CHURCHILL DOWNS INC
Form 8-K
May 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITY EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): May 28, 2014

Exact name of registrant as specified in its charter)

Kentucky	001-33998	61-0156015
(State of incorporation)	(Commission file number)	(IRS Employer Identification No.)

600 North Hurstbourne Parkway, Suite 400, Louisville, Kentucky 40222
(Address of principal executive offices)
(Zip Code)

(502) 636-4400
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (18 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On May 28, 2014 Churchill Downs Incorporated (CDI) (NASDAQ: CHDN) announced that it has entered into a binding term sheet with The Stronach Group (TSG) under which TSG will operate, at TSG’s expense, live racing and maintain certain facilities used for racing and training at Calder Race Course (Calder) located in Miami Gardens, Florida; however, under the terms of the proposed transaction, CDI will continue to own and operate the Calder Casino.

The transaction is anticipated to be completed by June 30, 2014 and is contingent upon regulatory approval, certain amendments to Calder’s agreement with the Florida Horsemen’s Benevolent and Protective Association, Inc. (FHBPA), execution of certain other definitive agreements (such as the facility lease agreement) and other usual and customary closing conditions.

A copy of the press release announcing the transaction is filed as Exhibit 99.1 to this Current Report and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

99.1 Press Release dated May 28, 2014 issued by Churchill Downs Incorporated.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto, duly authorized.

	CHURCHILL DOWNS INCORPORATED
May 28, 2014	/s/ Alan K. Tse___________________ By: Alan K. Tse Title: Executive Vice President, General Counsel and Secretary

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated May 28, 2014 issued by Churchill Downs Incorporated.

t style="DISPLAY: inline; FONT-WEIGHT: bold; FONT-SIZE: 10pt; FONT-FAMILY: times new roman"> (16)%

Gross margin

$59.2 $14.1 $116.3 $18.3

Income (loss) from operations

$9.7 $(21.9) $19.4 $(48.2)

Other, net

.2 .1 .6 .1

Interest expense

(11.1) (10.3) (21.7) (20.0) (1.2) (32.1) (1.7) (68.1)

Income tax benefit

(7.0) (10.3) (7.1) (19.7)

Net income (loss)

$5.8 $(21.8) $5.4 $(48.4)

Percentage of net sales:

Cost of sales

85% 95% 84% 96%

Income (loss) from operations

2% (8)% 3% (9)%

Equity in net income (loss) of Kronos Worldwide, Inc.

$2.1 $(7.9) $1.9 $(17.4)

TiO2 operating statistics:

Sales volumes*

141 114 (19)% 269 211 (22)%

Production volumes*

133 87 (34)% 265 151 (43)%

Change in Ti02 net sales:

Ti02 product pricing

1% 3%

Ti02 sales volumes

(19)% (22)%

Ti02 product mix

(3)% (3)%

Changes in currency exchange rates

(7)% (5)%

Total

(28)% (27)%

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* Thousands of metric tons

The key performance indicators for Kronos are TiO2 average selling prices and TiO2 sales and production volumes.

Net sales – Kronos' net sales decreased 28% or $109.9 million compared to the second quarter of 2008 primarily due to a 19% decrease in sales volumes. A 1% increase in average TiO2 selling prices over 2008 was more than offset by the negative impact of currency exchange rates. Kronos estimates the unfavorable effect of changes in currency exchange rates decreased net sales by approximately $26 million, or 7%, as compared to the same period in 2008. Net sales decreased 27% or $194.3 million compared to the six months ended June 30, 2008 primarily due to a 22% decrease in sales volumes. A 3% increase in average TiO2 selling prices over 2008 was more than offset by the negative impact of currency exchange rates. Kronos estimates the unfavorable effect of changes in currency exchange rates decreased net sales by approximately $38 million, or 5%, as compared to the same period in 2008. Kronos expects average selling prices in the second half of 2009 to be higher than the average selling prices in the first half of 2009, as discussed below.

Sales volumes in the second quarter and first six months of 2009 were 19% lower and 22% lower, respectively, compared to 2008 due to the impact of lower demand in Kronos' markets resulting from the current economic conditions.

Cost of sales – Kronos' cost of sales decreased $64.8 million or 19% in the second quarter of 2009 compared to 2008 primarily due to the net impact of a 19% decrease in sales volumes, a 34% decrease in TiO2 production volumes, a decrease in maintenance costs of $9.3 million and currency fluctuations (primarily the euro). Cost of sales as a percentage of net sales increased to 95% in the second quarter of 2009 compared to 85% in the second quarter of 2008 due to the unfavorable effects of the significant amount of unabsorbed fixed production costs resulting from reduced production volumes. TiO2 production volumes decreased due to temporary plant curtailments, which continued from the first quarter into the second quarter of 2009 and resulted in approximately $30 million of unabsorbed fixed production costs which were charged directly to cost of sales in the second quarter of 2009.

Cost of sales decreased $96.3 million or 16% in the six months ended June 30, 2009 compared to the same period 2008 primarily due to the net impact of a 22% decrease in sales volumes, a 43% decrease in TiO2 production volumes, a decrease in maintenance costs of $17.5 million and currency fluctuations (primarily the euro). Cost of sales as a percentage of net sales increased to 96% in the first six months of 2009 compared to 84% in the same period in 2008 due to the unfavorable effects of the significant amount of unabsorbed fixed production costs resulting from reduced production volumes. TiO2 production volumes decreased due to temporary plant curtailments during the first six months of 2009 that resulted in approximately $80 million of unabsorbed fixed production costs which were charged directly to cost of sales in the first half of 2009.

Income (loss) from operations – Kronos' income from operations declined by $31.6 million from income from operations of $9.7 million in the second quarter of 2008 to a loss from operations of $21.9 million in the second quarter of 2009. Income (loss) from operations as a percentage of net sales declined to (8)% in the second quarter of 2009 from 2% in the same period for 2008. This decrease is driven by the decline in gross margin, which fell to 5% for the second quarter of 2009 compared to 15% for the second quarter of 2008. Gross margin decreased primarily because of lower sales volumes and higher manufacturing costs resulting from lower production volumes. Changes in currency rates have positively affected Kronos' gross margin and income (loss) from operations. Kronos estimates that changes in currency exchange rates positively affected income (loss) from operations by approximately $20 million in the second quarter of 2009 as compared to the same period in 2008.

Kronos' income from operations declined by $67.6 million from income from operations of $19.4 million in the first six months of 2008 to a loss from operations of $48.2 million in 2009. Income (loss) from operations as a percentage of net sales declined to (9%) in the first six months of 2009 from 3% in the same period for 2008. This decrease is driven by the decline in gross margin, which fell to 4% for the first six months of 2009 compared to 16% for the same period in 2008. Gross margin has decreased primarily because of lower sales volumes and higher manufacturing costs resulting from lower production volumes. Changes in currency rates have positively affected Kronos' gross margin and income (loss) from operations. Kronos estimates that changes in currency exchange rates increased income from operations by approximately $48 million in the first six months of 2009 as compared to the same period in 2008.

Interest expense – Kronos' interest expense decreased $.8 million from $11.1 million in the second quarter of 2008 to $10.3 million in the second quarter of 2009 and decreased $1.7 million from $21.7 million in the first six months of

2008 to $20.0 million in the same period for 2009 due to changes in currency exchange rates. Excluding the effect of currency exchange rates, Kronos expects that interest expense will be higher in 2009 as compared to 2008 due to anticipated increased average borrowings under its revolving credit facilities.

Kronos has a significant amount of indebtedness denominated in the euro, primarily the 6.5% Senior Secured Notes. The interest expense it recognizes will vary with fluctuations in the euro exchange rate.

Provision for income taxes – Kronos' income tax benefit was $10.3 million in the second quarter of 2009 compared to $7.0 million in the same period last year and $19.7 million in the first six months of 2009 compared to $7.1 million in the same period last year. Kronos' income tax benefit in the second quarter of 2008 includes a $7.2 million income tax benefit related to a European Court ruling that resulted in the favorable resolution of certain income tax issues in Germany and an increase in the amount of German corporate and trade tax net operating loss carryforwards.

Kronos has substantial net operating loss carryforwards in Germany (the equivalent of $817 million for German corporate purposes and $229 million for German trade tax purposes at December 31, 2008). At June 30, 2009, Kronos concluded that no deferred income tax asset valuation allowance is required to be recognized with respect to such carryforwards, principally because (i) such carryforwards have an indefinite carryforward period, (ii) Kronos has utilized a portion of such carryforwards during the most recent three-year period and (iii) Kronos currently expects to utilize the remainder of such carryforwards over the long term. However, prior to the complete utilization of these carryforwards, particularly if the current economic downturn continues and Kronos generates operating losses in its German operations for an extended period of time, it is possible Kronos might conclude the benefit of the carryforwards would no longer meet the more-likely-than-not recognition criteria, at which point Kronos would be required to recognize a valuation allowance against some or all of the then-remaining tax benefit associated with the carryforwards.

Currency - Kronos has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). The majority of its non-U.S. operations' sales 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 are denominated in the U.S. dollar. Certain raw materials used worldwide, primarily titanium-containing feedstocks, are purchased in U.S. dollars while labor and other production costs are purchased 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. Overall, Kronos estimates that fluctuations in currency exchange rates had the following effects on sales and income from operations in 2009 as compared to 2008.

	Three months ended June 30, 2009 vs. 2008	Six months ended June 30, 2009 vs. 2008
	Increase (decrease), in millions	
Impact on:		
Net sales	$(26)	$(38)
Income from operations	20	48

Outlook - Kronos currently expects that income (loss) from operations will continue to be lower in 2009 as compared to 2008 primarily due to higher production costs resulting in part from reduced production volumes during the first six months of the year and the resulting unabsorbed fixed production costs. While Kronos operated its facilities at approximately 58% of capacity during the first half of 2009, Kronos expects that operating rates will be near full capacity for the second half of the year. Kronos expects to report a net loss in 2009 as compared to reporting net income in 2008 due to lower expected income from operations in 2009.

In response to the worldwide economic slowdown and weak consumer confidence, Kronos reduced production volumes in 2009 in order to reduce finished goods inventory, improve liquidity and match production to market demand. Overall industry pigment demand is expected to be lower in 2009 as compared to 2008 as a result of worldwide economic conditions. While Kronos currently expects that sales volumes in 2009 will be lower as compared to 2008, it expects to gain market share following anticipated reductions in industry capacity due to competitors' permanent plant shutdowns. Kronos expects that demand will improve somewhat in the second half of the year over the first six months of 2009. During the second and third quarters of 2009, Kronos and its competitors have announced price increases, intended to be implemented in the second half of 2009. As a result, although average selling prices during the first half of 2009 have declined from year-end 2008 levels, Kronos anticipates that prices will rise during the second half of 2009, which should result in slightly higher average worldwide TiO_2 selling prices for all of 2009 as compared to 2008. To mitigate the negative impact of significantly reduced production volumes, Kronos is reducing its operating costs where possible, including maintenance expenditures and personnel costs.

Kronos' expectations as to the future of the TiO_2 industry are based upon a number of factors beyond its control, including worldwide growth of gross domestic product, competition in the marketplace, solvency and the continued operation of competitors, unexpected or earlier than expected capacity additions or reductions and technological advances. If actual developments differ from its expectations, Kronos' results of operations could be unfavorably affected.

Kronos believes that annual attainable production capacity for 2009 is approximately 532,000 metric tons. Kronos expects that production volumes in 2009 will be significantly lower than attainable capacity. Kronos currently expects that it will operate at 70% to 80% of its attainable production capacity in 2009. Its expected capacity utilization levels could be adjusted upwards or downwards to match changes in demand for Kronos' product.

Noncontrolling interest in subsidiary - Noncontrolling interest in net income (loss) of subsidiary decreased $782,000 in the first six months of 2009 as compared to the first six months of 2008 due to lower earnings of CompX in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash flows

Operating activities

Trends in cash flows from operating activities, excluding the impact of deferred taxes and relative changes in assets and liabilities, are generally similar to trends in our income from operations. Cash flows provided by operating activities decreased from $9.3 million in the first six months of 2008 to $720,000 in the first six months of 2009.

The $8.6 million decrease in cash provided by operating activities includes the net effect of:

- Kronos' suspension of its quarterly dividend in 2009,
-

lower income from operations in 2009 of $6.1 million (excluding the litigation settlement pre-tax gain of $11.3 million and the non-cash write-down of $.7 million on assets held for sale),
- a higher amount of net cash provided by changes in receivables, inventories, payables and accrued liabilities in 2009 of $9.1 million primarily due to relative changes in CompX's working capital levels,
- higher cash paid for income taxes in 2009 of $2.4 million primarily due to taxes paid on the litigation settlement gain, and
- lower interest income of $4.7 million in 2009 primarily due to $4.3 million of interest received from certain escrow funds in 2008.

We do not have complete access to CompX's cash flows in part because we do not own 100% of CompX. A detail of our consolidated cash flows from operating activities is presented in the table below. Intercompany dividends have been eliminated.

	Six months ended June 30,	
	2008	2009
	(In millions)	
Cash provided by (used in) operating activities:		
CompX	$5.4	$5.5
NL Parent and wholly-owned subsidiaries	6.6	(2.1)
Eliminations	(2.7)	(2.7)
Total	$9.3	$.7

Relative changes in working capital can have a significant effect on cash flows from operating activities. As shown below, our average days sales' outstanding increased from December 31, 2008 to June 30, 2009. The increase is primarily due to the timing of collections on a lower accounts receivable balance as of June 30, 2009. As shown below, our average number of days in inventory increased from December 31, 2008 to June 30, 2009. The increase in days in inventory is primarily due to lower sales in the first six months of 2009 which impacted the days in inventory. In absolute terms, however, we reduced inventory by $3.6 million in the first six months of 2009 as compared to December 31, 2008. For comparative purposes, we have provided comparable prior year numbers below.

	December 31, 2007	June 30, 2008	December 31, 2008	June 30, 2009
Days sales outstanding	44 days	42 days	41 days	44 days
Days in Inventory	63 days	72 days	70 days	74 days

Investing and financing activities

Net cash provided by investing activities totaled $16.2 million in the first six months of 2009 compared to net cash used in investing activities of $7.4 million in the first six months of 2008.

During 2009:
- we received $11.8 million from the second closing contained in a settlement agreement related to condemnation proceedings on certain real property we formerly owned in New Jersey,
- we collected $5.6 million on notes receivable from affiliates,
- we incurred $1.2 million of capital expenditures, substantially all of which relates to CompX, and
- we purchased approximately 2,800 shares of Valhi in open-market transactions for an aggregate amount of $33,000, and we purchased approximately 14,000 shares of Kronos in open–market transactions for an aggregate amount of $139,000. See Notes 4 and 5 to our Condensed Consolidated Financial Statements.

During 2008:
- CompX purchased approximately 126,000 shares of its common stock in market transactions for $1.0 million,
- we used $4.3 million of cash to fund two new escrow accounts related to environmental matters (escrow funds are classified as restricted cash), and
- we incurred $3.5 million of capital expenditures, substantially all of which relates to CompX.

During the first six months of 2008 and 2009 we paid $12.1 million, or $.25 per share, in dividends. Distributions to noncontrolling interests consist of CompX dividends paid to shareholders other than us.

Provisions contained in certain of CompX's and Kronos' credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity for reasons other than defaults from failing to comply with typical financial covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business.

CompX is in compliance with all of its debt covenants at June 30, 2009. Our and our affiliates' ability to borrow funds under our credit facilities in the future will, in some instances, depend in part on our ability to comply with specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreements. See discussion below regarding CompX's revolving credit facility and Kronos' European revolving credit facility.

CompX's $37.5 million revolving credit facility requires CompX to maintain minimum levels of equity, certain financial ratios, limits dividends and additional indebtedness and contains other provisions customary in lending transactions of this type. We believe that it is probable that CompX will not be able to comply with the interest coverage ratio covenant as of September 30, 2009. The interest coverage ratio requires CompX's ratio of earnings before interest and taxes, as defined, for the cumulative period of four consecutive fiscal quarters to interest expense for that period to be greater than 2.5 to 1.0. At June 30, 2009, CompX's interest coverage ratio was 4.2 to 1.0. Additionally, it is probable that CompX would not be able to pay a dividend in the third quarter without violating the consolidated net worth covenant, even though we expect CompX to have sufficient cash on hand to pay a dividend, if declared. The consolidated net worth covenant, as defined, requires CompX's consolidated net worth to be greater than $77.0 million. At June 30, 2009, CompX's consolidated net worth was $77.6 million. CompX has begun discussions with the lenders to amend the terms of the existing credit facility to, among other things, modify the interest coverage ratio covenant and change the amount of the consolidated net worth covenant. While we believe it is possible that CompX can obtain such an amendment, there is no assurance that such an amendment will be obtained, (or waived, in the event the lenders would only agree to a waiver and not an amendment). Any amendment or waiver which CompX might obtain could increase our future borrowing costs, either from a requirement that we pay a higher interest rate on future outstanding borrowings and/or pay a fee to the lenders as part of agreeing to an amendment or waiver. There are no current expectations to borrow on the revolving credit facility in the near term. At June 30, 2009, there are no amounts outstanding under CompX's revolving credit facility. Lower than expected future operating results would likely reduce CompX's amount available to borrow and restrict future dividends.

Certain of Kronos' credit facilities require the maintenance of minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. On March 20, 2009, the lenders associated with Kronos' European revolving credit facility waived compliance with such required financial ratio for the 12-month period ending March 31, 2009. The lenders subsequently waived compliance with this financial ratio two additional times, and currently the lenders have waived compliance through the 12-month period ending August 31, 2009. Absent receiving the waivers Kronos would have been in violation of this financial ratio. In addition, Kronos believes that it is probable that it will not be able to comply with this financial ratio for the remainder of 2009. As a result, Kronos has classified the outstanding balance of the European credit facility as a current liability at June 30, 2009.

Kronos is involved in discussions with its lenders to amend the terms of the existing European revolving credit facility to eliminate the requirement to maintain this financial ratio until at least March 31, 2010. While we believe it is possible that Kronos can obtain such amendment to eliminate this financial ratio through at least March 31, 2010, there is no assurance that such amendment will be obtained, or if obtained that the requirement to maintain the financial ratio will be eliminated (or waived, in the event the lenders would only agree to a waiver and not an amendment to eliminate the covenant itself) through at least March 31, 2010. Any such amendment or waiver which Kronos might obtain could increase its future borrowing costs, either from a requirement that it pay a higher rate of interest on outstanding borrowings and/or pay a fee to the lenders as part of agreeing to such amendment or waiver.

In the event that Kronos is not successful in obtaining the amendment or waiver of the existing European revolving credit facility to eliminate the requirement to comply with the financial ratio, Kronos would seek to refinance such facility with a new group of lenders with terms that would not include such financial covenant or, if required, use existing liquidity resources (which could include funds provided by affiliates). While there is no assurance that Kronos would be able to refinance the existing European revolving credit facility with a new group of lenders, we believe these other sources of liquidity available to Kronos should allow it to refinance the existing European revolving credit facility. If required, we believe by undertaking one or more of these steps Kronos would be successful in maintaining sufficient liquidity to meet its future obligations including operations, capital expenditures and debt service for the next 12 months. Other than the financial covenant related to Kronos' European revolving credit facility discussed above, we are in compliance with all of our debt covenants at June 30, 2009.

Future cash requirements

Liquidity

Our primary source of liquidity on an ongoing basis is our cash flow from operating activities. We generally use these amounts to (i) fund capital expenditures, (ii) pay ongoing environmental remediation and legal expenses and (iii) provide for the payment of short-term indebtedness and dividends (if declared).

At June 30, 2009, there were no amounts outstanding under CompX's $37.5 million revolving credit facility that matures in January 2012. The entire balance is currently available for future borrowings, although lower future operating results will likely negatively impact the amount available to borrow. See also the discussion above regarding CompX's expectations regarding noncompliance with a required financial covenant of the credit facility as of September 30, 2009.

At June 30, 2009, we had an aggregate of $33.1 million of restricted and unrestricted cash, cash equivalents and debt securities. A detail by entity is presented in the table below.

	Amount (In millions)
CompX	$15.0
NL Parent and wholly-owned subsidiaries	18.1
Total	$33.1

In addition, at June 30, 2009 we owned 4.8 million shares of Valhi common stock and 1.4 million shares of TIMET common stock with an aggregate market value of $48.9 million. See Note 4 to the Condensed Consolidated Financial Statements.

We routinely compare our liquidity requirements and alternative uses of capital against the estimated future cash flows we expect to receive from our subsidiaries and affiliates. As a result of this process, we have in the past sought, and may in the future seek to raise additional capital, incur debt, repurchase indebtedness in the market or otherwise, modify our dividend policies, consider the sale of our interests in our subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of these and other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

We periodically evaluate acquisitions of interests in or combinations with companies (including related companies) perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to our current businesses. We intend to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing indebtedness. From time to time, we also evaluate the restructuring of ownership interests among our respective subsidiaries and related companies.

Based upon our expectations of our operating performance, and the anticipated demands on our cash resources we expect to have sufficient liquidity to meet our short-term obligations (defined as the twelve-month period ending June 30, 2010). If actual developments differ from our expectations, our liquidity could be adversely affected.

Capital Expenditures

Firm purchase commitments for capital projects in process at June 30, 2009 approximated $683,000. CompX has lowered its planned capital expenditures in 2009 in response to the current economic conditions. CompX is limiting 2009 investments to those expenditures required to meet lower expected customer demand and those required to properly maintain its facilities.

Dividends

Because our operations are conducted primarily through subsidiaries and affiliates, our long-term ability to meet parent company-level corporate obligations is largely dependent on the receipt of dividends or other distributions from our subsidiaries and affiliates. CompX currently pays a regular quarterly dividend of $.125 per share, although as discussed above it is possible CompX would not be able to pay a dividend in the third quarter of 2009 based on limitations in its revolving bank credit facility. Assuming CompX were able to continue to pay dividends at the current quarterly rate of $.125 per share, and based on the 10.8 million shares of CompX we held at June 30, 2009, we would receive annual dividends from CompX of $5.4 million. In addition, Valhi pays regular quarterly dividends of $.10 per share. Based on the 4.8 million shares of Valhi we held at June 30, 2009, we would receive annual dividends from Valhi of $1.9 million. In February 2009, Kronos and TIMET announced the suspension of their regularly quarterly dividends in consideration of the challenges and opportunities that exist in the respective TiO2 pigments and titanium metals industries.

Investments in our subsidiaries and affiliates and other acquisitions

We have in the past purchased, and may in the future purchase, the securities of our subsidiaries and affiliates or third-parties in market or privately-negotiated transactions. We base our purchase decisions on a variety of factors, including an analysis of the optimal use of our capital, taking into account the market value of the securities and the relative value of expected returns on alternative investments. In connection with these activities, we may consider issuing additional equity securities or increasing our indebtedness. We may also evaluate the restructuring of ownership interests of our businesses among our subsidiaries and related companies.

Off-balance sheet financing arrangements

We do not have any off-balance sheet financing agreements other than the operating leases discussed in our 2008 Annual Report.

Commitments and contingencies

We are subject to certain commitments and contingencies, as more fully described in Note 10 to the Condensed Consolidated Financial Statements or in Part II, Item 1 of this report. In addition to those legal proceedings described in Note 10 to the Condensed Consolidated Financial Statements, various legislation and administrative regulations have, from time to time, been proposed that seek to (i) impose various obligations on present and former manufacturers of lead pigment and lead-based paint (including us) with respect to asserted health concerns associated with the use of such products and (ii) effectively overturn court decisions in which we and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date that are expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity, enactment of such legislation could have such an effect.

Recent accounting pronouncements

See Note 12 to the Condensed Consolidated Financial Statements.

Critical accounting policies and estimates

For a discussion of our critical accounting policies, refer to Part I, Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2008 Annual Report. There have been no changes in our critical accounting policies during the first six months of 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risk, including currency exchange rates, interest rates and security prices. For a discussion of such market risk items, refer to Part I, Item 7A. - "Quantitative and Qualitative Disclosure About Market Risk" in our 2008 Annual Report and Note 11 to the Condensed Consolidated Financial Statements. There have been no material changes in these market risks during the first six months of 2009.

CompX has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amounts of our assets and liabilities related to our non-U.S. operations, and therefore our consolidated net assets, will fluctuate based upon changes in currency exchange rates.

Certain of our sales generated by CompX's non-U.S. operations are denominated in U.S. dollars. We periodically use currency forward contracts to manage a portion of currency exchange rate market risk associated with receivables, or similar exchange rate risk associated with future sales, denominated in a currency other than the holder's functional currency. We have not entered into these contracts for trading or speculative purposes in the past, nor do we anticipate entering into such contracts for trading or speculative purposes in the future. Most of our currency forward contracts meet the criteria for hedge accounting under GAAP and are designated as cash flow hedges. For these currency forward contracts, gains and losses representing the effective portion of our hedges are deferred as a component of accumulated other comprehensive income, and are subsequently recognized in earnings at the time the hedged item affects earnings. Occasionally, we enter into currency forward contracts which do not meet the criteria for hedge accounting. For these contracts, we mark-to-market the estimated fair value of the contracts at each balance sheet date based on quoted market prices for the forward contracts, with any resulting gain or loss recognized in income currently as part of net currency transactions. At June 30, 2009, we had no outstanding forward contracts.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures - We maintain a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Harold C. Simmons, our Chief Executive Officer, and Gregory M. Swalwell, our Vice President, Finance and Chief Financial Officer, have evaluated the design and effectiveness of our disclosure controls and procedures as of June 30, 2009. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of June 30, 2009.

Internal control over financial reporting - We also maintain internal control over financial reporting. The term "internal control over financial reporting," as defined by Exchange Act Rule 13a-15(f), means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of an unauthorized acquisition, use or disposition of assets that could have a material effect on our Condensed Consolidated Financial Statements.

As permitted by the SEC, our assessment of internal control over financial reporting excludes (i) internal control over financial reporting of equity method investees and (ii) internal control over the preparation of our financial statement schedules required by Article 12 of Regulation S-X. However, our assessment of internal control over financial reporting with respect to equity method investees did include our controls over the recording of amounts related to our investment that are recorded in our Condensed Consolidated Financial Statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

Changes in Internal Control over Financial Reporting - There has been no change to our internal control over financial reporting during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In addition to the matters discussed below, refer to Note 10 to our Condensed Consolidated Financial Statements, to our 2008 Annual Report and to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

Hess, et al. v. NL Industries, Inc., et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 052-11799). In May 2009, we filed a motion for summary judgment seeking dismissal of the case.

Jones v. Joaquin Coe et al. (Superior Court of New Jersey, Essex County, Case No. ESX-L-9900-06). In May 2009, the plaintiff settled with a landlord defendant and expressed that all defendants, including us, will be dismissed.

Evans v. ASARCO (United States District Court, Northern District of Oklahoma, Case No. 04-CV-94EA(M)). In May 2009, the stay was lifted. In June 2009, the plaintiffs filed an amended complaint which removed all class allegations, claims for medical monitoring, and added over two hundred individual plaintiffs asserting claims for diminished property value damages. In July 2009, we and other defendants filed a motion to dismiss the case.

Brown et al. v. NL Industries, Inc. et al. (Circuit Court Wayne County, Michigan, Case No. 06-602096 CZ). Trial has been scheduled for January 2010.

In June 2009, we were served with a complaint in Consolidation Coal Company v. 3M Company, et al. (United States District Court, Eastern District of North Carolina, Civil Action No. 5:09-CV-00191-FL). The complaint seeks to recover against NL and approximately 170 other defendants under CERCLA for past and future response costs in performing a time critical removal action at the Ward Transformer Superfund Site pursuant to an Administrative Settlement Agreement and Order on Consent which the plaintiffs entered into with the EPA. The plaintiffs allege that NL's former Albany operation sent three PCB-containing transformers to the Ward Transformer Superfund Site. We intend to deny liability and will defend vigorously against all claims.

In July 2009, we were served in Beets v. Blue Tee Corp. et al. (Oklahoma State Court, District of Ottawa County, Case No. CJ-09-298). The complaint alleges negligence, strict liability, nuisance, and attractive nuisance against NL, four other mining companies and a mobile home park. In the complaint, five minor plaintiffs seek damages for personal injuries as well as punitive damages. We intend to deny liability and will defend vigorously against all claims.

Item 1A. Risk Factors

For a discussion of the risk factors related to our businesses, refer to Part I, Item 1A., "Risk Factors," in our 2008 Annual Report. There have been no material changes to such risk factors during the three months ended June 30, 2009.

Item 4. Submission of Matters to a Vote of Security Holders

Our 2009 Annual Meeting of Shareholders was held on May 12, 2009. Cecil H. Moore, Jr., Glenn R. Simmons, Harold C. Simmons, Thomas P. Stafford, Steven L. Watson and Terry N. Worrell were elected as directors, each receiving votes "For" their election from at least 91.7% of the 48.6 million common shares eligible to vote at the Annual Meeting.

Item 6. Exhibits

31.1 - Certification

31.2 - Certification

32.1 – Certification

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NL INDUSTRIES, INC. (Registrant)

Date August 4, 2009	/s/ Gregory M. Swalwell Gregory M. Swalwell (Vice President, Finance and Chief Financial Officer, Principal Financial Officer)
Date August 4, 2009	/s/ Tim C. Hafer Tim C. Hafer (Vice President and Controller, Principal Accounting Officer)