

NL INDUSTRIES INC
Form 10-Q
August 05, 2009

UNITED STATES
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 quarterly period ended June 30, 2009
Commission file number 1-640

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

Jersey	New	13-5267260
	(State or other jurisdiction of incorporation or organization)	(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

Whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). * Yes No

* The registrant has not yet been phased into the interactive data requirements.

Whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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Whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No X

Number of shares of the registrant's common stock outstanding on July 29, 2009: 48,611,584.

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, 2008	June 30, 2009 (unaudited)
Current assets:		
Cash and cash equivalents	\$16,450	\$20,090
Restricted cash and cash equivalents	7,457	7,663
Marketable securities	5,534	5,326
Accounts and other receivables, net	28,663	16,748
Inventories, net	22,661	18,797
Prepaid expenses and other	1,435	876
Deferred income taxes	5,766	5,499
Total current assets	87,966	74,999
Other assets:		
Marketable equity securities	64,000	48,914
Investment in and advances to Kronos Worldwide, Inc.	133,745	118,041
Goodwill	44,194	44,223
Assets held for sale	3,517	2,800
Other assets, net	17,832	17,312
Total other assets	263,288	231,290
Property and equipment:		
Land	12,232	12,226
Buildings	32,723	33,341
Equipment	115,546	120,087
Construction in progress	4,406	1,908
	164,907	167,562
Less accumulated depreciation	96,625	101,442
Net property and equipment	68,282	66,120
Total assets	\$419,536	\$372,409

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND EQUITY	December 31, 2008	June 30, 2009 (unaudited)
Current liabilities:		
Accounts payable	\$6,802	\$5,778
Accrued liabilities	27,614	25,323
Accrued environmental costs	9,834	9,639
Income taxes	1,167	485
Total current liabilities	45,417	41,225
Non-current liabilities:		
Note payable to affiliate	41,980	41,230
Accrued environmental costs	40,220	37,034
Accrued pension costs	11,768	11,293
Accrued postretirement benefit (OPEB) costs	8,883	8,758
Deferred income taxes	49,215	44,132
Other	21,823	21,316
Total non-current liabilities	173,889	163,763
Equity:		
NL Stockholders' equity:		
Common stock	6,074	6,076
Additional paid-in capital	330,879	324,004
Retained earnings (deficit)	16,909	(2,144)
Accumulated other comprehensive loss	(165,498)	(171,771)
Total NL stockholders' equity	188,364	156,165
Noncontrolling interest in subsidiary	11,866	11,256
Total equity	200,230	167,421
Total liabilities and equity	\$419,536	\$372,409

Commitments and contingencies (Note 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,	
	2008	2009	2008	2009
	(unaudited)			
Net sales	\$43,708	\$29,239	\$84,228	\$57,715
Cost of sales	32,727	22,993	63,805	46,695
Gross margin	10,981	6,246	20,423	11,020
Selling, general and administrative expense	6,504	6,451	12,908	12,130
Other operating income (expense):				
Insurance recoveries	1,601	1,989	1,684	2,714
Litigation settlement gain	-	11,313	-	11,313
Assets held for sale write-down	-	(717)	-	(717)
Other expense, net	(57)	(8)	(88)	(39)
Corporate expense	(6,960)	(4,956)	(10,736)	(9,322)
Income (loss) from operations	(939)	7,416	(1,625)	2,839
Equity in net income (loss) of Kronos Worldwide, Inc.	2,085	(7,868)	1,945	(17,422)
Other income (expense):				
Interest and dividends	5,171	692	6,135	1,415
Interest expense	(504)	(293)	(1,266)	(616)
Income (loss) before taxes	5,813	(53)	5,189	(13,784)
Provision for income taxes	1,563	2,297	1,013	484
Net income (loss)	4,250	(2,350)	4,176	(14,268)
Noncontrolling interest in net income (loss) of subsidiary	285	(206)	501	(281)
Net income (loss) attributable to NL stockholders	\$3,965	\$(2,144)	\$3,675	\$(13,987)
Amounts attributable to NL stockholders:				
Basic and diluted net income (loss) per share	\$.08	\$(.04)	\$.08	\$(.29)
Cash dividend per share	\$.125	\$.125	\$.25	\$.25
Basic and diluted average shares outstanding	48,603	48,609	48,602	48,605

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY AND COMPREHENSIVE LOSS

Six months ended June 30, 2009

(In thousands)

	NL Stockholders' Equity						Comprehensive loss
	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive loss (unaudited)	Noncontrolling interest in subsidiary	Total equity	
Balance at December 31, 2008	\$6,074	\$330,879	\$16,909	\$ (165,498)	\$ 11,866	\$200,230	
Net loss	-	-	(13,987)	-	(281)	(14,268)	\$ (14,268)
Other comprehensive income, net	-	-	-	(6,273)	68	(6,205)	(6,205)
Issuance of common stock	2	133	-	-	6	141	-
Dividends	-	(7,086)	(5,066)	-	(403)	(12,555)	-
Other	-	78	-	-	-	78	
Balance at June 30, 2009	\$6,076	\$324,004	\$(2,144)	\$ (171,771)	\$ 11,256	\$167,421	
Comprehensive loss							\$ (20,473)

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,	
	2008	2009
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$4,176	\$(14,268)
Depreciation and amortization	4,770	4,250
Deferred income taxes	(1,538)	(1,689)
Equity in net (income) loss of Kronos Worldwide, Inc.	(1,945)	17,422
Dividends from Kronos Worldwide, Inc.	8,758	-
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension expense	(1,485)	387
Other postretirement benefit expense	238	186
Litigation settlement gain	-	(11,313)
Assets held for sale write-down	-	717
Other, net	572	805
Change in assets and liabilities:		
Accounts and other receivables, net	81	8,533
Inventories, net	(1,637)	3,634
Prepaid expenses and other	(876)	1,272
Accrued environmental costs	(2,892)	(3,381)
Accounts payable and accrued liabilities	1,165	(3,444)
Income taxes	(5)	(1,461)
Accounts with affiliates	2,120	305
Other, net	(2,224)	(1,235)
Net cash provided by operating activities	9,278	720
Cash flows from investing activities:		
Capital expenditures	(3,476)	(1,245)
Proceeds from real estate-related litigation settlement	-	11,800
Change in restricted cash equivalents and marketable debt securities, net	(4,827)	(62)
Collections of loans to affiliates	1,306	5,590
Collection of note receivable	-	261
Proceeds from disposal of:		
Marketable securities	361	61
Property and equipment	250	-
Purchase of:		
CompX common stock	(1,006)	-
Kronos common stock	-	(139)
Valhi common stock	-	(33)

Net cash provided by (used in) investing activities

(7,392) 16,233

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Six months ended June 30, 2008 2009 (unaudited)	
Cash flows from financing activities:		
Cash dividends paid	\$(12,149)	\$(12,152)
Distributions to noncontrolling interests in subsidiary	(412)	(403)
Proceeds from issuance of common stock	-	84
Repayment of note payable to affiliate	-	(750)
Other, net	(50)	(96)
Net cash used in financing activities	(12,611)	(13,317)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(10,725)	3,636
Currency translation	462	4
Cash and cash equivalents at beginning of period	41,112	16,450
Cash and cash equivalents at end of period	\$30,849	\$20,090
Supplemental disclosures:		
Cash paid for:		
Interest	\$1,305	\$870
Income taxes, net	425	2,787
Non-cash investing activity:		
Accrual for capital expenditures	293	136

See accompanying Notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority-owned by Valhi, Inc. (NYSE: VHI), which owned approximately 83% of our outstanding common stock at June 30, 2009. Valhi is majority-owned by subsidiaries of 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 other persons or entities 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. 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, 2008 that we filed with the SEC on March 11, 2009 (the "2008 Annual Report"), except as discussed in Note 12. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments other than the adjustment to the carrying value of the assets held for sale discussed in Note 13) 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, 2008 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, 2008) 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, 2009 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 2008 Consolidated Financial Statements contained in our 2008 Annual Report.

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

Note 2 – Accounts and other receivables, net:

	December 31, 2008	June 30, 2009
	(In thousands)	
Trade receivables	\$17,598	\$14,892

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Other receivables	8,288	1,240
Receivable from affiliates:		
Note receivable from Valhi	3,000	-
Income taxes from Valhi	150	-
Other	-	3
Refundable income taxes	338	1,147
Allowance for doubtful accounts	(711)	(534)
 Total	 \$28,663	 \$16,748

During the second quarter of 2009, we received the final principal payment together with all interest due on our outstanding note receivable related to the sale of CompX's European Thomas Regout operations completed in 2005. The final payment totaled approximately \$948,000, of which \$261,000 related to principal and the remaining \$687,000 related to interest that had accrued over the four year period.

Note 3 – Inventories, net:

	December 31, 2008	June 30, 2009
	(In thousands)	
Raw materials	\$7,552	\$6,471
Work in process	8,225	6,937
Finished products	6,884	5,389
Total	\$22,661	\$18,797

Note 4 - Marketable equity securities:

	December 31, 2008	June 30, 2009
	(In thousands)	
Current assets (available-for-sale):		
Restricted debt securities	\$5,372	\$5,228
Other marketable securities	162	98
Total	\$5,534	\$