UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from to

Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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 ☒

Number of shares of the registrant's common stock, $.125 par value per share, outstanding on May 1, 2020: 48,755,734.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2019	March 31, 2020 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 129,730	**$ 133,406**
Restricted cash and cash equivalents	2,695	**2,697**
Accounts and other receivables, net	11,929	**15,294**
Inventories, net	18,348	**18,962**
Receivables from affiliates	581	**438**
Prepaid expenses and other	1,401	**1,272**
Total current assets	164,684	**172,069**
Other assets:		
Restricted cash and cash equivalents	25,445	**25,475**
Note receivable from affiliate	28,100	**25,500**
Marketable securities	26,877	**14,804**
Investment in Kronos Worldwide, Inc.	248,355	**238,067**
Goodwill	27,156	**27,156**
Other assets, net	5,860	**5,672**
Total other assets	361,793	**336,674**
Property and equipment:		
Land	4,940	**4,940**
Buildings	23,047	**23,047**
Equipment	67,718	**68,443**
Construction in progress	1,002	**463**
	96,707	**96,893**
Less accumulated depreciation	65,692	**66,531**
Net property and equipment	31,015	**30,362**
Total assets	$ 557,492	**$ 539,105**

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

	December 31, 2019	March 31, 2020 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 3,438	**$ 3,300**
Accrued litigation settlement	11,830	**11,887**
Accrued and other current liabilities	10,601	**7,483**
Accrued environmental remediation and related costs	3,065	**3,357**
Payables to affiliates	801	**757**
Income taxes	73	**84**
Total current liabilities	29,808	**26,868**
Noncurrent liabilities:		
Long-term debt from affiliate	500	**500**
Accrued environmental remediation and related costs	91,443	**90,882**
Long-term litigation settlement	60,081	**60,367**
Deferred income taxes	33,957	**28,196**
Accrued pension costs	8,230	**7,894**
Other	6,260	**6,193**
Total noncurrent liabilities	200,471	**194,032**
Equity:		
NL stockholders' equity:		
Common stock	6,094	**6,094**
Additional paid-in capital	299,102	**298,865**
Retained earnings	251,000	**250,960**
Accumulated other comprehensive loss	(251,690)	**(260,845)**
Total NL stockholders' equity	304,506	**295,074**
Noncontrolling interest in subsidiary	22,707	**23,131**
Total equity	327,213	**318,205**
Total liabilities and equity	$ 557,492	**$ 539,105**

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, 2019	Three months ended March 31, 2020
	(unaudited)	
Net sales	$ 31,176	**$ 32,311**
Cost of sales	21,552	**21,880**
Gross margin	9,624	**10,431**
Selling, general and administrative expense	5,334	**5,411**
Other operating income (expense):		
Insurance recoveries	283	**22**
Corporate expense	(2,055)	**(2,508)**
Income from operations	2,518	**2,534**
Equity in earnings of Kronos Worldwide, Inc.	9,225	**8,207**
Other income (expense):		
Interest and dividend income	1,519	**1,131**
Marketable equity securities	5,462	**(12,073)**
Other components of net periodic pension and OPEB cost	(428)	**(208)**
Interest expense	(9)	**(352)**
Income (loss) before income taxes	18,287	**(761)**
Income tax expense (benefit)	2,561	**(3,263)**
Net income	15,726	**2,502**
Noncontrolling interest in net income of subsidiary	522	**592**
Net income attributable to NL stockholders	$ 15,204	**$ 1,910**
Amounts attributable to NL stockholders:		
Basic and diluted net income per share	$ .31	**$ .04**
Weighted average shares used in the calculation of net income per share	48,727	**48,756**

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three months ended March 31, 2019	Three months ended March 31, 2020
	(unaudited)	(unaudited)
Net income	$ 15,726	**$ 2,502**
Other comprehensive income (loss), net of tax:		
Currency translation	(25)	**(10,118)**
Defined benefit pension plans	828	**1,043**
Other postretirement benefit plans	(70)	**(80)**
Total other comprehensive income (loss), net	733	**(9,155)**
Comprehensive income (loss)	16,459	**(6,653)**
Comprehensive income attributable to noncontrolling interest	522	**592**
Comprehensive income (loss) attributable to NL stockholders	$ 15,937	**$ (7,245)**

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

	Three months ended March 31, 2019 (unaudited)					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interest in subsidiary	Total equity
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

	Three months ended March 31, 2020 (unaudited)					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Noncontrolling interest in subsidiary	Total equity
Balance at December 31, 2019	$ 6,094	$ 299,102	$ 251,000	$ (251,690)	$ 22,707	$ 327,213
Net income	-	-	**1,910**	-	**592**	**2,502**
Other comprehensive loss, net of tax	-	-	-	**(9,155)**	-	**(9,155)**
Dividends paid - $.04 per share	-	-	**(1,950)**	-	-	**(1,950)**
Dividends paid to noncontrolling interest	-	-	-	-	**(168)**	**(168)**
Other, net	-	**(237)**	-	-	-	**(237)**
Balance at March 31, 2020	**$ 6,094**	**$ 298,865**	**$ 250,960**	**$ (260,845)**	**$ 23,131**	**$ 318,205**

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, 2019	Three months ended March 31, 2020
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income	$ 15,726	**$ 2,502**
Depreciation and amortization	901	**950**
Deferred income taxes	2,552	**(3,278)**
Equity in earnings of Kronos Worldwide, Inc.	(9,225)	**(8,207)**
Dividends received from Kronos Worldwide, Inc.	6,339	**6,339**
Marketable equity securities	(5,462)	**12,073**
Cash funding of benefit plans in excess of net benefit plan expense	9	**244**
Other, net	39	**225**
Change in assets and liabilities:		
Accounts and other receivables, net	(3,244)	**(3,364)**
Inventories, net	(1,475)	**(673)**
Prepaid expenses and other	181	**129**
Accounts payable and accrued liabilities	(3,949)	**(3,196)**
Income taxes	9	**15**
Accounts with affiliates	559	**99**
Accrued environmental remediation and related costs	(1,194)	**(269)**
Other noncurrent assets and liabilities, net	(16)	**(3)**
Net cash provided by operating activities	1,750	**3,586**
Cash flows from investing activities:		
Capital expenditures	(439)	**(360)**
Note receivable from affiliate:		
Collections	11,400	**18,228**
Loans	(17,400)	**(15,628)**
Net cash provided by (used in) investing activities	(6,439)	**2,240**
Cash flows from financing activities:		
Dividends paid	-	**(1,950)**
Distributions to noncontrolling interests in subsidiary	(117)	**(168)**
Net cash used in financing activities	(117)	**(2,118)**
Cash and cash equivalents and restricted cash and cash equivalents - net change from:		
Operating, investing and financing activities	(4,806)	**3,708**
Balance at beginning of period	120,989	**157,870**
Balance at end of period	$ 116,183	**$ 161,578**
Supplemental disclosures - cash paid (received) for:		
Interest	$ 9	**$ 8**
Income taxes, net	(16)	**(9)**

See accompanying notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020
(unaudited)

Note 1 – Organization and basis of presentation:

Organization – At March 31, 2020, 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. At March 31, 2020, a majority of Contran's outstanding voting stock was held directly by Lisa K. Simmons and Serena Simmons Connelly and various family trusts established for the benefit of Ms. Simmons and Ms. Connelly and their children and for which Ms. Simmons or Ms. Connelly, as applicable, served as trustee (collectively, the "Other Trusts"). In addition, each of Ms. Simmons and Ms. Connelly served as co-chair of the Contran board of directors. The remainder of Contran's outstanding voting stock was held by another trust (the "Family Trust"), which was established for the benefit of Ms. Simmons and Ms. Connelly and their children and for which a third-party financial institution serves as trustee. Consequently, at March 31, 2020, Ms. Simmons, Ms. Connelly and the Family Trust may be deemed to control Contran, and therefore may be deemed to indirectly control the wholly-owned subsidiary of Contran, Valhi and us.

Following the death of Ms. Connelly on April 22, 2020, Ms. Simmons and the Family Trust continue to directly hold their shares of Contran voting stock. Under the terms of the Contran Corporation Amended and Restated Stockholders Agreement dated September 9, 2019 (the "Contran Stockholders Agreement"), and with respect to the shares of Contran voting stock held directly by Ms. Connelly at the time of her death (the "Connelly Direct Shares"), the independent executor of the estate of Ms. Connelly (prior to the completion of the probate of such estate) and the legatee of the Connelly Direct Shares (following completion of the probate of such estate) is required to vote the Connelly Direct Shares in the same manner as Ms. Simmons. Also under the terms of the Contran Stockholders Agreement, and with respect to the shares of Contran voting stock held by the Other Trusts for which Ms. Connelly previously served as trustee and for which her successor trustee is someone other than Ms. Simmons (the "Connelly Indirect Shares"), such successor trustee is also required to vote the Connelly Indirect Shares in the same manner as Ms. Simmons. Such voting rights of Ms. Simmons with respect to the Connelly Direct Shares and the Connelly Indirect Shares last through April 22, 2030 and are personal to Ms. Simmons. Consequently, at April 22, 2020, Ms. Simmons and the Family Trust may be deemed to control Contran, and therefore may be deemed to indirectly control the wholly-owned subsidiary of Contran, Valhi and us.

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

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019 that we filed with the SEC on March 11, 2020 (the 2019 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, 2019 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, 2019) 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, 2020 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 2019 Consolidated Financial Statements contained in our 2019 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, 2019	March 31, 2020
	(In thousands)	
Trade receivables - CompX	$ 11,940	**$ 15,302**
Other receivables	59	**62**
Allowance for doubtful accounts	(70)	**(70)**
Total	$ 11,929	**$ 15,294**

Note 3 – Inventories, net:

	December 31, 2019	March 31, 2020
	(In thousands)	
Raw materials	$ 2,941	**$ 3,104**
Work in process	11,771	**12,237**
Finished products	3,636	**3,621**
Total	$ 18,348	**$ 18,962**

Note 4 – Marketable securities:

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

	Fair value measurement level	Market value	Cost basis	Unrealized gain (loss)
		(In thousands)		
December 31, 2019				
Valhi common stock	1	$ 26,877	$ 24,347	$ 2,530
March 31, 2020				
Valhi common stock	1	**$ 14,804**	**$ 24,347**	**$ (9,543)**

At December 31, 2019 and March 31, 2020, we held approximately 14.4 million shares of common stock of our immediate parent company, Valhi, Inc. At December 31, 2019 and March 31, 2020, the quoted per share market price of Valhi common stock was $1.87 and $1.03, 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.

Note 5 – Investment in Kronos Worldwide, Inc.:

At December 31, 2019 and March 31, 2020, we owned approximately 35.2 million shares of Kronos common stock. At March 31, 2020, the quoted market price of Kronos' common stock was $8.44 per share, or an aggregate market value of $297.3 million. At December 31, 2019, the quoted market price was $13.40 per share, or an aggregate market value of $471.9 million.

The change in the carrying value of our investment in Kronos during the first three months of 2020 is summarized below.

	Amount
	(In millions)
Balance at the beginning of the period	$ 248.4
Equity in earnings of Kronos	8.2
Dividends received from Kronos	(6.3)
Equity in Kronos' other comprehensive income:	
Currency translation	(12.8)
Defined benefit pension plans	.9
Other	(.3)
Balance at the end of the period	$ 238.1

Selected financial information of Kronos is summarized below:

	December 31, 2019	March 31, 2020
	(In millions)	
Current assets	$ 1,219.7	$ 1,163.4
Property and equipment, net	490.6	459.0
Investment in TiO_2 joint venture	90.2	92.4
Other noncurrent assets	165.3	160.0
Total assets	$ 1,965.8	$ 1,874.8
Current liabilities	$ 270.6	$ 231.2
Long-term debt	444.0	436.3
Accrued pension costs	307.4	301.4
Other noncurrent liabilities	127.7	123.6
Stockholders' equity	816.1	782.3
Total liabilities and stockholders' equity	$ 1,965.8	$ 1,874.8

	Three months ended March 31,	
	2019	2020
	(In millions)	
Net sales	$ 436.5	$ 421.0
Cost of sales	327.2	332.9
Income from operations	49.0	43.5
Income tax expense	12.8	8.4
Net income	30.3	27.0

Note 6 – Other noncurrent assets, net:

	December 31, 2019	March 31, 2020
	(In thousands)	
Pension asset	$ 4,294	$ 4,106
Other	1,566	1,566
Total	$ 5,860	$ 5,672

Note 7 ─ Accrued and other current liabilities:

	December 31, 2019	March 31, 2020
	(In thousands)	
Employee benefits	$ 8,917	$ **5,138**
Other	1,684	**2,345**
Total	$ 10,601	$ **7,483**

Note 8 ─ Long-term debt:

During the first three months of 2020, 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, 2020, $.5 million was outstanding and $49.5 million was available for future borrowing under this facility. Outstanding borrowings bear interest at the prime rate plus 1.875% per annum, and the average interest rate for the three months ended March 31, 2020 was 6.31%. The interest rate was 5.13% at March 31, 2020. We are in compliance with all covenants at March 31, 2020.

Note 9 ─ Other noncurrent liabilities:

	December 31, 2019	March 31, 2020
	(In thousands)	
Reserve for uncertain tax positions	$ 4,053	$ **4,053**
OPEB	1,129	**1,068**
Insurance claims and expenses	665	**686**
Other	413	**386**
Total	$ 6,260	$ **6,193**

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,	
	2019	2020
	(In thousands)	
Net sales:		
Security Products	$ 24,704	$ **25,469**
Marine Components	6,472	**6,842**
Total	$ 31,176	$ **32,311**

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,	
	2019	2020
	(In thousands)	
Interest cost	$ 474	$ **355**
Expected return on plan assets	(477)	**(461)**
Recognized actuarial losses	406	**380**
Total	$ 403	$ **274**

We currently expect our 2020 contributions to our defined benefit pension plans to be approximately $2.0 million.

Note 12 – Income taxes:

	Three months ended March 31,	
	2019	2020
	(In millions)	
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 21%	$ 3.8	**$ (.2)**
Rate differences on equity in earnings of Kronos	(1.4)	**(3.2)**
U.S. state income taxes and other, net	.2	**.1**
Income tax expense (benefit)	$ 2.6	**$ (3.3)**
Comprehensive provision (benefit) for income taxes allocable to:		
Net income (loss)	$ 2.6	**$ (3.3)**
Additional paid-in capital	-	**(.1)**
Other comprehensive income (loss):		
Currency translation	-	**(2.7)**
Pension plans	.2	**.3**
Total	$ 2.8	**$ (5.8)**

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 $6.3 million in the first three months of 2019 and 2020. The amounts shown in the above table of our income tax rate reconciliation for rate differences on equity in earnings of Kronos are primarily attributable to the net effects of Kronos' earnings and the income tax benefit related to the nontaxable 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. Our equity in earnings of Kronos in 2020 is expected to be lower than our equity in earnings of Kronos in 2019.

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was signed into law in response to the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, modifications to net operating loss carryovers and carrybacks, modifications to the limitation of business interest for 2019 and 2020 and technical corrections to tax depreciation methods for qualified improvement property. We have evaluated the relevant provisions of the CARES Act and do not expect the NOL carryback provisions to result in a cash tax benefit to us because we do not have any prior year refundable income taxes and other provisions of the CARES Act will not have a material impact on our tax provision.

Income tax matters related to Kronos

Under the CARES Act, the modification to the business interest provisions increases the business interest limitation from 30% of adjusted taxable income to 50% of adjusted taxable income which increases Kronos' allowable interest expense deduction for 2019 and 2020. Consequently, in the first quarter of 2020 Kronos recognized a cash tax benefit of $.5 million related to the reversal of the valuation allowance recognized in 2019 for the portion of the disallowed interest expense Kronos did not expect to fully utilize at December 31, 2019. Pursuant to the business interest modification provisions, Kronos does not expect its deductible interest expense in 2020 to be limited and, accordingly, Kronos has considered such modifications in its estimate of the effective tax rate. Kronos has determined other provisions of the CARES Act will not have a material impact on its provision for income taxes in 2020.

Note 13 – Accumulated other comprehensive loss:

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

	Three months ended March 31,	
	2019	2020
	(In thousands)	
Accumulated other comprehensive loss, net of tax:		
Currency translation:		
Balance at beginning of period	$ (172,434)	**$ (172,843)**
Other comprehensive loss	(25)	**(10,118)**
Balance at end of period	$ (172,459)	**$ (182,961)**
Defined benefit pension plans:		
Balance at beginning of period	$ (75,286)	**$ (78,257)**
Other comprehensive income - amortization of net losses included in net periodic pension cost	828	**1,043**
Balance at end of period	$ (74,458)	**$ (77,214)**
OPEB plans:		
Balance at beginning of period	$ (550)	**$ (590)**
Other comprehensive loss - amortization of net gains included in net periodic OPEB cost	(70)	**(80)**
Balance at end of period	$ (620)	**$ (670)**
Total accumulated other comprehensive loss:		
Balance at beginning of period	$ (248,270)	**$ (251,690)**
Other comprehensive income (loss)	733	**(9,155)**
Balance at end of period	$ (247,537)	**$ (260,845)**

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 we believe liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

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

Accordingly, 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. In addition, we have determined that liability to us which may result, if any, cannot be reasonably estimated at this time because there is no prior history of a loss of this nature on which an estimate could be made and there is no substantive information available upon which an estimate could be based.

In the matter titled *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) on July 24, 2019, an order approving a global settlement agreement entered into among all of the plaintiffs and the three defendants remaining in the case (the Sherwin Williams Company, ConAgra Grocery Products and us) was entered by the court and the case was dismissed with prejudice. The global settlement agreement provides that an aggregate $305 million will be paid collectively by the three co-defendants in full satisfaction of all claims resulting in a dismissal of the case with prejudice and the resolution of (i) all pending and future claims by the plaintiffs in the case, and (ii) all potential claims for contribution or indemnity between us and our co-defendants in respect to the case. In the agreement, we expressly deny any and all liability and the dismissal of the case with prejudice was entered by the court without a final judgment of liability entered against us. The settlement agreement fully concludes this matter.

Under the terms of the global settlement agreement, each defendant must pay an aggregate $101.7 million to the plaintiffs as follows: $25.0 million within sixty days of the court's approval of the settlement and dismissal of the case, and the remaining $76.7 million in six annual installments beginning on the first anniversary of the initial payment ($12.0 million for the first five installments and $16.7 million for the sixth installment). Our sixth installment will be made with funds already on deposit at the court that are committed to the settlement, including all accrued interest at the date of payment, with any remaining balance to be paid by us (and any amounts on deposit in excess of the final payment would be returned to us). For financial reporting purposes we used a discount rate of 1.9% per annum to discount the settlement to the estimated net present value. We recognized additional litigation settlement expense during 2019 of $19.3 million (primarily in the second quarter).

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

Environmental matters and litigation

Our operations are governed by various environmental laws and regulations. Certain of our businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to maintain compliance with applicable environmental laws and regulations at all of our plants and to strive to improve environmental performance. From time to time, we may be subject to environmental regulatory enforcement under U.S. 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. It is possible that actual costs will exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and it is possible costs will be incurred for sites where no estimates presently can be made. Further, additional environmental and related matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation and related matters (including costs associated with damages for personal injury or property damage and/or damages for injury to natural resources) when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available to us or as circumstances change. Unless the amounts and timing of such estimated future expenditures are fixed and reasonably determinable, we generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the payout. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable.

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

Changes in the accrued environmental remediation and related costs during the first three months of 2020 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	$ 94,508
Additions charged to expense	20
Payments, net	(289)
Balance at the end of the period	$ 94,239
Amounts recognized in the Condensed Consolidated	
Balance Sheet at the end of the period:	
Current liability	$ 3,357
Noncurrent liability	90,882
Balance at the end of the period	$ 94,239

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, 2020, we had accrued approximately $94 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 $115 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, 2020, there were approximately five sites for which we are not currently able to reasonably estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not we actually had any association with the site, the nature of our responsibility 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 2019 Annual Report.

Other litigation

In addition to the litigation described above, we and our affiliates are also involved in various other environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to present and former businesses. In certain cases, we have insurance coverage for these items, although we do not expect additional material insurance coverage for environmental matters. We currently believe the disposition of all of these various other claims and disputes (including asbestos related claims), individually and in the aggregate, should not have a material adverse effect on our consolidated financial position, results of operations or liquidity beyond the accruals already provided.

Note 15 – Financial instruments and fair value measurements:

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

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

	December 31, 2019		March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash, cash equivalents and restricted cash	$ 157,870	$ 157,870	**$ 161,578**	**$ 161,578**
Noncontrolling interest in CompX common stock	22,707	24,627	**23,131**	**25,657**

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:

In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2019-12, Simplifying the Accounting for Income Taxes, which changes the accounting for certain income tax transactions and reduces complexity in accounting for income taxes in certain areas. The ASU introduces new guidance including providing a policy election for an entity to not allocate consolidated current and deferred tax expense when a member of a consolidated tax return is not subject to income tax in its separate financial statements and is a disregarded entity by the taxing authority; and providing guidance to evaluate whether a step-up in tax basis of goodwill relates to a business combination in which book goodwill was recognized or a separate transaction. The ASU also changes existing guidance in a number of areas, including: the method of making an intraperiod allocation of total income tax expense if there is a loss in continuing operations and gains outside of continuing operations; determining when a deferred tax liability is recognized after an investor in a non-U.S. entity transitions to or from the equity method of accounting; accounting for tax law changes and year-to-date losses in interim periods; and determining how to apply the income tax guidance to franchise taxes that are partially based on income. We adopted this ASU as of January 1, 2020. The adoption of this ASU in the first quarter of 2020 did not have a material effect on our Condensed Consolidated Financial Statements.

Note 17 – Subsequent event:

Following the spread of the COVID-19 virus beyond China in late January 2020, various national, state and local governments began to implement a number of increasingly restrictive measures to contain the spread of the virus, including travel restrictions, gathering limitations, event cancellations, border closures and stay-at-home orders, resulting in sharp contractions of vast areas of the global economy beginning in March 2020. While measured efforts are underway to resume commercial activities in most global markets, the impacts of COVID-19, including the efforts to mitigate its spread, are expected to continue to challenge workers, businesses and governments for the foreseeable future. Although the COVID-19 pandemic had limited impact on our operations during the first quarter of 2020, we believe U.S. and worldwide gross domestic product will be significantly impacted for an indeterminate period, including the demand for our products and those of our customers. Consequently, we expect to report lower sales and earnings than would otherwise have been expected for the remainder of 2020. The extent of the impact will depend on numerous factors, including future developments, and therefore is uncertain and cannot be predicted.

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

RESULTS OF OPERATIONS:

Business overview

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

CompX is a leading manufacturer of engineered components utilized in a variety of applications and industries. Through its Security Products operations, CompX manufactures mechanical and electronic cabinet locks and other locking mechanisms used in recreational transportation, postal, office and institutional furniture, cabinetry, tool storage and healthcare applications. CompX also manufactures stainless steel exhaust systems, gauges, throttle controls, wake enhancement systems 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 (TiO_2). TiO_2 is used for a variety of manufacturing applications including paints, plastics, paper and other industrial and specialty products.

Forward-looking information

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

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

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

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

Results of operations

Net income overview

Quarter ended March 31, 2020 compared to the quarter ended March 31, 2019

Our net income attributable to NL stockholders was $1.9 million, or $.04 per share, in the first quarter of 2020 compared to net income attributable to NL stockholders of $15.2 million, or $.31 per share, in the first quarter of 2019. As more fully described below, the decrease in our earnings per share from 2019 to 2020 is primarily due to the net effects of:

- unfavorable relative changes in the value of marketable equity securities of $17.6 million;
- equity in earnings of Kronos in 2020 of $8.2 million compared to $9.2 million in 2019;
- higher income from operations attributable to CompX of $.7 million in 2020; and
- environmental remediation and related costs of nil in 2020 compared to environmental remediation and related benefit of $.7 million in 2019.

Our 2020 net income per share attributable to NL stockholders includes income of $.01 per share related to Kronos' first quarter recognition of an insurance settlement gain.

Income from operations

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

	Three months ended March 31, 2019	Three months ended March 31, 2020	% Change
	(in millions)		
CompX	$ 4.3	**$ 5.0**	17 %
Insurance recoveries	.3	**-**	(92)
Corporate expense	(2.1)	**(2.5)**	22
Income from operations	$ 2.5	**$ 2.5**	-

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 (loss) before income taxes exclusive of our income from operations.

	Three months ended March 31, 2019	Three months ended March 31, 2020	% Change
	(in millions)		
Equity in earnings of Kronos	$ 9.2	**$ 8.2**	(11) %
Marketable equity securities	5.5	**(12.1)**	(321)
Other components of net periodic pension and OPEB cost	(.4)	**(.2)**	(51)
Interest and dividend income	1.5	**1.1**	(26)
Interest expense	-	**(.3)**	n.m.

CompX International Inc.

	Three months ended March 31, 2019	Three months ended March 31, 2020	% Change
	(in millions)		
Net sales	$ 31.2	**$ 32.3**	4 %
Cost of sales	21.6	**21.9**	2
Gross margin	9.6	**10.4**	8
Operating costs and expenses	5.3	**5.4**	1
Income from operations	$ 4.3	**$ 5.0**	17
Percentage of net sales:			
Cost of sales	69 %	**68 %**	
Gross margin	31	**32**	
Operating costs and expenses	17	**17**	
Income from operations	14	**15**	

Net sales – Net sales increased $1.1 million in the first quarter of 2020 compared to the same period in 2019 primarily due to higher Security Products sales and to a lesser extent higher Marine Components sales. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of sales and gross margin *–* Cost of sales as a percentage of sales decreased 1.4% in the first quarter of 2020 compared to the same period in 2019 due to the favorable effects of customer and product mix, partially offset by increased medical costs for both Security Products and Marine Components. As a result, gross margin as a percentage of sales increased over the same period. Gross margin dollars increased due to higher sales for both business segments.

Operating costs and expenses *–* Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses directly related to product sales and administrative costs relating to business unit and corporate management activities, as well as gains and losses on plant, property and equipment. Operating costs and expenses for the first quarter of 2020 were comparable to the same period in 2019.

Income from operations *–* As a percentage of net sales, income from operations for the first quarter of 2020 increased compared to the same period of 2019 and was primarily impacted by the factors impacting cost of sales, 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, 2019	Three months ended March 31, 2020	% Change
	(in millions)		
Security Products:			
Net sales	$ 24.7	**$ 25.5**	3%
Cost of sales	16.7	**16.9**	1
Gross margin	8.0	**8.6**	7
Operating costs and expenses	2.9	**2.9**	(2)
Operating income	$ 5.1	**$ 5.7**	13
Gross margin	32%	**34%**	
Operating income margin	21	**22**	

Security Products *–* Security Products net sales increased 3% in the first quarter of 2020 compared to the same period last year. The increase in sales is primarily due to higher sales to existing government security customers, partially offset by lower sales to transportation and distribution customers. Gross margin and operating income as a percentage of sales increased in 2020 compared to the same period in 2019 due to favorable customer and product mix on higher sales, partially offset by increased medical costs.

	Three months ended March 31, 2019		% Change
	2019	2020	
	(in millions)		
Marine Components:			
Net sales	$ 6.5	**$ 6.8**	6%
Cost of sales	4.8	**5.0**	3
Gross margin	1.7	**1.8**	13
Operating costs and expenses	.8	**.7**	(5)
Operating income	$ .9	**$ 1.1**	20
Gross margin	26%	**27%**	
Operating income margin	14	**16**	

Marine Components – Marine Components net sales increased 6% in the first quarter of 2020 compared to the same period last year primarily due to increased sales to the towboat and center console boat markets, partially offset by lower sales to distribution customers. Gross margin and operating income as a percentage of sales increased in the first quarter of 2020 compared to the same period last year due to a favorable customer and product mix on higher sales, partially offset by increased medical costs.

Outlook **–** We experienced minimal disruptions to our supply chain or customer base from COVID-19 during the first quarter of 2020. First quarter sales reflect continued strong demand for our products, including high-security applications for our existing government customers as well as our marine products. We have been identified as an essential business in the states where we operate, and we are considered critical in supplying components to many essential and mandatory markets. Beginning in late March 2020, we began receiving requests from certain customers of both our Security Products and Marine Components segments to delay or postpone shipments, in some cases because our customers' production facilities have temporarily closed. We operate three facilities, each of which specializes in certain manufacturing processes and is therefore dependent upon the other facilities to some extent to manufacture finished goods. With the onset of COVID-19, within each facility we increased sanitizing, mandated social distancing and implemented other health and safety protocols. In late April 2020, we temporarily closed our facility that is located outside of Chicago, Illinois, which has been considered a COVID-19 "hotspot," due to an increase of COVID-19 cases in the community. During the closure we completed a deep clean and sanitization within the facility, and we successfully reopened the plant and resumed production after a one week pause. We believe the temporary closure of our Illinois facility will have minimal negative impact on our ability to manufacture and ship during the second quarter, in part due to the anticipated decline in demand during the same period.

The advance of the COVID-19 pandemic and the global efforts to mitigate its spread have already resulted in sharp contractions of vast areas of the global economy and are expected to continue to challenge workers, businesses and governments for the foreseeable future. Government actions in various regions to gradually permit the resumption of limited commercial activities following various regional shutdowns are currently in progress, but it is believed that the success and timing of these actions will depend in part on deployment of effective tools to fight COVID-19, including increased testing, enhanced monitoring, data analysis and effective treatments, before economic growth returns to pre-pandemic levels, particularly in service related sectors of the economy. Even as these measures are implemented and become effective, they will not directly address the business and employment losses already experienced. As a result, we expect U.S. and worldwide gross domestic product to be significantly impacted for an indeterminate period.

Based on current conditions, we expect to report reduced revenue and operating income during the second quarter of 2020 compared to the first quarter of 2020, but the severity of the decline will depend on customer demand for our products, including the timing and extent to which our customers restart their operations, on our customers' perception as to when consumer demand for their products will return and on any future disruptions in our operations or our suppliers' operations, all of which are difficult to predict. Our operations teams meet daily to ensure we are maintaining a safe working environment for all of our employees, minimizing operational disruptions and managing inventory levels. It is possible we may temporarily close one or more of our facilities again for the health and safety of our employees before the COVID-19 crisis is over. CompX has significant cash balances of approximately $63.2 million at March 31, 2020, and we believe we are well positioned to navigate the uncertainty ahead.

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 $2.5 million in the first quarter of 2020, $.4 million higher than in the first quarter of 2019 primarily due to higher environmental remediation and related costs partially offset by lower litigation fees and related costs in 2020. Included in corporate expense in the first quarters of 2019 and 2020 are:

- litigation fees and related costs of $.6 million in 2020 compared to $.8 million in 2019, and
- environmental remediation and related costs of nil in 2020 compared to environmental remediation and related benefit of $.7 million in 2019.

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 2020 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 2020, 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 2020 will be higher than in 2019 primarily due to higher expected litigation fees and related costs and higher environmental remediation and related costs.

Interest and dividend income – Interest and dividend income decreased $.4 million in the first quarter of 2020 compared to the prior year period primarily due to lower average outstanding balances under CompX's revolving promissory note receivable from Valhi and lower average interest rates partially offset by higher cash and cash equivalents and restricted cash and cash equivalents balances available for investment.

Marketable equity securities – We recognized a loss of $12.1 million on the change in value of our marketable equity securities in the first quarter of 2020 compared to a gain of $5.5 million in the first quarter of 2019.

Income tax expense (benefit) – We recognized an income tax benefit of $3.3 million in the first quarter of 2020 compared to income tax expense of $2.6 million in the first quarter of 2019. 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 $6.3 million in the first three months of 2019 and 2020.

Our effective tax rate attributable to our equity in earnings of Kronos, including the effect of the nontaxable dividends we received from Kronos was a 17.5% benefit in the first three months of 2020 and 6.3% expense in the first three months of 2019. The decrease is primarily attributable to the net effects of Kronos' lower earnings in the first three months of 2020 as compared to the first three months of 2019 and the impact of the income tax benefit related to the nontaxable dividends received from Kronos. See Note 12 to our Condensed Consolidated Financial Statements for more information about our 2020 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 three months of 2019 and 2020. 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, 2019	Three months ended March 31, 2020	% Change
	(in millions)		
Net sales	$ 436.5	**$ 421.0**	**(4) %**
Cost of sales	327.2	**332.9**	**2**
Gross margin	$ 109.3	**$ 88.1**	
Income from operations	$ 49.0	**$ 43.5**	**(11)**
Interest and dividend income	2.1	**1.2**	
Insurance settlement gain	-	**1.5**	
Marketable equity securities	.6	**(1.5)**	
Other components of net periodic pension and OPEB cost	(3.8)	**(4.7)**	
Interest expense	(4.8)	**(4.6)**	
Income before income taxes	43.1	**35.4**	
Income tax expense	12.8	**8.4**	
Net income	$ 30.3	**$ 27.0**	
Percentage of net sales:			
Cost of sales	75 %	**79 %**	
Income from operations	11	**10**	
Equity in earnings of Kronos Worldwide, Inc.	$ 9.2	**$ 8.2**	
TiO_2 operating statistics:			
Sales volumes*	143	**136**	**(5) %**
Production volumes*	134	**132**	**(1)**
Change in TiO_2 net sales:			
TiO_2 sales volumes			**(5) %**
TiO_2 product pricing			**-**
TiO_2 product mix/other			**3**
Changes in currency exchange rates			**(2)**
Total			**(4) %**

* Thousands of metric tons

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

Current industry conditions

At the beginning of 2020, Kronos' average TiO_2 selling prices were 1% lower than at the beginning of 2019, and its average TiO_2 selling prices at the end of the first quarter of 2020 were 2% lower than at the end of 2019. Kronos experienced lower sales volumes in the North American, Latin American and export markets partially offset by higher sales volumes in the European market in the first three months of 2020 as compared to the same period of 2019.

Kronos operated its production facilities at overall average capacity utilization rates of 95% in the first quarter of 2020 compared to 97% in the first quarter of 2019.

Primarily due to a moderate rise in the cost of third-party feedstock Kronos procured in 2019, its cost of sales per metric ton of TiO_2 sold in the first three months of 2020 was higher as compared to the first three months of 2019 (excluding the effect of changes in currency exchange rates).

Net sales – Kronos' net sales in the first quarter of 2020 decreased 4%, or \$15.5 million, compared to the first quarter of 2019 primarily due to a 5% decrease in sales volumes (which decreased net sales by approximately \$22 million). Kronos' average TiO_2 selling prices in the first quarter of 2020 were comparable to its average TiO_2 selling prices in the first quarter of 2019. TiO_2 selling prices will increase or decrease generally as a result of competitive market pressures, changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs.

Kronos' sales volumes decreased 5% in the first quarter of 2020 as compared to the first quarter of 2019 primarily due to lower sales volumes in the North American, Latin American and export markets partially offset by higher sales volumes in the European market. In addition to the impact of lower sales volumes, Kronos estimates that changes in currency exchange rates (primarily the euro) decreased its net sales by approximately \$7 million in the first quarter of 2020 as compared to the first quarter of 2019.

Cost of sales and gross margin – Kronos' cost of sales increased \$5.7 million, or 2%, in the first quarter of 2020 compared to the first quarter of 2019 due to the net effect of higher raw materials and other production costs of approximately \$23 million (including higher cost for third-party feedstock, energy and other raw materials), favorable effects from currency fluctuations (primarily the euro) and a 5% decrease in sales volumes. Kronos' cost of sales as a percentage of net sales increased to 79% in the third quarter of 2020 compared to 75% in the same period of 2019 primarily due to the unfavorable effects of higher raw materials and other production costs, as discussed above.

Gross margin as a percentage of net sales decreased to 21% in the first quarter of 2020 compared to 25% in the first quarter of 2019. As discussed and quantified above, Kronos' gross margin decreased primarily due to the effects of lower sales volumes and higher raw materials and other production costs.

Selling, general and administrative expense – Kronos' selling, general and administrative expense was approximately 13% of net sales in the first quarters of 2019 and 2020.

Income from operations – Kronos' income from operations decreased by \$5.5 million, or 11%, in the first quarter of 2020 compared to the first quarter of 2019. Income from operations as a percentage of net sales decreased to 10% in the first quarter of 2020 from 11% in the same period of 2019. This decrease was driven by the lower gross margin discussed above. Kronos estimates that changes in currency exchange rates increased income from operations by approximately \$11 million in the first quarter of 2020 as compared to the same period in 2019, as discussed below.

Other non-operating income (expense) – Kronos recognized a gain of \$.6 million on the change in value of its marketable equity securities in the first quarter of 2019 and a loss of \$1.5 million in the first quarter of 2020. Other components of net periodic pension and OPEB cost in the first quarter of 2020 increased \$.9 million compared to the first quarter of 2019 primarily due to increased amortization costs from previously unrecognized actuarial losses as a result of lower discount rates and lower expected returns on plan assets. Kronos' interest expense in the first quarter of 2020 was comparable to the first quarter of 2019 and Kronos currently expects its interest expense for all of 2020 to be comparable to 2019.

Income tax expense – Kronos recognized income tax expense of \$8.4 million in the first quarter of 2020 compared to income tax expense of \$12.8 million in the first quarter of 2019. The difference is primarily due to lower earnings in 2020. Kronos' earnings are subject to income tax in various U.S. and non-U.S. jurisdictions, and the income tax rates applicable to the pre-tax earnings (losses) of its non-U.S. operations are generally higher than the income tax rates applicable to its U.S. operations. 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, Kronos' non-U.S. operations also generate currency transaction gains and losses which primarily relate to (i) the difference between the currency exchange rates in effect when non-local currency sales or operating costs (primarily U.S. dollar denominated) are initially accrued and when such amounts are settled with the non-local currency, (ii) changes in currency exchange rates during time periods when its 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. Kronos periodically uses currency forward contracts to manage a portion of its currency exchange risk, and relative changes in the aggregate fair value of any currency forward contracts it holds from time to time serve in part to mitigate the currency transaction gains or losses Kronos 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 its sales and income from operations for the periods indicated.

Impact of changes in currency exchange rates
Three months ended March 31, 2020 vs March 31, 2019

	Tramsactions gains recognized			Translation loss - impact of rate changes	Total currency impact 2020 vs 2019
	2019	2020	Change		
			(In millions)		
Impact on:					
Net sales	$ -	$ -	$ -	$ (7)	$ (7)
Income from operations	1	12	11	-	11

The $7 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 fewer U.S. dollars in 2020 as compared to 2019. The strengthening of the U.S. dollar relative to the Canadian dollar and the Norwegian krone in 2020 did not have a significant effect on the reported amount of Kronos' net sales, as a substantial portion of the sales generated by its Canadian and Norwegian operations are denominated in the U.S. dollar.

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

Outlook

To-date, the COVID-19 pandemic, including the measures employed to mitigate its spread, has had limited impact on Kronos' operations and financial performance. Kronos' manufacturing facilities have remained open, operating at near planned capacities, and the availability of raw materials has not been materially impacted. Kronos' first quarter financial results, including sales and production volumes, have been within its expectations. At the end of the first quarter, Kronos had over $341 million in cash and cash equivalents, and over $200 million available for borrowing under its existing revolving credit facilities.

Kronos' products are vital to the production of numerous critically needed end-user products, and therefore its facilities have been designated as essential businesses in each of the regions in which it operates. Kronos' manufacturing and administrative facilities are generally located in densely populated regions of Europe and North America which have experienced substantial outbreaks of COVID-19. Some of Kronos' manufacturing and distribution processes are labor-intensive, and it recognizes the elevated health risk that COVID-19 represents for its employees, contractors and partners. Kronos is using a variety of methods to protect the health and well-being of its workforce and its customers, including the implementation of social distancing, contact tracing, deep cleaning of facilities, work-from-home strategies and staggered shift deployment, among other health and safety protocols. To-date, Kronos has had limited cases of COVID-19 among its workforce and all of its facilities have remained in operation.

The advance of the COVID-19 pandemic and the global efforts to mitigate its spread have already resulted in sharp contractions of vast areas of the global economy and are expected to continue to challenge workers, businesses and governments for the foreseeable future. Government actions in various regions to gradually permit the resumption of limited commercial activities following various regional shutdowns are currently in progress, but it is believed that the success and timing of these actions will depend in part on deployment of effective tools to fight COVID-19, including increased testing, enhanced monitoring, data analysis and effective treatments, before economic growth returns to pre-pandemic levels, particularly in service related sectors of the economy. Even as these measures are implemented and become effective, they will not directly address the business and employment losses already experienced. As a result, Kronos expects worldwide gross domestic product to be significantly impacted for an indeterminate period. While Kronos believes that demand for its products and the products of its customers will be negatively impacted in the coming months, many of Kronos' products are used by its customers in end-products that to date remain in demand across the world economy. The breadth and depth of the negative impact COVID-19 will have on Kronos' business remains unknown.

Given the impact of COVID-19 on the global economy, Kronos expects its sales and earnings will be lower than originally planned for 2020. The extent of the impact will depend on numerous factors, including future developments, and therefore is uncertain and cannot be predicted. If significant declines in global demand occur, we would expect a reduction in our sales volumes and potentially, average sales prices, which in turn would cause Kronos to reduce its production volumes, resulting in an increase to per unit costs of production. If this occurs, spending for raw materials and other production costs would be reduced, but not enough to offset the negative impacts of reduced sales. Depending on the length and severity of the impact of COVID-19 on the global economy, Kronos may decide to curtail production or temporarily close manufacturing facilities, or it may be required to temporarily close certain facilities if outbreaks escalate in a particular region. Kronos will continue to monitor current and anticipated near-term customer demand throughout the year and align its production and inventory levels accordingly.

Though it is not possible to predict the impact of the COVID-19 pandemic on future demand for Kronos' products or those of its customers, Kronos believes that it has sufficient cash on-hand and available borrowing capacity under its revolving credit facilities to meet its obligations, and Kronos is prepared to implement multiple cash-saving strategies if necessary, including reduction of inventories, delays in capital expenditures and other cost saving initiatives.

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 $3.6 million in the first three months of 2020 compared to $1.7 million in the first three months of 2019. The $1.9 million net increase in cash provided by operating activities includes the net effects of:

- lower net cash used for relative changes in receivables, inventories, payables and accrued liabilities in 2020 of $1.3 million;
- higher income from operations from CompX in 2020 of $.7 million;
- a $.6 million decrease in interest received in 2020 due to the relative timing of payments;
- lower cash received for insurance recoveries in 2020 of $.3 million; and
- lower cash paid for environmental remediation and related costs in 2020 of $.2 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,	
	2019	2020
	(In millions)	
Net cash provided by operating activities:		
CompX	$ (2.0)	**$ (1.0)**
NL Parent and wholly-owned subsidiaries	4.5	**5.7**
Eliminations	(.8)	**(1.1)**
Total	$ 1.7	**$ 3.6**

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, our average days sales outstanding increased from December 31, 2019 to March 31, 2020 primarily as a result of relative changes in the timing of collections. Our total average number of days in inventory at March 31, 2020 was comparable to December 31, 2019. For comparative purposes, we have provided December 31, 2018 and March 31, 2019 numbers below.

	December 31, 2018	March 31, 2019	December 31, 2019	March 31, 2020
Days sales outstanding	40 days	45 days	36 days	43 days
Days in inventory	80 days	78 days	81 days	79 days

Investing activities

Our capital expenditures were $.4 million in each of the first three months of 2020 and 2019. During the first three months of 2020, Valhi repaid a net $2.6 million under the promissory note ($15.6 million of gross borrowings and $18.2 million of gross repayments). 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).

Financing activities

On February 19, 2020 our board of directors declared a first quarter 2020 dividend of $.04 per share, aggregating $2.0 million, paid on March 17, 2020 to NL stockholders of record as of March 3, 2020. The declaration and payment of future dividends, and the amount thereof, is discretionary and is dependent upon these and other factors deemed relevant by our board of directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which might be paid. There are currently no contractual restrictions on the amount of dividends which we may pay.

Cash flows from financing activities in the first three months of each of 2019 and 2020 also include CompX dividends paid to its stockholders other than us.

Outstanding debt obligations

At March 31, 2020, 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, 2020. See Note 8 to our Condensed Consolidated Financial Statements.

Kronos' North American and European revolvers and its senior notes contain a number of covenants and restrictions which, among other things, restrict its ability to incur or guarantee additional debt, incur liens, pay dividends or make other restricted payments, or merge or consolidate with, or sell or transfer substantially all of its assets to, another entity, and 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, 2020. 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, 2020, we had aggregate cash, cash equivalents and restricted cash of $161.6 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	$ 63.2
NL Parent and wholly-owned subsidiaries	98.4
Total	$ 161.6

In addition, at March 31, 2020 we owned 14.4 million shares of Valhi common stock with an aggregate market value of $14.8 million. See Note 4 to our Condensed Consolidated Financial Statements. We also owned 35.2 million shares of Kronos common stock at March 31, 2020 with an aggregate market value of $297.3 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, 2021) including any amounts CompX might loan from time to time under the terms of its revolving loan to Valhi (which loans would be solely at CompX's discretion). If actual developments differ materially from our expectations, our liquidity could be adversely affected. In this regard, Valhi has agreed to loan us up to $50 million on a revolving basis. At March 31, 2020, 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, 2020 totaled $.5 million. CompX's 2020 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 2020, based on the number of shares of common stock of these affiliates we own as of March 31, 2020 and their current regular quarterly dividend rate, is presented in the table below.

	Shares held	Quarterly dividend rate	Annual expected dividend
	(In millions)		(In millions)
Kronos	35.2	$ .18	$ 25.4
CompX	10.8	.10	4.3
Valhi	14.4	.02	1.1
Total expected annual dividends			$ 30.8

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 2019 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 2019 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 2019 Annual Report. There have been no changes in our critical accounting policies during the first three months of 2020.

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 2019 Annual Report, and we refer you to Part I, Item 7A. –“Quantitative and Qualitative Disclosure about Market Risk” in our 2019 Annual Report. See also Note 15 to our Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures – We maintain disclosure controls and procedures which, as defined in Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Robert D. Graham, our Vice Chairman of the Board and Chief Executive Officer and Amy Allbach Samford, our Vice President and Chief Financial Officer, have evaluated the design and effectiveness of our disclosure controls and procedures as of March 31, 2020. 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, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In addition to the matter discussed below, refer to Note 14 to our Condensed Consolidated Financial Statements and our 2019 Annual Report.

Refined Metals Corporation v. NL Industries, Inc. In March 2020, Refined Metals' state law claims were dismissed with prejudice and the court entered a final judgment in favor of NL.

Item 1A. Risk Factors

Reference is made to the 2019 Annual Report for a discussion of additional risk factors related to our businesses.

CompX - On March 11, 2020, the World Health Organization declared the coronavirus known as "COVID-19" a pandemic. CompX has approximately 550 employees and operates three facilities in the United States located in Illinois, Wisconsin and South Carolina. The facilities are geographically diverse, and certain areas of the U.S. are experiencing more significant viral outbreaks than other areas. CompX is designated an essential business in the states where it operates and is therefore permitted to fully operate during the pandemic, but because the COVID-19 pandemic affected the health and safety of its employees, CompX temporarily closed its Illinois facility for one week beginning in late April. The rate of spread of COVID-19 in a geographic region can change rapidly, and it is possible CompX may have additional temporary closures at one or all of its facilities for the health and safety of its workforce if conditions warrant. In addition, the pandemic has caused the closure of some of its customers' facilities, and it is possible that more customers will be similarly impacted. Furthermore, the economic effect of the pandemic has impacted the demand for CompX's products. CompX is actively monitoring its suppliers, customers and facilities to rapidly respond to changing conditions. The extent of the impact of the coronavirus outbreak on CompX's operational and financial performance will depend on future developments, including the severity, duration and spread of the outbreak and its overall impact to the industries and markets in which CompX operates, all of which are uncertain and cannot be predicted.

Kronos - Following the spread of the COVID-19 virus beyond China in late January 2020, various national, state and local governments began to implement a number of increasingly restrictive measures to contain the spread of the virus, including travel restrictions, gathering limitations, event cancellations, border closures and stay-at-home orders, resulting in sharp contractions of vast areas of the global economy beginning in March 2020. While measured efforts are underway to resume commercial activities in most global markets, the impacts of COVID-19, including the efforts to mitigate its spread, are expected to continue to challenge workers, businesses and governments for the foreseeable future. Although the COVID-19 pandemic had limited impact on Kronos' operations during the first quarter of 2020, Kronos believes U.S. and worldwide gross domestic product will be significantly impacted for an indeterminate period, including the demand for its products and those of its customers. The extent of the impact of COVID-19 on Kronos will depend on numerous factors, including future developments, and therefore is uncertain and cannot be predicted.

Item 6. Exhibits

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 6, 2020	/s/ Amy Allbach Samford
	Amy Allbach Samford (Vice President and Chief Financial Officer, Principal Financial Officer)
Date: May 6, 2020	/s/ Patty S. Brinda
	Patty S. Brinda (Vice President and Controller, Principal Accounting Officer)

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 6, 2020

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

EXHIBIT 31.2

CERTIFICATION

I, Amy Allbach Samford, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 6, 2020

/s/ Amy Allbach Samford
Amy Allbach Samford
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, 2020 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, Amy Allbach Samford, 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/ Amy Allbach Samford
Amy Allbach Samford
Vice President and Chief Financial Officer

May 6, 2020

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.