earnings per share:				
Income from continuing operations	$.42	$.51	$.18	$.05
Discontinued operations	.01	.02	.03	.31
Net income attributable to NL stockholders	$.43	$.53	$.21	$.36

	Quarter ended March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share data)			
Year ended December 31, 2013				
Net sales	$21,453	$24,039	$24,209	$22,344
Gross margin	6,020	7,610	7,514	6,430
Net loss	(1,998)	(14,018)	(5,684)	(32,843)
Net loss attributable to NL stockholders	$(2,118)	$(14,255)	$(5,940)	$(33,020)
Loss per common share attributable to NL stockholders	$(.04)	$(.29)	$(.12)	$(.68)

The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted average number of shares used in the per share computations.

We recognized the following amounts in 2012 related to continuing operations:

aggregate pre-tax income of $3.3 million ($1.1 million, $.3 million, $1.2 million, and $.7 million in the first, second, third, and fourth quarter, respectively), related to insurance recoveries, see Note 18,
$15.0 million pre-tax gain in the second quarter related to a settlement agreement for certain environmental properties, see Note 18,
$1.4 million ($.9 million net of tax) included in our equity in net income of Kronos in the second quarter related to Kronos' charge for the early extinguishment of its remaining 6.5% Senior Notes due 2013,
$1.1 million ($.7 million net of tax) included in our equity in net income of Kronos in the fourth quarter represents a correction of Kronos' income tax provision that should have been recognized in the third quarter 2011 and is not material to any current or prior periods,
$3.2 million pre-tax gain on the sale of certain real property in the fourth quarter, see Note 17,
$16.6 million pre-tax gain on the sale of TIMET common stock in the fourth quarter, see Note 6 and
$6.4 million pre-tax loss on the write-off of goodwill related to our insurance brokerage subsidiary in the fourth quarter, see Note 8.

We recognized the following amounts in 2012 related to discontinued operations:

$23.7 million pretax gain on the sale of CompX's Furniture Components operations in the fourth quarter, see Note 2.
We recognized the following amounts in 2013 related to continuing operations:

- aggregate pre-tax income of $9.4 million ($.6 million, $.9 million, $2.2 million, and $5.7 million in the first, second, third, and fourth quarter, respectively), related to insurance recoveries, see Note 18,
- $6.8 million ($4.5 million net of tax) charge included in our equity in net loss of Kronos related to Kronos' third quarter litigation settlement charge.
- an aggregate charge of $1.8 million ($1.1 million net of tax) included in our equity in net loss of Kronos related to Kronos' voluntary prepayments of its term loan ($290 million principal amount in the first quarter and the remaining $100 million outstanding in the third quarter) consisting of the write-off of original issue discount costs and deferred financing costs associated with such prepayments.
- An aggregate charge of $6.3 million ($4.1 million net of tax) included in our equity in net loss of Kronos related to Kronos' unabsorbed fixed production and other costs as a result of its Canadian plant lockout in the third and fourth quarters as well as a pension curtailment charge and severance and other back-to-work expenses associated with reaching terms of the new Canadian collective bargaining agreement. Approximately $1.6 ($1.1 million net of tax) million of the costs (primarily related to unabsorbed fixed production costs) related to the third quarter of 2013 with the remaining costs recognized in the fourth quarter of 2013.