

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 quarter ended March 31, 2019

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

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 (§232.405 of this chapter) 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

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

Title of each class	Trading Symbol(s)	Name of each exchange
Common stock	NL	

Number of shares of the registrant's common stock, \$.01 par value per share, outstanding on May 1, 2019: 48,727,884.

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Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2019</u> <u>(unaudited)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 116,259	\$ 111,361
Restricted cash and cash equivalents	3,727	3,818
Accrued insurance recovery related to litigation settlement	15,000	15,000
Accounts and other receivables, net	12,440	15,681
Inventories, net	17,102	18,510
Receivable from affiliate	792	233
Prepaid expenses and other	<u>1,324</u>	<u>1,143</u>
Total current assets	<u>166,644</u>	<u>165,746</u>
Other assets:		
Notes receivable from affiliate	34,000	40,000
Marketable securities	27,740	33,202
Investment in Kronos Worldwide, Inc.	255,565	259,061
Goodwill	27,156	27,156
Other assets, net	<u>4,111</u>	<u>4,216</u>
Total other assets	<u>348,572</u>	<u>363,635</u>
Property and equipment:		
Land	5,151	5,151
Buildings	22,842	22,842
Equipment	67,446	67,526
Construction in progress	<u>603</u>	<u>621</u>
	96,042	96,140
Less accumulated depreciation	<u>64,016</u>	<u>64,724</u>
Net property and equipment	<u>32,026</u>	<u>31,416</u>
Total assets	<u>\$ 547,242</u>	<u>\$ 560,797</u>

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

	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2019</u> <u>(unaudited)</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 4,831	\$ 4,497
Accrued litigation settlement	60,000	60,000
Accrued and other current liabilities	10,854	7,178
Accrued environmental remediation and related costs	5,027	4,746
Payable to affiliates	567	567
Income taxes	44	55
Total current liabilities	<u>81,323</u>	<u>77,043</u>
Noncurrent liabilities:		
Long-term debt from affiliate	500	500
Accrued pension costs	10,389	10,122
Accrued environmental remediation and related costs	93,184	92,270
Long-term litigation settlement	17,000	17,000
Deferred income taxes	31,373	34,112
Other	9,915	9,850
Total noncurrent liabilities	<u>162,361</u>	<u>163,854</u>
Equity:		
NL stockholders' equity:		
Common stock	6,090	6,090
Additional paid-in capital	301,139	301,139
Retained earnings	225,156	240,360
Accumulated other comprehensive loss	(248,270)	(247,537)
Total NL stockholders' equity	<u>284,115</u>	<u>300,052</u>
Noncontrolling interest in subsidiary	19,443	19,848
Total equity	<u>303,558</u>	<u>319,900</u>
Total liabilities and equity	<u>\$ 547,242</u>	<u>\$ 560,797</u>

Commitments and contingencies (Note 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	
	March 31,	
	2018	2019
	(unaudited)	
Net sales	\$ 28,413	\$ 31,176
Cost of sales	18,910	21,552
Gross margin	9,503	9,624
Selling, general and administrative expense	5,130	5,334
Other operating income (expense):		
Insurance recoveries	163	283
Other income, net	619	-
Corporate expense	(7,953)	(2,055)
Income (loss) from operations	(2,798)	2,518
Equity in earnings of Kronos Worldwide, Inc.	21,479	9,225
Other income (expense):		
Marketable equity securities	(1,581)	5,462
Other components of net periodic pension and OPEB cost	(99)	(428)
Interest and dividend income	1,072	1,519
Interest expense	(8)	(9)
Income before income taxes	18,065	18,287
Income tax expense	3,330	2,561
Net income	14,735	15,726
Noncontrolling interest in net income of subsidiary	487	522
Net income attributable to NL stockholders	\$ 14,248	\$ 15,204
Amounts attributable to NL stockholders:		
Basic and diluted net income per share	\$.29	\$.31
Weighted average shares used in the calculation of net income per share	48,715	48,727

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2018	2019
	(unaudited)	
Net income	\$ 14,735	\$ 15,726
Other comprehensive income (loss), net of tax:		
Currency translation	2,591	(25)
Defined benefit pension plans	983	828
Other	(73)	(70)
Total other comprehensive income, net	3,501	733
Comprehensive income	18,236	16,459
Comprehensive income attributable to noncontrolling interest	487	522
Comprehensive income attributable to NL stockholders	\$ 17,749	\$ 15,937

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Three months ended March 31, 2018 and 2019

(In thousands)

(unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interest in subsidiary	Total equity
Balance at December 31, 2017	\$ 6,089	\$ 300,866	\$ 220,104	\$ (191,737)	\$ 17,756	\$ 353,078
Change in accounting principle- ASU 2016-01	—	—	\$ 46,069	\$ (46,069)	—	-
Balance at January 1, 2018, as adjusted	6,089	300,866	\$ 266,173	\$ (237,806)	17,756	353,078
Net income	—	—	14,248	—	487	14,735
Other comprehensive income, net of tax	—	—	—	3,501	—	3,501
Dividends paid to noncontrolling interest	—	—	—	—	(83)	(83)
Balance at March 31, 2018	\$ 6,089	\$ 300,866	\$ 280,421	\$ (234,305)	\$ 18,160	\$ 371,231
Balance at December 31, 2018	\$ 6,090	\$ 301,139	\$ 225,156	\$ (248,270)	\$ 19,443	\$ 303,558
Net income	—	—	15,204	—	522	15,726
Other comprehensive income, net of tax	—	—	—	733	—	733
Dividends paid to noncontrolling interest	—	—	—	—	(117)	(117)
Balance at March 31, 2019	\$ 6,090	\$ 301,139	\$ 240,360	\$ (247,537)	\$ 19,848	\$ 319,900

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended	
	March 31,	
	2018	2019
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 14,735	\$ 15,726
Depreciation and amortization	889	901
Deferred income taxes	3,420	2,552
Equity in earnings of Kronos Worldwide, Inc.	(21,479)	(9,225)
Marketable equity securities	1,581	(5,462)
Dividends received from Kronos Worldwide, Inc.	5,987	6,339
Cash funding of benefit plans in excess of net benefit plan expense	(120)	9
Other, net	56	39
Change in assets and liabilities:		
Accounts and other receivables, net	(2,226)	(3,244)
Inventories, net	(980)	(1,475)
Prepaid expenses and other	(819)	181
Accounts payable and accrued liabilities	(2,867)	(3,949)
Income taxes	16	9
Accounts with affiliates	(132)	559
Accrued environmental remediation and related costs	3,848	(1,194)
Other noncurrent assets and liabilities, net	(66)	(16)
Net cash provided by operating activities	1,843	1,750
Cash flows from investing activities:		
Capital expenditures	(644)	(439)
Promissory notes receivable from affiliate:		
Loans	(12,400)	(17,400)
Collections	12,600	11,400
Other, net	224	-
Net cash used in investing activities	(220)	(6,439)
Cash flows from financing activities -		
Distributions to noncontrolling interests in subsidiary	(83)	(117)
Cash and cash equivalents and restricted cash and cash equivalents - net change from:		
Operating, investing and financing activities	1,540	(4,806)
Balance at beginning of period	102,941	120,989
Balance at end of period	\$ 104,481	\$ 116,183
Supplemental disclosure - cash paid (received) for:		
Interest	\$ 8	\$ 9
Income taxes, net	25	(16)

See accompanying notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

(unaudited)

Note 1 – Organization and basis of presentation:

Organization – At March 31, 2019, 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. All of Contran’s outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly and their children for which Ms. Simmons and Ms. Connelly are co-trustees, or is held directly by Ms. Simmons and Ms. Connelly or entities related to them. Consequently, Ms. Simmons and Ms. Connelly may be deemed to control Contran, Valhi and us.

Basis of presentation – Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. We also own 30% of Kronos Worldwide, Inc. (Kronos). CompX (NYSE MKT: CIX) and Kronos (NYSE: KRO) each file periodic reports with the Securities and Exchange Commission (SEC).

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2018 that we filed with the SEC on March 11, 2019 (the 2018 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, 2018 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, 2018) 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 period ended March 31, 2019 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 2018 Consolidated Financial Statements contained in our 2018 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, 2018	March 31, 2019
	(In thousands)	
Trade receivables - CompX	\$ 12,210	\$ 15,428
Accrued insurance recoveries	266	233
Other receivables	34	90
Allowance for doubtful accounts	(70)	(70)
Total	<u>\$ 12,440</u>	<u>\$ 15,681</u>

Accrued insurance recoveries are discussed in Note 14.

Note 3 – Inventories, net:

	December 31, 2018	March 31, 2019
	(In thousands)	
Raw materials	\$ 2,661	\$ 3,316
Work in process	11,130	11,849
Finished products	3,311	3,345
Total	\$ 17,102	\$ 18,510

Note 4 – Marketable securities:

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

	Fair value measurement level	Market value	Cost basis	Unrealized gain (loss)
		(In thousands)		
December 31, 2018				
Valhi common stock	1	\$ 27,740	\$ 24,347	\$ 3,393
March 31, 2019				
Valhi common stock	1	\$ 33,202	\$ 24,347	\$ 8,855

At December 31, 2018 and March 31, 2019, we held approximately 14.4 million shares of common stock of Valhi. See Note 1. Our shares of Valhi common stock are carried at fair value based on quoted market prices, representing a Level 1 input within the fair value hierarchy. At December 31, 2018 and March 31, 2019, the quoted per share market price of Valhi common stock was \$1.93 and \$2.31, respectively.

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

In March 2019, Valhi filed a Form S-3 registration statement with the SEC, registering our shares of Valhi common stock for resale. The registration statement has been declared effective by the SEC. We may sell all or a portion of such shares from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares are sold through underwriters or broker-dealers, we would be responsible for underwriting discounts or commissions or agents' commissions. The shares may be sold in one or more transactions at fixed prices, prevailing market prices determined at the time of the sale, varying prices determined at the time of sale or negotiated prices (in each case we may determine). We have agreed to reimburse Valhi for its expenses incurred in connection with such registration statement (which expenses are not material). Through May 9, 2019, we have not sold any of our shares of Valhi common stock under the registration statement.

Note 5 – Investment in Kronos Worldwide, Inc.:

At December 31, 2018 and March 31, 2019, we owned approximately 35.2 million shares of Kronos common stock. At March 31, 2019, the quoted market price of Kronos' common stock was \$14.02 per share, or an aggregate market value of \$493.8 million. At December 31, 2018, the quoted market price was \$11.52 per share, or an aggregate market value of \$405.7 million.

The change in the carrying value of our investment in Kronos during the first three months of 2019 is summarized below.

	<u>Amount</u>	
	<u>(In millions)</u>	
Balance at the beginning of the period	\$	255.5
Equity in earnings of Kronos		9.2
Dividends received from Kronos		(6.3)
Equity in Kronos' other comprehensive income:		
Defined benefit pension plans		.7
Balance at the end of the period	\$	<u>259.1</u>

Selected financial information of Kronos is summarized below:

	<u>December 31,</u>	<u>March 31,</u>
	<u>2018</u>	<u>2019</u>
	<u>(In millions)</u>	
Current assets	\$ 1,201.4	\$ 1,203.1
Property and equipment, net	486.4	482.4
Investment in TiO ₂ joint venture	81.3	82.1
Other noncurrent assets	129.0	159.5
Total assets	<u>\$ 1,898.1</u>	<u>\$ 1,927.1</u>
Current liabilities	\$ 233.4	\$ 241.3
Long-term debt	455.1	445.8
Accrued pension and postretirement benefits	262.9	256.3
Other noncurrent liabilities	106.9	132.4
Stockholders' equity	839.8	851.3
Total liabilities and stockholders' equity	<u>\$ 1,898.1</u>	<u>\$ 1,927.1</u>

	<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2019</u>
	<u>(In millions)</u>	
Net sales	\$ 430.4	\$ 436.5
Cost of sales	255.6	327.2
Income from operations	107.5	49.0
Income tax expense	29.0	12.8
Net income	70.7	30.3

Note 6 – Other noncurrent assets, net:

	December 31, 2018	March 31, 2019
	(In thousands)	
Restricted cash	\$ 1,003	\$ 1,006
Pension asset	1,898	1,986
Other	1,210	1,224
Total	<u>\$ 4,111</u>	<u>\$ 4,216</u>

Note 7 – Accrued and other current liabilities:

	December 31, 2018	March 31, 2019
	(In thousands)	
Employee benefits	\$ 9,001	\$ 5,139
Other	1,853	2,039
Total	<u>\$ 10,854</u>	<u>\$ 7,178</u>

Note 8 – Long-term debt:

During the first three months of 2019, our wholly owned subsidiary, NLKW Holding, LLC had no borrowings or repayments under its \$50 million secured revolving credit facility with Valhi. At March 31, 2019, we had outstanding borrowings of \$0.5 million under such facility, and the remaining \$49.5 million was available for future borrowing under this facility. Outstanding borrowings under such credit facility bear interest at the prime rate plus 1.875% per annum, and the average interest rate as of and for the three months ended March 31, 2019 was 7.375%. We are in compliance with all of the covenants contained in such facility at March 31, 2019.

Note 9 – Other noncurrent liabilities:

	December 31, 2018	March 31, 2019
	(In thousands)	
Reserve for uncertain tax positions	\$ 7,312	\$ 7,312
Insurance claims and expenses	621	645
OPEB	1,519	1,454
Other	463	439
Total	<u>\$ 9,915</u>	<u>\$ 9,850</u>

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 March 31,	
	2018	2019
	(In thousands)	
Net sales:		
Security Products	\$ 24,056	\$ 24,704
Marine Components	4,357	6,472
Total net sales	<u>\$ 28,413</u>	<u>\$ 31,176</u>

Note 11 – Employee benefit plans:

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

	Three months ended March 31,	
	2018	2019
	(In thousands)	
Interest cost	\$ 372	\$ 474
Expected return on plan assets	(590)	(477)
Recognized actuarial losses	365	406
Total	<u>\$ 147</u>	<u>\$ 403</u>

We currently expect our 2019 contributions to our defined benefit pension plans to be approximately \$1.5 million.

Note 12 – Income taxes:

	Three months ended March 31,	
	2018	2019
	(In millions)	
Expected tax expense, at U.S. federal statutory income tax rate of 21%	\$ 3.8	\$ 3.8
Rate differences on equity in earnings of Kronos	(1.2)	(1.4)
U.S. state income taxes and other, net	.7	.2
Income tax expense	<u>\$ 3.3</u>	<u>\$ 2.6</u>
Comprehensive provision for income taxes allocable to:		
Net income	\$ 3.3	\$ 2.6
Other comprehensive income:		
Currency translation	.7	-
Pension plans	.3	.2
Total	<u>\$ 4.3</u>	<u>\$ 2.8</u>

In accordance with GAAP, we recognize deferred income taxes on our undistributed equity in earnings (losses) 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 \$6.0 million in the first three months of 2018 and \$6.3 million in the first three months of 2019. The amounts shown in the above table of our income tax rate reconciliation for rate differences on equity in earnings of Kronos represents the net tax (benefit) associated with such non-taxability of the dividends we receive from Kronos, as it relates to the amount of deferred income taxes we recognize on our undistributed equity in earnings (losses) of Kronos and the result determined by multiplying the pre-tax earnings or losses of each of our non-U.S. subsidiaries by the difference between the applicable statutory income tax rate for each non-U.S. jurisdiction.

Income tax matters related to Kronos

Kronos records global intangible low-tax income (GILTI) tax as a current-period expense when incurred under the period cost method. Kronos has evaluated the tax impact of GILTI and base erosion anti abuse tax (BEAT) provisions and related U.S. tax credit provisions applicable to tax years beginning in 2018 based on the relevant statutes and guidance provided under the proposed regulations. Given the complexity of the international provisions, it is possible that final regulations could differ from the proposed regulations and materially impact its determinations with respect to such items. Any material change will be recognized in the period in which the final regulations are published.

None of Kronos U.S. and non-U.S. tax returns are currently under examination. As a result of prior audits in certain jurisdictions, which are now settled, in 2008 Kronos filed Advance Pricing Agreement Requests with the tax authorities in the U.S., Canada and Germany. These requests have been under review with the respective tax authorities since 2008 and prior to 2016, it was uncertain whether an agreement would be reached between the tax authorities and whether Kronos would agree to execute and finalize such agreements. During the first quarter of 2018, Kronos' German subsidiary executed and finalized the related Advance Pricing Agreement with the Competent Authority for Germany (the "Germany- Canada APA") effective for tax years 2005 - 2017. Kronos recognized a net \$1.4 million non-cash income tax benefit related to an APA tax settlement payment between its German and Canadian subsidiaries.

Note 13 – Accumulated other comprehensive income (loss):

Changes in accumulated other comprehensive income (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 March 31,	
	2018	2019
(In thousands)		
Accumulated other comprehensive loss, net of tax:		
Marketable securities:		
Balance at beginning of period	\$ 46,069	\$ -
Change in accounting principle	(46,069)	-
Balance at end of period	\$ -	\$ -
Currency translation:		
Balance at beginning of period	\$ (164,467)	\$ (172,434)
Other comprehensive income (loss)	2,591	(25)
Balance at end of period	\$ (161,876)	\$ (172,459)
Defined benefit pension plans:		
Balance at beginning of period	\$ (72,951)	\$ (75,286)
Other comprehensive income - amortization of net losses included in net periodic pension cost	983	828
Balance at end of period	\$ (71,968)	\$ (74,458)
OPEB plans:		
Balance at beginning of period	\$ (388)	\$ (550)
Other comprehensive loss - amortization of net gains included in net periodic OPEB cost	(73)	(70)
Balance at end of period	\$ (461)	\$ (620)
Total accumulated other comprehensive loss:		
Balance at beginning of period	\$ (191,737)	\$ (248,270)
Change in accounting principle	(46,069)	-
Balance at beginning of period, as adjusted	(237,806)	(248,270)
Other comprehensive income	3,501	733
Balance at end of period	\$ (234,305)	\$ (247,537)

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

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 that these actions are without merit, and we intend to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. Other than with respect to the Santa Clara, California public nuisance case discussed below, we do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and with respect to all such lead pigment litigation cases to which we are a party, other than with respect to the Santa Clara case discussed below, 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 (subject to the final outcome of the Santa Clara case discussed below),
- no final, non-appealable adverse verdicts have ever been entered against us (subject to the final outcome of the Santa Clara case discussed below), and
- we have never ultimately been found liable with respect to any such litigation matters, including over 100 cases over a twenty-year period for which we were previously a party and for which we have been dismissed without any finding of liability (subject to the final outcome of the Santa Clara case discussed below).

Accordingly, other than with respect to the Santa Clara case discussed below, we have not accrued any amounts 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 other than the Santa Clara case noted below. 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 one of these lead pigment cases, in April 2000 we were served with a complaint in *County of Santa Clara v. Atlantic Richfield Company, et al.* (Superior Court of the State of California, County of Santa Clara, Case No. 1-00-CV-788657) brought by a number of California government entities against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara sought to recover compensatory damages for funds the plaintiffs have expended or would in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. In July 2003, the trial judge granted defendants’ motion to dismiss all remaining claims. Plaintiffs appealed and the intermediate appellate court reinstated public nuisance, negligence, strict liability, and fraud claims in March 2006. A fourth amended complaint was filed in March 2011 on behalf of The People of California by the County Attorneys

of Alameda, Ventura, Solano, San Mateo, Los Angeles and Santa Clara, and the City Attorneys of San Francisco, San Diego and Oakland. That complaint alleged that the presence of lead paint created a public nuisance in each of the prosecuting jurisdictions and sought its abatement. In July and August 2013, the case was tried. In January 2014, the trial court judge issued a judgment finding us, The Sherwin Williams Company and ConAgra Grocery Products Company jointly and severally liable for the abatement of lead paint in pre-1980 homes, and ordered the defendants to pay an aggregate \$1.15 billion to the people of the State of California to fund such abatement. The trial court's judgment also found that to the extent any abatement funds remained unspent after four years, such funds were to be returned to the defendants. In February 2014, we filed a motion for a new trial, and in March 2014 the trial court denied the motion. Subsequently in March 2014, we filed a notice of appeal with the Sixth District Court of Appeal for the State of California. On November 14, 2017, the Sixth District Court of Appeal issued its opinion, upholding the trial court's judgment, except that it reversed the portion of the judgment requiring abatement of homes built between 1951 and 1980 which significantly reduced the number of homes subject to the abatement order. In addition, the appellate court ordered the case be remanded to the trial court to recalculate the amount of the abatement fund, to limit it to the amount necessary to cover the cost of investigating and remediating pre-1951 homes, and to hold an evidentiary hearing to appoint a suitable receiver. In addition, the appellate court found that we and the other defendants had the right to seek recovery from liable parties that contributed to a hazardous condition at a particular property. Subsequently, we and the other defendants filed a Petition with the California Supreme Court seeking its review of a number of issues. On February 14, 2018, the California Supreme Court denied such petition.

The Santa Clara case is unusual in that this is the second time that an adverse verdict in a public nuisance lead pigment case has been entered against us (the first adverse verdict against us was ultimately overturned on appeal). Given the appellate court's November 2017 ruling, and the denial of an appeal by the California Supreme Court, we previously concluded that the likelihood of a loss in this case has reached a standard of "probable" as contemplated by ASC 450.

Under the remand ordered by the appellate court, the trial court was required to, among other things, (i) recalculate the amount of the abatement fund, excluding remediation of homes built between 1951 and 1980, (ii) hold an evidentiary hearing to appoint a suitable receiver for the abatement fund and (iii) enter an order setting forth its rulings on these issues. We believe any party will have a right to appeal any of these new decisions to be made by the trial court from the remand of the case. Several uncertainties will still exist with respect to the new decisions to be made by the trial court from the remand of the case, including the following:

- The appellate court remanded the case back to the trial court to recalculate the total amount of the abatement, limiting the abatement to pre-1951 homes. In this regard, NL and the other defendants filed a brief with the trial court proposing a recalculated maximum abatement fund amount of no more than \$409 million and plaintiffs filed a brief proposing an abatement fund amount of \$730 million. In September 2018, following a case-management hearing regarding the recalculated abatement fund amount held in August 2018, the trial court issued an order setting the recalculated amount of the abatement fund at \$409 million;
- The appellate court upheld NL's and the other defendants' right to seek contribution from other liable parties (e.g. property owners who have violated the applicable housing code) on a house-by-house basis. The method by which the trial court would undertake to determine such house-by-house responsibility, and the outcome of such a house-by-house determination, is not presently known;
- Participation in any abatement program by each homeowner is voluntary, and each homeowner would need to consent to allowing someone to come into the home to undertake any inspection and abatement, as well as consent to the nature, timing and extent of any abatement. The original trial court's judgment unrealistically assumed 100% participation by the affected homeowners. Actual participation rates are likely to be less than 100% (the ultimate extent of participation is not presently known);
- The remedy ordered by the trial court is an abatement fund. The trial court ordered that any funds unspent after four years are to be returned to the defendants (this provision of the trial court's original judgment was not overturned by the appellate court). As noted above, the actual number of homes which would participate in any abatement, and the nature, timing and extent of any such abatement, is not presently known; and
- We and the other two defendants are jointly and severally liable for the abatement, which means we or either of the two other defendants could ultimately be responsible for payment of the full amount of the abatement fund. However, we do not believe any individual defendant would be 100% responsible for

the cost of any abatement, and the allocation of the recalculated amount of the abatement fund (\$409 million, as explained below) among the three defendants has not yet been determined.

In May 2018, we and the plaintiffs entered into a settlement agreement pursuant to which, as supplemented, the plaintiffs would be paid an aggregate of \$80 million, in return for which we would be dismissed from the case with prejudice and all pending and future claims, causes of action, cross-complaints, actions or proceedings against us and our affiliates for indemnity, contribution, reimbursement or declaratory relief in respect to the case would be barred, discharged and enjoined as a matter of applicable law. Of such \$80 million, \$65 million would be paid by us and \$15 million would be provided by one of our former insurance carriers that has previously placed such amount on deposit with the trial court in satisfaction of potential liability such former carrier might have with respect to the case under certain insurance policies we had with such former carrier. Of such \$65 million which would be paid by us, \$45 million would be paid upon approval of the terms of the settlement, and the remaining \$20 million would be paid in five annual installments beginning four years from such approval (\$6 million for the first installment, \$5 million for the second installment and \$3 million for each of the third, fourth and fifth installments). The settlement agreement is subject to a number of conditions including the trial court's approval of the terms of the settlement (which trial court approval includes a determination that such settlement agreement meets the standards for a "good faith" settlement under applicable California law). The other defendants filed motions with the trial court objecting to the terms of the settlement.

With all of the uncertainties that exist with respect to the new decisions to be made by the trial court from the remand of the case, as noted above, we had previously concluded that the amount of such loss could not be reasonably estimated (nor could a range of loss be reasonably estimated). However, the terms of the settlement agreement entered into by us and the plaintiffs in May 2018, as supplemented, provides evidence that the amount of the loss to us could be reasonably estimated (and provides evidence of the low end of a range of loss to us). For financial reporting purposes, we discounted the five payments aggregating \$20 million to be paid in installments to their estimated net present value, using a discount rate of 3.0% per annum. Such net present value is \$17 million, and we would begin to accrete such present value amount upon approval of the settlement agreement. Accordingly, in the second quarter of 2018 we recognized a net \$62 million pre-tax charge with respect to this matter (\$45 million for the amount to be paid by us upon approval of the terms of the settlement and \$17 million for the net present value of the five payments aggregating \$20 million to be paid by us in installments beginning four years from such approval), representing the net amount we would pay in full settlement of our liability under the terms of the proposed settlement agreement. For purposes of our Consolidated Balance Sheet, we have presented the aggregate \$45 million that would be paid to the plaintiffs upon approval of the terms of the settlement and the \$15 million that would be paid to the plaintiffs from the amount placed on deposit with the trial court by one of our former insurance carriers (for a total of \$60 million) as a current liability, \$17 million for the net present value of the five payments aggregating \$20 million to be paid by us in installments beginning four years from such approval as a noncurrent liability and the \$15 million portion of such aggregate \$80 million undiscounted amount which would be funded from the amount placed on deposit with the trial court by one of our former insurance carriers as a current insurance recovery receivable.

In July 2018, we and the other defendants filed appeals with the U.S. Supreme Court, seeking its review of two federal issues in the trial court's original judgment. Review by the U.S. Supreme Court is discretionary, and in October 2018 the U.S. Supreme Court denied the petitions for the Court to hear such appeals.

In September 2018, following a case-management hearing regarding the recalculated abatement fund amount held in August 2018, the trial court issued an order setting the recalculated amount of the abatement fund at \$409 million. Also in September 2018, the trial court denied approval of the settlement agreement, finding among other things that the settlement agreement did not meet the standards for a "good faith" settlement under applicable California law.

Subsequently in October 2018, we filed an appeal of the trial court's denial of approval of the settlement agreement with the Sixth District Court of Appeal for the State of California, asserting among other things that in denying such approval the trial court made several legal errors in applying applicable California law to the terms of the settlement. The plaintiffs filed a brief in support of our appeal. The appellate court has discretion whether to hear such appeal, and the appellate court has not yet issued its decision as to whether it will hear such appeal. There can be no assurance that the appellate court will agree to hear such appeal, or if it agrees to hear such appeal, that it would

rule in favor of us and approve the settlement agreement. We continue to believe the settlement agreement satisfies the standards for a “good faith” settlement under applicable California law.

The trial court has selected and appointed a receiver for the abatement fund. The trial court has also previously stated it will not enter the judgment in the case until after the Sixth District Court of Appeals determines whether to hear the appeal regarding our settlement agreement. In March 2019, the trial court entered an order granting an offset of \$8 million from a previous settlement thereby lowering the abatement fund amount from \$409 million to \$401 million. In April 2019, the plaintiffs filed a motion asking the trial court to move forward with entry of a judgment, even if the Sixth District Court of Appeals has not yet decided whether to hear the appeal. Subsequently, NL and the other defendants filed a response, opposing the plaintiffs’ motion. We expect the judgment will require full payment of all amounts due by us and the other defendants in respect to the abatement fund within sixty days of entry of the judgment.

If the appellate court does not reverse the trial court decision and approve the terms of this or any other settlement agreement between us and the plaintiffs, the proceedings in the trial court under the remand, as discussed above, would continue. In such event, NL’s share of the recalculated amount of the abatement fund (\$401 million) is not presently known, and other uncertainties exist with respect to the new decisions to be made by the trial court from the remand of the case, as discussed above, including but not limited to the final amount of the abatement fund (\$401 million) which will ultimately be expended, particularly because participation in the abatement program by eligible homeowners is voluntary and the ultimate extent of participation and how the abatement fund will be administered is uncertain. As with any legal proceeding, there is no assurance that any appeal would be successful, and it is reasonably possible, based on the outcome of the appeals process and the remand proceedings in the trial court, that NL may in the future incur liability resulting in the recognition of an additional loss contingency accrual that could have a material adverse impact on our results of operations, financial position and liquidity.

In November 2018, NL was served with two complaints filed by county governments in Pennsylvania. Each county alleges that NL and several other defendants created a public nuisance by selling and promoting lead-containing paints and pigments in the counties. The plaintiffs seek abatement and declaratory relief. We believe these lawsuits are inconsistent with Pennsylvania law and without merit, and we intend to defend ourselves vigorously.

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

Environmental matters and litigation

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

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws and common law. Additionally, in connection with past operating practices, we are currently involved as a defendant, potentially responsible party (PRP) or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act (CERCLA), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities that we or our predecessors, our subsidiaries or their predecessors currently or previously owned, operated or used, certain of which are on the United States Environmental Protection Agency's (EPA) Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable, and among whom costs may be shared or allocated. In addition, we are 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. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental and related matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation and related matters (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 recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. At December 31, 2018 and March 31, 2019, we have recognized \$15.0 million of receivables for recoveries related to the lead pigment litigation in California discussed above.

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 three months of 2019 are as follows:

	Amount
	(In thousands)
Balance at the beginning of the period	\$ 98,211
Additions charged (credited) to expense, net	(668)
Payments, net	(527)
Balance at the end of the period	\$ 97,016
Amounts recognized in the Condensed Consolidated	
Balance Sheet at the end of the period:	
Current liability	\$ 4,746
Noncurrent liability	92,270
Balance at the end of the period	\$ 97,016

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 March 31, 2019, we had accrued approximately \$97 million related to approximately 32 sites associated with remediation and related matters that we believe are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to us for remediation and related matters for which we believe it is possible to estimate costs is approximately \$117 million, including the amount currently accrued. These accruals have not been discounted to present value.

We believe that it is not reasonably possible to estimate the range of costs for certain sites. At March 31, 2019, there were approximately 5 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 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 2018 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, 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, 2018		March 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
(In thousands)				
Cash, cash equivalents and restricted cash	\$ 120,989	\$ 120,989	\$ 116,183	\$ 116,183
Noncontrolling interest in CompX common stock	19,443	22,871	19,848	24,585

The fair value of our noncontrolling interest in CompX stockholders' equity is based upon its quoted market price at each balance sheet date, which represents a Level 1 input. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

Note 16 – Recent accounting pronouncements:

Adopted

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)*, which was a comprehensive rewriting of the lease accounting guidance which aimed to increase comparability and transparency with regard to lease transactions. The primary change for leases currently classified as operating leases is the balance sheet recognition of a lease asset for the right to use the underlying asset and a lease liability for the lessee's obligation to make payments. Due to our minimal utilization of lease financing, the adoption of this standard did not have a material effect on our consolidated financial statements.

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 and trim tabs for the recreational marine and other industries through our Marine Components operations.

We account for our 30% non-controlling interest in Kronos by the equity method. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments (TiO₂). TiO₂ is used for a variety of manufacturing applications including 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 cyclical nature of our businesses (such as Kronos' TiO₂ operations)
- Customer and producer inventory levels
- Unexpected or earlier-than-expected industry capacity expansion (such as the TiO₂ industry)
- Changes in raw material and other operating costs (such as energy, ore, zinc 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 (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO₂ and component products)
- Competitive products and substitute products
- 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 (such as Kronos' enterprise resource planning system)
- The introduction of trade barriers
- Possible disruption of Kronos' or CompX's business, or increases in our cost of doing business resulting from terrorist activities or global conflicts
- 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), or possible disruptions to our business resulting from potential instability 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, transportation interruptions and cyber attacks)
- Decisions to sell operating assets other than in the ordinary course of business
- Kronos' ability to renew or refinance credit facilities
- Our ability to maintain sufficient liquidity
- The timing and amounts of insurance recoveries
- The extent to which our subsidiaries or affiliates were to become unable to pay us dividends
- Uncertainties associated with CompX's development of new 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
- 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 March 31, 2019 compared to the quarter ended March 31, 2018

Our net income attributable to NL stockholders was \$15.2 million, or \$.31 per share, in the first quarter of 2019 compared to net income attributable to NL stockholders of \$14.2 million, or \$.29 per share, in the first quarter of 2018. As more fully described below, the increase in our earnings per share from 2018 to 2019 is primarily due to the net effects of:

- favorable relative changes in the value of marketable equity securities of \$7.1 million;
- lower environmental remediation and related costs of \$4.9 million in 2019;
- lower litigation fees and related costs of \$1.1 million in 2019; and
- equity in earnings of Kronos in 2019 of \$9.2 million compared to \$21.5 million in 2018.

Income (loss) from operations

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

	Three months ended March 31,		% Change
	2018	2019	
	(in millions)		
CompX	\$ 4.4	\$ 4.3	(2) %
Insurance recoveries	0.2	0.3	74
Other income, net	0.6	-	n.m.
Corporate expense	(8.0)	(2.1)	(74)
Income (loss) from operations	<u>\$ (2.8)</u>	<u>\$ 2.5</u>	190

Amounts attributable to CompX relate primarily to its components products business, while the other amounts generally relate 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 (loss) from operations.

	Three months ended March 31,		% Change
	2018	2019	
	(in millions)		
Equity in earnings of Kronos	\$ 21.5	\$ 9.2	(57) %
Marketable equity securities	(1.6)	5.5	445
Other components of net periodic pension and OPEB	(1.1)	(4)	332
Interest and dividend income	1.1	1.5	42

CompX International Inc.

	Three months ended March 31,		% Change
	2018	2019	
	(in millions)		
Net sales	\$ 28.4	\$ 31.2	10 %
Cost of sales	18.9	21.6	14
Gross margin	9.5	9.6	1
Operating costs and expenses	5.1	5.3	4
Income from operations	<u>\$ 4.4</u>	<u>\$ 4.3</u>	(2)
Percentage of net sales:			
Cost of sales	67 %	69 %	
Gross margin	33	31	
Operating costs and expenses	18	17	
Income from operations	15	14	

Net sales – Net sales increased \$2.8 million in the first quarter of 2019 compared to the same period in 2018 due to higher Marine Component sales, primarily surf pipes and wake enhancement systems to an original equipment boat manufacturer. Security Products also contributed higher sales for the quarter, primarily to existing government security customers. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of sales and gross margin – Cost of goods sold as a percentage of sales increased 2.5% in the first quarter of 2019 compared to the same period in 2018. As a result, gross margin as a percentage of sales decreased over the same period. The decrease in gross margin percentage is primarily the result of increased labor rates and medical costs at Security Products as well as a less favorable customer and product mix at Marine Components. Gross margin dollars increased due to higher sales for both business operations.

Operating costs and expenses – Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses, as well as gains and losses on plant, property and equipment. Operating costs and expenses for the first quarter of 2019 were comparable to the same period of 2018.

Income from operations – As a percentage of net sales, operating income for the first quarter of 2019 decreased compared to the same period of 2018 and was primarily impacted by the factors impacting cost of goods sold, gross margin and operating costs discussed above.

Results by reporting unit

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

	Three months ended March 31,		%
	2018	2019	
(in millions)			
Net sales:			
Security Products	\$ 24.1	\$ 24.7	3 %
Marine Components	4.3	6.5	49
Total net sales	<u>\$ 28.4</u>	<u>\$ 31.2</u>	10
Gross margin:			
Security Products	\$ 8.3	\$ 8.0	(4)
Marine Components	1.2	1.6	38
Total gross margin	<u>\$ 9.5</u>	<u>\$ 9.6</u>	1
Income from operations:			
Security Products	\$ 5.6	\$ 5.1	(10)
Marine Components	.6	.9	54
Corporate operating expenses	(1.8)	(1.7)	8
Total income from operations	<u>\$ 4.4</u>	<u>\$ 4.3</u>	(2)
Gross margin:			
Security Products	35 %	32 %	
Marine Components	28	26	
Total gross margin	33	31	
Income from operations margin:			
Security Products	23 %	21 %	
Marine Components	13	14	
Total income from operations margin	15	14	

Security Products — Security Products net sales increased 3% in the first quarter of 2019 compared to the same period last year. The increase in sales is primarily due to approximately \$0.8 million in higher sales to existing government security customers. Gross profit margin and operating income as a percentage of sales in 2019 decreased

compared to the same period in 2018 due to increased labor rates, particularly at our Grayslake facility, and higher medical costs.

Marine Components – Marine Components net sales increased 49% in the first quarter of 2019 compared to the same period last year primarily due to increased sales of wake enhancement systems and surf pipes to an original equipment boat manufacturer. Gross profit margin decreased in the first quarter of 2019 compared to the same period last year due to a less favorable customer and product mix; however, operating income as a percentage of net sales increased over the same comparative period due to improved fixed cost leverage facilitated by higher production volumes.

Outlook – First quarter sales exceeded prior year largely due to continued high demand for our marine products where we continue to benefit from innovation and diversification in our product offerings to the recreational boat markets. Operating income for the quarter was comparable to prior year, as operating margin for the Security Products segment decreased relative to prior year due to higher labor rates and medical costs, the effect of which we were not able to offset through higher selling prices. At present we expect this pattern to continue, with full year sales for 2019 tracking above 2018 and full year profitability comparable to prior year. We will continue to monitor economic conditions and sales order rates and respond to fluctuations in customer demand through continuous evaluation of staffing levels and consistent execution of our lean manufacturing and cost improvement initiatives. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, to expand into new markets and to develop new product features in order to mitigate the impact of changes in demand as well as broaden our sales base.

General corporate and other items

Insurance recoveries – We have agreements with certain insurance carriers pursuant to which the carriers reimburse us for a portion of our past lead pigment and asbestos litigation defense costs. Insurance recoveries include amounts we received from these insurance carriers.

The agreements with certain of our insurance carriers also include reimbursement for a portion of our future litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. Accordingly, these insurance recoveries are recognized when the receipt is probable and the amount is determinable. See Note 14 to our Condensed Consolidated Financial Statements.

Corporate expense – Corporate expenses were \$2.1 million in the first quarter of 2019, \$5.9 million lower than in the first quarter of 2018 primarily due to lower litigation fees and related costs and lower environmental remediation and related costs in 2019. Included in corporate expense in the first quarter of 2018 and 2019 are:

- litigation fees and related costs of \$.8 million in 2019 compared to \$1.9 million in 2018, and
- environmental remediation and related benefit of \$.7 million in 2019 compared to expense of \$4.2 million in 2018.

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 2019 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 2019, 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 2019 will be lower than in 2018 primarily due to lower expected litigation and related costs.

Interest and dividend income – Interest and dividend income increased \$.4 million in the first quarter of 2019 compared to the prior year period primarily due to interest income earned on CompX’s revolving promissory note receivable from Valhi. Interest income on such note receivable from Valhi was \$.5 million in the first quarter of 2018 and \$.6 million in the first quarter of 2019.

Marketable equity securities – Unrealized gains on our marketable equity securities was \$5.5 million in 2019 compared to unrealized loss of \$1.6 million in 2018. See Note 4 to our Consolidated Financial Statements.

Income tax expense (benefit) – We recognized an income tax expense of \$2.6 million in the first quarter of 2019 compared to income tax expense of \$3.3 million in the first quarter of 2018. In accordance with GAAP, we recognize deferred income taxes on our undistributed equity in earnings (losses) 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 \$6.0 million in the first three months of 2018 and \$6.3 million in the first three months of 2019.

Our effective tax rate attributable to our equity in earnings of Kronos, including the effect of the non-taxable dividends we received from Kronos was 6.3% in the first three months of 2019 and 15.5% in the first three months of 2018. See Note 12 to our Condensed Consolidated Financial Statements for more information about our 2019 income tax items, including a tabular reconciliation of our statutory tax expense (benefit) to our actual expense (benefit).

Noncontrolling interest – Noncontrolling interest in net income of CompX is consistent in the first quarter of 2018 and 2019. 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		%
	March 31,		
	2018	2019	
	(in millions)		
Net sales	\$ 430.4	\$ 436.5	1 %
Cost of sales	255.6	327.2	28 %
Gross margin	<u>\$ 174.8</u>	<u>\$ 109.3</u>	
Income from operations	\$ 107.5	\$ 49.0	(54) %
Interest and dividend income	1.0	2.1	
Marketable equity securities	(.2)	.6	
Other components of net periodic pension and OPEB cost	(3.8)	(3.8)	
Interest expense	(4.8)	(4.8)	
Income before income taxes	99.7	43.1	
Income tax expense (benefit)	29.0	12.8	
Net income	<u>\$ 70.7</u>	<u>\$ 30.3</u>	
Percentage of net sales:			
Cost of sales	59 %	75 %	
Income from operations	25 %	11 %	
Equity in earnings of Kronos Worldwide, Inc.	<u>\$ 21.5</u>	<u>\$ 9.2</u>	
TiO ₂ operating statistics:			
Sales volumes*	125	143	15 %
Production volumes*	133	134	1 %
Change in TiO ₂ net sales:			
TiO ₂ product pricing			(8) %
TiO ₂ sales volumes			15 %
TiO ₂ product mix/other			(3) %
Changes in currency exchange rates			(3) %
Total			<u>1 %</u>

* Thousands of metric tons

Kronos' key performance indicators are its TiO₂ average selling prices, its level of TiO₂ sales and production volumes and the cost of its third-party feedstock ore. TiO₂ selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures.

Current industry conditions

Due to the successful implementation of previously-announced price increases, average selling prices rose during the first six months of 2018, however such average selling prices began to decline in the last six months of 2018 and continued to decline into the first three months of 2019. Kronos started 2019 with average selling prices 3% lower than at the beginning of 2018 and its average selling prices at the end of the first quarter of 2019 were 4% lower than at the end of 2018. Lower prices in the European, North American and Latin American markets were partially offset by higher prices in the export market at the end of the first quarter of 2019 compared to the end of 2018. Kronos experienced higher sales volumes in all major markets in the first three months of 2019 as compared to the same period of 2018.

Kronos operated its production facilities at average practical capacity utilization rates of 95% and 97% in the first quarter of 2018 and 2019, respectively.

Primarily due to a moderate rise in the cost of third-party feedstock ore Kronos procured in 2018, its cost of sales per metric ton of TiO₂ sold in the first three months of 2019 was higher as compared to the first three months of 2018 (excluding the effect of changes in currency exchange rates).

Net sales – Kronos' net sales in the first quarter of 2019 increased 1%, or \$6.1 million, compared to the first quarter of 2018 primarily due to the net effect of a 8% decrease in average TiO₂ selling prices (which decreased net sales by approximately \$34 million) and a 15% increase in sales volumes (which increased net sales by approximately \$65 million). TiO₂ 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 increased 15% in the first quarter of 2019 as compared to the first quarter of 2018 primarily due to higher sales in all major markets. In addition to the impact of changes in average TiO₂ selling prices and sales volumes, Kronos estimates that changes in currency exchange rates (primarily the euro) decreased its net sales by approximately \$15 million as compared to the first quarter of 2018.

Cost of sales and gross margin – Kronos' cost of sales increased \$71.6 million or 28% in the first quarter of 2019 compared to the first quarter of 2018 due to the net effect of a 15% increase in sales volumes, higher raw materials and other production costs of approximately \$46 million, a 1% increase in TiO₂ production volumes and favorable effects from currency fluctuations (primarily the euro). Kronos' cost of sales as a percentage of net sales increased to 75% in the first quarter of 2019 compared to 59% in the same period of 2018 as the unfavorable effect of lower average selling prices and higher raw materials and other production costs (primarily third-party feedstock ore) more than offset the favorable impact of higher sales and production volumes, as discussed above.

Gross margin as a percentage of net sales decreased to 25% in the first quarter of 2019 compared to 41% in the first quarter of 2018. As discussed and quantified above, Kronos' gross margin decreased primarily due to the net effect of lower average selling prices, higher sales and production volumes and higher raw materials and other production costs.

Other operating income and expense, net – Kronos' selling, general and administrative expense in the first quarter of 2019 was comparable to the first quarter of 2018.

Income from operations – Kronos' income from operations decreased by \$58.5 million, or 54%, in the first quarter of 2019 compared to the first quarter of 2018. Income from operations as a percentage of net sales decreased to 11% in the first quarter of 2019 from 25% in the same period of 2018. This decrease was driven by the decrease in gross margin, discussed above. Kronos estimates that changes in currency exchange rates increased income from operations by approximately \$8 million in the first quarter of 2019 as compared to the same period in 2018, as discussed below.

Other non-operating income (expense) – Marketable equity securities unrealized gain (loss) was \$(.2) million and \$.7 million for the three months ended March 31, 2018 and 2019, respectively. Other components of net periodic pension and OPEB cost in the first quarter of 2019 was comparable to the first quarter of 2018 and we expect this comparability of pension and OPEB cost to continue throughout 2019. Kronos' interest expense in the first quarter of 2019 was also comparable to the first quarter of 2018. Kronos currently expects its interest expense for all of 2019 will be comparable to 2018.

Income tax expense – Kronos recognized income tax expense of \$12.8 million in the first quarter of 2019 compared to income tax expense of \$29.0 million in the first quarter of 2018. The difference is primarily due to lower earnings in 2019. Kronos' earnings are subject to income tax in various U.S. and non-U.S. jurisdictions, and the income tax rates applicable to its pre-tax earnings (losses) of its non-U.S. operations are generally higher than the income tax rates applicable to its U.S. operations. Kronos generally expects its 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 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, our 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, (ii) changes in currency exchange rates during time periods when our non-U.S. operations are holding non-local currency (primarily U.S. dollars), and (iii) relative changes in the aggregate fair value of currency forward contracts held from time to time. As discussed in Note 14 to Kronos' Condensed Consolidated Financial Statements, Kronos periodically use currency forward contracts to manage a portion of our currency exchange risk, and relative changes in the aggregate fair value of any currency forward contracts it holds from time to time serves in part to mitigate the currency transaction gains or losses we would otherwise recognize from the first two items described above.

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

	Impact of changes in currency exchange rates three months ended March 31, 2019 vs March 31, 2018				
	Transaction gains/(losses) recognized			Translation gains (losses) - impact of rate changes	Total currency impact 2019 vs 2018
	2018	2019	Change		
(In millions)					
Impact on:					
Net sales	\$ -	\$ -	\$ -	\$ (15)	\$ (15)
Income from operations	(5)	1	6	2	8

The \$15 million decrease in net sales (translation loss) was caused primarily by a strengthening of the U.S. dollar relative to the euro, as Kronos' euro-denominated sales were translated into less U.S. dollars in 2019 as compared to 2018. The strengthening of the U.S. dollar relative to the Canadian dollar and the Norwegian krone in 2019 did not have a significant effect on the reported amount of our net sales, as a substantial portion of the sales generated by its Canadian and Norwegian operations are denominated in the U.S. dollar.

The \$8 million increase in income from operations was comprised of the following:

- Approximately \$6 million from net currency transaction gains 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, 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
- Approximately \$2 million from net currency translation gains primarily caused by the strengthening of the U.S. dollar relative to the Canadian dollar and Norwegian krone, as its local currency-denominated operating costs were translated into fewer U.S. dollars in 2019 as compared to 2018, partially offset by such translation, as it related to the U.S. dollar relative to the euro, which had a negative effect on income from operations in 2019 as compared to 2018, as the negative impact of the stronger U.S. dollar on euro-denominated sales more than offset the favorable effect of euro-denominated operating costs being translated into fewer U.S. dollars in 2019 as compared to 2018.

Outlook

Kronos expects its production volumes in 2019 to be slightly higher as compared to 2018 production volumes. Assuming current global economic conditions remain stable and based on anticipated production levels, Kronos also expects its 2019 sales volumes to be higher as compared to 2018 sales volumes. Kronos will continue to monitor current and anticipated near-term customer demand levels and align its production and inventories accordingly.

The cost of third-party feedstock ore Kronos purchased in 2018 was higher as compared to 2017 and such higher cost feedstock ore was reflected in its results of operations beginning in the second quarter of 2018. Consequently, Kronos' cost of sales per metric ton of TiO₂ sold in the first three months of 2019 was moderately higher than its per-metric ton cost in the first three months of 2018 (excluding the effect of changes in currency exchange rates) primarily due to higher third-party feedstock ore costs. Kronos expects its cost of sales per metric ton of TiO₂ sold in 2019 to be higher than its per-metric ton cost in 2018 primarily due to higher feedstock costs.

Kronos started 2019 with average selling prices 3% lower than the beginning of 2018. Average selling prices decreased by an additional 4% in the first three months of 2019. Industry data indicates that overall TiO₂ inventory held by producers stood at adequate-to-low levels in the last half of 2018 and into the first quarter of 2019. Kronos expects customer inventory levels to continue to decline through the second quarter of 2019 which could result in stabilization or minor increases in TiO₂ selling prices during the remainder of 2019.

Overall, Kronos expects its sales in 2019 will be higher as compared to 2018, principally as a result of the favorable impact of higher expected sales volumes partially offset by the unfavorable impact of lower expected average selling prices. In addition, Kronos expects its income from operations in 2019 will be lower as compared to 2018, as the favorable impact of higher expected sales volumes would be more than offset by the unfavorable impact of lower expected average selling prices and higher raw material costs (principally feedstock ore) in 2019.

Due to the constraints of high capital costs and extended lead time associated with adding significant new TiO₂ production capacity, especially for premium grades of TiO₂ products produced from the chloride process, Kronos believes increased and sustained profit margins will be necessary to financially justify major expansions of TiO₂ production capacity required to meet expected future growth in demand. Any major expansion of TiO₂ production capacity, if announced, would take several years before such production would become available to meet future growth in demand.

Kronos' expectations for its future operating results are based upon a number of factors beyond its control, including worldwide growth of gross domestic product, competition in the marketplace, continued operation of competitors, unexpected or earlier-than-expected capacity additions or reductions and technological advances. If actual developments differ from Kronos' expectations, its results of operations could be unfavorably affected.

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 \$1.7 million in the first three months of 2019 compared to \$1.8 million in the first three months of 2018. The \$.1 million net decrease in cash provided by operating activities includes the net effects of:

- higher net cash used for relative changes in receivables, inventories, payables and accrued liabilities in 2019 of \$1.6 million;
- a \$0.8 million increase in interest received in 2019 (including \$0.5 million received in the first quarter of 2019 which was accrued at December 31, 2018); and
- higher dividends received from Kronos in 2019 of \$.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.

	Three months ended	
	March 31,	
	2018	2019
	(In millions)	
Net cash provided by operating activities:		
CompX	\$ (2)	\$ (2.0)
NL Parent and wholly-owned subsidiaries	2.5	4.5
Eliminations	(.5)	(.8)
Total	\$ 1.8	\$ 1.7

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, the change in our average days sales outstanding from December 31, 2018 to March 31, 2019 increased primarily as a result of relative changes in the timing of collections and the grant of extended terms to certain key customers. Our total average number of days in inventory decreased from December 31, 2018 to March 31, 2019 primarily as a result of the rapid sales growth for Marine Components operations, which has temporarily limited opportunities to strategically restock. For comparative purposes, we have provided December 31, 2017 and March 31, 2018 numbers below.

	December 31,	March 31,	December 31,	March 31,
	2017	2018	2018	2019
Days sales outstanding	38 days	41 days	40 days	45 days
Days in inventory	79 days	79 days	80 days	78 days

Investing activities

Our capital expenditures were \$0.4 million in the first three months of 2019 compared to \$0.6 million in the first three months of 2018. During the first three months of 2019, Valhi borrowed a net \$6.0 million under the promissory note (\$17.4 million of gross borrowings and \$11.4 million of gross repayments). During the first three months of 2018, Valhi repaid a net \$0.2 million under the promissory note (\$12.4 million of gross borrowings and \$12.6 million of gross repayments).

Financing activities

Cash flows from financing activities in the first three months of each of 2018 and 2019 consist of CompX dividends paid to its stockholders other than us.

Outstanding debt obligations

At March 31, 2019, 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 March 31, 2018. See Note 8 to our Condensed Consolidated Financial Statements.

Kronos' North American and European revolvers and its senior secured notes contain a number of covenants and restrictions which, among other things, restrict its ability to incur additional debt, incur liens, pay dividends or make other restricted payments, or merge or consolidate with, or sell or transfer substantially all of our assets to, another entity, and contains other provisions and restrictive covenants customary in lending transactions of this type. Certain of 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, certain 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, certain 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' European revolving credit facility also requires the maintenance of certain financial ratios, and one of such requirements is based on the ratio of net debt to the last twelve months EBITDA of the borrowers. Kronos is in compliance with all of its debt covenants at March 31, 2018. Kronos believes that it will be able to continue to comply with the financial covenants contained in its credit facilities through their 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 March 31, 2019, we had aggregate cash, cash equivalents and restricted cash of \$116.2 million, substantially all of which was held in the U.S. A detail by entity is presented in the table below.

	Amount (In millions)
CompX	\$ 36.1
NL Parent and wholly-owned subsidiaries	80.1
Total	\$ 116.2

In addition, at March 31, 2019 we owned 14.4 million shares of Valhi common stock with an aggregate market value of \$33.2 million. See Note 4 to our Condensed Consolidated Financial Statements. We also owned 35.2 million shares of Kronos common stock at March 31, 2019 with an aggregate market value of \$493.8 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

March 31, 2020) including any amounts CompX might loan from time to time under the terms of its new 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 March 31, 2019, 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 March 31, 2019 totaled \$0.9 million. CompX's 2019 capital investments are limited to those expenditures required to meet our expected customer demand and those required to properly maintain our facilities and technology infrastructure.

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 2019, based on the number of shares of common stock of these affiliates we own as of March 31, 2019 and their current regular quarterly dividend rate, is presented in the table below.

	<u>Shares held</u> <u>(In millions)</u>	<u>Quarterly</u> <u>dividend rate</u>	<u>Annual expected</u> <u>dividend</u> <u>(In millions)</u>
Kronos	35.2	\$.18	\$ 25.4
CompX	10.8	.07	3.0
Valhi	14.4	.02	1.1
Total expected annual dividends			<u>\$ 29.5</u>

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.

Off-balance sheet financing arrangements

We are not party to any material off-balance sheet financing arrangements.

Commitments and contingencies

There have been no material changes in our contractual obligations since we filed our 2018 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 2018 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

See Note 16 to our Condensed Consolidated Financial Statements.

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 2018 Annual Report. There have been no changes in our critical accounting policies during the first three months of 2019.

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 2018 Annual Report, and we refer you to Part I, Item 7A. —“Quantitative and Qualitative Disclosure about Market Risk” in our 2018 Annual Report. See also Note 14 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 Robert D. Graham, our Vice Chairman of the Board and Chief Executive Officer and Gregory M. Swalwell, our Executive Vice President and Chief Financial Officer, have evaluated the design and effectiveness of our disclosure controls and procedures as of March 31, 2019. 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 March 31, 2019 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 matters discussed below, refer to Note 14 to our Condensed Consolidated Financial Statements and our 2018 Annual Report.

Gowanus Canal Superfund Site, Brooklyn, New York. In April 2019, EPA issued a second Unilateral Administrative Order (“UAO”) to NL and approximately 27 other PRPs for performance of certain work related to the Remedial Design at the site. NL continues to believe it has no liability at the site but intends to engage in further discussions regarding a *de minimis settlement* and to otherwise take actions necessary to respond to the UAO. If these discussions are unsuccessful, NL will continue to deny liability and will defend vigorously against all of the claims.

Item 1A. Risk Factors

For a discussion of the risk factors related to our businesses, refer to Part I, Item 1A., “Risk Factors,” in our 2018 Annual Report.

Item 6. Exhibits

10.1	Registration Agreement dated March 11, 2019 between NL Industries, Inc. and Valhi, Inc.
31.1	Certification
31.2	Certification
32.1	Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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: May 9, 2019

/s/ Gregory M. Swalwell

Gregory M. Swalwell
(Executive Vice President and
Chief Financial Officer,
Principal Financial Officer)

Date: May 9, 2019

/s/ Amy Allbach Samford

Amy Allbach Samford
(Vice President and Controller,
Principal Accounting Officer)

REGISTRATION AGREEMENT

This Registration Agreement (this "Agreement") is made and entered into as of March 11, 2019, among Valhi, Inc., a Delaware corporation (the "Company"), NL Industries, Inc., a New Jersey corporation and a majority-owned subsidiary of the Company ("NL"), and NL Environmental Management Services, Inc., a New Jersey corporation and a wholly-owned subsidiary of NL ("NLEMS").

WHEREAS, collectively NL and NLEMS are the holders (the "Holders") of 14,372,970 shares (the "Shares") of common stock, par value \$.01 per share (the "Common Stock"), of the Company.

WHEREAS, the Holders have requested that the Company file a registration statement on Form S-3 (as defined below, the "Registration Statement") with the Securities and Exchange Commission (the "Commission") to register the Shares in order to facilitate the Holders' sale of the Shares from time to time to the public.

WHEREAS, the Company has agreed to file the Registration Statement and to use its commercially reasonable efforts to (i) cause the Registration Statement to be declared effective by the Commission and (ii) keep the Registration Statement continuously effective until all Shares are sold, in each case subject to and in accordance with the terms and conditions of this Agreement.

NOW THEREFORE, the parties hereto agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Prospectus" means the prospectus included in a Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated by the Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act")), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Shares covered by a Registration Statement, and all other amendments and supplements to the prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

"Registration Statement" means a registration statement on Form S-3 filed with the Commission, including the prospectus, and any amendments and supplements to any such registration statement or prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in any such registration statement.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such rule.

"Rule 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such rule.

2. Registration of the Shares.

The Company shall prepare and file with the Commission a Registration Statement covering the resale of all of the Shares for an offering to be made on a continuous basis pursuant to Rule 415. Subject to the terms of this Agreement, including without limitation Section 6 hereof, the Company shall use its commercially reasonable efforts to cause the Registration Statement filed under this Agreement to be declared effective under the Securities Act as promptly as practicable after the filing thereof, and shall use its commercially reasonable efforts to keep such Registration Statement continuously effective under the Securities Act until the earliest of the date that all Shares covered by such Registration Statement have been sold by the Holders or until the date of a Termination Notice under Section 6(c) of this Agreement (the “Effectiveness Period”). The Company agrees to notify the Holders of the effectiveness of a Registration Statement upon confirmation of effectiveness with the Commission. In the event that the Company is or becomes ineligible to register the Shares for resale on Form S-3 for any reason, the Company shall have no obligation to file, cause to become effective or maintain effectiveness of any other registration statement under the Securities Act for such period of ineligibility.

3. Registration Procedures. In connection with the Company’s registration obligations hereunder, the Company agrees to the following:

- (a) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may reasonably be necessary to keep the Registration Statement continuously effective as to the Shares for the Effectiveness Period, (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement (subject to the terms of this Agreement), and, as so supplemented or amended, to be filed pursuant to Rule 424 and (iii) comply in all material respects with the applicable provisions of all applicable laws with respect to the Registration Statement.
 - (b) Notify the Holders of (i) any request by the Commission or any other federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information, (ii) the issuance by the Commission or any other federal or state governmental authority of any stop order suspending the effectiveness of a Registration Statement covering any or all of the Shares or the initiation of any proceedings by the Commission or such governmental authority for that purpose, or (iii) of the occurrence of any event or passage of time that makes the financial statements included in a Registration Statement ineligible for inclusion therein.
 - (c) Prior to any resale of Shares by the Holders, use its commercially reasonable efforts to register or qualify or cooperate with the Holders in connection with the registration or qualification (or exemption from the Registration or qualification) of such Shares for the resale by the Holders under the securities or “blue sky” laws of such jurisdictions within the United States as the Holders reasonably request in writing, to keep each registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things reasonably necessary to enable the disposition in such jurisdictions of the Shares covered by each Registration Statement; provided, that, the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified, subject the Company to any material tax in any such jurisdiction where it is not then so subject or file a general consent to service of process in any such jurisdiction.
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(d) Notwithstanding anything in this Agreement to the contrary, under no circumstances shall the Company be obligated to agree to or participate in an underwritten transaction for the resale of the Shares (whether on a firm commitment or best efforts basis or otherwise).

4. Registration Expenses. All fees and expenses arising from the performance of or compliance with, this Agreement by the Company shall be borne by the Holders, in proportion to the number of Shares held by each Holder, and the Holders agree to reimburse such fees and expenses to the Company within five (5) business days upon receipt of an invoice therefor. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses of the Company's counsel and independent registered public accountants arising in connection with the consummation of the transactions contemplated by this Agreement) (A) with respect to filings made with the Commission, (B) with respect to filings required to be made with the New York Stock Exchange ("NYSE"), and (C) in compliance with applicable state securities or Blue Sky laws reasonably agreed to by the Company in writing (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Shares), (ii) printing expenses, (iii) messenger, telephone and delivery expenses, including without limitation any fee or expense incurred in connection with the delivery of the Prospectus, and any documents incorporated by reference in the Registration Statement, which are required to be delivered or provided to prospective purchasers of the Shares, and (iv) fees and expenses of all other persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement. In addition, the Holders shall be responsible for any and all underwriter, agent or broker-dealer commissions, discounts, fees or expenses arising from the resale of the Shares. Notwithstanding the foregoing, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers performing legal or accounting duties) and the expense of any annual audit of the Company's consolidated financial statements.

5. Representations and Warranties of the Parties

(a) Each Holder hereby jointly and severally represents and warrants to the Company as follows:

- (i) Each Holder is a corporation duly organized, validly existing and in good standing under the laws of New Jersey.
- (ii) Each Holder has the corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance by each Holder of this Agreement and the consummation by each Holder of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action. This Agreement has been duly executed and delivered by each Holder and, assuming due execution and delivery by the Company, constitutes the legal, valid and binding obligation of each Holder, enforceable against each Holder in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether considered in a proceeding in equity or at law).
- (iii) The execution, delivery and performance by each of this Agreement and the consummation of the transactions contemplated hereby do not and will not:

- a. conflict with or violate the certificate of incorporation or bylaws of each Holder;
 - b. assuming the receipt of any authorizations or approvals required from the Commission, any state securities law regulators or the NYSE, conflict with or violate in any material respect any law applicable to each Holder or by which any property or asset of each Holder is bound or affected; or
 - c. conflict with, result in any breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under, or require any consent of any person pursuant to, any contract to which each Holder is a party.
- (iv) As of the date hereof, neither Holder has any existing agreement, arrangement or understanding to sell any Shares.
 - (v) NL is the legal and beneficial owner of 10,814,370 Shares.
 - (vi) NLEMS is the legal and beneficial owner of 3,558,600 Shares.

(b) The Company represents and warrants to each Holder as follows:

- (i) The Company is a corporation duly organized, validly existing and in good standing under the laws of Delaware.
- (ii) The Company has the corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action. This Agreement has been duly executed and delivered by the Company and, assuming due execution and delivery by the each Holder, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether considered in a proceeding in equity or at law).
- (iii) The execution, delivery and performance by the Company of this Agreement and the consummation of the transactions contemplated hereby do not and will not:
 - a. conflict with or violate the certificate of incorporation or bylaws of the Company;
 - b. assuming the receipt of any authorizations or approvals required from the Commission, any state securities law regulators or the NYSE, conflict with or violate in any material respect any law applicable to the Company or by which any property or asset of the Company is bound or affected; or
 - c. conflict with, result in any breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under, or require any consent of any person pursuant to, any contract to which the Company is a party.

6. Discontinued Disposition.

- (a) Suspension Upon Certain Events. Each Holder agrees that, upon receipt of a written notice from the Company of (A) the occurrence of any event of the kind described in Section 3(b)(i) through (iii) hereof, or (B) the determination by the Company in its good faith judgment that an event may have occurred or a circumstance may exist such that the Registration Statement

may include an untrue statement of material fact or may omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, then in each such case each Holder will forthwith discontinue any sales of Shares pursuant to such Registration Statement until it is advised in writing by the Company that the use of the Registration Statement (as it may have been supplemented or amended) may be resumed. The Company will use its commercially reasonable efforts to ensure that the use of the Registration Statement may be resumed as promptly as is practicable.

- (b) Discretionary Suspensions. In addition, at any time after the Registration Statement has become effective, the Company may, upon giving prompt written notice of such action to the Holders, suspend the use of the Registration Statement if, in the good faith judgment of the Company, the use of the Registration Statement would be detrimental to or would not be in the best interests of the Company or its stockholders at such time and the Company concludes, as a result, that it is in the best interests of the Company or its stockholders to suspend the use of the Registration Statement by the Holders at such time. The Company shall have the right to suspend the use of the Registration Statement for an indefinite period of time. In any such case, the Holders, immediately upon receipt of notice thereof from the Company, will forthwith discontinue any sales of Shares pursuant to the Registration Statement until advised in writing by the Company that the use of the Registration Statement may be resumed.
- (c) Withdrawal of Registration. Notwithstanding the obligations of the Company in Sections 2 and 3 of this Agreement, the Company may, upon giving prompt written notice of such action to the Holders (a "Termination Notice"), file a post-effective amendment to the Registration Statement in order to remove from registration thereunder any Shares remaining unsold by the Holders as of the time of such determination, if the Company determines in its good faith judgment that it is in the best interests of the Company or its stockholders to do so, in which case the Holders shall discontinue any sales of Shares pursuant to the Registration Statement immediately upon receipt of the Termination Notice and this Agreement shall terminate and (except as contemplated by Section 7(l) hereof) be of no further force and effect.

7. Miscellaneous.

- (a) Compliance with Laws. Each Holder agrees to comply in all material respects with the applicable provisions of all applicable laws with respect to its resale of Shares pursuant to the Registration Statement.
- (b) Amendments and Waivers. This Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and each Holder.
- (c) Notices. All notices hereunder shall be delivered in writing to the addresses set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:
 - (i) if to the Company, to:
Valhi, Inc.
5430 Lyndon B. Johnson Freeway, Suite 1700
Dallas, Texas 75240
Attention: General Counsel

(ii) if to NL or NLEMS, to:
NL Industries, Inc.
5430 Lyndon B. Johnson Freeway, Suite 1700
Dallas, Texas 75240
Attention: General Counsel

- (d) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns and inure to the benefit of the Company and each Holder. This Agreement may not be assigned without the prior written consent of all of the parties hereto.
- (e) Execution and Counterparts. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.
- (f) Governing Law. This Agreement, and all claims or causes of action (whether in contract, tort, statute or otherwise) that may be based upon, arise out of or relate to this Agreement shall be governed by, and enforced in accordance with, the internal laws of the State of Texas, including its statute of limitations, without regard to the laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of Texas.
- (g) Entire Agreement. This Agreement constitute the entire agreement, and supersede all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter hereof and thereof.
- (h) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any other remedies provided by law.
- (i) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.
- (j) Joint and Several Nature of Holders’ Obligations and Rights; Authorization. The obligations of each Holder hereunder are joint and several with the obligations of the other Holder hereunder, and each Holder shall be responsible for the performance of the obligations of the other Holder hereunder.

- (k) Authorization for the Resale of Shares. All decisions regarding the pricing, fees or commissions, timing and amount of any resales of Shares are solely at the discretion of the Holders, and the Company shall have no authority or obligation to act on behalf of the Holders with respect thereto.
- (l) Term and Termination. This Agreement shall terminate automatically upon the expiration of the Effectiveness Period. This Agreement may be terminated at any time upon the mutual written agreement of the parties. Sections 4, 7(f) and 7(j) shall survive termination of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Registration Agreement as of the date first written above.

VALHI, INC.

By: /s/ Kelly D. Luttmer
Name: Kelly D. Luttmer
Title: EVP and CTO

NL INDUSTRIES, INC.

By: /s/ Gregory M. Swallow
Name: Gregory M. Swallow
Title: EVP and CFO

NL ENVIRONMENTAL MANAGEMENT SERVICES, INC.

By: /s/ Gregory M. Swallow
Name: Gregory M. Swallow
Title: EVP and CFO

CERTIFICATION

I, Robert D. Graham, 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: May 9, 2019

/s/Robert D. Graham

Robert D. Graham
Vice Chairman of the Board
and Chief Executive Officer

CERTIFICATION

I, Gregory M. Swalwell, 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: May 9, 2019

/s/ Gregory M. Swalwell

Gregory M. Swalwell

Executive Vice President and Chief Financial Officer

**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 March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert D. Graham, Chief Executive Officer of the Company, and I, Gregory M. Swalwell, 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/ Robert D. Graham

Robert D. Graham
Vice Chairman of the Board
and Chief Executive Officer

/s/ Gregory M. Swalwell

Gregory M. Swalwell
Executive Vice President and Chief Financial Officer

May 9, 2019

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.