NL INDUSTRIES INC
Form 10-Q
August 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2018

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

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 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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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   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 7(a)(2)(B) of the Securities 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 outstanding on August 1, 2018: 48,727,884.

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, 2017	June 30, 2018 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$98,316	$ 111,140
Restricted cash and cash equivalents	3,370	3,445
Accounts and other receivables, net	10,670	29,079
Inventories, net	15,382	16,579
Receivable from affiliate	1,767	-
Prepaid expenses and other	1,162	938
Total current assets	130,667	161,181
Other assets:		
Notes receivable from affiliate	38,200	37,600
Marketable securities	88,681	68,415
Investment in Kronos Worldwide, Inc.	229,543	259,752
Goodwill	27,156	27,156
Other assets, net	4,843	5,027
Total other assets	388,423	397,950
Property and equipment:		
Land	5,146	5,141
Buildings	23,044	22,910
Equipment	67,926	68,447
Construction in progress	569	1,013
	96,685	97,511
Less accumulated depreciation	64,159	65,563
Net property and equipment	32,526	31,948
Total assets	$551,616	$ 591,079

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

	December 31, 2017	June 30, 2018 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$4,116	$ 3,684
Accrued and other current liabilities	9,707	68,445
Accrued environmental remediation and related costs	5,302	18,253
Payable to affiliates	429	461
Income taxes	30	46
Total current liabilities	19,584	90,889
Noncurrent liabilities:		
Long-term debt from affiliate	500	500
Accrued pension costs	12,194	11,490
Accrued postretirement benefits (OPEB) costs	1,846	1,737
Accrued environmental remediation and related costs	106,607	97,208
Deferred income taxes	49,315	39,563
Other	8,492	25,413
Total noncurrent liabilities	178,954	175,911
Equity:		
NL stockholders' equity:		
Common stock	6,089	6,090
Additional paid-in capital	300,866	301,139
Retained earnings	220,104	237,807
Accumulated other comprehensive loss	(191,737)	(239,504)
Total NL stockholders' equity	335,322	305,532
Noncontrolling interest in subsidiary	17,756	18,747
Total equity	353,078	324,279
Total liabilities and equity	$551,616	$ 591,079

Commitments and contingencies (Note 14)

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 June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(unaudited)			
Net sales	$30,002	$32,385	$59,950	$60,798
Cost of sales	20,494	21,151	40,757	40,061
Gross margin	9,508	11,234	19,193	20,737
Selling, general and administrative expense	4,907	5,251	10,066	10,380
Other operating income (expense):				
Insurance recoveries	66	200	116	363
Other income, net	-	8	-	627
Litigation settlement expense, net	-	(62,000)	-	(62,000)
Corporate expense	(3,233)	(4,816)	(8,555)	(12,769)
Income (loss) from operations	1,434	(60,625)	688	(63,422)
Equity in earnings of Kronos Worldwide, Inc.	59,745	23,645	70,920	45,124
Other income (expense):				
Marketable equity securities	-	(18,685)	-	(20,266)
Other components of net periodic pension and OPEB cost	(177)	(99)	(354)	(198)
Interest and dividend income	881	1,222	1,577	2,294
Interest expense	(7)	(8)	(14)	(16)
Income (loss) before income taxes	61,876	(54,550)	72,817	(36,484)
Income tax expense (benefit)	20,278	(12,588)	22,457	(9,258)
Net income (loss)	41,598	(41,962)	50,360	(27,226)
Noncontrolling interest in net income of subsidiary	431	653	843	1,140
Net income (loss) attributable to NL stockholders	$41,167	$(42,615)	$49,517	$(28,366)
Amounts attributable to NL stockholders:				
Basic and diluted net income (loss) per share	$.85	$(.87)	$1.02	$(.58)
Weighted average shares used in the calculation	48,710	48,721	48,708	48,718

of net income per share

See accompanying notes to Condensed Consolidated Financial Statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(unaudited)			
Net income (loss)	$41,598	$(41,962)	$50,360	$(27,226)
Other comprehensive income (loss), net of tax:				
Marketable securities	(2,869)	-	(4,591)	-
Currency translation	2,925	(6,108)	4,696	(3,517)
Interest rate swap	(84)	-	28	-
Defined benefit pension plans	393	974	1,260	1,957
Other postretirement benefit plans	(48)	(65)	(96)	(138)
Total other comprehensive income (loss), net	317	(5,199)	1,297	(1,698)
Comprehensive income (loss)	41,915	(47,161)	51,657	(28,924)
Comprehensive income attributable to noncontrolling interest	431	653	843	1,140
Comprehensive income (loss) attributable to NL stockholders	$41,484	$(47,814)	$50,814	$(30,064)

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Six months ended June 30, 2018

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interest in subsidiary	Total equity
	(unaudited)					
Balance at December 31, 2017	$6,089	$300,866	$220,104	$(191,737)	$17,756	$353,078
Change in accounting principle - ASU 2016-01	—	—	46,069	(46,069)	—	—
Balance at January 1, 2018, as adjusted	6,089	300,866	266,173	(237,806)	17,756	353,078
Net income (loss)	—	—	(28,366)	—	1,140	(27,226)
Other comprehensive income (loss), net of tax	—	—	—	(1,698)	—	(1,698)
Issuance of NL common stock	1	119	—	—	—	120
Dividends	—	—	—	—	(167)	(167)
Other, net	—	154	—	—	18	172
Balance at June 30, 2018	$6,090	$301,139	$237,807	$(239,504)	$18,747	$324,279

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,	
	2017	2018
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 50,360	$ (27,226)
Depreciation and amortization	1,861	1,752
Deferred income taxes	21,309	(9,312)
Equity in earnings of Kronos Worldwide, Inc.	(70,920)	(45,124)
Dividends received from Kronos Worldwide, Inc.	10,566	11,974
Cash funding of benefit plans in excess of net benefit plan expense	(23)	(137)
Marketable equity securities	-	20,266
Other, net	280	371
Change in assets and liabilities:		
Accounts and other receivables, net	(1,814)	(3,414)
Inventories, net	(417)	(1,300)
Prepaid expenses and other	81	224
Accounts payable and accrued liabilities	(2,581)	43,266
Income taxes	(1)	12
Accounts with affiliates	(985)	1,799
Accrued environmental remediation and related costs	2,500	3,552
Other noncurrent assets and liabilities, net	(33)	16,760
Net cash provided by operating activities	10,183	13,463
Cash flows from investing activities:		
Capital expenditures	(1,611)	(1,367)
Promissory notes receivable from affiliate:		
Loans	(39,300)	(25,300)
Collections	27,200	25,900
Other, net	2	225
Net cash used in investing activities	(13,709)	(542)
Cash flows from financing activities -		
Distributions to noncontrolling interests in subsidiary	(166)	(167)
Cash and cash equivalents and restricted cash and cash equivalents - net change from:		
Operating, investing and financing activities	(3,692)	12,754

Balance at beginning of period	98,242	102,941
Balance at end of period	$94,550	$115,695
Supplemental disclosure - cash paid (received) for:		
Interest	$14	$16
Income taxes, net	$2,157	$(1,747)

See accompanying notes to Condensed Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(unaudited)

Note 1 – Organization and basis of presentation:

Organization – At June 30, 2018, Valhi, Inc. (NYSE: VHI) held approximately 83% of our outstanding common stock and a wholly-owned subsidiary of Contran Corporation held approximately 92% of Valhi's outstanding common stock. All of Contran's outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly and their children for which Ms. Simmons and Ms. Connelly are co-trustees, or is held directly by Ms. Simmons and Ms. Connelly or entities related to them. Consequently, Ms. Simmons and Ms. Connelly may be deemed to control Contran, Valhi and us.

Basis of presentation – Consolidated in this Quarterly Report are the results of our majority-owned subsidiary, CompX International Inc. We also own 30% of Kronos Worldwide, Inc. (Kronos). CompX (NYSE 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, 2017 that we filed with the SEC on March 12, 2018 (the 2017 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, 2017 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, 2017) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our results of operations for the interim periods ended June 30, 2018 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 2017 Consolidated Financial Statements contained in our 2017 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, 2017	June 30, 2018

	(In thousands)	
Trade receivables - CompX	$10,516	$13,831
Accrued insurance recoveries	145	15,000
Other receivables	79	318
Allowance for doubtful accounts	(70)	(70)
Total	$10,670	$29,079

Accrued insurance recoveries are discussed in Note 14.

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Note 3 – Inventories, net:

	December 31, 2017	June 30, 2018
	(In thousands)	
Raw materials	$2,730	$2,665
Work in process	9,836	10,630
Finished products	2,816	3,284
Total	$15,382	$16,579

Note 4 – Marketable securities:

Our marketable securities consist of investments in the publicly-traded shares of our immediate parent company Valhi, Inc. Prior to 2018, any unrealized gains or losses on the securities were recognized through other comprehensive income, net of deferred income taxes. Beginning on January 1, 2018 with the adoption of Accounting Standards Update ("ASU") 2016-01, our marketable equity securities will continue to be carried at fair value as noted below, but any unrealized gains or losses on the securities are now recognized as a component of other income included in Marketable equity securities on our Condensed Consolidated Statements of Operations.

	Fair value measurement level	Market value	Cost basis	Unrealized gain
		(In thousands)		
December 31, 2017				
Valhi common stock	1	$88,681	$24,347	$ 64,334
June 30, 2018				
Valhi common stock	1	$68,415	$24,347	$ 44,068

At December 31, 2017 and June 30, 2018, we held approximately 14.4 million shares of common stock of Valhi. See Note 1. Our shares of Valhi common stock are carried at fair value based on quoted market prices, representing a Level 1 input within the fair value hierarchy. At December 31, 2017 and June 30, 2018, the quoted per share market price of Valhi common stock was $6.17 and $4.76, respectively. During the first six months of 2018 we recognized a pre-tax loss of $20.3 million related to the aggregate net change in market value of our marketable equity securities during such period.

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, 2017 and June 30, 2018, we owned approximately 35.2 million shares of Kronos common stock. At June 30, 2018, the quoted market price of Kronos' common stock was $22.53 per share, or an aggregate market value of $793.5 million. At December 31, 2017, the quoted market price was $25.77 per share, or an aggregate market value of $907.6 million.

The change in the carrying value of our investment in Kronos during the first six months of 2018 is summarized below.

	Amount (In millions)
Balance at the beginning of the period	$ 229.5
Equity in earnings of Kronos	45.1
Dividends received from Kronos	(12.0)
Equity in Kronos' other comprehensive income:	
Currency translation	(4.4)
Defined benefit pension plans	1.5
Balance at the end of the period	$ 259.7

Selected financial information of Kronos is summarized below:

	December 31, 2017	June 30, 2018
	(In millions)	
Current assets	$ 1,062.5	$ 1,230.5
Property and equipment, net	506.4	487.4
Investment in TiO_2 joint venture	86.5	80.3
Other noncurrent assets	169.0	132.2
Total assets	$ 1,824.4	$ 1,930.4
Current liabilities	$ 231.5	$ 265.4
Long-term debt	473.8	460.9
Accrued pension and postretirement benefits	261.9	253.3
Other noncurrent liabilities	102.9	97.2
Stockholders' equity	754.3	853.6
Total liabilities and stockholders' equity	$ 1,824.4	$ 1,930.4

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(In millions)			
Net sales	$ 441.4	$ 471.8	$ 811.2	$ 902.2
Cost of sales	309.0	300.0	572.8	555.6

Income from operations	74.3	119.9	130.7	227.4
Income tax expense (benefit)	(131.1)	32.4	(120.1)	61.4
Net income	196.5	77.7	233.3	148.4

Note 6 – Other noncurrent assets, net:

	December 31, 2017	June 30, 2018
	(In thousands)	
Restricted cash	$1,255	$1,110
Pension asset	2,593	2,763
Other	995	1,154
Total	$4,843	$5,027

Note 7 – Accrued and other current liabilities:

	December 31, 2017	June 30, 2018
	(In thousands)	
Employee benefits	$8,269	$6,349
Litigation settlement	-	60,000
Other	1,438	2,096
Total	$9,707	$68,445

See Note 14 for a discussion of the accrued litigation settlement.

Note 8 – Long-term debt:

During the first six months of 2018, our wholly owned subsidiary, NLKW Holding, LLC had no borrowings or repayments under its $50 million secured revolving credit facility with Valhi. At June 30, 2018, we had outstanding borrowings of $0.5 million under such facility, and the remaining $49.5 million was available for future borrowing under this facility. Outstanding borrowings under such credit facility bear interest at the prime rate plus 1.875% per annum, and the average interest rate as of and for the six months ended June 30, 2018 was 6.875% and 6.5%, respectively. We are in compliance with all of the covenants contained in such facility at June 30, 2018.

Note 9 – Employee benefit plans:

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(In thousands)			
Interest cost	$506	$372	$1,012	$744
Expected return on plan assets	(689)	(590)	(1,378)	(1,180)
Recognized actuarial losses	394	365	788	730
Total	$211	$147	$422	$294

The components of net periodic postretirement benefits other than pension (OPEB) income are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(In thousands)			
Interest cost	$20	$15	$40	$30
Recognized actuarial gains	(54)	(63)	(108)	(126)
Total	$(34)	$(48)	$(68)	$(96)

Upon the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, our net periodic defined benefit pension cost and other postretirement benefit cost is presented as a separate line item ("Other components of net periodic pension and OPEB cost") in our Condensed Consolidated Statements of Operations for all periods presented. See Note 16.

We currently expect our 2018 contributions to our defined benefit pension plans and other postretirement plans to be approximately $3.4 million.

Note 10 – Other noncurrent liabilities:

	December 31, 2017	June 30, 2018
	(In thousands)	
Reserve for uncertain tax positions	$7,312	$7,312
Insurance claims and expenses	620	656
Litigation settlement	-	17,000
Other	560	445
Total	$8,492	$25,413

See Note 14 for a discussion of the accrued litigation settlement.

Note 11 – Revenue Recognition

Our sales are conducted through our majority-owned subsidiary CompX and involve single performance obligations to ship our products pursuant to customer purchase orders. In some cases, the purchase order is supported by an underlying master sales agreement, but the purchase order acceptance generally evidences the contract with our customer by specifying the key terms of product and quantity ordered, price and delivery and payment terms. Effective January 1, 2018 with the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), see Note 16, we record revenue when we satisfy our performance obligations to our customers by transferring control of our products to them, which generally occurs at point of shipment or upon delivery. Such transfer of control is also evidenced by transfer of legal title and other risks and rewards of ownership (giving the customer the ability to direct the use of, and obtain substantially all of the benefits of, the product), and our customers becoming obligated to pay us and such payment being probable of occurring. In certain arrangements we provide shipping and handling activities after the transfer of control to our customer (e.g. when control transfers prior to delivery). In such arrangements shipping and handling are considered fulfillment activities, and accordingly, such costs are accrued when the related revenue is recognized.

Revenue is recorded in an amount that reflects the net consideration we expect to receive in exchange for our products. Prices for our products are based on terms specified in published list prices and purchase orders, which generally do not include financing components, noncash consideration or consideration paid to our customers. As our standard payment terms are less than one year, we have elected the practical expedient under ASC 606 and we have not assessed whether a contract has a significant financing component. We state sales net of price, early payment and distributor discounts as well as volume rebates (collectively, variable consideration). Variable consideration, to the extent present, is not material and is recognized as the amount to which we are most-likely to be entitled, using all information (historical, current and forecasted) that is reasonably available to us, and only to the extent that a significant reversal in the amount of the cumulative revenue recognized is not probable of occurring in a future period. Differences, if any, between estimates of the amount of variable consideration to which we will be entitled and the actual amount of such variable consideration have not been material in the past. We report any tax assessed by a governmental authority that we collect from our customers that is both imposed on and concurrent with our revenue-producing activities (such as sales, use, value added and excise taxes) on a net basis (meaning we do not recognize these taxes either in our revenues or in our costs and expenses).

Frequently, we receive orders for products to be delivered over dates that may extend across reporting periods. We invoice for each delivery upon shipment and recognize revenue for each distinct shipment when all sales recognition criteria for that shipment have been satisfied. As scheduled delivery dates for these orders are within a one year period, under the optional exemption provided by ASC 606, we do not disclose sales allocated to future shipments of partially completed contracts.

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 (as required by ASC 606).

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(In thousands)			
Net Sales:				
Security Products	$26,039	$27,248	$52,049	$51,304
Marine Components	3,963	5,137	7,901	9,494
Total	$30,002	$32,385	$59,950	$60,798

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Note 12 – Income taxes:

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(In millions)			
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35% in 2017 and 21% in 2018	$21.7	$(11.5)	$25.5	$(7.7)
Rate differences on equity in earnings of Kronos	(1.3)	(1.2)	(2.9)	(2.4)
Nontaxable income	-	(.1)	(.2)	(.2)
U.S. state income taxes and other, net	(.1)	.2	.1	1.0
Income tax expense (benefit)	$20.3	$(12.6)	$22.5	$(9.3)
Comprehensive provision for income taxes (benefit) allocable to:				
Net income (loss)	$20.3	$(12.6)	$22.5	$(9.3)
Other comprehensive income (loss):				
Marketable securities	(1.6)	-	(2.5)	-
Currency translation	1.6	(1.6)	2.5	(.9)
Interest rate swap	(.1)	-	-	-
Pension plans	.2	.2	.7	.5
OPEB plans	.1	-	-	-
Total	$20.5	$(14.0)	$23.2	$(9.7)

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 $10.6 million in the first six months of 2017 and $12.0 million in the six months of 2018. The amounts shown in the above table of our income tax rate reconciliation for rate differences on equity in earnings of Kronos represents the net tax (benefit) associated with such non-taxability of the dividends we receive from Kronos, as it relates to the amount of deferred income taxes we recognize on our undistributed equity in earnings (losses) of Kronos and the result determined by multiplying the pre-tax earnings or losses of each of our non-U.S. subsidiaries by the difference between the applicable statutory income tax rate for each non-U.S. jurisdiction

As discussed in the 2017 Annual Report, on December 22, 2017, H.R.1, formally known as the “Tax Cuts and Jobs Act” (“2017 Tax Act”) was enacted into law. This new tax legislation among other changes, (i) reduced the U.S. Federal corporate income tax rate from 35% to 21% effective January 1, 2018; (ii) eliminated the domestic production activities deduction beginning in 2018; and (iii) allows for the expensing of certain capital expenditures. Following the enactment of the 2017 Tax Act, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 118 to provide guidance on the accounting and reporting impacts of the 2017 Tax Act. SAB 118 states that companies should account for changes related to the 2017 Tax Act in the period of enactment if all information is available and the accounting can be completed. In situations where companies do not have enough information to complete the accounting in the period of enactment, a company must either 1) record an estimated provisional amount if the impact of the change can be reasonably estimated; or 2) continue to apply the accounting guidance that was in effect immediately prior to the 2017 Tax Act if the impact of the change cannot be reasonably estimated. If estimated provisional amounts are recorded, SAB 118 provides a measurement period of no longer than one year during which companies should adjust those amounts as additional information becomes available in the reporting period within the measurement period in which such adjustment is determined.

Under GAAP, we are required to revalue our net deferred tax liability associated with our U.S. net taxable temporary differences in the period in which the new tax legislation is enacted based on deferred tax balances as of the enactment date, to reflect the effect of such reduction in the corporate income tax rate. Other than with respect to temporary differences related to our marketable securities, and certain year-end actuarial valuations associated with our defined benefit pension and OPEB plans our temporary differences as of December 31, 2017 were not materially different from our temporary differences as of the enactment date, accordingly revaluation of our net taxable temporary differences was based on our net deferred tax liability as of December 31, 2017 (except for our temporary differences related to our marketable securities, and certain year-end actuarial valuations associated with our defined benefit pension and OPEB plans, for which such revaluation was based on the deferred income tax asset/liability as of enactment date). Such revaluation resulted in a non-cash deferred income tax benefit of $37.5 million recognized as of December 31, 2017 in continuing operations, reducing our net deferred income tax liability. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. We have not made any additional measurement-period adjustments to the provisional amounts recorded for this item during the first six months of 2018 because no new information became available during the period that required an adjustment. We are still waiting on additional guidance that may impact the income tax effects of the new legislation recognized at December 31, 2017. We will complete our accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if we determine an adjustment to the provisional amount recognized at December 31, 2017 is required, we will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Income tax matters related to Kronos

Kronos has substantial net operating loss (NOL) carryforwards in Germany (the equivalent of $652 million for Kronos' German corporate purposes and $.5 million for German trade tax purposes at December 31, 2017) and in Belgium (the equivalent of $50 million for Kronos' Belgian corporate tax purposes at December 31, 2017), all of which have an indefinite carryforward period. As a result, Kronos has net deferred income tax assets with respect to these two jurisdictions, primarily related to these NOL carryforwards. The German corporate tax is similar to the U.S. federal income tax, and the German trade tax is similar to the U.S. state income tax. As discussed in the 2017 Annual Report, commencing June 30, 2015, Kronos concluded that it was required to recognize a non-cash deferred income tax asset valuation allowance under the more-likely-than-not recognition criteria with respect to its German and Belgian net deferred income tax assets at such date. During the first six months of 2017, Kronos recognized an aggregate non-cash deferred income tax benefit of $12.7 million as a result of a net decrease in such deferred income tax asset valuation allowance, due to utilizing a portion of both the German and Belgian NOL during the period, including $7.7 million in the second quarter of 2017. As also discussed in the 2017 Annual Report, at June 30, 2017, Kronos concluded it had sufficient positive evidence under the more-likely-than-not recognition criteria to support reversal of the entire valuation allowance related to its German and Belgian operations. In accordance with the ASC 740-270 guidance regarding accounting for income taxes at interim dates, the amount of the valuation allowance reversed at June 30, 2017 ($149.9 million, of which $141.9 million related to Germany and $8.0 million related to Belgium) relates to Kronos' change in judgment at that date regarding the realizability of the related deferred income tax asset as it relates to future years (i.e., 2018 and after). A change in judgment regarding the realizability of deferred tax assets as it relates to the current year is considered in determining the estimated annual effective tax rate for the year and is recognized throughout the year, including interim periods subsequent to the date of the change in judgment. Accordingly, Kronos' income tax benefit in calendar 2017 includes an aggregate non-cash deferred income tax benefit of $186.7 million related to the reversal of the German and Belgian valuation allowance, comprised of $12.7 million recognized in the first half of 2017 (noted above) related to the utilization of a portion of both the

German and Belgian NOLs during such period, $149.9 million related to the portion of the valuation allowance reversed as of June 30, 2017 and $24.1 million recognized in the second half of 2017 related to the utilization of a portion of both the German and Belgian NOLs during such period. Kronos' deferred income tax asset valuation allowance increased $13.7 million in 2017 as a result of changes in currency exchange rates, which increase was recognized as part of other comprehensive income (loss).

Prior to the enactment of the 2017 Tax Act, the undistributed earnings of Kronos' European subsidiaries were deemed to be permanently reinvested (Kronos had not made a similar determination with respect to the undistributed earnings of its Canadian subsidiary). Pursuant to the Transition Tax provisions imposing a one-time repatriation tax on post-1986 undistributed earnings, Kronos recognized a provisional current income tax expense of $76.2 million in the fourth quarter of 2017. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. Kronos elected to pay such tax over an eight year period beginning in 2018, including approximately $6.1 million which was paid in April 2018 (for the 2017 tax year) and $3.1 million which was paid in June 2018 (for the 2018 tax year). Of the remaining $67.0 million, $64.0 million is recorded as a noncurrent payable to affiliate (income taxes payable to Valhi) and $3.0 million is included with Kronos' current payable to affiliate (income taxes payable to Valhi) classified as a current liability. Such remaining amount will be paid in increments over the remainder of the eight year period. Kronos has not made any measurement-period adjustments to the provisional amounts recorded for this item during the first six months of 2018 because no new information became available during the period that required an adjustment. Kronos continues to gather information and is awaiting further guidance, primarily from the state jurisdictions in which Kronos operates, and given the complexities of these new rules and the long time period over which information about its subsidiaries is needed further guidance is necessary in order to determine the amount of the Transition Tax, which may impact the Transition Tax recognized in the fourth quarter of 2017. Kronos will complete its accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if Kronos determines an adjustment to the provisional amount recognized at December 31, 2017 is required, Kronos will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Prior to the enactment of the 2017 Tax Act the undistributed earnings of Kronos' European subsidiaries were deemed to be permanently reinvested (Kronos had not made a similar determination with respect to the undistributed earnings of its Canadian subsidiary). As a result of the implementation of a territorial tax system under the 2017 Tax Act, effective January 1, 2018, and the Transition Tax which in effect taxes the post-1986 undistributed earnings of Kronos' non-U.S. subsidiaries accumulated up through December 31, 2017, Kronos determined effective December 31, 2017 that all of the post-1986 undistributed earnings of its European subsidiaries are not permanently reinvested. Accordingly, in the fourth quarter of 2017 Kronos recognized an aggregate provisional non-cash deferred income tax expense of $4.5 million based on its reasonable estimates of the U.S. state and non-U.S. income tax and withholding tax liability attributable to all of such previously-considered permanently reinvested undistributed earnings through December 31, 2017. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. Kronos has not made any measurement-period adjustments to the provisional amounts recorded at December 31, 2017 for this item during the first six months of 2018. However, Kronos recorded a provisional non-cash deferred income tax expense of $1.7 million for the estimated U.S. state and non-U.S. income tax and withholding tax liability attributable to the 2018 undistributed earnings of its non-U.S. subsidiaries in the first six months of 2018, including withholding taxes related to the undistributed earnings of Kronos's Canadian subsidiary. Kronos is continuing its review of certain other provisions under the 2017 Tax Act and waiting on further guidance, primarily from the state jurisdictions in which it operates, that may impact its determination of the aggregate temporary differences attributable to its investments in its non-U.S. subsidiaries. Kronos will complete its accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if Kronos determine an adjustment to the provisional amount recognized at December 31, 2017 and March 31, 2018 are required, Kronos will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Under U.S. GAAP, as it relates to the new GILTI tax rules, Kronos is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into the measurement of our deferred taxes (the "deferred method"). Kronos' selection of an accounting policy related to the GILTI tax provisions will depend, in part, on analyzing our global income to determine whether it expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. While Kronos' future global operations depend on a number of different factors, Kronos does expect to have future U.S. inclusions in taxable income related to GILTI. As such, Kronos has performed an analysis of GILTI's impact on its provision and determined the impact is not material. Because the impact is not material to its tax provision, Kronos has not recorded any adjustments related to potential GILTI tax in its financial statements in the first quarter of 2018. Further, Kronos has not made a policy decision regarding whether to record deferred taxes on GILTI or record GILTI tax as a current-period expense when incurred. Kronos will complete its policy election for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118 and if Kronos determines such policy election impacts its provision, it will recognize an adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined. Similarly, Kronos has evaluated the tax impact of BEAT on its tax provision in the first six months of 2018 and determined that the tax law has no material impact on its tax provision as it has historically not entered into international payments between related parties that are unrelated to cost of goods sold.

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

Note 13 – Accumulated other comprehensive income (loss):

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
	(In thousands)			
Accumulated other comprehensive loss, net of tax:				
Marketable securities:				
Balance at beginning of period	$18,751	$-	$20,473	$46,069
Change in accounting principle	$-	$-	$-	$(46,069)
Balance at beginning of period, as adjusted	$18,751	$-	$20,473	$-
Other comprehensive income (loss) - unrealized gains (losses) arising during the year	(2,869)	-	(4,591)	-
Balance at end of period	$15,882	$-	$15,882	$-
Currency translation:				
Balance at beginning of period	$(174,088)	$(161,876)	$(175,859)	$(164,467)
Other comprehensive income (loss)	2,925	(6,108)	4,696	(3,517)
Balance at end of period	$(171,163)	$(167,984)	$(171,163)	$(167,984)
Interest rate swap:				
Balance at beginning of period	$(278)	$-	$(390)	$-
Other comprehensive income (loss):				
Unrealized gains (losses) arising during the year	(178)	-	(177)	-
Less reclassification adjustment for amounts included in interest expense	94	-	205	-
Balance at end of period	$(362)	$-	$(362)	$-
Defined benefit pension plans:				
Balance at beginning of period	$(75,843)	$(71,968)	$(76,710)	$(72,951)
Other comprehensive income - amortization of net losses included in net periodic pension cost	393	974	1,260	1,957

Balance at end of period	$(75,450)	$(70,994)	$(75,450)	$(70,994)
OPEB plans:				
Balance at beginning of period	$(408)	$(461)	$(360)	$(388)
Other comprehensive loss - amortization of net gains included in net periodic OPEB cost	(48)	(65)	(96)	(138)
Balance at end of period	$(456)	$(526)	$(456)	$(526)
Total accumulated other comprehensive loss:				
Balance at beginning of period	$(231,866)	$(234,305)	$(232,846)	$(191,737)
Change in accounting principle	$-	$-	$-	$(46,069)
Balance at beginning of period, as adjusted	$(231,866)	$(234,305)	$(232,846)	$(237,806)
Other comprehensive income (loss)	317	(5,199)	1,297	(1,698)
Balance at end of period	$(231,549)	$(239,504)	$(231,549)	$(239,504)

See Note 9 for amounts related to our defined benefit pension plans and OPEB 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 case discussed below, we do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and with respect to all such lead pigment litigation cases to which we are a party, other than with respect to the Santa Clara case discussed below, we believe liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

- we have never settled any of the market share, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases (subject to the final outcome of the Santa Clara case discussed below),
- no final, non-appealable adverse verdicts have ever been entered against NL (subject to the final outcome of the Santa Clara case discussed below), and

- we have never ultimately been found liable with respect to any such litigation matters, including over 100 cases over a twenty-year period for which we were previously a party and for which we have been dismissed without any finding of liability (subject to the final outcome of the Santa Clara case discussed below).

Accordingly, other than with respect to the Santa Clara case discussed below, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases filed by or on behalf of states, counties, cities or their public housing authorities and school districts, or those asserted as class actions other than the Santa Clara case noted below. In addition, we have determined that liability to us which may result, if any, cannot be reasonably estimated at this time because there is no prior history of a loss of this nature on which an estimate could be made and there is no substantive information available upon which an estimate could be based.

In one of these lead pigment cases, in April 2000 we were served with a complaint in County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. 1-00-CV-788657) brought by a number of California government entities against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara sought to recover compensatory damages for funds the plaintiffs have expended or would in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. In July 2003, the trial judge granted defendants' motion to dismiss all remaining claims. Plaintiffs appealed and the intermediate appellate court reinstated public nuisance, negligence, strict liability, and fraud claims in March 2006. A fourth amended complaint was filed in March 2011 on behalf of The People of California by the County Attorneys of Alameda, Ventura, Solano, San Mateo, Los Angeles and Santa Clara, and the City Attorneys of San Francisco, San Diego and Oakland. That complaint alleged that the presence of lead paint created a public nuisance in each of the prosecuting jurisdictions and sought its abatement. In July and August 2013, the case was tried. In January 2014, the Judge issued a judgment finding us, The Sherwin Williams Company and ConAgra Grocery Products Company jointly and severally liable for the abatement of lead paint in pre-1980 homes, and ordered the defendants to pay an aggregate $1.15 billion to the people of the State of California to fund such abatement. The trial court's judgment also found that to the extent any abatement funds remained unspent after four years, such funds were to be returned to the defendants. In February 2014, we filed a motion for a new trial, and in March 2014 the trial court denied the motion. Subsequently in March 2014, we filed a notice of appeal with the Sixth District Court of Appeal for the State of California. On November 14, 2017, the Sixth District Court of Appeal issued its opinion, upholding the trial court's judgment, except that it reversed the portion of the judgment requiring abatement of homes built between 1951 and 1980 which significantly reduced the number of homes subject to the abatement order. In addition, the appellate court ordered the case be remanded to the trial court to recalculate the amount of the abatement fund, to limit it to the amount necessary to cover the cost of investigating and remediating pre-1951 homes, and to hold an evidentiary hearing to appoint a suitable receiver. In addition, the appellate court found that we and the other defendants had the right to seek recovery from liable parties that contributed to a hazardous condition at a particular property. Subsequently, we and the other defendants filed a Petition with the California Supreme Court seeking its review of a number of issues. On February 14, 2018, the California Supreme Court denied such petition. In July 2018, we and the other defendants filed appeals with the U.S. Supreme Court, seeking its review of two federal issues in the trial court's original judgment. Review by the U.S. Supreme Court is discretionary, and there can be no assurance that the U.S. Supreme Court would agree to hear any such appeal, or if they would agree to hear any such appeal, that the U.S. Supreme Court would rule in favor of us and the other defendants.

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

- The appellate court has remanded the case back to the trial court to recalculate the total amount of the abatement, limiting the abatement to pre-1951 homes. In this regard, NL and the other defendants have filed a brief with the trial court proposing a recalculated maximum abatement fund amount of no more than $409 million and plaintiffs have filed a brief proposing an abatement fund amount of $730 million, and the trial court has scheduled a case-management hearing regarding the recalculated abatement fund amount for August 17, 2018;
- The appellate court upheld NL's and the other defendants' right to seek contribution from other liable parties (e.g. property owners who have violated the applicable housing code) on a house-by-house basis.

The method by which the trial court would undertake to determine such house-by-house responsibility, and the outcome of such a house-by-house determination, is not presently known;

- Participation in any abatement program by each homeowner is voluntary, and each homeowner would need to consent to allowing someone to come into the home to undertake any inspection and abatement, as well as consent to the nature, timing and extent of any abatement. The original trial court's judgment unrealistically assumed 100% participation by the affected homeowners. Actual participation rates are likely to be less than 100% (the ultimate extent of participation is not presently known);
- The remedy ordered by the trial court is an abatement fund. The trial court ordered that any funds unspent after four years are to be returned to the defendants (this provision of the trial court's original judgment was not overturned by the appellate court). As noted above, the actual number of homes which would participate in any abatement, and the nature, timing and extent of any such abatement, is not presently known; and
- We and the other two defendants are jointly and severally liable for the abatement, and we do not believe any individual defendant would be 100% responsible for the cost of any abatement.

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

The Santa Clara case is unusual in that this is the second time that an adverse verdict in the lead pigment litigation has been entered against us (the first adverse verdict against us was ultimately overturned on appeal). Given the appellate court's November 2017 ruling, and the denial of an appeal by the California Supreme Court, we have concluded that the likelihood of a loss in this case has reached a standard of "probable" as contemplated by ASC 450. With all of the uncertainties that exist with respect to the new decisions to be made by the trial court from the remand of the case, as noted above, we had previously concluded that the amount of such loss could not be reasonably estimated (nor could a range of loss be reasonably estimated). However, the terms of the settlement agreement entered into by us and the plaintiffs in May 2018, as supplemented, provides evidence that the amount of the loss to us can now be reasonably estimated. For financial reporting purposes, we discounted the five payments aggregating $20 million to be paid in installments to their estimated net present value, using a discount rate of 3.0% per annun. Such net present value is $17 million. Accordingly, in the second quarter of 2018 we recognized a net $62 million pre-tax charge with respect to this matter ($45 million for the amount to be paid by us upon the trial court's approval of the terms of the settlement and $17 million for the net present value of the five payments aggregating $20 million to be paid by us in installments beginning four years from such approval), representing the net amount we would pay in full settlement of our liability under the terms of the proposed settlement agreement. For purposes of our condensed consolidated balance sheet, we have presented the aggregate $45 million that would be paid to the plaintiffs upon the trial court's approval of the terms of the settlement and the $15 million that would be paid to the plaintiffs from the amount placed as deposit with the trial court by one of our former insurance carriers as a current liability, $17 million for the net present value of the five payments aggregating $20 million to be paid by us in installments beginning four years from such approval as a noncurrent liability and the $15 million portion of such aggregate $80 million undiscounted amount which would be funded from the amount placed on deposit with the trial court by one of our former insurance carriers as a current insurance recovery receivable. See Notes 2, 7 and 10.

Although, we and the plaintiffs believe the settlement meets all requirements of applicable California law, there can be no assurance that the trial court will approve the terms of this or any other settlement agreement between us and the plaintiffs. If the trial court does not approve the terms of this or any other settlement agreement between us and the plaintiffs, the proceedings in the trial court under the remand, as discussed above, would continue. In such event, the total ultimate amount of any abatement fund, and NL's share of any abatement is not presently known. As with any legal proceeding, there is no assurance that any appeal would be successful, and it is reasonably possible, based on the outcome of the appeals process and the remand proceedings in the trial court, that NL may in the future incur some liability resulting in the recognition of an additional loss contingency accrual that could have a material adverse impact on our results of operations, financial position and liquidity.

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

Environmental matters and litigation

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

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws and common law. Additionally, in connection with past operating practices, we are currently involved as a defendant, potentially responsible party (PRP) or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act (CERCLA), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities that we or our predecessors, our subsidiaries or their predecessors currently or previously owned, operated or used, certain of which are on the United States Environmental Protection Agency's (EPA) Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable, and among whom costs may be shared or allocated. In addition, we are occasionally named as a party in a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

Obligations associated with environmental remediation and related matters are difficult to assess and estimate for numerous reasons including the:

- complexity and differing interpretations of governmental regulations,
- number of PRPs and their ability or willingness to fund such allocation of costs,

- financial capabilities of the PRPs and the allocation of costs among them,
- solvency of other PRPs,
- multiplicity of possible solutions,
- number of years of investigatory, remedial and monitoring activity required,
- uncertainty over the extent, if any, to which our former operations might have contributed to the conditions allegedly giving rise to such personal injury, property damage, natural resource and related claims and
- number of years between former operations and notice of claims and lack of information and documents about the former operations.

In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or the allocation of costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites or a determination that we are potentially responsible for the release of hazardous substances at other sites, could cause our expenditures to exceed our current estimates. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental and related matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation and related matters (including costs associated with damages for personal injury or property damage and/or damages for injury to natural resources) when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available to us or as circumstances change. Unless the amounts and timing of such estimated future expenditures are fixed and reasonably determinable, we generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the payout. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. At December 31, 2017 we had not recognized any receivables for recoveries and at June 30, 2018, we have recognized $15.0 million of receivables for recoveries related to the California case discussed above.

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

Changes in the accrued environmental remediation and related costs during the first six months of 2018 are as follows:

	Amount (In thousands)
Balance at the beginning of the period	$ 111,909
Additions charged to expense, net	4,291
Payments, net	(739)
Balance at the end of the period	$ 115,461
Amounts recognized in the Condensed Consolidated	

Balance Sheet at the end of the period:	
Current liability	$ 18,253
Noncurrent liability	97,208
Balance at the end of the period	$ 115,461

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On a quarterly basis, we evaluate the potential range of our liability for environmental remediation and related costs at sites where we have been named as a PRP or defendant, including sites for which our wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc. (EMS), has contractually assumed our obligations. At June 30, 2018, we had accrued approximately $115 million related to approximately 38 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 $145 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 June 30, 2018, there were approximately 5 sites for which we are not currently able to reasonably estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not we actually had any association with the site, the nature of our responsibility for the contamination at the site, if any, and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of our control, such as when the party alleging liability provides information to us. At certain of these previously inactive sites, we have received general and special notices of liability from the EPA and/or state agencies alleging that we, sometimes with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations. These notifications may assert that we, along with any other alleged PRPs, are liable for past and/or future clean-up costs. As further information becomes available to us for any of these sites, which would allow us to estimate a range of costs, we would at that time adjust our accruals. Any such adjustment could result in the recognition of an accrual that would have a material effect on our consolidated financial statements, results of operations and liquidity.

Insurance coverage claims

We are involved in certain legal proceedings with a number of our former insurance carriers regarding the nature and extent of the carriers' obligations to us under insurance policies with respect to certain lead pigment and asbestos lawsuits. The issue of whether insurance coverage for defense costs or indemnity or both will be found to exist for our lead pigment and asbestos litigation depends upon a variety of factors and we cannot assure you that such insurance coverage will be available.

We have agreements with certain of our former insurance carriers pursuant to which the carriers reimburse us for a portion of our future lead pigment litigation defense costs, and one such carrier reimburses us for a portion of our future asbestos litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. While we continue to seek additional insurance recoveries, we do not know if we will be successful in obtaining reimbursement for either defense costs or indemnity. Accordingly, we recognize insurance recoveries in income only when receipt of the recovery is probable and we are able to reasonably estimate the amount of the recovery.

For a complete discussion of certain litigation involving us and certain of our former insurance carriers, refer to our 2017 Annual Report.

Other litigation

We have been named as a defendant in various lawsuits in several jurisdictions, alleging personal injuries as a result of occupational exposure primarily to products manufactured by our former operations containing asbestos, silica and/or mixed dust. In addition, some plaintiffs allege exposure to asbestos from working in various facilities previously owned and/or operated by us. There are 110 of these types of cases pending, involving a total of approximately 583 plaintiffs. In addition, the claims of approximately 8,676 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio state court. We do not expect these claims will be re-opened unless the plaintiffs meet the courts' medical criteria for asbestos-related claims. We have not accrued any amounts for this litigation because of the uncertainty of liability and inability to reasonably estimate the liability, if any. To date, we have not been adjudicated liable in any of these matters.

Based on information available to us, including:

- facts concerning historical operations,
- the rate of new claims,
- the number of claims from which we have been dismissed, and
- our prior experience in the defense of these matters,

we believe that the range of reasonably possible outcomes of these matters will be consistent with our historical costs (which are not material). Furthermore, we do not expect any reasonably possible outcome would involve amounts material to our consolidated financial position, results of operations or liquidity. We have sought and will continue to vigorously seek, dismissal and/or a finding of no liability from each claim. In addition, from time to time, we have received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries, including notices provided to insurers with which we have entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from us. For a discussion of other legal proceedings to which we are a party, refer to our 2017 Annual Report.

In addition to the litigation described above, we and our affiliates are also involved in various other environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to present and former businesses. In certain cases, we have insurance coverage for these items, although we do not expect additional material insurance coverage for environmental matters.

We currently believe the disposition of all of these various other claims and disputes, individually and in the aggregate, should not have a material adverse effect on our consolidated financial position, results of operations or liquidity beyond the accruals already provided.

Note 15 – Financial instruments and fair value measurements:

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

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

	December 31, 2017		June 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Cash, cash equivalents and restricted cash	$102,941	$102,941	$115,695	$115,695
Noncontrolling interest in CompX common stock	17,756	22,224	18,747	22,182

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

Note 16 – Recent accounting pronouncements:

Adopted

On January 1, 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) for all contracts which were not completed as of January 1, 2018 using the modified retrospective method. Prior to adoption of this standard, we recorded sales when our products were shipped and title and other risks and rewards of ownership had passed to our customer, which was generally at the time of shipment (although in some instances shipping terms were FOB destination point, for which we did not recognize revenue until the product was received by our customer). Following adoption of this standard, we record sales when we satisfy our performance obligations to our customers by transferring control of our products to them, which we have determined is at the same point in time that we recognized revenue prior to adoption of this new standard. Accordingly, the adoption of Topic 606 as of January 1, 2018 did not have a material impact on our consolidated financial statements, and we believe adoption of this standard will have a minimal effect on our revenues on an ongoing basis. See Note 11.

On January 1, 2018, we adopted ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects related to the recognition, measurement, presentation and disclosure of financial instruments. The ASU requires equity investments (except for those accounted for under the equity method of accounting or those that result in the consolidation of the investee) to generally be measured at fair value with changes in fair value recognized in net income (previously, changes in fair value of such securities were recognized in other comprehensive income). The amendment also requires a number of other changes, including among others: simplifying the impairment assessment for equity instruments without readily determinable fair values; eliminating the requirement for public business entities to disclose methods and assumptions used to determine fair value for financial instruments measured at amortized cost; requiring an exit price notion when measuring the fair value of financial instruments for disclosure purposes; and requiring separate presentation of financial assets and liabilities by measurement category and form of asset. We adopted the new standard prospectively. The most significant aspect of adopting this ASU is the requirement to recognize changes in fair value of our available-for-sale marketable equity securities in net income. At December 31, 2017, our entire portfolio of marketable securities consisted of marketable equity securities. Upon adoption of the ASU on January 1, 2018, the entire balance of our accumulated other comprehensive income related to marketable securities of $46.1 million was reclassified to our beginning retained earnings pursuant to the transition requirements of the ASU.

In March 2017, the FASB issued ASU 2017-07, Compensation— Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that the service cost component of net periodic defined benefit pension and OPEB cost be reported in the same line item as other compensation costs for applicable employees incurred during the period. Other components of such net benefit cost are required to be presented in the income statement separately from the service cost component, and below income from operations (if such a subtotal is presented). These other net benefit cost components must be disclosed either on the face of the financial statements or in the notes to the financial statements. In addition only the service cost component is eligible for capitalization in assets where applicable (inventory or internally constructed fixed assets for example). We adopted the amendments in ASU 2017-07 beginning in the first quarter of 2018, with retrospective presentation in our Condensed Consolidated Statements of Operations. We began applying ASU 2017-07 prospectively beginning on January 1, 2018 as it relates to the capitalization of the service cost component of net benefit cost into assets (primarily inventory). We are availing ourselves of the practical expedient that permits us to use amounts we previously disclosed as components of our net periodic defined benefit pension and OPEB cost for periods prior to the adoption of this ASU as the estimation basis for applying the retrospective presentation requirements. As a result we have reclassified $.2 million and $.4 million previously classified as part of corporate expense for the second quarter and first six months of June 30, 2017, respectively, to “Other components of net periodic pension and OPEB cost” in our Condensed Consolidated Statement of Income.

Pending adoption

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is a comprehensive rewriting of the lease accounting guidance which aims to increase comparability and transparency with regard to lease transactions. The primary change will be the recognition of lease assets for the right-of-use of the underlying asset and lease liabilities for the obligation to make payments by lessees on the balance sheet for leases currently classified as operating leases. The ASU also requires increased qualitative disclosure about leases in addition to quantitative disclosures currently required. Companies are currently required to use a modified retrospective approach to adoption with a practical expedient which will allow companies to continue to account for existing leases under the prior guidance unless a lease is modified, other than the requirement to recognize the right-of-use asset and lease liability for all operating leases. The changes indicated above will be effective for us beginning in the first quarter of 2019, with early adoption permitted. We are in the process of assessing all of our current leases. We have not yet evaluated the effect this ASU will have on our Consolidated Financial Statements, but given the insignificant amount of our future minimum payments under non-cancellable operating leases at December 31, 2017 discussed in Note 17 to our 2017 Annual Report, we do not expect the adoption of this standard to have a material effect on our Consolidated Balance Sheets.

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 and trim tabs for the recreational marine and other non-marine industries through its 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 terminolog 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 and brass costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs
- Changes in the availability of raw material (such as ore)
- General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO_2 and component products)

- Competitive products and substitute products
- Price and product competition from low-cost manufacturing sources (such as China)
- Customer and competitor strategies
- Potential consolidation of Kronos' competitors
- Potential consolidation of Kronos' customers
- The impact of pricing and production decisions

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

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

Results of operations

Net income overview

Quarter ended June 30, 2018 compared to the quarter ended June 30, 2017

We had a net loss attributable to NL stockholders of $42.6 million or $.87 per share in the second quarter of 2018 compared to net income attributable to NL stockholders of $41.1 million, or $.85 per share, in the second quarter of 2017. As more fully described below, the decrease in our earnings per share from 2017 to 2018 is primarily due to the net effects of:

- a pre-tax litigation settlement expense of $62 million recognized in the second quarter of 2018;
- equity in earnings of Kronos in 2018 of $23.6 million compared to $59.7 million in 2017;
- higher income from operations attributable to CompX of $1.4 million in 2018; and

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- higher litigation fees and litigation related costs of $.9 million in 2018.

Our 2018 net loss attributable to NL stockholders includes a loss of $1.01 per share related to the litigation settlement expense recognized in the second quarter. Our 2017 net income attributable to NL stockholders includes income of $.64 per share, net of income taxes, included in our equity in earnings of Kronos related to Kronos' non-cash deferred income tax benefit recognized as a result of a net decrease in Kronos' deferred income tax asset valuation allowance related to its German and Belgian operations.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

We had a net loss attributable to NL stockholders of $28.4 million or $.58 per share in the first six months of 2018 compared to net income attributable to NL stockholders of $49.5 million, or $1.02 per share, in the first six months of 2017. As more fully described below, the decrease in our earnings per share from 2017 to 2018 is primarily due to the net effects of:

- a pre-tax litigation settlement expense of $62 million recognized in the second quarter of 2018;
- equity in earnings of Kronos in 2018 of $45.1 million compared to $70.9 million in 2017;
- higher income from operations attributable to CompX of $1.3 million in 2018;
- higher litigation fees and litigation related costs of $2.2 million in 2018; and
- higher environmental remediation and related costs of $1.1 million in 2018.

Our 2018 net loss attributable to NL stockholders includes a loss of $1.01 per share related to the litigation settlement expense recognized in the second quarter. Our 2017 net income attributable to NL stockholders includes income of $.66 per share, net of income taxes, included in our equity in earnings of Kronos related to Kronos' non-cash deferred income tax benefit recognized as a result of a net decrease in Kronos' deferred income tax asset valuation allowance related to its German and Belgian operations.

Income (loss) from operations

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

	Three months ended June 30, 2017	2018	% Change	Six months ended June 30, 2017	2018	% Change
	(In millions)			(In millions)		
CompX	$4.6	$6.0	30 %	$9.1	$10.4	13 %
Insurance recoveries	-	0.2	n/m	0.1	0.4	213
Other income, net	-	-	n/m	-	0.6	n/m
Litigation settlement expense	-	(62.0)	n/m	-	(62.0)	n/m
Corporate expense	(3.2)	(4.8)	49	(8.6)	(12.8)	49
Income (loss) from operations	$1.4	$(60.6)	(4,328)	$0.6	$(63.4)	(9,318)

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.

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

	Three months ended June 30, 2017	2018	% Change	Six months ended June 30, 2017	2018	% Change
	(In millions)			(In millions)		
Equity in earnings of Kronos	$59.7	$23.6	(60)%	$70.9	$45.1	(36)%
Marketable equity securities	-	(18.7)	n/m	-	(20.3)	n/m
Other components of net periodic pension and OPEB	(.2)	(.1)	(44)	(.3)	(.2)	(44)
Interest and dividend income	.9	1.2	39	1.6	2.3	45

CompX International Inc.

	Three months ended June 30, 2017	2018	% Change	Six months ended June 30, 2017	2018	% Change
	(In millions)			(In millions)		
Net sales	$30.0	$32.4	8 %	$60.0	$60.8	1 %
Cost of sales	20.5	21.2	3	40.8	40.1	(2)
Gross margin	9.5	11.2	18	19.2	20.7	8
Operating costs and expenses	4.9	5.2	7	10.1	10.3	3
Income from operations	$4.6	$6.0	30	$9.1	$10.4	13
Percentage of net sales:						
Cost of sales	68 %	65 %		68 %	66 %	
Gross margin	32	35		32	34	
Operating costs and expenses	16	16		17	17	
Income from operations	15	19		15	17	

Net sales – Net sales increased $2.4 million in the second quarter of 2018 compared to the same period in 2017 due to higher sales of security products across the majority of our markets and continued strong growth in sales of marine components to various marine and industrial markets. Net sales increased $0.8 million in the first six months of 2018 compared to the same period in 2017 due to the higher Marine Components sales volumes, partially offset by lower Security Products sales volumes to existing government security customers. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of sales and gross margin – Cost of goods sold as a percentage of sales for the second quarter and first six months of 2018 was approximately 3% and 2% less than the same periods in 2017, respectively. As a result, gross profit increased over the same period. The higher gross profit percentage for both comparative periods is the result of favorable changes in customer and product mix in Security Products and improved manufacturing efficiencies facilitated by increased production volumes and cost reductions in each of our business segments. Gross profit for the second quarter increased over the prior year due to the aforementioned factors as well as higher sales for both business segments. Gross profit for the first six months of 2018 increased over 2017 due primarily to lower fixed costs at Security Products and higher sales and improved manufacturing efficiencies for Marine Components.

Operating costs and expenses – Operating costs and expenses consist primarily of sales and administrative-related personnel costs, sales commissions and advertising expenses, as well as gains and losses on plant, property and equipment. Operating costs and expenses for the second quarter and first six months of 2018 were comparable to the same periods in 2017.

Income from operations – As a percentage of net sales, income from operations for the second quarter and first six months of 2018 increased compared to the same periods of 2017 and was primarily impacted by the factors impacting cost of goods sold, gross margin and operating costs discussed above.

Results by reporting unit

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

	Three months ended			Six months ended		
	June 30,		%	June 30,		%
	2017	2018	Change	2017	2018	Change
	(In millions)			(In millions)		
Net sales:						
Security Products	$26.0	$27.3	5 %	$52.1	$51.3	(1)%
Marine Components	4.0	5.1	30	7.9	9.5	20
Total net sales	$30.0	$32.4	8	$60.0	$60.8	1
Gross margin:						
Security Products	$8.4	$9.6	15	$17.2	$18.0	5
Marine Components	1.1	1.6	47	2.0	2.7	36
Total gross margin	$9.5	$11.2	18	$19.2	$20.7	8
Income from operations:						
Security Products	$5.4	$6.8	27	$11.1	$12.4	12
Marine Components	.5	.9	89	.9	1.5	76
Corporate operating expenses	(1.3)	(1.7)	41	(2.8)	(3.5)	29
Total income from operations	$4.6	$6.0	30	$9.1	$10.4	13
Gross margin:						
Security Products	32 %	35 %		33 %	35 %	
Marine Components	27	31		26	29	
Total gross margin	32	35		32	34	
Income from operations margin:						
Security Products	21 %	25 %		21 %	24 %	
Marine Components	13	18		11	16	
Total income from operations margin	15	19		15	17	

Security Products — Security Products net sales in the second quarter of 2018 increased 5% compared to the same period in 2017 on improved sales across the majority of our markets, particularly gas station security, government and distribution. Security Products net sales decreased 1% for the first six months of 2018 compared to the same period last year primarily due to approximately $0.9 million lower sales to existing government security customers and $0.4 million lower sales to a customer serving the recreational transportation market. Gross profit margin and operating income as a percentage of sales for the second quarter and first six months of 2018 increased compared to the same periods in the prior year due to favorable changes in customer and product mix as well as improved manufacturing efficiencies resulting from favorable production volumes and lower production costs, including headcount reductions made during the second quarter of 2017 and lower employee medical costs.

Marine Components – Marine Components net sales increased 30% and 20% in the second quarter and first six months of 2018, respectively, as compared to the same periods last year. The increase in sales reflects generally improved demand for products sold to various marine markets, including original equipment manufacturers of recreational towboats and larger center-console boats, as well as increased sales to government and industrial customers. Gross profit margin and operating income as a percentage of net sales increased in the second quarter and first six months of 2018 compared to the same periods last year due to improved fixed cost leverage facilitated by the higher production volumes and improved manufacturing efficiencies resulting from remediation of the personnel turnover experienced in key departments during 2017.

Outlook – Sales for the first half of 2018 reflect continued strong demand for our products, allowing us to eclipse sales achieved for the first half of 2017 despite lower sales to existing government security customers and lower sales to a significant customer serving the recreational transportation market in 2018. Based upon anticipated sales in other Security Products markets and continued growth in Marine Component sales, where we continue to benefit from innovation and diversification in our product offerings to the recreational boat markets, we expect consolidated sales for full year 2018 to meet or exceed 2017 sales. We monitor changes in economic conditions and sales order rates and will respond to fluctuations in customer demand through continuous evaluation of staffing levels and consistent execution of our lean manufacturing and cost improvement initiatives. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, to expand into new markets and to develop new product features in order to mitigate the impact of changes in demand as well as broaden our sales base.

General corporate and other items

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

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

Litigation settlement expense – We recognized a pre-tax $62.0 million litigation settlement expense charge in the second quarter of 2018 related to the lead pigment litigation in California. See Note 14 to our Condensed Consolidated Financial Statements.

Corporate expense – Corporate expenses were $4.8 million in the second quarter of 2018, $1.6 million higher than in the second quarter of 2017 primarily due to higher litigation fees and related costs and higher administrative costs in 2018. Included in corporate expense in the second quarter of 2017 and 2018 are:

- litigation fees and related costs of $2.1 million in 2018 compared to $1.3 million in 2017, and
- environmental remediation and related costs of $.1 million in each of 2018 and 2017.

Corporate expenses were $12.8 million in the first six months of 2018, $4.2 million higher than in the first six months of 2017 primarily due to higher litigation and related costs and environmental remediation and related costs in 2018. Included in corporate expense in the first six months of 2017 and 2018 are:

- litigation fees and related costs of $4.0 million in 2018 compared to $1.8 million in 2017, and
- environmental remediation and related costs of $4.3 million in 2018 compared to $3.2 million in 2017.

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 2018 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 2018, 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 2018 will be higher than in 2017 primarily due to higher expected litigation and related costs.

Interest and dividend income – Interest and dividend income increased $.3 million in the second quarter and $.7 million in the first half of 2018 primarily due to interest income earned on CompX's revolving promissory note receivable from Valhi, which CompX entered into in August 2016. Interest income on such note receivable from Valhi was $.4 million and $.5 million in the second quarters of 2017 and 2018, respectively and $.8 million and $1.0 million in the first six months of 2017 and 2018, respectively.

Marketable equity securities – Beginning on January 1, 2018 with the adoption of ASU 2016-01, any unrealized gains or losses on our marketable equity securities are now recognized as a component of other income included in Marketable equity securities on our Condensed Consolidated Statements of Operations. See Note 4 to our Condensed Consolidated Financial Statements.

Income tax expense (benefit) – We recognized income tax benefit of $12.6 million in the second quarter of 2018 compared to income tax expense of $20.3 million in the second quarter of 2017 and an income tax benefit of $9.3 million in the first half of 2018 compared to income tax expense of $22.5 million in the first half of 2017. In accordance with GAAP, we recognize deferred income taxes on our undistributed equity in earnings of Kronos. Because we and Kronos are part of the same U.S. federal income tax group, any dividends we receive from Kronos are nontaxable to us. Accordingly, we do not recognize and we are not required to pay income taxes on dividends from Kronos. Therefore, our full-year effective income tax rate will generally be lower than the U.S. federal statutory income tax rate in years during which we receive dividends from Kronos and recognize equity in earnings of Kronos. Conversely, our effective income tax rate will generally be higher than the U.S. federal statutory income tax rate in years during which we receive dividends from Kronos and recognize equity in losses of Kronos. During interim periods, our effective income tax rate may not necessarily correspond to the foregoing due to the application of accounting for income taxes in interim periods which requires us to base our effective rate on full year projections. We received dividends from Kronos of $10.6 million in the first half of 2017 and $12.0 million in the first half of 2018.

Our effective tax rate attributable to our equity in earnings of Kronos, including the effect of the non-taxable dividends we received from Kronos was 15.6% in the first six months of 2018 and 30.9% in the first six months of 2017. See Note 12 to our Condensed Consolidated Financial Statements for more information about our 2018 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 six months of 2017 and 2018. 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			Six months ended		
	June 30, 2017	2018	% Change	June 30, 2017	2018	% Change
	(In millions)			(In millions)		
Net sales	$441.4	$471.8	7 %	$811.2	$902.2	11 %
Cost of sales	309.0	300.0	(3)%	572.8	555.7	(3)%
Gross margin	$132.4	$171.8		$238.4	$346.5	
Income from operations	$74.3	$119.9	61 %	$130.7	$227.4	74 %
Marketable equity securities	-	(2.2)		-	(2.4)	
Other components of net periodic pension and OPEB cost	(4.2)	(3.8)		(8.3)	(7.6)	
Interest and dividend income	.1	1.2		.3	2.2	
Interest expense	(4.8)	(5.0)		(9.5)	(9.8)	
Income before income taxes	65.4	110.1		113.2	209.8	
Income tax expense (benefit)	(131.1)	32.4		(120.1)	61.4	
Net income	$196.5	$77.7		$233.3	$148.4	
Percentage of net sales:						
Cost of sales	70 %	64 %		71 %	62 %	
Income from operations	17 %	25 %		16 %	25 %	
Equity in earnings of Kronos Worldwide, Inc.	$59.7	$23.6		$70.9	$45.1	
TiO_2 operating statistics:						
Sales volumes*	157	137	(12)%	300	262	(13)%
Production volumes*	141	136	(4)%	286	269	(6)%
Change in TiO_2 net sales:						
TiO_2 product pricing			20 %			23 %
TiO_2 sales volumes			(12)			(13)
TiO_2 product mix/other			(6)			(5)
Changes in currency exchange rates			5			6
Total			7 %			11 %

* 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 ore. 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

Due to the successful implementation of previously-announced price increases, average selling prices rose throughout 2017 and the first half of 2018. Kronos' average TiO_2 selling prices at the end of 2017 were 27% higher than at the end of 2016. Kronos' average selling prices at the end of the second quarter of 2018 were 4% higher than at the end of 2017, with most of such increase occurring in the first quarter. Higher prices in the European, North American and export markets were partially offset by lower prices in Latin America (attributable to changes in customer mix). Kronos experienced lower sales volumes in all major markets in the first half of 2018 as compared to the record sales volumes achieved in the same period of 2017.

Kronos operated its production facilities at overall average capacity utilization rates of 96% in the first six months of 2018 compared to full practical capacity utilization rates in the first six months of 2017. The table below lists Kronos' comparative quarterly capacity utilization rates.

	Production Capacity Utilization Rates	
	2017	2018
First quarter	100%	95%
Second quarter	100%	97%

Due to a moderate rise in the cost of third-party feedstock ore Kronos procured in 2017 and the first half of 2018, its cost of sales per metric ton of TiO_2 sold in the first six months of 2018 was higher as compared to the first six months of 2017 (excluding the effect of changes in currency exchange rates).

Net sales - Net sales in the second quarter of 2018 increased 7%, or $30.4 million, compared to the second quarter of 2017 primarily due to the net effect of a 20% increase in average TiO_2 selling prices (which increased net sales by approximately $88 million) and a 12% decrease in sales volumes (which decreased net sales by approximately $53 million). 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 12% in the second quarter of 2018 as compared to the record second quarter sales volumes of 2017 primarily due to lower sales in the European and export markets reflecting the effect of product availability issues during the quarter as well as reduced customer shipments as customer inventory levels returned to more normal levels especially in European and export markets, partially offset by higher sales in the North American market. In addition to the impact of changes in average TiO_2 selling prices and sales volumes, Kronos estimates that changes in currency exchange rates (primarily the euro) increased its net sales by approximately $22 million as compared to the second quarter of 2017.

Net sales in the first six months of 2018 increased 11%, or $91.0 million, compared to the first six months of 2017 primarily due to the net effect of a 23% increase in average TiO_2 selling prices (which increased net sales by approximately $187 million) and a 13% decrease in sales volumes (which decreased net sales by approximately $105 million). 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 13% in the first six months of 2018 as compared to the record first six months of 2017 primarily due to lower sales in all major markets resulting from a controlled ramp-up in January 2018 as Kronos brought the second phase of its new global enterprise resource planning system online, and inventory management to assure adequate supply to its customers during the spring and summer necessitated by the lower production volumes in the first three months of the year (as discussed below), as well as the impact of product availability and customer inventory level changes in the second quarter discussed above. In addition to the impact of changes in average TiO_2 selling prices and sales volumes, Kronos estimates that changes in currency exchange rates increased its net sales by approximately $53 million as compared to the first six months of 2017.

Cost of sales and gross margin - Cost of sales decreased $9.0 million or 3% in the second quarter of 2018 compared to the second quarter of 2017 due to the net effect of a 12% decrease in sales volumes, a 4% decrease in TiO_2 production volumes, higher raw materials and other production costs of approximately $23 million (primarily caused by higher third-party feedstock ore costs) and currency fluctuations (primarily the euro). The decrease in TiO_2 production volumes in the second quarter of 2018 compared to the production volumes in the second quarter of 2017 was primarily due to the timing of scheduled maintenance at certain facilities in 2018. Kronos' cost of sales as a percentage of net sales decreased to 64% in the second quarter of 2018 compared to 70% in the same period of 2017 as the favorable impact of higher average selling prices more than offset the unfavorable effects related to lower production volumes and higher raw materials and other production costs, as discussed above.

Gross margin as a percentage of net sales increased to 36% in the second quarter of 2018 compared to 30% in the second quarter of 2017. As discussed and quantified above, Kronos' gross margin increased primarily due to the net effect of higher average selling prices, lower sales and production volumes and higher raw materials and other production costs.

Cost of sales decreased $17.2 million in the first six months of 2018 compared to the same period in 2017 primarily due to the net impact of a 13% decrease in sales volumes, 6% decrease in TiO_2 production volumes, higher raw materials and other production costs of approximately $35 million (primarily caused by higher third-party feedstock ore costs) and currency fluctuations (primarily the euro). The decrease in TiO_2 production volumes in the first six months of 2018 compared to the production volumes in the first six months of 2017 was primarily due to the timing of scheduled maintenance at certain facilities in 2018 as well as the implementation of a productivity-enhancing improvement project at Kronos' Belgian facility in the first quarter of 2018. Kronos' cost of sales as a percentage of net sales decreased to 62% in the first six months of 2018 compared to 71% in the same period of 2017 as the favorable impact of higher average selling prices more than offset the unfavorable effects related to lower production volumes and higher raw materials and other production costs, as discussed above.

Gross margin as a percentage of net sales increased to 38% in the first six months of 2018 compared to 29% in the first six months of 2017. As discussed and quantified above, our gross margin increased primarily due to the net effect of higher average selling prices, lower sales and production volumes and higher raw materials and other production costs.

Selling, general and administrative expense - Selling, general and administrative expense in the second quarter of 2018 was $58.0 million, an increase of $7.0 million compared to the second quarter of 2017 in part due to higher general and administrative costs related to the implementation of a new accounting and manufacturing software system and higher sales support costs.

Selling, general and administrative expense in the first six months of 2018 was $116.4 million, an increase of $20.1 million compared to the first six months of 2017 in part due to higher general and administrative costs related to the implementation of a new accounting and manufacturing software system and higher sales support costs.

Income from operations - Income from operations increased by $45.6 million, or 61%, in the second quarter of 2018 compared to the second quarter of 2017. Income from operations as a percentage of net sales increased to 25% in the second quarter of 2018 from 17% in the same period of 2017. This increase was driven by the increase in gross margin, discussed above. Kronos estimates that changes in currency exchange rates increased income from operations by approximately $18 million in the second quarter of 2018 as compared to the same period in 2017, as discussed below.

Income from operations increased by $96.7 million, or 74%, in the first six months of 2018 compared to the first six months of 2017. Income from operations as a percentage of net sales increased to 25% in the first six months of 2018 from 16% in the same period of 2017. This increase was driven by the increase in gross margin, discussed above. Kronos estimates that changes in currency exchange rates increased income from operations by approximately $19 million in the first six months of 2018 as compared to the same period in 2017.

Other non-operating income (expense) - Other components of net periodic pension and OPEB cost in the second quarter of 2018 was comparable to the second quarter of 2017. Interest expense in the second quarter of 2018 was comparable to the second quarter of 2017. Kronos currently expects its interest expense for all of 2018 will be comparable to 2017, as higher average debt levels in 2018 resulting from the September 2017 issuance of its Senior Secured Notes would be offset by lower average interest rates on outstanding indebtedness.

Other components of net periodic pension and OPEB cost in the first six months of 2018 was comparable to the first six months of 2017. Interest expense in the first six months of 2018 was comparable to the first six months of 2017.

Income tax expense (benefit) - Kronos recognized income tax expense of $32.4 million in the second quarter of 2018 compared to an income tax benefit of $131.1 million in the second quarter of 2017. Kronos recognized income tax expense of $61.4 million in the first six months of 2018 compared to an income tax benefit of $120.1 million in the first six months of 2017. The difference is primarily due to the effect of the reversal of Kronos' deferred income tax asset valuation allowance associated with its German and Belgium operations in 2017. Kronos' earnings are subject to income tax in various U.S. and non-U.S. jurisdictions, and effective in 2018 the income tax rates applicable to Kronos' pre-tax earnings (losses) of its non-U.S. operations are generally higher than the income tax rates applicable to its U.S. operations. Excluding the effect of any increase or decrease in Kronos' deferred income tax asset valuation allowance or changes in its reserve for uncertain tax positions, Kronos would generally expect its overall effective tax rate to be higher than the U.S. federal statutory tax rate of 21% primarily because of its non-U.S. operations. Prior to 2018, the income tax rates applicable to Kronos' pre-tax earnings (losses) of its non-U.S. operations were generally lower than the U.S. federal statutory tax rate of 35%.

Kronos has substantial net operating loss ("NOL") carryforwards in Germany (the equivalent of $652 million for German corporate purposes and $.5 million for German trade tax purposes at December 31, 2017) and in Belgium (the equivalent of $50 million for Belgian corporate tax purposes at December 31, 2017), all of which have an indefinite carryforward period. As a result, Kronos has net deferred income tax assets with respect to these two jurisdictions, primarily related to these NOL carryforwards. The German corporate tax is similar to the U.S. federal income tax, and the German trade tax is similar to the U.S. state income tax. As discussed in the 2017 Annual Report, commencing June 30, 2015, Kronos concluded that it was required to recognize a non-cash deferred income tax asset valuation allowance under the more-likely-than-not recognition criteria with respect to its German and Belgian net deferred income tax assets at such date. During the first six months of 2017, Kronos recognized an aggregate non-cash deferred income tax benefit of $12.7 million as a result of a net decrease in such deferred income tax asset valuation allowance, due to utilizing a portion of both the German and Belgian NOL during the period, including $7.7 million in the second quarter of 2017. As also discussed in the 2017 Annual Report, at June 30, 2017, Kronos concluded it had sufficient positive evidence under the more-likely-than-not recognition criteria to support reversal of the entire valuation allowance related to its German and Belgian operations. In accordance with the ASC 740-270 guidance regarding accounting for income taxes at interim dates, the amount of the valuation allowance reversed at June 30, 2017 ($149.9 million, of which $141.9 million related to Germany and $8.0 million related to Belgium) relates to Kronos' change in judgment at that date regarding the realizability of the related deferred income tax asset as it relates to future years (i.e. 2018 and after). A change in judgment regarding the realizability of deferred tax assets as it relates to the current year is considered in determining the estimated annual effective tax rate for the year and is recognized throughout the year, including interim periods subsequent to the date of the change in judgment. Accordingly, Kronos' income tax benefit in calendar 2017 includes an aggregate non-cash deferred income tax benefit of $186.7 million related to the reversal of the German and Belgian valuation allowance, comprised of $12.7 million recognized in the first half of 2017 (noted above) related to the utilization of a portion of both the German and Belgian NOLs during such period, $149.9 million related to the portion of the valuation allowance reversed as of June 30, 2017 and $24.1 million recognized in the second half of 2017 related to the utilization of a portion of both the German and Belgian NOLs during such period. Kronos' deferred income tax asset valuation allowance increased $13.7 million in 2017 as a result of changes in currency exchange rates, which increase was recognized as part of other comprehensive income (loss).

As discussed in the 2017 Annual Report, on December 22, 2017, the 2017 Tax Act was enacted into law. This new tax legislation, among other changes, (i) reduced the U.S. Federal corporate income tax rate from 35% to 21% effective January 1, 2018; (ii) implemented a territorial tax system and imposed a one-time repatriation tax ("Transition Tax") on the deemed repatriation of the post-1986 undistributed earnings of non-U.S. subsidiaries accumulated up through December 31, 2017, regardless of whether such earnings are repatriated; (iii) eliminated U.S. tax on future non-U.S. earnings (subject to certain exceptions); (iv) eliminated the domestic production activities deduction beginning in 2018; (v) eliminated the net operating loss carryback and provides for an indefinite carryforward period subject to an 80% annual usage limitation; (vi) allows for the expensing of certain capital expenditures; (vii) imposed a tax on global intangible low-tax income ("GILTI") beginning in 2018; (viii) imposed a base erosion anti-abuse tax ("BEAT") beginning in 2018; and (ix) amended the rules limiting the deduction for business interest expense beginning in 2018. Following the enactment of the 2017 Tax Act, the Securities and Exchange Commission issued Staff

Accounting Bulletin (“SAB”) 118 to provide guidance on the accounting and reporting impacts of the 2017 Tax Act. SAB 118 states that companies should account for changes related to the 2017 Tax Act in the period of enactment if all information is available and the accounting can be completed. In situations where companies do not have enough information to complete the accounting in the period of enactment, a company must either 1) record an estimated provisional amount if the impact of the change can be reasonably estimated; or 2) continue to apply the accounting guidance that was in effect immediately prior to the 2017 Tax Act if the impact of the change cannot be reasonably estimated. If estimated provisional amounts are recorded, SAB 118 provides a measurement period of no longer than one year during which companies should adjust those amounts as additional information becomes available in the reporting period within the measurement period in which such adjustment is determined.

Under GAAP, Kronos is required to revalue its net deferred tax asset associated with its U.S. net deductible temporary differences in the period in which the new tax legislation is enacted based on deferred tax balances as of the enactment date, to reflect the effect of such reduction in the corporate income tax rate. Kronos' temporary differences as of December 31, 2017 were not materially different from its temporary differences as of the enactment date, accordingly revaluation of its net deductible temporary differences was based on its net deferred tax asset as of December 31, 2017. Such revaluation was recognized in continuing operations and was not material to us.

Prior to the enactment of the 2017 Tax Act, the undistributed earnings of Kronos' European subsidiaries were deemed to be permanently reinvested (Kronos had not made a similar determination with respect to the undistributed earnings of its Canadian subsidiary). Pursuant to the Transition Tax provisions imposing a one-time repatriation tax on post-1986 undistributed earnings, Kronos recognized a provisional current income tax expense of $76.2 million in the fourth quarter of 2017. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. Kronos elected to pay such tax over an eight year period beginning in 2018, including approximately $6.1 million which was paid in April 2018 (for the 2017 tax year) and $3.1 million which was paid in June 2018 (for the 2018 tax year). Of the remaining $67.0 million, $64.0 million is recorded as a noncurrent payable to affiliate (income taxes payable to Valhi) and $3.0 million is included with Kronos' current payable to affiliate (income taxes payable to Valhi) classified as a current liability. Such remaining amount will be paid in quarterly increments over the remainder of the eight year period. Kronos has not made any measurement-period adjustments to the provisional amounts recorded for this item during the first six months of 2018 because no new information became available during the period that required an adjustment. Kronos is continuing to gather information and await further guidance, primarily from the state jurisdictions in which it operates and, given the complexities of these new rules and the long time period over which information about Kronos' subsidiaries is needed, further guidance is necessary in order to determine the amount of the Transition Tax, which may impact the Transition Tax recognized in the fourth quarter of 2017. Kronos will complete its accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if Kronos determines an adjustment to the provisional amount recognized at December 31, 2017 is required, it will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Prior to the enactment of the 2017 Tax Act the undistributed earnings of Kronos' European subsidiaries were deemed to be permanently reinvested (Kronos had not made a similar determination with respect to the undistributed earnings of its Canadian subsidiary). As a result of the implementation of a territorial tax system under the 2017 Tax Act, effective January 1, 2018, and the Transition Tax which in effect taxes the post-1986 undistributed earnings of our non-U.S. subsidiaries accumulated up through December 31, 2017, Kronos determined effective December 31, 2017 that all of the post-1986 undistributed earnings of its European subsidiaries are not permanently reinvested. Accordingly, in the fourth quarter of 2017 Kronos recognized an aggregate provisional non-cash deferred income tax expense of $4.5 million based on its reasonable estimates of the U.S. state and non-U.S. income tax and withholding tax liability attributable to all of such previously-considered permanently reinvested undistributed earnings through December 31, 2017. The amounts recorded as of December 31, 2017 as a result of the 2017 Tax Act represent estimates based on information currently available. Kronos has not made any measurement-period adjustments to the provisional amounts recorded at December 31, 2017 for this item during the first six months of 2018. However, Kronos recorded a provisional non-cash deferred income tax expense of $1.7 million for the estimated U.S. state and non-U.S. income tax and withholding tax liability attributable to the 2018 undistributed earnings of its non-U.S. subsidiaries in the first six months of 2018, including withholding taxes related to the undistributed earnings of our Canadian subsidiary. Kronos is continuing its review of certain other provisions under the 2017 Tax Act and waiting on further guidance primarily from the state jurisdictions in which it operates that may impact its determination of the aggregate temporary differences attributable to Kronos' investments in its non-U.S. subsidiaries. Kronos will complete its accounting for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118, and if it determines an adjustment to the provisional amount recognized at December 31, 2017 and June 30, 2018 are required, Kronos will recognize such adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined.

Under U.S. GAAP, as it relates to the new GILTI tax rules, Kronos is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into the measurement of our deferred taxes (the “deferred method”). Kronos’ selection of an accounting policy related to the GILTI tax provisions will depend, in part, on analyzing its global income to determine whether it expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. While Kronos’ future global operations depend on a number of different factors, Kronos does expect to have future U.S. inclusions in taxable income related to GILTI. As such, Kronos performed an analysis of GILTI’s impact on its provision and determined the impact is not material. Because the impact is not material to its tax provision, Kronos has not recorded any adjustments related to potential GILTI tax in its financial statements in the first six months of 2018. Further, Kronos has not made a policy decision regarding whether to record deferred taxes on GILTI or record GILTI tax as a current-period expense when incurred. Kronos will complete its policy election for this item within the prescribed measurement period ending December 22, 2018, pursuant to the guidance under SAB 118 and if Kronos determines such policy election impacts its provision, it will recognize an adjustment in the reporting period within the SAB 118 measurement period in which such adjustment is determined. Similarly, Kronos has evaluated the tax impact of BEAT on its tax provision in the first half of 2018 and determined that the tax law has no material impact on its tax provision as Kronos has historically not entered into international payments between related parties that are unrelated to cost of goods sold.

Effects of Currency Exchange Rates

Kronos has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). The majority of Kronos’ sales from non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the euro, other major European currencies and the Canadian dollar. A portion of Kronos’ sales generated from its non-U.S. operations is denominated in the U.S. dollar (and consequently its non-U.S. operations will generally hold U.S. dollars from time to time). Certain raw materials used in all Kronos’ production facilities, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production and administrative costs are incurred primarily in local currencies. Consequently, the translated U.S. dollar value of Kronos’ non-U.S. sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect the comparability of period-to-period operating results. In addition to the impact of the translation of sales and expenses over time, our non-U.S. operations also generate currency transaction gains and losses which primarily relate to (i) the difference between the currency exchange rates in effect when non-local currency sales or operating costs (primarily U.S. dollar denominated) are initially accrued and when such amounts are settled with the non-local currency, (ii) changes in currency exchange rates during time periods when our non-U.S. operations are holding non-local currency (primarily U.S. dollars), and (iii) relative changes in the aggregate fair value of currency forward contracts held from time to time. As discussed in Note 14 to Kronos’ Condensed Consolidated Financial Statements, Kronos periodically use currency forward contracts to manage a portion of our currency exchange risk, and relative changes in the aggregate fair value of any currency forward contracts it holds from time to time serves in part to mitigate the currency transaction gains or losses we would otherwise recognize from the first two items described above.

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

Impact of changes in currency exchange rates three months ended June 30, 2018 vs June 30, 2017

	Transaction gains/(losses) recognized			Translation gains – impact of rate changes	Total currency impact 2018 vs 2017
	2017	2018	Change		
	(In millions)				
Impact on:					
Net sales	$ -	$ -	$ -	$ 22	$ 22
Income from operations	(4)	10	14	4	18

40

The $22 million increase in net sales (translation gain) was caused primarily by a weakening of the U.S. dollar relative to the euro, as Kronos' euro-denominated sales were translated into more U.S. dollars in 2018 as compared to 2017. The weakening of the U.S. dollar relative to the Canadian dollar and the Norwegian krone in 2018 did not have a significant effect on the reported amount of Kronos' net sales, as a substantial portion of the sales generated by our Canadian and Norwegian operations are denominated in the U.S. dollar.

The $18 million increase in income from operations was comprised of the following:

- Approximately $14 million from net currency transaction gains primarily caused by relative changes in currency exchange rates at each applicable balance sheet date between the U.S. dollar and the euro, Canadian dollar and the Norwegian krone, which causes increases or decreases, as applicable, in U.S. dollar-denominated receivables and payables and U.S. dollar currency held by our non-U.S. operations, and
- Approximately $4 million from net currency translation gains primarily caused by a weakening of the U.S. dollar relative to the euro as the positive effects of the weaker U.S. dollar on euro-denominated sales more than offset the unfavorable effects of euro-denominated operating costs being translated into more U.S. dollars in 2018 as compared to 2017, partially offset by the weakening of the U.S. dollar relative to the Canadian dollar, as its local currency-denominated operating costs were translated into more U.S. dollars in 2018 as compared to 2017.

Impact of changes in currency exchange rates

six months ended June 30, 2018 vs June 30 2017

Transaction gains/(losses) recognized 2017	Translation gains – impact of rate changes	Total currency impact 2018 vs 2017