

NL INDUSTRIES INC
Form 10-Q
August 06, 2007

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

**For the quarter ended June 30, 2007
Commission file number 1-640**

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

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

13-5267260
(IRS Employer Identification No.)

5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2697
(Address of principal executive offices)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Large accelerated filer Accelerated filer Non-accelerated filer

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 outstanding on July 27, 2007: 48,592,034.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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Items 2, 3 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)

ASSETS	December 31, 2006	June 30, 2007 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 52,742	\$ 40,582
Restricted cash and cash equivalents	7,356	5,430
Marketable securities	9,989	6,351
Accounts and other receivables, net	22,376	23,105
Inventories, net	21,733	25,526
Prepaid expenses and other	1,326	811
Deferred income taxes	5,543	5,269
Total current assets	121,065	107,074
Other assets:		
Marketable equity securities	122,344	148,506
Investment in Kronos Worldwide, Inc.	160,527	161,702
Pension asset	12,807	14,311
Goodwill	32,969	32,812
Intangibles and other, net	8,977	8,008
Total other assets	337,624	365,339
Property and equipment:		
Land	9,475	9,569
Buildings	30,751	31,537
Equipment	119,233	123,677
Construction in progress	2,559	8,302
	162,018	173,085
Less accumulated depreciation and amortization	91,363	99,705
Net property and equipment	70,655	73,380
Total assets	\$ 529,344	\$ 545,793

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

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2006	June 30, 2007 (unaudited)
Current liabilities:		
Accounts payable	\$ 8,944	\$ 9,314
Accrued liabilities	27,078	35,231
Accrued environmental costs	9,778	9,716
Income taxes	795	1,165
Total current liabilities	46,595	55,426
Noncurrent liabilities:		
Accrued environmental costs	40,935	38,309
Accrued postretirement benefit (OPEB) costs	11,672	11,166
Accrued pension costs	2,780	2,553
Deferred income taxes	130,952	103,125
Other	2,482	26,037
Total noncurrent liabilities	188,821	181,190
Minority interest	45,416	46,601
Stockholders' equity:		
Common stock	6,073	6,073
Additional paid-in capital	363,472	357,499
Retained earnings (deficit)	1,826	(108)
Accumulated other comprehensive loss	(122,859)	(100,888)
Total stockholders' equity	248,512	262,576
Total liabilities, minority interest and stockholders' equity	\$ 529,344	\$ 545,793

Commitments and contingencies (Notes 8 and 10)

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2007	2006	2007
	(as		(as	
	adjusted)		adjusted)	
	(unaudited)			
Net sales	\$ 50,143	\$ 45,229	\$ 97,172	\$ 88,780
Cost of sales	37,794	33,368	73,195	64,797
Gross margin	12,349	11,861	23,977	23,983
Selling, general and administrative expense	6,441	6,571	13,159	13,237
Other operating income (expense):				
Insurance recoveries	580	109	2,816	2,586
Other expense	(79)	(732)	(180)	(792)
Corporate expense	(6,420)	(8,515)	(10,516)	(13,444)
Income (loss) from operations	(11)	(3,848)	2,938	(904)
Equity in earnings (losses) of Kronos Worldwide, Inc.	4,586	(10)	10,201	4,599
Other income (expense):				
Interest and dividends	1,291	1,370	2,705	2,469
Securities transactions, net	7	(47)	64	56
Interest expense	(51)	(48)	(112)	(102)
Income (loss) from continuing operations before income taxes and minority interest	5,822	(2,583)	15,796	6,118
Provision for income taxes (benefit)	1,838	(1,838)	4,417	207
Minority interest in after-tax earnings	1,122	785	1,873	1,675
Income (loss) from continuing operations	2,862	(1,530)	9,506	4,236
Discontinued operations, net of tax	(177)	-	(177)	-
Net income (loss)	\$ 2,685	\$ (1,530)	\$ 9,329	\$ 4,236
Basic and diluted net income (loss) per share	\$.06	\$ (.03)	\$.19	\$.09
Weighted-average shares used in the calculation of net income per share:				
Basic	48,565	48,589	48,564	48,587

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Dilutive impact of stock options	18	9	21	9
Diluted	48,583	48,598	48,585	48,596

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME****Six months ended June 30, 2007****(In thousands)**

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive loss (unaudited)	Total stockholders' equity	Comprehensive income
Balance at December 31, 2006	\$ 6,073	\$ 363,472	\$ 1,826	\$ (122,859)	\$ 248,512	
Net income	-	-	4,236	-	4,236	\$ 4,236
Issuance of common stock	-	63	-	-	63	-
Other comprehensive income, net	-	-	-	21,971	21,971	21,971
Dividends	-	(6,074)	(6,073)	-	(12,147)	-
Change in accounting – FIN No. 48	-	-	(97)	-	(97)	-
Other	-	38	-	-	38	-
Balance at June 30, 2007	\$ 6,073	\$ 357,499	\$ (108)	\$ (100,888)	\$ 262,576	
Comprehensive income						\$ 26,207

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended June 30,	
	2006	2007
	(as adjusted)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 9,329	\$ 4,236
Depreciation and amortization	5,752	5,695
Deferred income taxes	3,934	(1,770)
Minority interest:		
Continuing operations	1,873	1,675
Discontinued operations	(148)	-
Equity in earnings of Kronos Worldwide, Inc.	(10,201)	(4,599)
Dividends from Kronos Worldwide, Inc.	8,758	8,758
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension expense	(1,041)	(1,220)
Other postretirement benefit expense	(881)	315
Other, net	437	219
Change in assets and liabilities:		
Accounts and other receivables, net	(1,208)	(632)
Inventories, net	1,050	(3,565)
Prepaid expenses and other	336	524
Accrued environmental costs	(2,286)	(2,688)
Accounts payable and accrued liabilities	(4,861)	718
Income taxes	(1,622)	(587)
Accounts with affiliates	(1,231)	(6,667)
Other, net	(1,790)	(1,613)
Net cash provided by (used in) operating activities	6,200	(1,201)
Cash flows from investing activities:		
Capital expenditures	(5,393)	(5,603)
Acquisition, net of cash acquired	(9,832)	-
Collection of note receivable	1,306	1,306
Change in restricted cash equivalents and marketable debt securities, net	(1,397)	1,928
Proceeds from disposal of:		
Marketable securities	4,640	9,608
Property and equipment	37	43
Purchase of:		
CompX common stock	(1,834)	-
Marketable securities	(4,786)	(5,861)

Net cash provided by (used in) investing activities

(17,259)

1,421

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

	Six months ended June 30,	
	2006	2007
	(as adjusted)	
	(unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Principal payments	\$ (1,490)	\$ -
Deferred financing costs paid	(105)	-
Cash dividends paid	(12,142)	(12,147)
Distributions to minority interest	(1,144)	(1,131)
Other, net	9	203
Net cash used in financing activities	(14,872)	(13,075)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(25,931)	(12,855)
Currency translation	249	695
Cash and cash equivalents at beginning of period	76,912	52,742
Cash and cash equivalents at end of period	\$ 51,230	\$ 40,582
Supplemental disclosures – cash paid for:		
Interest, net of amounts capitalized	\$ 181	\$ 56
Income taxes, net	3,201	9,003
Noncash investing activity - receipt of TIMET shares	\$ -	\$ 11,410

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

(Unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority-owned by Valhi, Inc. (NYSE: VHI), which owns approximately 83% of our outstanding common stock at June 30, 2007. Valhi is majority-owned by Contran Corporation. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or persons or companies related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran, Valhi and us.

Basis of presentation - Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. Our ownership of CompX is primarily through CompX Group, Inc., our majority-owned subsidiary. CompX Group's sole asset consists of 82% of the outstanding common stock of CompX. We also own an additional 2% of CompX directly. We also own 36% of Kronos Worldwide, Inc. which we account for by the equity method. CompX (NYSE: 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, 2006 that we filed with the SEC on March 13, 2007 (the "2006 Annual Report"), except as discussed in Note 11. 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, 2006 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, 2006) normally included in financial statements prepared in accordance with accounting principals generally accepted in the United States of America ("GAAP"). Our results of operations for the interim period ended June 30, 2007 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 2006 Consolidated Financial Statements contained in our 2006 Annual Report.

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

Note 2 – Accounts and other receivables, net:

December	
31,	June 30,
2006	2007
(In thousands)	

Trade receivables	\$	20,698	\$	22,431
Other receivables		1,941		1,466
Receivable from affiliate – Kronos		238		3
Refundable income taxes		215		-
Allowance for doubtful accounts		(716)		(795)
Total	\$	22,376	\$	23,105

Note 3 – Inventories, net:

		December 31, 2006		June 30, 2007
		(In thousands)		
Raw materials	\$	5,892	\$	7,330
In process products		8,744		10,471
Finished products		7,097		7,725
Total	\$	21,733	\$	25,526

Note 4 - Marketable equity securities:

		December 31, 2006		June 30, 2007
		(In thousands)		
Current assets (available-for-sale):				
Restricted debt securities	\$	5,301	\$	5,299
Other marketable securities		4,688		1,052
Total	\$	9,989	\$	6,351
Noncurrent assets (available-for-sale):				
Valhi common stock	\$	122,344	\$	76,760
TIMET common stock		-		71,746
Total	\$	122,344	\$	148,506

The restricted debt securities at December 31, 2006 and June 30, 2007 collateralize certain of our outstanding letters of credit.

At December 31, 2006 and June 30, 2007, we owned approximately 4.7 million shares of Valhi common stock. At June 30, 2007, the quoted market price of Valhi's common stock was \$16.30 per share, or an aggregate market value of \$76.8 million. At December 31, 2006, the quoted market price was \$25.98 per share, or an aggregate market value of \$122.3 million.

In March 2007, Valhi paid a special dividend to its stockholders in the form of the shares of Titanium Metals Corporation ("TIMET") common stock owned by Valhi. Prior to the special dividend, Valhi owned approximately 35%

of TIMET's outstanding common stock. As a result of the special dividend, each Valhi stockholder, including us, received .4776 of a share of TIMET common stock for each share of Valhi common stock held. We received approximately 2.2 million shares of TIMET common stock in the special dividend. For financial reporting purposes, Valhi's carrying value of the 2.2 million TIMET shares we received was approximately \$11.4 million at the date of distribution. We accounted for our receipt of the 2.2 million shares of TIMET common stock by reducing the cost basis of our shares of Valhi common stock by this \$11.4 million carryover basis, since we and Valhi are under the common control of Contran.

We have classified our shares of TIMET common stock as an available-for-sale marketable security carried at fair value. At June 30, 2007, the quoted market price of TIMET's common stock was \$31.90 per share, or an aggregate market value of \$71.7 million.

Our unrealized other comprehensive income in 2007 relates primarily to the increase in the aggregate market value of our Valhi and TIMET common stocks during the year-to-date period.

Note 5 – Investment in Kronos:

At December 31, 2006 and June 30, 2007, we owned approximately 17.5 million shares of Kronos common stock. At June 30, 2007, the quoted market price of Kronos' common stock was \$25.25 per share, or an aggregate market value of \$442.3 million. At December 31, 2006, the quoted market price was \$32.56, or an aggregate market value of \$570.3 million.

Selected financial information of Kronos is summarized below:

	December	
	31,	June 30,
	2006	2007
	(In millions)	
Current assets	\$ 562.9	\$ 609.7
Property and equipment, net	462.0	469.4
Investment in TiO ₂ joint venture	113.6	115.0
Other noncurrent assets	283.0	291.6
Total assets	\$ 1,421.5	\$ 1,485.7
Current liabilities	\$ 179.5	\$ 193.1
Long-term debt	535.3	564.0
Accrued pension and postretirement benefits	195.7	197.3
Other noncurrent liabilities	62.6	79.6
Stockholders' equity	448.4	451.7
Total liabilities and stockholders' equity	\$ 1,421.5	\$ 1,485.7
	Three months ended	
	June 30,	
	2006	2007
	(As	
	adjusted)	
	Six months ended	
	June 30,	
	2006	2007
	(As	
	adjusted)	
	(In millions)	

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Net sales	\$	345.1	\$	342.6	\$	649.4	\$	656.6
Cost of sales		264.2		279.0		492.7		522.6
Income from operations		35.6		23.6		71.0		52.9
Net income		12.8		-		28.5		12.9

Note 6 – Accrued liabilities:

		December	
		31,	June 30,
		2006	2007
		(In thousands)	
Employee benefits	\$	9,506	\$ 9,107
Professional fees		3,220	5,355
Payable to affiliates:			
Income taxes – Valhi		1,179	7,154
Other		369	369
Reserve for uncertain tax positions		-	345
Other		12,804	12,901
Total	\$	27,078	\$ 35,231

Our reserve for uncertain tax positions is discussed in Note 11.

Note 7 – Other noncurrent liabilities:

		December	
		31,	June 30,
		2006	2007
		(In thousands)	
Reserve for uncertain tax positions	\$	-	\$ 23,462
Insurance claims and expenses		1,007	973
Other		1,475	1,602
Total	\$	2,482	\$ 26,037

Our reserve for uncertain tax positions is discussed in Note 11.

Note 8 - Provision for income taxes:

**Six months ended
June 30,**