UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

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

5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2620
(Address of principal executive offices)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	NL	NYSE

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Number of shares of the registrant's common stock, $.125 par value per share, outstanding on July 28, 2022 48,815,734.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2021	June 30, 2022 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 147,002	**$ 151,248**
Restricted cash and cash equivalents	2,765	**2,827**
Accounts and other receivables, net	15,609	**17,599**
Receivables from affiliates	—	**106**
Inventories, net	25,642	**33,303**
Prepaid expenses and other	2,630	**3,881**
Total current assets	193,648	**208,964**
Other assets:		
Restricted cash and cash equivalents	25,475	**25,422**
Note receivable from affiliate	18,700	**16,600**
Marketable securities	34,435	**54,306**
Investment in Kronos Worldwide, Inc.	264,803	**275,853**
Goodwill	27,156	**27,156**
Other assets, net	2,753	**2,645**
Total other assets	373,322	**401,982**
Property and equipment:		
Land	5,071	**5,071**
Buildings	23,161	**23,174**
Equipment	70,664	**72,754**
Construction in progress	2,028	**1,389**
	100,924	**102,388**
Less accumulated depreciation	71,742	**72,929**
Net property and equipment	29,182	**29,459**
Total assets	$ 596,152	**$ 640,405**

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

	December 31, 2021	June 30, 2022 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 3,408	**$ 6,420**
Accrued litigation settlement	11,830	**11,943**
Accrued and other current liabilities	12,025	**9,701**
Accrued environmental remediation and related costs	2,643	**2,753**
Payables to affiliates	691	**682**
Total current liabilities	30,597	**31,499**
Noncurrent liabilities:		
Long-term debt from affiliate	500	**500**
Accrued environmental remediation and related costs	90,297	**90,283**
Long-term litigation settlement	38,519	**38,886**
Deferred income taxes	44,056	**51,801**
Accrued pension costs	3,722	**3,116**
Other	3,490	**3,343**
Total noncurrent liabilities	180,584	**187,929**
Equity:		
NL stockholders' equity:		
Common stock	6,100	**6,101**
Additional paid-in capital	299,775	**298,932**
Retained earnings	297,351	**339,327**
Accumulated other comprehensive loss	(240,756)	**(246,319)**
Total NL stockholders' equity	362,470	**398,041**
Noncontrolling interest in subsidiary	22,501	**22,936**
Total equity	384,971	**420,977**
Total liabilities and equity	$ 596,152	**$ 640,405**

Commitments and contingencies (Notes 12 and 14)

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
		(unaudited)		
Net sales	$ 36,253	**$ 41,675**	$ 72,177	**$ 83,725**
Cost of sales	24,947	**28,046**	49,836	**58,016**
Gross margin	11,306	**13,629**	22,341	**25,709**
Selling, general and administrative expense	5,548	**5,884**	10,766	**11,658**
Corporate expense	2,871	**3,540**	4,716	**5,976**
Income from operations	2,887	**4,205**	6,859	**8,075**
Equity in earnings of Kronos Worldwide, Inc.	7,816	**13,991**	13,784	**31,524**
Other income (expense):				
Interest and dividend income	423	**567**	863	**876**
Marketable equity securities	4,575	**19,200**	10,935	**19,871**
Other components of net periodic pension and OPEB cost	(196)	**(223)**	(267)	**(446)**
Interest expense	(299)	**(248)**	(597)	**(494)**
Income before income taxes	15,206	**37,492**	31,577	**59,406**
Income tax expense	1,901	**6,435**	4,406	**9,140**
Net income	13,305	**31,057**	27,171	**50,266**
Noncontrolling interest in net income of subsidiary	608	**805**	1,217	**1,457**
Net income attributable to NL stockholders	$ 12,697	**$ 30,252**	$ 25,954	**$ 48,809**
Amounts attributable to NL stockholders:				
Basic and diluted net income per share	$ .26	**$ .62**	$ .53	**$ 1.00**
Weighted average shares used in the calculation of net income per share	48,795	**48,809**	48,792	**48,806**

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2021	**2022**	**2021**	**2022**
		(unaudited)		
Net income	$ 13,305	**$ 31,057**	$ 27,171	**$ 50,266**
Other comprehensive income (loss), net of tax:				
Currency translation	402	**(8,741)**	947	**(7,161)**
Defined benefit pension plans	1,144	**856**	2,295	**1,729**
Other postretirement benefit plans	(64)	**(63)**	(135)	**(131)**
Total other comprehensive income (loss), net	1,482	**(7,948)**	3,107	**(5,563)**
Comprehensive income	14,787	**23,109**	30,278	**44,703**
Comprehensive income attributable to noncontrolling interest	608	**805**	1,217	**1,457**
Comprehensive income attributable to NL stockholders	$ 14,179	**$ 22,304**	$ 29,061	**$ 43,246**

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	Three months ended June 30, 2021 and 2022 (unaudited)					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Noncontrolling interest in subsidiary	Total equity
Balance at March 31, 2021	$ 6,098	$ 300,097	$ 268,205	$ (249,564)	$ 21,983	$ 346,819
Net income	—	—	12,697	—	608	13,305
Other comprehensive income, net of tax	—	—	—	1,482	—	1,482
Issuance of NL common stock	2	99				101
Dividends paid - $.06 per share	—	—	(2,928)	—	—	(2,928)
Dividends paid to noncontrolling interest	—	—	—	—	(330)	(330)
Equity transactions with noncontrolling interest, net and other	—	113	—	—	13	126
Balance at June 30, 2021	$ 6,100	$ 300,309	$ 277,974	$ (248,082)	$ 22,274	$ 358,575
Balance at March 31, 2022	$ 6,100	$ 300,210	$ 312,492	$ (238,371)	$ 22,747	$ 403,178
Net income	—	—	**30,252**	—	**805**	**31,057**
Other comprehensive loss, net of tax	—	—	—	**(7,948)**	—	**(7,948)**
Issuance of NL common stock	**1**	**119**	—	—	—	**120**
Dividends paid - $.07 per share	—	—	**(3,417)**	—	—	**(3,417)**
Dividends paid to noncontrolling interest	—	—	—	—	**(406)**	**(406)**
Other, net	—	**(1,397)**	—	—	**(210)**	**(1,607)**
Balance at June 30, 2022	**$ 6,101**	**$ 298,932**	**$ 339,327**	**$ (246,319)**	**$ 22,936**	**$ 420,977**

	Six months ended June 30, 2021 and 2022 (unaudited)					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Noncontrolling interest in subsidiary	Total equity
Balance at December 31, 2020	$ 6,098	$ 299,093	$ 257,875	$ (251,189)	$ 23,472	$ 335,349
Net income	—	—	25,954	—	1,217	27,171
Other comprehensive income, net of tax	—	—	—	3,107	—	3,107
Issuance of NL common stock	2	99	—	—	—	101
Dividends paid - $.12 per share	—	—	(5,855)	—	—	(5,855)
Dividends paid to noncontrolling interest	—	—	—	—	(669)	(669)
Other, net	—	1,117	—	—	(1,746)	(629)
Balance at June 30, 2021	$ 6,100	$ 300,309	$ 277,974	$ (248,082)	$ 22,274	$ 358,575
Balance at December 31, 2021	$ 6,100	$ 299,775	$ 297,351	$ (240,756)	$ 22,501	$ 384,971
Net income	—	—	**48,809**	—	**1,457**	**50,266**
Other comprehensive loss, net of tax	—	—	—	**(5,563)**	—	**(5,563)**
Issuance of NL common stock	**1**	**119**	—	—	—	**120**
Dividends paid - $.14 per share	—	—	**(6,833)**	—	—	**(6,833)**
Dividends paid to noncontrolling interest	—	—	—	—	**(812)**	**(812)**
Other, net	—	**(962)**	—	—	**(210)**	**(1,172)**
Balance at June 30, 2022	**$ 6,101**	**$ 298,932**	**$ 339,327**	**$ (246,319)**	**$ 22,936**	**$ 420,977**

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30, 2021	Six months ended June 30, 2022
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 27,171	$ **50,266**
Depreciation and amortization	1,900	**1,956**
Deferred income taxes	4,359	**9,099**
Equity in earnings of Kronos Worldwide, Inc.	(13,784)	**(31,524)**
Dividends received from Kronos Worldwide, Inc.	12,678	**13,384**
Marketable equity securities	(10,935)	**(19,871)**
Noncash interest expense	584	**480**
Benefit plan expense greater (less) than cash funding	(191)	**278**
Other, net	26	**(32)**
Change in assets and liabilities:		
Accounts and other receivables, net	(5,559)	**(1,995)**
Inventories, net	(1,691)	**(7,735)**
Prepaid expenses and other	(355)	**(1,249)**
Accounts payable and accrued liabilities	(367)	**663**
Accounts with affiliates	327	**(115)**
Accrued environmental remediation and related costs	(506)	**96**
Other noncurrent assets and liabilities, net	(43)	**(76)**
Net cash provided by operating activities	13,614	**13,625**
Cash flows from investing activities:		
Capital expenditures	(1,598)	**(2,215)**
Note receivable from affiliate:		
Collections	22,200	**12,400**
Loans	(18,700)	**(10,300)**
Other, net	—	**150**
Net cash provided by investing activities	1,902	**35**
Cash flows from financing activities:		
Dividends paid	(5,855)	**(6,833)**
Subsidiary treasury stock acquired	(755)	**(1,744)**
Dividends paid to noncontrolling interests in subsidiary	(669)	**(812)**
Other, net	—	**(16)**
Net cash used in financing activities	(7,279)	**(9,405)**
Cash and cash equivalents and restricted cash and cash equivalents - net change from:		
Operating, investing and financing activities	8,237	**4,255**
Balance at beginning of period	165,272	**175,242**
Balance at end of period	$ 173,509	$ **179,497**
Supplemental disclosures - cash paid for:		
Interest	$ 13	$ **14**
Income taxes, net	34	**164**

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022

(unaudited)

Note 1 – Organization and basis of presentation:

Organization – At June 30, 2022, Valhi, Inc. (NYSE: VHI) held approximately 83% of our outstanding common stock and a wholly-owned subsidiary of Contran Corporation held approximately 92% of Valhi's outstanding common stock. A majority of Contran's outstanding voting stock is held directly by Lisa K. Simmons and various family trusts established for the benefit of Ms. Simmons, Thomas C. Connelly (the husband of Ms. Simmons' late sister) and their children and for which Ms. Simmons or Mr. Connelly, as applicable, serve as trustee (collectively, the "Other Trusts"). With respect to the Other Trusts for which Mr. Connelly serves as trustee, he is required to vote the shares of Contran voting stock held by such trusts in the same manner as Ms. Simmons. Such voting rights of Ms. Simmons last through April 22, 2030 and are personal to Ms. Simmons. The remainder of Contran's outstanding voting stock is held by another trust (the "Family Trust"), which was established for the benefit of Ms. Simmons and her late sister and their children and for which a third-party financial institution serves as trustee. Consequently, at June 30, 2022 Ms. Simmons and the Family Trust may be deemed to control Contran, and therefore may be deemed to indirectly control the wholly-owned subsidiary of Contran, Valhi and us.

Basis of presentation – Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. We also own approximately 31% of Kronos Worldwide, Inc. (Kronos). CompX (NYSE American: CIX) and Kronos (NYSE: KRO) each file periodic reports with the Securities and Exchange Commission (SEC).

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2021 that we filed with the SEC on March 9, 2022 (the "2021 Annual Report"). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2021 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2021) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our results of operations for the interim periods ended June 30, 2022 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2021 Consolidated Financial Statements contained in our 2021 Annual Report.

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

Note 2 – Accounts and other receivables, net:

	December 31, 2021	June 30, 2022
	(In thousands)	
Trade receivables - CompX	$ 15,616	**$ 17,643**
Accrued insurance recoveries	43	**—**
Other receivables	20	**26**
Allowance for doubtful accounts	(70)	**(70)**
Total	$ 15,609	**$ 17,599**

Note 3 – Inventories, net:

	December 31, 2021	June 30, 2022
	(In thousands)	
Raw materials	$ 5,042	**$ 7,249**
Work in process	16,767	**20,958**
Finished products	3,833	**5,096**
Total	$ 25,642	**$ 33,303**

Note 4 – Marketable securities:

Our marketable securities consist of investments in the publicly-traded shares of our immediate parent company Valhi, Inc. Our shares of Valhi common stock are accounted for as available-for-sale securities, which are carried at fair value using quoted market prices in active markets and represent a Level 1 input within the fair value hierarchy. Any unrealized gains or losses on the securities are recognized in Marketable equity securities on our Condensed Consolidated Statements of Income.

	Fair value measurement level	Market value	Cost basis	Unrealized gain
			(In thousands)	
December 31, 2021				
Noncurrent assets				
Valhi common stock	1	$ 34,435	$ 24,347	$ 10,088
June 30, 2022				
Noncurrent assets				
Valhi common stock	1	**$ 54,306**	**$ 24,347**	**$ 29,959**

At December 31, 2021 and June 30, 2022, we held approximately 1.2 million shares of common stock of our immediate parent company, Valhi, Inc. At December 31, 2021 and June 30, 2022, the quoted per share market price of Valhi common stock was $28.75 and $45.34, respectively.

The Valhi common stock we own is subject to 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 General Corporation Law, but we receive dividends from Valhi on these shares, when declared and paid.

Note 5 – Investment in Kronos Worldwide, Inc.:

At December 31, 2021 and June 30, 2022, we owned approximately 35.2 million shares of Kronos common stock. At June 30, 2022, the quoted market price of Kronos' common stock was $18.40 per share, or an aggregate market value of $648.0 million. At December 31, 2021, the quoted market price was $15.01 per share, or an aggregate market value of $528.6 million.

The change in the carrying value of our investment in Kronos during the first six months of 2022 is summarized below.

	Amount
	(In millions)
Balance at the beginning of the period	**$ 264.8**
Equity in earnings of Kronos	**31.5**
Dividends received from Kronos	**(13.4)**
Equity in Kronos' other comprehensive income:	
Currency translation	**(9.0)**
Defined benefit pension plans	**1.4**
Other	**.6**
Balance at the end of the period	**$ 275.9**

Selected financial information of Kronos is summarized below:

	December 31, 2021	June 30, 2022
	(In millions)	
Current assets	$ 1,258.0	**$ 1,247.9**
Property and equipment, net	503.4	**472.0**
Investment in TiO_2 joint venture	101.9	**106.0**
Other noncurrent assets	149.5	**137.6**
Total assets	$ 2,012.8	**$ 1,963.5**
Current liabilities	$ 288.8	**$ 281.5**
Long-term debt	449.8	**415.8**
Accrued pension costs	287.4	**263.6**
Other noncurrent liabilities	116.6	**99.0**
Stockholders' equity	870.2	**903.6**
Total liabilities and stockholders' equity	$ 2,012.8	**$ 1,963.5**

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
	(In millions)			
Net sales	$ 478.6	**$ 565.3**	$ 943.6	**$ 1,128.2**
Cost of sales	369.6	**444.8**	738.9	**858.4**
Income from operations	43.8	**65.2**	77.8	**148.5**
Income tax expense	9.2	**14.8**	15.2	**33.1**
Net income	25.7	**45.9**	45.3	**103.4**

Note 6 – Other assets, net:

	December 31, 2021	June 30, 2022
	(In thousands)	
Pension asset	$ 1,356	**$ 1,231**
Other	1,397	**1,414**
Total	$ 2,753	**$ 2,645**

Note 7 – Accrued and other current liabilities:

	December 31, 2021	June 30, 2022
	(In thousands)	
Employee benefits	$ 10,345	**$ 7,664**
Other	1,680	**2,037**
Total	$ 12,025	**$ 9,701**

Note 8 – Long-term debt:

During the first six months of 2022, our wholly-owned subsidiary, NLKW Holding, LLC had no borrowings or repayments under its $50 million secured revolving credit facility with Valhi. At June 30, 2022, $.5 million was outstanding and $49.5 million was available for future borrowing under this facility. Outstanding borrowings bear interest at the prime rate plus 1.875% per annum, and the average interest rate for the six months ended June 30, 2022 was 5.49%. The interest rate under this facility as of June 30, 2022 was 6.625%. We are in compliance with all covenants at June 30, 2022.

Note 9 – Other noncurrent liabilities:

	December 31, 2021	June 30, 2022
	(In thousands)	
Reserve for uncertain tax positions	$ 1,724	**$ 1,724**
OPEB	787	**702**
Insurance claims and expenses	632	**590**
Other	347	**327**
Total	$ 3,490	**$ 3,343**

Note 10 – Revenue recognition:

The following table disaggregates our net sales by reporting unit, which are the categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
	(In thousands)			
Net sales:				
Security Products	$ 27,587	**$ 28,837**	$ 53,472	**$ 58,418**
Marine Components	8,666	**12,838**	18,705	**25,307**
Total	$ 36,253	**$ 41,675**	$ 72,177	**$ 83,725**

Note 11 – Employee benefit plans:

The components of net periodic defined benefit pension cost are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
	(In thousands)			
Interest cost	$ 279	**$ 297**	$ 432	**$ 594**
Expected return on plan assets	(398)	**(392)**	(796)	**(784)**
Recognized actuarial losses	376	**373**	752	**746**
Total	$ 257	**$ 278**	$ 388	**$ 556**

We currently expect our 2022 contributions to our defined benefit pension plans to be approximately $1.2 million.

Note 12 – Income taxes:

	Three months ended June 30, 2021	Three months ended June 30, 2022	Six months ended June 30, 2021	Six months ended June 30, 2022
	(In millions)			
Expected tax expense, at U.S. federal statutory income tax rate of 21%	$ 3.2	**$ 7.9**	$ 6.6	**$ 12.5**
Rate differences on equity in earnings of Kronos, net of dividends	(1.2)	**(1.5)**	(2.2)	**(3.4)**
U.S. state income taxes and other, net	(.1)	**—**	—	**—**
Income tax expense	$ 1.9	**$ 6.4**	$ 4.4	**$ 9.1**
Comprehensive provision for income taxes allocable to:				
Net income	$ 1.9	**$ 6.4**	$ 4.4	**$ 9.1**
Additional paid-in capital	—	**—**	—	**.1**
Other comprehensive income:				
Currency translation	.2	**(2.3)**	.3	**(1.9)**
Pension plans	.3	**.3**	.6	**.5**
Total	$ 2.4	**$ 4.4**	$ 5.3	**$ 7.8**

In accordance with GAAP, we recognize deferred income taxes on our undistributed equity in earnings of Kronos. Because we and Kronos are part of the same U.S. federal income tax group, any dividends we receive from Kronos are nontaxable to us. Accordingly, we do not recognize and we are not required to pay income taxes on dividends from Kronos. We received aggregate dividends from Kronos of $12.7 million in the first six months of 2021 and $13.4 million in the first six months of 2022. The amounts shown in the above table of our income tax rate reconciliation for rate differences on equity in earnings of Kronos represent the income tax benefit associated with the nontaxable dividends we received from Kronos compared to the amount of deferred income taxes we recognized on our equity in earnings of Kronos.

Note 13 – Stockholders' equity:

Accumulated other comprehensive loss - Changes in accumulated other comprehensive loss attributable to NL stockholders, including amounts resulting from our investment in Kronos Worldwide (see Note 5), are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
	(In thousands)			
Accumulated other comprehensive loss, net of tax:				
Currency translation:				
Balance at beginning of period	$ (169,030)	**$ (169,655)**	$ (169,575)	**$ (171,235)**
Other comprehensive income (loss)	402	**(8,741)**	947	**(7,161)**
Balance at end of period	$ (168,628)	**$ (178,396)**	$ (168,628)	**$ (178,396)**
Defined benefit pension plans:				
Balance at beginning of period	$ (79,553)	**$ (67,595)**	$ (80,704)	**$ (68,468)**
Other comprehensive income - amortization of net losses included in net periodic pension cost	1,144	**856**	2,295	**1,729**
Balance at end of period	$ (78,409)	**$ (66,739)**	$ (78,409)	**$ (66,739)**
OPEB plans:				
Balance at beginning of period	$ (981)	**$ (1,121)**	$ (910)	**$ (1,053)**
Other comprehensive loss - amortization of net gains included in net periodic OPEB cost	(64)	**(63)**	(135)	**(131)**
Balance at end of period	$ (1,045)	**$ (1,184)**	$ (1,045)	**$ (1,184)**
Total accumulated other comprehensive loss:				
Balance at beginning of period	$ (249,564)	**$ (238,371)**	$ (251,189)	**$ (240,756)**
Other comprehensive income (loss)	1,482	**(7,948)**	3,107	**(5,563)**
Balance at end of period	$ (248,082)	**$ (246,319)**	$ (248,082)	**$ (246,319)**

See Note 11 for amounts related to our defined benefit pension plans.

Other – During the second quarter of 2022, we purchased 2,000 shares of our common stock from Kronos for a nominal amount in a private transaction that was approved in advance by our independent directors. We cancelled these treasury shares and allocated their cost to common stock at par value and additional paid-in capital.

During the second quarter of 2022, CompX acquired 78,900 shares of its Class A common stock for an aggregate amount of approximately $1.7 million under prior repurchase authorizations. Of these shares, 70,000 shares were purchased in a market transaction, and 8,900 shares were purchased from two of its affiliates in two separate private transactions that were also approved in advance by CompX's independent directors. During the first quarter of 2021, CompX purchased 50,000 shares of its Class A common stock in a market transaction for approximately $.8 million. At June 30, 2022, 523,647 shares were available for purchase under CompX's prior repurchase authorizations.

Note 14 – Commitments and contingencies:

General

We are involved in various environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our current and former businesses. At least quarterly our management discusses and evaluates the status of any pending litigation or claim to which we are a party or which has been asserted against us. The factors considered in such evaluation include, among other things, the nature of such pending cases and claims, the status of such pending cases and claims, the advice of legal counsel and our experience in similar cases and claims (if any). Based on such evaluation, we make a determination as to whether we believe (i) it is probable a loss has been incurred, and if so if the amount of such loss (or a range of loss) is reasonably estimable, or (ii) it is reasonably possible but not probable a loss has been incurred, and if so, if the amount of such loss (or a range of loss) is reasonably estimable, or (iii) the probability a loss has been incurred is remote.

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 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 we have incurred any liability with respect to pending lead pigment litigation cases to which we are a party, and with respect to all such lead pigment litigation cases to which we are a party, we believe 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, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases (other than the Santa Clara case discussed below),
- no final, non-appealable adverse judgments 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 thirty-year period for which we were previously a party and for which we have been dismissed without any finding of liability.

Accordingly, we do not have any amounts accrued for any of the pending lead pigment and lead-based paint litigation cases filed by or on behalf of states, counties, cities or their public housing authorities and school districts, or those asserted as class actions. In addition, we have determined that liability to us which may result, if any, cannot be reasonably estimated at this time 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 the terms of the *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) global settlement agreement, we have four annual installment payments remaining ($12.0 million for the next three installments and $16.7 million for the final installment). Our final installment will be made with funds already on deposit at the court, which are included in noncurrent restricted cash on our Condensed Consolidated Balance Sheets, that are committed to the settlement, including all accrued interest at the date of payment, with any remaining balance to be paid by us (and any amounts on deposit in excess of the final payment would be returned to us). See Note 17 to our 2021 Annual Report.

New cases may continue to be filed against us. We cannot assure you that we will not incur liability in the future with respect to 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. 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 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 occasionally named as a party in 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. Actual costs could exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and costs may 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 (including costs associated with damages for personal injury or property damage and/or damages for injury to natural resources) 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.

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.

Changes in the accrued environmental remediation and related costs during the first six months of 2022 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	$ 92,940
Additions charged to expense, net	549
Payments, net	(453)
Balance at the end of the period	$ 93,036
Amounts recognized in the Condensed Consolidated Balance Sheet at the end of the period:	
Current liability	$ 2,753
Noncurrent liability	90,283
Balance at the end of the period	$ 93,036

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 June 30, 2022, we had accrued approximately $93 million related to approximately 33 sites associated with remediation and related matters 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 $118 million, including the amount currently accrued. These accruals have not been discounted to present value.

We believe it is not reasonably possible to estimate the range of costs for certain sites. At June 30, 2022, there were approximately five sites for which we are not currently able to reasonably 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, if any, 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 certain of our 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.

For a complete discussion of certain litigation involving us and certain of our former insurance carriers, refer to our 2021 Annual Report.

Other litigation

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 (including asbestos-related claims), 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.

Note 15 – Financial instruments and fair value measurements:

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

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure:

	December 31, 2021		June 30, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash, cash equivalents and restricted cash	$ 175,242	$ 175,242	**$ 179,497**	**$ 179,497**

Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

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

RESULTS OF OPERATIONS:

Business overview

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

CompX is a leading manufacturer of engineered components utilized in a variety of applications and industries. Through its Security Products operations, CompX manufactures mechanical and electronic cabinet locks and other locking mechanisms used in recreational transportation, postal, office and institutional furniture, cabinetry, tool storage and healthcare applications. CompX also manufactures stainless steel exhaust systems, gauges, throttle controls, wake enhancement systems, trim tabs and related hardware and accessories for the recreational marine and other industries through its Marine Components operations.

We account for our approximate 31% non-controlling interest in Kronos by the equity method. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments (TiO_2). TiO_2 is used for a variety of manufacturing applications including paints, plastics, paper and other industrial and specialty products.

Forward-looking information

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

- Future supply and demand for our products
- The extent of the dependence of certain of our businesses on certain market sectors
- The cyclicality of our businesses (such as Kronos' TiO_2 operations)
- Customer and producer inventory levels
- Unexpected or earlier-than-expected industry capacity expansion (such as the TiO_2 industry)
- Changes in raw material and other operating costs (such as energy, ore, zinc, aluminum, steel and brass costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs
- Changes in the availability of raw material (such as ore)
- General global economic and political conditions that harm the worldwide economy, disrupt our supply chain, increase material and energy costs or reduce demand or perceived demand for Kronos' TiO_2 and our products or impair our ability to operate our facilities (including changes in the level of gross domestic product in various regions of the world, natural disasters, terrorist acts, global conflicts and public health crises such as COVID-19)
- Competitive products and substitute products
- Price and product competition from low-cost manufacturing sources (such as China)
- Customer and competitor strategies
- Potential consolidation of Kronos' competitors

- Potential consolidation of Kronos' customers
- The impact of pricing and production decisions
- Competitive technology positions
- Our ability to protect or defend intellectual property rights
- Potential difficulties in integrating future acquisitions
- Potential difficulties in upgrading or implementing accounting and manufacturing software systems
- The introduction of trade barriers or trade disputes
- The impact of current or future government regulations (including employee healthcare benefit related regulations)
- Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian krone and the Canadian dollar and between the euro and the Norwegian krone), or possible disruptions to our business resulting from uncertainties associated with the euro or other currencies
- Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime such as disruption in energy supplies, transportation interruptions, cyber-attacks and public health crises such as COVID-19)
- Decisions to sell operating assets other than in the ordinary course of business
- Kronos' ability to renew or refinance credit facilities
- Potential increases in interest rates
- Our ability to maintain sufficient liquidity
- The timing and amounts of insurance recoveries
- The ability of our subsidiaries or affiliates to pay us dividends
- Uncertainties associated with CompX's development of new products and product features
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters, including future tax reform
- Our ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which may or may not have been recognized under the more-likely-than-not recognition criteria
- Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities or new developments regarding environmental remediation at sites related to our former operations)
- Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on former manufacturers of lead pigment and lead-based paint, including us, with respect to asserted health concerns associated with the use of such products), including new environmental health and safety regulations such as those seeking to limit or classify TiO_2 or its use
- The ultimate resolution of pending litigation (such as our lead pigment and environmental matters)
- Possible future litigation.

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

Results of operations

Net income overview

Quarter ended June 30, 2022 compared to the quarter ended June 30, 2021

Our net income attributable to NL stockholders was $30.2 million, or $.62 per share, in the second quarter of 2022 compared to net income attributable to NL stockholders of $12.7 million, or $.26 per share, in the second quarter of 2021. As more fully described below, the increase in our net income attributable to NL stockholders from 2021 to 2022 is primarily due to:

- an unrealized gain in the relative value of marketable equity securities of $19.2 million in 2022 compared to $4.5 million in 2021;
- equity in earnings of Kronos in 2022 of $14.0 million compared to $7.8 million in 2021; and
- higher income from operations attributable to CompX in 2022 of $7.7 million compared to $5.8 million in 2021.

Six months ended June 30, 2022 compared to six months ended June 30, 2021

Our net income attributable to NL stockholders was $48.8 million, or $1.00 per share, in the first six months of 2022 compared to net income attributable to NL stockholders of $26.0 million, or $.53 per share, in the first six months of 2021. As more fully described below, the increase in our net income attributable to NL stockholders from 2021 to 2022 is primarily due to:

- equity in earnings of Kronos of $31.5 million in 2022 compared to $13.8 million in 2021;
- an unrealized gain in the relative value of marketable equity securities of $19.9 million in 2022 compared to $10.9 million in 2021; and
- higher income from operations attributable to CompX in 2022 of $14.0 million compared to $11.6 million in 2021.

Income from operations

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

	Three months ended June 30,		%	Six months ended June 30,		%
	2021	2022	Change	2021	2022	Change
	(In millions)			(In millions)		
CompX	$ 5.8	**$ 7.7**	35 %	$ 11.6	**$ 14.0**	21 %
Corporate expense	(2.9)	**(3.5)**	23	(4.7)	**(5.9)**	27
Income from operations	$ 2.9	**$ 4.2**	46	$ 6.9	**$ 8.1**	18

Amounts attributable to CompX relate to its component products business, while corporate expense generally relates to NL. Each of these items is further discussed below.

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

	Three months ended June 30,		%	Six months ended June 30,		%
	2021	2022	Change	2021	2022	Change
	(In millions)			(In millions)		
Equity in earnings of Kronos	$ 7.8	**$ 14.0**	79 %	$ 13.8	**$ 31.5**	129 %
Marketable equity securities unrealized gain	4.5	**19.2**	320	10.9	**19.9**	82
Other components of net periodic pension and OPEB cost	(.2)	**(.3)**	14	(.3)	**(.5)**	67
Interest and dividend income	.5	**.6**	34	.9	**.9**	2
Interest expense	(.3)	**(.2)**	(17)	(.6)	**(.5)**	(17)

CompX International Inc.

In the second quarter of 2022 CompX's income from operations increased to $7.7 million compared to $5.8 million in the second quarter of 2021. CompX's income from operations for the first six months of 2022 was $14.0 million compared to $11.6 million in the first six months of 2021. The increase in income from operations in the second quarter and first six months of 2022 compared to 2021 is primarily due to higher sales for both the Security Products and Marine Components reporting units.

	Three months ended June 30,		%	Six months ended June 30,		%
	2021	2022	Change	2021	2022	Change
	(In millions)			(In millions)		
Net sales	$ 36.3	**$ 41.6**	15 %	$ 72.2	**$ 83.7**	16 %
Cost of sales	24.9	**28.0**	12	49.8	**58.0**	16
Gross margin	11.4	**13.6**	21	22.4	**25.7**	15
Operating costs and expenses	5.6	**5.9**	6	10.8	**11.7**	8
Income from operations	$ 5.8	**$ 7.7**	35	$ 11.6	**$ 14.0**	21
Percentage of net sales:						
Cost of sales	69 %	**67 %**		69 %	**69 %**	
Gross margin	31	**33**		31	**31**	
Operating costs and expenses	15	**14**		15	**14**	
Income from operations	16	**19**		16	**17**	

Net sales – Net sales increased $5.3 million and $11.5 million in the second quarter and for the first six months of 2022, respectively, compared to the same periods in 2021 due to higher Marine Components sales primarily to the towboat market and, to a lesser extent, higher Security Products sales across a variety of markets.

Cost of sales and gross margin – Cost of sales as a percentage of sales decreased 1.5% in the second quarter of 2022 compared to the same period in 2021. As a result, gross margin as a percentage of sales increased over the same period. Gross margin percentage increased in the second quarter of 2022 compared to the same period in 2021 primarily due to improved gross margin at Security Products. Cost of sales and gross margin as a percentage of sales for the first six months of 2022 were comparable to the same period in 2021. See discussion of reporting units below.

Operating costs and expenses – Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses directly related to product sales and administrative costs relating to business unit and corporate management activities, as well as any gains and losses on property and equipment. Operating costs and expenses for the second quarter of 2022 are comparable to the same period in 2021. For the first six months of 2022, operating costs and expenses were higher than the same period in 2021 primarily due to higher salary and benefit costs which increased by $.4 million. Operating costs and expenses as a percentage of net sales decreased for the second quarter and the first six months of 2022 due to the effect of higher sales.

Income from operations – As a percentage of net sales, income from operations for the second quarter and first six months of 2022 increased compared to the same periods of 2021 and was primarily impacted by the factors impacting cost of sales, gross margin and operating costs. See discussion of reporting units below.

Results by reporting unit

The key performance indicator for CompX's reporting units is the level of their income from operations (see discussion below). Reporting unit results exclude CompX corporate expenses.

	Three months ended June 30, 2021	Three months ended June 30, 2022	% Change	Six months ended June 30, 2021	Six months ended June 30, 2022	% Change
	(In millions)			(In millions)		
Security Products:						
Net sales	$ 27.6	**$ 28.8**	5 %	$ 53.5	**$ 58.4**	9 %
Cost of sales	18.7	**18.9**	1	36.4	**39.4**	8
Gross margin	8.9	**9.9**	12	17.1	**19.0**	11
Operating costs and expenses	3.0	**3.2**	7	5.7	**6.3**	9
Operating income	$ 5.9	**$ 6.7**	15	$ 11.4	**$ 12.7**	12
Gross margin	32 %	**35 %**		32 %	**33 %**	
Operating income margin	21	**23**		21	**22**	

Security Products – Security Products net sales increased 5% in the second quarter of 2022 compared to the same period last year. Relative to prior year, second quarter sales were $.7 million higher to the office furniture market and $.6 million higher to the government security market. Security Products net sales increased 9% in the first six months of 2022 compared to the same period last year. Relative to prior year, sales for the first six months were $1.9 million higher to the government security market, $1.4 million higher to the office furniture market and $.8 million higher to distributors.

Gross margin as a percentage of net sales for the second quarter and the first six months of 2022 increased as compared to the same periods in 2021 primarily due to higher sales resulting from price increases and surcharges implemented to recover higher production costs and, to a lesser extent, increased coverage of fixed costs from higher sales. Operating income as a percentage of net sales increased in the second quarter and the first six months of 2022 compared to the same periods in 2021 due to the factors impacting gross margin, as well as increased coverage of operating costs and expenses from higher sales.

	Three months ended June 30, 2021	Three months ended June 30, 2022	% Change	Six months ended June 30, 2021	Six months ended June 30, 2022	% Change
	(In millions)			(In millions)		
Marine Components:						
Net sales	$ 8.7	**$ 12.8**	48 %	$ 18.7	**$ 25.3**	35 %
Cost of sales	6.2	**9.1**	47	13.4	**18.6**	39
Gross margin	2.5	**3.7**	50	5.3	**6.7**	27
Operating costs and expenses	.8	**1.0**	11	1.7	**2.0**	13
Operating income	$ 1.7	**$ 2.7**	70	$ 3.6	**$ 4.7**	34
Gross margin	28 %	**29 %**		28 %	**26 %**	
Operating income margin	18	**21**		19	**19**	

Marine Components – Marine Components net sales in the second quarter and first six months of 2022 increased 48% and 35%, respectively, compared to the same periods in 2021. Sales to the towboat market were $3.7 million higher for the second quarter and $5.7 million higher for the first six months of 2022 compared to the same periods in 2021.

As a percentage of net sales, gross margin for the second quarter of 2022 was comparable to the same period in 2021. Operating income as a percentage of net sales increased in the second quarter of 2022 compared to the same period in 2021 due to increased sales as a result of surcharges implemented to recover higher production costs and increased coverage of cost of sales, operating costs and expenses on higher sales. For the first six months of 2022, gross margin as a percentage of net sales decreased compared to the same period in 2021 as surcharges and increased coverage of fixed costs from higher sales were more than offset by higher cost of sales, most significantly in the first quarter of 2022, driven by higher raw material costs (primarily stainless steel and aluminum), higher shipping costs and increased labor costs. Operating income as a percentage of net sales for the first six months of 2022 was comparable to the same period in 2021.

Outlook – During the first six months of 2022, CompX has experienced strong demand at both its reporting units. CompX operated its manufacturing facilities at elevated production rates during the first half of the year in line with its demand. While labor markets continue to be competitive in each of the regions in which CompX operates and labor costs continue to rise, during the second quarter CompX was able to achieve more balanced staffing levels aligned with current and forecasted demand, particularly at its Marine Components reporting unit.

CompX's Security Products reporting unit began to experience some softening in demand particularly in transportation and distribution markets but CompX expects continued strong demand in other markets to offset these declines. CompX's Marine Components reporting unit demand remains strong and CompX currently expects to report increased net sales and operating income from both reporting units for the full year 2022 compared to 2021. Certain of CompX's supply chains, particularly for commodity raw materials, have stabilized while other supply chains remain challenging, and current global and domestic supply chain disruptions continue to impact sourcing certain raw materials and components (such as electronic components) due to increased lead times, shortages and transportation and logistics delays. Thus far CompX has been able to manage through these disruptions with minimal impact on its operations. In addition, CompX is experiencing increased production costs including higher labor and shipping costs and, although prices for certain raw materials have begun to stabilize, costs of many of the raw materials CompX uses including zinc, brass, stainless steel and aluminum remain elevated above pre-pandemic levels. In response, CompX has implemented additional price increases and increased surcharges where necessary and, to-date, it has been successful in recovering its increased production costs; however, the extent to which future price increases and surcharges will mitigate rising costs is uncertain and CompX expects increasing production costs will continue to pressure gross margins as inventory costs are expected to remain above prior year costs for the foreseeable future. CompX continues to take actions it believes will minimize supply related disruptions, manage inventory turnover, improve operating margins and maintain a safe working conditions environment for its employees.

CompX's expectations for its operations and the markets it serves are based on a number of factors outside its control. As noted above, there continue to be global and domestic supply chain challenges and any future impacts on CompX's operations will depend on, among other things, any future disruption in its operations or its suppliers' operations, demand for its products and the timing and effectiveness of the global measures deployed to fight COVID-19, particularly in China, all of which remain uncertain and cannot be predicted.

General corporate and other items

Corporate expense – Corporate expenses were $3.5 million in the second quarter of 2022, $.6 million higher than in the second quarter of 2021 primarily due to higher litigation fees and related costs in 2022. Included in corporate expense in the second quarter of 2021 and 2022 are:

- litigation fees and related costs of $1.2 million in 2022 compared to $.5 million in 2021, and
- environmental remediation and related costs of $.4 million in 2022 compared to $.3 million in 2021.

Corporate expenses were $5.9 million in the first six months of 2022, $1.2 million higher than in the first six months of 2021 primarily due to higher litigation fees and related costs and higher environmental remediation and related costs in 2022. Included in corporate expense in the first six months of 2021 and 2022 are:

- litigation fees and related costs of $1.8 million in 2022 compared to $.8 million in 2021, and
- environmental remediation and related costs of $.5 million in 2022 compared to $.2 million in 2021.

The level of our litigation fees and related costs varies from period to period depending upon, among other things, the number of cases in which we are currently involved, the nature of such cases and the current stage of such cases (e.g. discovery, pre-trial motions, trial or appeal, if applicable). See Note 14 to our Condensed Consolidated Financial Statements. If our current expectations regarding the number of cases in which we expect to be involved during 2022 or the nature of such cases were to change, our corporate expenses could be higher than we currently estimate.

Obligations for environmental remediation costs are difficult to assess and estimate and it is possible that actual costs for environmental remediation will exceed accrued amounts or that costs will be incurred in the future for sites in which we cannot currently estimate our liability. If these events were to occur in 2022, our corporate expenses would be higher than we currently estimate. In addition, we adjust our environmental accruals as further information becomes available to us or as circumstances change. Such further information or changed circumstances could result in an increase in our accrued environmental costs. See Note 14 to our Condensed Consolidated Financial Statements.

Overall, we currently expect that our net general corporate expenses in 2022 will be higher than 2021 primarily due to higher expected litigation fees and related costs and higher environmental remediation and related costs.

Interest and dividend income – Interest and dividend income increased slightly in the second quarter of 2022 compared to the same period of 2021 primarily due to higher cash and cash equivalents available for investment as well as higher average interest rates. Interest and dividend income in the first six months of 2022 is comparable to the same period in 2021.

Marketable equity securities – We recognized a gain of $19.2 million on the change in value of our marketable equity securities in the second quarter of 2022 compared to a gain of $4.5 million in the second quarter of 2021. We recognized a gain of $19.9 million on the change in value of our marketable equity securities in the first six months of 2022 compared to a gain of $10.9 million in the first six months of 2021.

Income tax expense – We recognized income tax expense of $6.4 million in the second quarter of 2022 compared to income tax expense of $1.9 million in the second quarter of 2021 and income tax expense of $9.1 million in the first half of 2022 compared to income tax expense of $4.4 million in the first half of 2021. In accordance with GAAP, we recognize deferred income taxes on our undistributed equity in earnings of Kronos. Because we and Kronos are part of the same U.S. federal income tax group, any dividends we receive from Kronos are nontaxable to us. Accordingly, we do not recognize and we are not required to pay income taxes on dividends from Kronos. Therefore, our full-year effective income tax rate will generally be lower than the U.S. federal statutory income tax rate in years during which we receive dividends from Kronos and recognize equity in earnings of Kronos. Conversely, our effective income tax rate will generally be higher than the U.S. federal statutory income tax rate in years during which we receive dividends from Kronos and recognize equity in losses of Kronos. During interim periods, our effective income tax rate may not necessarily correspond to the foregoing due to the application of accounting for income taxes in interim periods which requires us to base our effective rate on full year projections. We received dividends from Kronos of $12.7 million and $13.4 million in the first six months of 2021 and 2022, respectively.

Our effective tax rate attributable to our equity in earnings of Kronos, including the effect of the nontaxable dividends we received from Kronos was a 10.3% income tax expense in the first six months of 2022 compared to a 4.8% income tax expense in the first six months of 2021. The increase in our effective rate from 2021 to 2022 is primarily attributable to Kronos' anticipated higher full year earnings in 2022 as compared to 2021. See Note 12 to our Condensed Consolidated Financial Statements for more information about our 2022 income tax items, including a tabular reconciliation of our statutory tax expense to our actual expense.

Noncontrolling interest – Noncontrolling interest in net income of CompX increased during the second quarter and the first six months of 2022 compared to the same prior year periods. The noncontrolling interest we recognize in each period is directly related to the level of earnings at CompX for the period.

Equity in earnings of Kronos Worldwide, Inc.

	Three months ended June 30,		%	Six months ended June 30,		%
	2021	**2022**	Change	2021	**2022**	Change
	(In millions)			(In millions)		
Net sales	$ 478.6	**$ 565.3**	18 %	$ 943.6	**$ 1,128.2**	20 %
Cost of sales	369.6	**444.8**	20	738.9	**858.4**	16
Gross margin	$ 109.0	**$ 120.5**		$ 204.7	**$ 269.8**	
Income from operations	$ 43.8	**$ 65.2**	49 %	$ 77.8	**$ 148.5**	91 %
Interest and dividend income	.1	**.6**		.2	**.7**	
Marketable equity securities unrealized gain	.5	**2.3**		1.3	**2.4**	
Other components of net perioidic pension and OPEB cost	(4.3)	**(3.1)**		(8.6)	**(6.3)**	
Interest expense	(5.2)	**(4.3)**		(10.2)	**(8.8)**	
Income before income taxes	34.9	**60.7**		60.5	**136.5**	
Income tax expense	9.2	**14.8**		15.2	**33.1**	
Net income	$ 25.7	**$ 45.9**		$ 45.3	**$ 103.4**	
Percentage of net sales:						
Cost of sales	77 %	**79 %**		78 %	**76 %**	
Income from operations	9	**11**		8	**13**	
Equity in earnings of Kronos Worldwide, Inc.	$ 7.8	**$ 14.0**		$ 13.8	**$ 31.5**	
TiO_2 operating statistics:						
Sales volumes*	144	**142**	(1)%	285	**286**	— %
Production volumes*	137	**132**	(4)	267	**270**	1
Change in TiO_2 net sales:						
TiO_2 product pricing			26 %			25 %
TiO_2 sales volumes			(1)			—
TiO_2 product mix/other			(1)			—
Changes in currency exchange rates			(6)			(5)
Total			18 %			20 %

* Thousands of metric tons

Kronos' key performance indicators are its TiO_2 average selling prices, its level of TiO_2 sales and production volumes and the cost of its third-party feedstock. TiO_2 selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures.

Current industry conditions

Kronos started 2022 with average TiO_2 selling prices 16% higher than at the beginning of 2021 and Kronos' average TiO_2 selling prices increased 12% in the first six months of 2022 in response to rising production costs. Overall sales volumes in the first six months of 2022 were comparable to sales volumes in the same period of 2021, with higher 2022 sales volumes in North America and Latin America offset by lower sales volumes in Europe.

The following table shows Kronos' capacity utilization rates during 2021 and 2022. Throughout most of 2021 and continuing into the first quarter of 2022, Kronos' production facilities operated at full practical capacity. Kronos operated its production facilities at 98% of practical capacity utilization in the first six months of 2022. During the second quarter of 2022, Kronos operated its facilities at approximately 95% of practical capacity primarily due to maintenance activities and availability of certain raw materials which temporarily reduced its production rates.

	Production Capacity Utilization Rates	
	2021	2022
First quarter	97%	100%
Second quarter	100%	95%

Net sales – Kronos' net sales in the second quarter of 2022 increased 18%, or $86.7 million, compared to the second quarter of 2021 primarily due to a 26% increase in average TiO_2 selling prices (which increased net sales by approximately $124 million) partially offset by a 1% decrease in sales volumes (which decreased net sales by approximately $5 million). Kronos estimates that changes in currency exchange rates (primarily the euro) decreased its net sales by approximately $29 million in the second quarter of 2022 as compared to the second quarter of 2021. TiO_2 selling prices will increase or decrease generally as a result of competitive market pressures, changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs.

Kronos' sales volumes decreased 1% in the second quarter of 2022 as compared to the second quarter of 2021 primarily due to lower availability of certain of our high-demand products as a result of lower production volumes during the quarter and, somewhat lower demand, primarily in the residential architectural coatings markets, from its European and export customers towards the end of the second quarter.

Kronos' sales in the first six months of 2022 increased 20%, or $184.6 million, compared to the first six months of 2021 primarily due a 25% increase in average TiO_2 selling prices (which increased net sales by approximately $236 million). In addition to the impact of higher average selling prices, Kronos estimates that changes in currency exchange rates (primarily the euro) decreased its net sales by approximately $51 million in the first six months of 2022 as compared to the first six months of 2021. TiO_2 selling prices will increase or decrease generally as a result of competitive market pressures, changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs.

Kronos' sales volumes in the first six months of 2022 were comparable to the first six months of 2021.

Cost of sales and gross margin – Kronos' cost of sales increased $75.2 million, or 20%, in the second quarter of 2022 compared to the second quarter of 2021 due to the net effects of higher production costs of approximately $95 million (primarily raw materials and energy), a 1% decrease in sales volumes and a 4% decrease in production volumes. Kronos' cost of sales as a percentage of net sales increased to 79% in the second quarter of 2022 compared to 77% in the same period of 2021 primarily due to the unfavorable effects of higher production costs including higher raw material and energy costs and lower absorption of fixed costs from lower production volumes.

Gross margin as a percentage of net sales decreased to 21% in the second quarter of 2022 compared to 23% in the second quarter of 2021. As discussed and quantified above, Kronos' gross margin as a percentage of net sales decreased primarily due to the net effects of higher average TiO_2 selling prices, lower production and sales volumes, higher production costs and changes in currency exchange rates.

Kronos' cost of sales increased $119.5 million, or 16%, in the first six months of 2022 compared to the first six months of 2021 primarily due to higher production costs of $159 million (including higher costs for raw materials and energy). Kronos' cost of sales as a percentage of net sales decreased to 76% in the first six months of 2022 compared to 78% in the same period of 2021 as the favorable effects of higher average TiO_2 selling prices more than offset the unfavorable impact of higher production costs, including higher raw material and energy costs.

Gross margin as a percentage of net sales increased to 24% in the first six months of 2022 compared to 22% in the first six months of 2021. As discussed and quantified above, Kronos' gross margin as a percentage of net sales increased primarily due to the net effects of higher average TiO_2 selling prices, higher raw material and energy costs and changes in currency exchange rates.

Selling, general and administrative expense – Kronos' selling, general and administrative expense as a percentage of net sales decreased to 11% in the second quarter of 2022 compared to 13% in the second quarter of 2021, primarily due to the effects of higher net sales resulting from higher average TiO_2 selling prices. Kronos' selling, general and administrative expense as a percentage of net sales decreased to 11% of net sales in the first six months of 2022 compared to 13% in the first six months of 2021, primarily due to the effects of higher net sales resulting from higher average TiO_2 selling prices.

Income from operations – Kronos' income from operations increased by \$21.4 million to \$65.2 million in the second quarter of 2022 compared to \$43.8 million in the second quarter of 2021. Income from operations as a percentage of net sales increased to 11% in the second quarter of 2022 from 9% in the same period of 2021 as a result of the factors impacting gross margin discussed above. Kronos estimates changes in currency exchange rates increased income from operations by approximately \$12 million in the second quarter of 2022 as compared to the same period in 2021, as discussed in the Effects of currency exchange rates section below.

Kronos' income from operations increased by \$70.7 million, or 91%, in the first six months of 2022 compared to the first six months of 2021. Income from operations as a percentage of net sales increased to 13% in the first six months of 2022 from 8% in the same period of 2021. This increase was driven by the effects of higher net sales on gross margin and selling, general and administrative expenses discussed above. Kronos estimates that changes in currency exchange rates increased income from operations by approximately \$7 million in the first six months of 2022 as compared to the same period in 2021, as further discussed below.

Other non-operating income (expense) - Kronos recognized a gain of \$2.3 million on the change in value of its marketable equity securities in the second quarter of 2022 compared to a gain of \$.5 million in the second quarter of 2021. Other components of net periodic pension and OPEB cost in the second quarter of 2022 decreased \$1.2 million compared to the second quarter of 2021 primarily due to the net effects of higher discount rates impacting interest cost and previously unrecognized actuarial losses. Interest expense in the second quarter of 2022 decreased \$.9 million compared to the second quarter of 2021 primarily due to fees associated with the refinancing of Kronos' revolving credit facility in the second quarter of 2021 and the effects of the strengthening of the U.S. dollar relative to the euro (see discussion in the Effects of currency exchange rates section below).

Kronos recognized a gain of \$2.4 million on the change in value of its marketable equity securities in the first six months of 2022 and a gain of \$1.3 million in the first six months of 2021. Other components of net periodic pension and OPEB cost in the first six months of 2022 decreased \$2.3 million compared to the first six months of 2021 primarily due to the net effects of higher discount rates impacting interest cost and previously unrecognized actuarial losses. Interest expense in the first six months of 2022 decreased \$1.4 million compared to the first six months of 2021 due to fees associated with the refinancing of Kronos' revolving credit facility in the second quarter of 2021 and the effects of changes in currency exchange rates.

Income tax expense - Kronos recognized income tax expense of \$14.8 million in the second quarter of 2022 compared to income tax expense of \$9.2 million in the second quarter of 2021. Kronos recognized income tax expense of \$33.1 million in the first six months of 2022 compared to income tax expense of \$15.2 million in the first six months of 2021. The difference is primarily due to higher earnings in the second quarter and in the first six months of 2022 and the jurisdictional mix of such earnings. Kronos' earnings are subject to income tax in various U.S. and non-U.S. jurisdictions, and the income tax rates applicable to the pre-tax earnings (losses) of its non-U.S. operations are generally higher than the income tax rates applicable to its U.S. operations. We would generally expect Kronos' overall effective tax rate to be higher than the U.S. federal statutory tax rate of 21% primarily because of its sizeable non-U.S. operations.

Effects of currency exchange rates

Kronos has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). The majority of Kronos' sales from non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the euro, other major European currencies and the Canadian dollar. A portion of Kronos' sales generated from its non-U.S. operations is denominated in the U.S. dollar (and consequently its non-U.S. operations will generally hold U.S. dollars from time to time). Certain raw materials used in all Kronos' production facilities, primarily titanium-containing feedstocks, are purchased primarily in U.S. dollars, while labor and other production and administrative costs are incurred primarily in local currencies. Consequently, the translated U.S. dollar value of Kronos' non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect the comparability of period-to-period operating results. In addition to the impact of the translation of sales and expenses over time, Kronos' non-U.S. operations also generate currency transaction gains and losses which primarily relate to (i) the difference between the currency exchange rates in effect when non-local currency sales or operating costs (primarily U.S. dollar denominated) are initially accrued and when such amounts are settled with the non-local currency, and (ii) changes in currency exchange rates during time periods when Kronos' non-U.S. operations are holding non-local currency (primarily U.S. dollars).

Overall, Kronos estimates that fluctuations in currency exchange rates had the following effects on its sales and income from operations for the periods indicated.

Impact of changes in currency exchange rates
Three months ended June 30, 2022 vs June 20, 2021

	Transaction gains recognized			Translation gains (losses)- impact of rate changes	Total currency impact 2022 vs 2021
	2021	2022	Change		
			(In millions)		
Impact on:					
Net sales	$ —	$ —	$ —	$ (29)	$ (29)
Income from operations	1	12	11	1	12

The $29 million decrease in net sales (translation losses) was caused primarily by a strengthening of the U.S. dollar relative to the euro, as Kronos' euro-denominated sales were translated into fewer U.S. dollars in 2022 as compared to 2021. The strengthening of the U.S. dollar relative to the Canadian dollar and the Norwegian krone in 2022 did not have a significant effect on Kronos' net sales, as a substantial portion of the sales generated by Kronos' Canadian and Norwegian operations is denominated in the U.S. dollar.

The $12 million increase in income from operations was comprised of the following:

- Higher net currency transaction gains of approximately $11 million primarily caused by relative changes in currency exchange rates at each applicable balance sheet date between the U.S. dollar and the euro, Canadian dollar and the Norwegian krone, and between the euro and the Norwegian krone, which causes increases or decreases, as applicable, in U.S. dollar-denominated receivables and payables and U.S. dollar currency held by Kronos' non-U.S. operations, and in Norwegian krone denominated receivables and payables held by Kronos' non-U.S. operations, and

- There was minimal impact from the effect of rate changes on translation gains and losses.

Impact of changes in currency exchange rates
Six months ended June 30, 2022 vs June 30, 2021

	Transaction gains recognized			Translation losses - impact of rate changes	Total currency impact 2022 vs 2021
	2021	2022	Change		
			(In millions)		
Impact on:					
Net sales	$ —	$ —	$ —	$ (51)	$ (51)
Income from operations	—	10	10	(3)	7

The $51 million decrease in net sales (translation losses) was caused primarily by a strengthening of the U.S. dollar relative to the euro, as our euro-denominated sales were translated into fewer U.S. dollars in 2022 as compared to 2021. The strengthening of the U.S. dollar relative to the Canadian dollar and the Norwegian krone in 2022 did not have a significant effect on Kronos' net sales, as a substantial portion of the sales generated by Kronos' Canadian and Norwegian operations is denominated in the U.S. dollar.

The $7 million increase in income from operations was comprised of the following:

- Higher net currency transaction gains of approximately $10 million primarily caused by relative changes in currency exchange rates at each applicable balance sheet date between the U.S. dollar and the euro, Canadian dollar and the Norwegian krone, and between the euro and the Norwegian krone, which causes increases or decreases, as applicable, in U.S. dollar-denominated receivables and payables and U.S. dollar currency held by Kronos' non-U.S. operations, and in Norwegian krone denominated receivables and payables held by Kronos' non-U.S. operations, and
- Approximately $3 million from net currency translation losses primarily caused by a strengthening of the U.S. dollar relative to the euro as the negative effects of the stronger U.S. dollar on euro-denominated sales more than offset the favorable effects of Canadian dollar and euro-denominated operating costs being translated into fewer U.S. dollars in 2022 as compared to 2021.

Outlook

While overall demand remained strong through the second quarter, Kronos' plants operated at below capacity because maintenance shutdowns in the second quarter took longer than anticipated and availability of certain raw materials continued to impact plant operations and production planning. As a result, Kronos had limited availability for certain high demand products that constrained sales during the quarter. In addition, late in the second quarter, Kronos began to see some decline in demand primarily in the residential architectural coatings markets in certain areas of Europe and the export markets due to economic and geopolitical uncertainties. Kronos is uncertain if and to what extent the reduction in demand will continue, but with tight inventories in most markets and continued strong underlying fundamentals across most of the global economy, Kronos continues to believe that the long-term outlook for its industry remains positive. Kronos will continue to monitor current and anticipated near-term customer demand levels and will align its production and inventories accordingly.

Kronos also continues to experience cost increases and logistical challenges throughout its global supply chain. Kronos experienced increases in its feedstock costs in the first six months of 2022 as compared to the same period in 2021, and Kronos expects its feedstock costs to continue to increase moderately for the remainder of 2022. High energy costs and availability concerns (particularly natural gas supply in Germany) have introduced further cost increases and disruptions to global markets and such conditions are likely to continue for the foreseeable future. These disruptions and other global events have contributed to changing expectations of global demand for consumer products, including those of Kronos' customers, and could lead to softening of demand for TiO_2 in the second half of 2022. Kronos continues to manage through disruptions in global supply chains including availability of certain third-party feedstock and other raw materials along with certain transportation and logistics delays. Kronos expects these challenges to continue for the foreseeable future.

Kronos' expectations for the TiO_2 industry and its operations are based on a number of factors outside its control. As noted above, Kronos has experienced global supply chain disruptions and energy availability concerns; and future impacts on Kronos' operations will depend on, among other things, any future disruption in energy availability, its operations or its suppliers' operations, or related possible shipping delays, and the timing and effectiveness of the global measures deployed to fight COVID-19 and its variants, all of which remain uncertain and cannot be predicted.

Liquidity and Capital Resources

Consolidated cash flows

Operating activities

Trends in cash flows from operating activities, excluding the impact of deferred taxes and relative changes in assets and liabilities, are generally similar to trends in our income from operations.

Net cash provided by operating activities was comparable at $13.6 million in each of the first six months of 2022 and 2021. Cash provided by operating activities in the first six months of 2022 includes the net effects of:

- higher income from operations from CompX in 2022 of $2.4 million; and
- higher net cash used for relative changes in receivables, inventories, payables and accrued liabilities in 2022 of $2.4 million.

We do not have complete access to CompX's cash flows in part because we do not own 100% of CompX. A detail of our consolidated cash flows from operating activities is presented in the table below. Intercompany dividends have been eliminated. The reference to NL Parent in the table below is a reference to NL Industries, Inc., as the parent company of CompX and our wholly-owned subsidiaries.

	Six months ended June 30,	
	2021	2022
	(In millions)	
Net cash provided by operating activities:		
CompX	$ 3.6	**$ 1.5**
NL Parent and wholly-owned subsidiaries	14.3	**17.5**
Eliminations	(4.3)	**(5.4)**
Total	$ 13.6	**$ 13.6**

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, average days sales outstanding decreased from December 31, 2021 to June 30, 2022 primarily as a result of relative changes in the timing of collections relative to sales at the end of the quarter. Total average number of days in inventory increased from December 31, 2021 to June 30, 2022 due to the timing of sales relative to the end of the quarter, primarily at CompX's Security Products reporting unit, and from increased inventories of certain components and raw matrials that had longer lead times or for which CompX has experienced availability issues. For comparative purposes, we have provided December 31, 2020 and June 30, 2021 numbers below.

	December 31, 2020	June 30, 2021	December 31, 2021	June 30, 2022
Days sales outstanding	33 days	42 days	42 days	38 days
Days in inventory	75 days	73 days	96 days	108 days

Investing activities

Our capital expenditures, all of which relate to CompX, were $2.2 million in the first six months of 2022 compared to $1.6 million in the first six months of 2021. During the first six months of 2022, Valhi repaid a net $2.1 million under the promissory note ($10.3 million of gross borrowings and $12.4 million of gross repayments). During the first six months of 2021, Valhi repaid a net $3.5 million under the promissory note ($18.7 million of gross borrowings and $22.2 million of gross repayments).

Financing activities

In the first six months of 2021, we paid dividends aggregating $5.9 million. In February 2022, our board of directors declared a quarterly dividend of $.07 per share, and in the first six months of 2022 we paid dividends aggregating $6.8 million. The declaration and payment of future dividends, and the amount thereof, is discretionary and is dependent upon our financial condition, cash requirements, contractual obligations and restrictions and other factors deemed relevant by our board of directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which might be paid. There are currently no contractual restrictions on the amount of dividends which we may pay.

Cash flows from financing activities in the first six months of each of 2021 and 2022 also include CompX dividends paid to its stockholders other than us. During the second quarter of 2022, CompX acquired 78,900 shares of its Class A common stock (8,900 shares from affiliates in two private transactions, and 70,000 shares in a single market transaction) for an aggregate purchase price of $1.7 million. During the first quarter of 2021, CompX acquired 50,000 shares of its Class A common stock in a market transaction for $.8 million. See Note 13 to our Condensed Consolidated Financial Statements.

Outstanding debt obligations

At June 30, 2022, NLKW had outstanding debt obligations of $.5 million under its secured revolving credit facility with Valhi, and CompX did not have any outstanding debt obligations. We are in compliance with all of the covenants contained in our secured revolving credit facility with Valhi at June 30, 2022. See Note 8 to our Condensed Consolidated Financial Statements.

Kronos has no outstanding borrowings on its global revolving credit facility (Global Revolver) at June 30, 2022 and the full $225 million was available for borrowings thereunder. Kronos' Senior Secured Notes and its Global Revolver contain a number of covenants and restrictions which, among other things, restrict Kronos' ability to incur or guarantee additional debt, incur liens, pay dividends or make other restricted payments, or merge or consolidate with, or sell or transfer substantially all of its assets to, another entity, and contain other provisions and restrictive covenants customary in lending transactions of these types. Kronos' credit agreements contain provisions which could result in the acceleration of indebtedness prior to their stated maturity for reasons other than defaults for failure to comply with typical financial or payment covenants. For example, the credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined in the agreement) of the borrower. In addition, the credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. Kronos was in compliance with all of its debt covenants at June 30, 2022. Kronos believes it will be able to maintain compliance with the financial covenants contained in its credit facilitiy through its maturity.

Future cash requirements

Liquidity

Our primary source of liquidity on an ongoing basis is our cash flow from operating activities and credit facilities with affiliates as further discussed below. We generally use these amounts to fund capital expenditures (substantially all of which relate to CompX), pay ongoing environmental remediation and litigation costs and provide for the payment of dividends (if declared).

At June 30, 2022, we had aggregate cash, cash equivalents and restricted cash of $179.5 million, all of which was held in the U.S. A detail by entity is presented in the table below.

	Amount (In millions)
CompX	$ **70.1**
NL Parent and wholly-owned subsidiaries	**109.4**
Total	$ **179.5**

In addition, at June 30, 2022 we owned approximately 1.2 million shares of Valhi common stock with an aggregate market value of $54.3 million. See Note 4 to our Condensed Consolidated Financial Statements. We also owned approximately 35.2 million shares of Kronos common stock at June 30, 2022 with an aggregate market value of $648.0 million. See Note 5 to our Condensed Consolidated Financial Statements.

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

We periodically evaluate acquisitions of interests in or combinations with companies (including related companies) perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to our current businesses. We intend to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing indebtedness. From time to time, we also evaluate the restructuring of ownership interests among our respective subsidiaries and related companies.

Based upon our expectations of our operating performance, and the anticipated demands on our cash resources we expect to have sufficient liquidity to meet our short-term obligations (defined as the twelve-month period ending June 30, 2023) including any amounts CompX might loan from time to time under the terms of its revolving loan to Valhi (which loans would be solely at CompX's discretion). If actual developments differ materially from our expectations, our liquidity could be adversely affected. In this regard, Valhi has agreed to loan us up to $50 million on a revolving basis. At June 30, 2022, we had $.5 million in outstanding borrowings under this facility, and we had $49.5 million available for future borrowing. See Note 8 to our Condensed Consolidated Financial Statements.

Capital expenditures

Firm purchase commitments for capital projects in process at June 30, 2022 totaled $.7 million. CompX's 2022 capital investments are primarily expenditures to meet its expected customer demand, improve capacity and efficiency and properly maintain its facilities and technology infrastructure.

Repurchases of common stock

At June 30, 2022, CompX has 523,647 shares available for repurchase under a stock repurchase program authorized by its board of directors.

Dividends

Because our operations are conducted primarily through subsidiaries and affiliates, our long-term ability to meet parent company-level corporate obligations is largely dependent on the receipt of dividends or other distributions from our subsidiaries and affiliates. A detail of annual dividends we expect to receive from our subsidiaries and affiliates in 2022, based on the number of shares of common stock of these affiliates we own as of June 30, 2022 and their current regular quarterly dividend rate, is presented in the table below. In this regard, in February 2022 Kronos increased its regular quarterly dividend from $.18 per share to $.19 per share and in March 2022 CompX increased its regular quarterly dividend from $.20 per share to $.25 per share, beginning in both cases with dividends paid in March 2022.

	Shares held June 30, 2022	Quarterly dividend rate	Annual expected dividend
	(In millions)		(In millions)
Kronos	35.2	$ .19	$ 26.8
CompX	10.8	.25	10.8
Valhi	1.2	.08	.4
Total expected annual dividends			$ 38.0

Investments in our subsidiaries and affiliates and other acquisitions

We have in the past and may in the future, purchase the securities of our subsidiaries and affiliates or third-parties in market or privately-negotiated transactions. We base our purchase decisions on a variety of factors, including an analysis of the optimal use of our capital, taking into account the market value of the securities and the relative value of expected returns on alternative investments. In connection with these activities, we may consider issuing additional equity securities or increasing our indebtedness. We may also evaluate the restructuring of ownership interests of our businesses among our subsidiaries and related companies.

Commitments and contingencies

There have been no material changes in our contractual obligations since we filed our 2021 Annual Report and we refer you to that report for a complete description of these commitments.

We are subject to certain commitments and contingencies, as more fully described in our 2021 Annual Report, or in Note 14 to our Condensed Consolidated Financial Statements or in Part II, Item 1 of this report, including certain legal proceedings. In addition to such legal proceedings, various legislation and administrative regulations have, from time to time, been proposed that seek to (i) impose various obligations on present and former manufacturers of lead pigment and lead-based paint (including us) with respect to asserted health concerns associated with the use of such products and (ii) effectively overturn court decisions in which we and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date that are expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity, enactment of such legislation could have such an effect.

Recent accounting pronouncements

Not applicable

Critical accounting policies and estimates

For a discussion of our critical accounting policies, refer to Part I, — "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Annual Report. There have been no changes in our critical accounting policies during the first six months of 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risk, including currency exchange rates, interest rates and security prices. There have been no material changes in these market risks since we filed our 2021 Annual Report, and we refer you to Part I, Item 7A. –"Quantitative and Qualitative Disclosure about Market Risk" in our 2021 Annual Report. See also Note 15 to our Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures – We maintain disclosure controls and procedures which, as defined in Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Courtney J. Riley, our President and Chief Executive Officer and Amy Allbach Samford, our Executive Vice President and Chief Financial Officer, have evaluated the design and effectiveness of our disclosure controls and procedures as of June 30, 2022. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of the date of this evaluation.

Internal control over financial reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting which, as defined by Exchange Act Rule 13a-15(f) means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and dispositions of our assets,

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with authorizations of our management and directors, and

- Provide reasonable assurance regarding prevention or timely detection of an unauthorized acquisition, use or disposition of assets that could have a material effect on our Condensed Consolidated Financial Statements.

Other – As permitted by the SEC, our assessment of internal control over financial reporting excludes (i) internal control over financial reporting of equity method investees and (ii) internal control over the preparation of any financial statement schedules which would be required by Article 12 of Regulation S-X. However, our assessment of internal control over financial reporting with respect to equity method investees did include controls over the recording of amounts related to our investment that are recorded in the consolidated financial statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

Changes in internal control over financial reporting – There have been no changes to our internal control over financial reporting during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In addition to the matter discussed below, refer to Note 14 to our Condensed Consolidated Financial Statements, our 2021 Annual Report and our March 31, 2022 Quarterly Report on Form 10-Q.

NY/NJ Baykeeper et al. v. NL Industries, Inc. et al. In June 2022, NL received a letter from the New Jersey Department of Environmental Protection ("NJDEP") informing NL that remediation of contaminated sites upriver of the former Sayreville site had progressed to the point that it was now appropriate for NL to resume investigating the sediments adjacent to the Sayreville site. NL informed the NJDEP by letter that it would resume that investigation. The Court subsequently issued an order asking the parties to state their positions on whether the lawsuit should be dismissed as unnecessary in light of these new circumstances.

Item 1A. Risk Factors

Reference is made to the 2021 Annual Report for a discussion of risk factors related to our businesses.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table discloses certain information regarding the shares of our common stock we purchased during the second quarter of 2022 (we made no purchases in April or May 2022). See Note 13 to our Condensed Consolidated Financial Statements.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of the publicly announced plan	Maximum number of shares that may yet be purchased under the publicly announced plan
June 2022	2,000 **(1)**	$8.23	–	–

(1) On June 1, 2022, we purchased 2,000 shares of our common stock from Kronos in a private transaction that was approved in advance by our independent directors.

Item 6. Exhibits

31.1 Certification

31.2 Certification

32.1 Certification

101.INS Inline XBRL Instance – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

104 Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NL INDUSTRIES, INC.
(Registrant)

Date: August 3, 2022

/s/ Amy Allbach Samford
Amy Allbach Samford
(Executive Vice President and Chief Financial Officer, Principal Financial Officer)

Date: August 3, 2022

/s/ Amy E. Ruf
Amy E. Ruf
(Vice President and Controller,
Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

I, Courtney J. Riley, certify that:

1) I have reviewed this quarterly report on Form 10-Q of NL Industries, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 3, 2022

/s/Courtney J. Riley

Courtney J. Riley
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Amy Allbach Samford, certify that:

1) I have reviewed this quarterly report on Form 10-Q of NL Industries, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2022

/s/ Amy Allbach Samford

Amy Allbach Samford
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NL Industries, Inc. (the Company) on Form 10-Q for the quarter ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Courtney J. Riley, President and Chief Executive Officer of the Company, and I, Amy Allbach Samford, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Courtney J. Riley

Courtney J. Riley
President and Chief Executive Officer

/s/ Amy Allbach Samford

Amy Allbach Samford
Executive Vice President and Chief Financial Officer

August 3, 2022

Note: The certification the registrant furnished in this exhibit is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.