

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
----- EXCHANGE ACT OF 1934 - For the quarterly period ended June 30, 2003

OR

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

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

75240-2697

(Address of principal executive offices)

(Zip Code)

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 X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No

Number of shares of common stock outstanding on July 25, 2003: 47,700,784

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	June 30, 2003	December 31, 2002
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 54,360	\$ 58,091
Restricted cash equivalents	25,349	52,089
Restricted marketable debt securities	10,676	9,670
Accounts and notes receivable	182,196	136,858
Receivable from affiliates	148	207
Refundable income taxes	25,607	1,782
Inventories	199,760	209,882
Prepaid expenses	4,518	7,207
Deferred income taxes	10,929	10,511
	-----	-----
Total current assets	513,543	486,297
	-----	-----
Other assets:		
Marketable equity securities	45,431	40,901
Receivable from affiliate	16,000	18,000
Investment in TiO2 manufacturing joint venture ..	129,209	130,009
Prepaid pension cost	17,209	17,572
Restricted marketable debt securities	3,099	9,232
Other	27,320	30,671
	-----	-----
Total other assets	238,268	246,385
	-----	-----
Property and equipment:		
Land	31,908	29,072
Buildings	165,655	150,406

Machinery and equipment	694,995	640,297
Mining properties	82,596	84,778
Construction in progress	14,600	8,702
	-----	-----
	989,754	913,255
Less accumulated depreciation and depletion	585,060	534,436
	-----	-----
Net property and equipment	404,694	378,819
	-----	-----
	\$1,156,505	\$1,111,501
	=====	=====

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

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2003	December 31, 2002
	-----	-----
Current liabilities:		
Current maturities of long-term debt	\$ 781	\$ 1,298
Accounts payable and accrued liabilities	150,549	167,574
Payable to affiliates	10,817	8,027
Accrued environmental costs	21,198	51,307
Income taxes	6,170	6,624
Deferred income taxes	1,711	3,219
	-----	-----
Total current liabilities	191,226	238,049
	-----	-----
Noncurrent liabilities:		
Long-term debt	360,444	324,608
Deferred income taxes	146,324	143,518
Accrued environmental costs	66,636	47,189
Accrued pension cost	45,835	43,757
Accrued postretirement benefits cost	24,922	26,477
Other	13,954	14,060
	-----	-----
Total noncurrent liabilities	658,115	599,609
	-----	-----
Minority interest	8,713	8,516
	-----	-----
Shareholders' equity:		
Common stock	8,355	8,355
Additional paid-in capital	777,819	777,819
Retained earnings	120,740	101,554
Accumulated other comprehensive loss	(172,458)	(186,221)
Treasury stock	(436,005)	(436,180)
	-----	-----
Total shareholders' equity	298,451	265,327
	-----	-----
	\$ 1,156,505	\$ 1,111,501

Commitments and contingencies (Notes 12 and 14)

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues and other income:				
Net sales	\$ 266,631	\$ 226,909	\$ 519,604	\$ 429,266
Other income, net	340	7,906	3,007	12,901
	-----	-----	-----	-----
	266,971	234,815	522,611	442,167
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	197,649	176,247	386,066	332,500
Selling, general and administrative	54,177	32,389	98,871	67,234
Interest	8,367	8,078	16,352	14,613
	-----	-----	-----	-----
	260,193	216,714	501,289	414,347
	-----	-----	-----	-----
Income before income taxes and minority interest ...	6,778	18,101	21,322	27,820
Income tax benefit (expense)	22,191	(3,867)	17,101	(7,018)
	-----	-----	-----	-----
Income before minority interest	28,969	14,234	38,423	20,802
Minority interest	134	186	158	370
	-----	-----	-----	-----
Net income	\$ 28,835	\$ 14,048	\$ 38,265	\$ 20,432
	=====	=====	=====	=====
Basic and diluted net income per share	\$.60	\$.29	\$.80	\$.42
	=====	=====	=====	=====
Weighted average shares used in the calculation of net income per share:				
Basic	47,698	48,827	47,696	48,848
Dilutive impact of stock options	57	126	54	98
	-----	-----	-----	-----
Diluted	47,755	48,953	47,750	48,946
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net income	\$ 28,835	\$ 14,048	\$ 38,265	\$ 20,432
Other comprehensive income (loss), net of tax:				
Marketable securities adjustment:				
Unrealized holding (loss) gain arising during the period ..	(4,424)	4,652	2,669	3,129
Less reclassification adjustment for realized gain included in net income	--	--	(1,474)	--
	(4,424)	4,652	1,195	3,129
Currency translation adjustment ..	8,826	38,965	12,568	36,356
Total other comprehensive income	4,402	43,617	13,763	39,485
Comprehensive income	\$ 33,237	\$ 57,665	\$ 52,028	\$ 59,917

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Six months ended June 30, 2003

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)		
				Currency translation	Pension liabilities	Marketable securities
Balance at December 31, 2002	\$ 8,355	\$ 777,819	\$ 101,554	\$ (170,670)	\$ (21,447)	\$ 5,896
Net income	--	--	38,265	--	--	--
Other comprehensive income, net of tax	--	--	--	12,568	--	1,195
Dividends	--	--	(19,079)	--	--	--
Treasury stock - reissued	--	--	--	--	--	--
Balance at June 30, 2003	\$ 8,355	\$ 777,819	\$ 120,740	\$ (158,102)	\$ (21,447)	\$ 7,091

	Treasury stock	Total
Balance at December 31, 2002	\$ (436,180)	\$ 265,327
Net income	--	38,265
Other comprehensive income, net of tax	--	13,763
Dividends	--	(19,079)
Treasury stock - reissued	175	175
Balance at June 30, 2003	\$ (436,005)	\$ 298,451

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2003 and 2002

(In thousands)

	2003	2002
Cash flows from operating activities:		
Net income	\$ 38,265	\$ 20,432
Depreciation, depletion and amortization	19,681	15,820
Deferred income taxes	(3,006)	2,400
Distributions from TiO2 manufacturing joint venture, net	800	2,250
Net (gains) losses from securities transactions ...	(2,452)	12
Other, net	(3,522)	(3,572)
	49,766	37,342
Change in assets and liabilities:		
Accounts and notes receivable	(37,409)	(29,665)
Insurance receivable	2,122	11,053
Inventories	25,301	68,227
Prepaid expenses	3,036	(796)
Accounts payable and accrued liabilities	(29,526)	(58,638)
Income taxes	(24,008)	(2,878)
Accrued environmental costs	25,990	8,913
Other, net	3,378	2,943
Net cash provided by operating activities ..	18,650	36,501
Cash flows from investing activities:		
Capital expenditures	(13,850)	(12,076)
Collection of loans to affiliates	2,000	500
Acquisition of business	--	(9,149)
Change in restricted cash equivalents and restricted marketable debt securities, net	658	595
Other, net	1,538	830
Net cash used by investing activities	(9,654)	(19,300)

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Six months ended June 30, 2003 and 2002

(In thousands)

	2003	2002
	-----	-----
Cash flows from financing activities:		
Dividends paid	\$ (19,079)	\$ (19,530)
Treasury stock:		
Purchased	--	(3,271)
Reissued	175	262
Indebtedness:		
Borrowings	16,106	319,275
Principal payments	(11,615)	(247,688)
Deferred financing costs	--	(9,342)
Other, net	--	(11)
	-----	-----
Net cash (used) provided by financing activities .	(14,413)	39,695
	-----	-----
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(5,417)	56,896
Currency translation	1,686	3,053
Acquisition of business	--	196
	-----	-----
	(3,731)	60,145
	-----	-----
Balance at beginning of period	58,091	116,037
	-----	-----
Balance at end of period	\$ 54,360	\$ 176,182
	=====	=====
Supplemental disclosures - cash paid for:		
Interest	\$ 16,347	\$ 18,599
Income taxes, net	7,627	7,496
Acquisition of business:		
Cash and cash equivalents	\$ --	\$ 196
Restricted cash	--	2,685
Goodwill and other intangible assets	--	9,007
Other noncash assets	--	1,259
Liabilities	--	(3,998)
	-----	-----
Cash paid	\$ --	\$ 9,149
	=====	=====

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

NL Industries, Inc. ("NL") conducts its titanium dioxide pigments

("TiO2") operations through its wholly owned subsidiary, Kronos, Inc. At June 30, 2003, Valhi, Inc., ("Valhi") and its subsidiaries held approximately 85% of NL's outstanding common stock, and Contran Corporation ("Contran") and its subsidiaries held approximately 90% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of NL and the Chairman of the Board of each of Contran and Valhi, may be deemed to control each of such companies. See Notes 6 and 7.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 2002 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 2003 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the interim periods ended June 30, 2003 and 2002 have been prepared by the Company without audit. In the opinion of management all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") have been condensed or omitted. Certain prior-year amounts have been reclassified to conform to the current year presentation. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 Annual Report").

The Company has elected the disclosure alternative prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," and to account for its stock-based employee compensation related to stock options in accordance with Accounting Principles Board Opinion ("APBO") No. 25, "Accounting for Stock Issued to Employees," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. During the fourth quarter of 2002, following the cash settlement of certain stock options held by employees of the Company, the Company commenced accounting for its remaining stock options using the variable accounting method, which requires the intrinsic value of all unexercised stock options (including those with an exercise price at least equal to the market price on the date of grant) to be accrued as an expense, with subsequent increases (decreases) in the Company's market price resulting in additional compensation expense (income). Net compensation expense recognized by the Company in accordance with APBO No. 25 in the three and six months ended June 30, 2003 was \$.5 million and nil,

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respectively, and net compensation expense (income) recognized by the Company in the three and six months ended June 30, 2002 was nil for both periods.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net income - as reported	\$ 28,835	\$ 14,048	\$ 38,265	\$ 20,432
Add: Stock-based compensation cost, net				

(In thousands, except per share amounts)

of tax, included in reported net income	339	--	--	--
Deduct: Stock-based compensation cost, net of tax, determined under fair value based method for all awards	(121)	(271)	(241)	(542)
	-----	-----	-----	-----
Net income - pro forma	\$ 29,053	\$ 13,777	\$ 38,024	\$ 19,890
	=====	=====	=====	=====
Net income per basic common share:				
As reported	\$.60	\$.29	\$.80	\$.42
Pro forma	\$.61	\$.28	\$.80	\$.41
Net income per diluted common share:				
As reported	\$.60	\$.29	\$.80	\$.42
Pro forma	\$.61	\$.28	\$.80	\$.41

The Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation covered under the scope of SFAS No. 143 is recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its future value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement.

Under the transition provisions of SFAS No. 143, at the date of adoption on January 1, 2003 the Company recognized (i) an asset retirement cost capitalized as an increase to the carrying value of its property, plant and equipment, (ii) accumulated depreciation on such capitalized cost and (iii) a liability for the asset retirement obligation. Amounts resulting from the initial application of SFAS No. 143 were measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost was measured as of the date the asset retirement obligation was incurred. Cumulative accretion on the asset retirement obligation, and accumulated depreciation on the asset retirement cost, were recognized for the time period from the date the asset retirement cost and liability would have been recognized had the provisions of SFAS No. 143 been in effect at the date the liability was incurred, through January 1, 2003. The difference between the amounts recognized as described above and the associated amounts recognized in the Company's balance sheet as of December 31, 2002 was recognized as a cumulative effect of change in accounting principle as of January 1, 2003. The effect of adopting SFAS No. 143 as of January 1, 2003, as summarized in the table below, did not have a material effect on the Company's consolidated financial position, results of operations or liquidity, and is not separately recognized in the accompanying statement of income.

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	Amount

	(In millions)
Increase in carrying value of net property, plant and equipment:	
Cost	\$.4
Accumulated depreciation	(.1)
Decrease in liabilities previously accrued for closure and post closure activities3
Asset retirement obligation recognized	(.6)

Net impact	\$ --
	=====

At June 30, 2003, the asset retirement obligation was approximately \$.7 million and was included in other noncurrent liabilities. Accretion expense on the asset retirement obligation during the first six months of 2003, included in cost of sales, was nil. If the Company had adopted SFAS No. 143 as of January 1, 2002, the asset retirement obligation would have been approximately \$.5 million at January 1, 2002 and \$.6 million at June 30, 2002, and the effect on the

Company's reported net income for the six months ended June 30, 2002 would not have been material.

Note 2 - Earnings per share:

Basic earnings per share is based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average number of common shares outstanding and the dilutive impact of outstanding stock options.

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Note 3 - Business segment information:

The Company's operations are conducted by Kronos in one operating business segment - activities associated with the production and sale of TiO2.

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	----- (In thousands) -----			
Net sales	\$ 266,631	\$ 226,909	\$ 519,604	\$ 429,266
Other expense, excluding corporate	(2,519)	(1,099)	(3,412)	(316)
	-----	-----	-----	-----
	264,112	225,810	516,192	428,950
Cost of sales	197,649	176,247	386,066	332,500
Selling, general and administrative, excluding corporate	30,975	24,898	60,354	49,626
	-----	-----	-----	-----
Operating income	35,488	24,665	69,772	46,824
General corporate income (expense):				
Securities earnings, net	1,056	1,268	4,238	2,548
Other income and litigation settlement gains, net	1,803	1,466	2,181	4,398
Currency transaction gains	--	6,271	--	6,271
Corporate expenses	(23,202)	(7,491)	(38,517)	(17,608)
Interest expense	(8,367)	(8,078)	(16,352)	(14,613)
	-----	-----	-----	-----
Income before income taxes and minority interest	\$ 6,778	\$ 18,101	\$ 21,322	\$ 27,820
	=====	=====	=====	=====

Note 4 - Accounts and notes receivable:

	June 30, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Trade receivables	\$ 174,914	\$ 124,044
Insurance claims receivable	436	2,558
Recoverable VAT and other receivables	9,437	12,861
Allowance for doubtful accounts	(2,591)	(2,605)
	-----	-----
	\$ 182,196	\$ 136,858
	=====	=====

Note 5 - Inventories:

	June 30, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Raw materials	\$ 34,641	\$ 54,077
Work in process	16,980	15,936
Finished products	114,731	109,203
Supplies	33,408	30,666
	-----	-----
	\$199,760	\$209,882
	=====	=====

Note 6 - Marketable equity securities:

	June 30, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Available-for-sale marketable equity securities:		
Valhi	\$45,302	\$ 9,845
Tremont Group	--	30,634
Tremont	--	243
Other	129	179
	-----	-----
Aggregate fair value	\$45,431	\$40,901
	=====	=====

In February 2003 Valhi completed a series of merger transactions pursuant to which, among other things, Tremont Group, Inc. ("Tremont Group") and Tremont Corporation ("Tremont") both became wholly owned subsidiaries of Valhi. Under these merger transactions, (i) Valhi issued 3.5 million shares of its common stock to the Company in return for the Company's 20% ownership interest in Tremont Group and (ii) Valhi issued 3.4 shares of its common stock (plus cash in lieu of fractional shares) to all Tremont stockholders (other than Valhi and Tremont Group) in exchange for each share of Tremont common stock held by such stockholders. The Company received approximately 27,770 shares of Valhi common stock in the second transaction. The number of shares of Valhi common stock issued to the Company in exchange for the Company's 20% ownership interest in Tremont Group was equal to the Company's 20% pro-rata interest in the shares of Tremont common stock held by Tremont Group, adjusted for the same 3.4 exchange ratio. The Valhi common stock owned by the Company is subject to the restrictions on resale pursuant to certain provisions of SEC Rule 144. The Company reported a pre-tax securities transaction gain of approximately \$2.3 million in the first quarter of 2003 which represented the difference between the market value of the shares of Valhi received and the cost basis of the Tremont Group and Tremont shares exchanged. Following these transactions, the Company owned approximately 4.7 million shares of Valhi's outstanding common stock (approximately 4% of Valhi's outstanding shares). The Company will continue to account for its shares of Valhi common stock as available-for-sale marketable equity securities carried at fair value (based on quoted market prices). The shares of Valhi common stock cannot be voted by the Company under Delaware Corporation Law, but the Company does receive dividends from Valhi on these shares, when declared and paid. For financial reporting purposes, Valhi reports its proportional interest in these shares as treasury stock.

Note 7 - Receivable from affiliates:

In May 2001 a wholly owned subsidiary of the Company's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS") loaned \$20.0 million to the Harold C. Simmons Family Trust No. 2 (the "Family Trust"), one of the trusts described in Note 1, under a \$25.0 million revolving credit agreement. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime (4.0% at June 30, 2003), is due on demand with 60 days notice and is collateralized by 13,749 shares, or approximately 35%, of Contran's outstanding Class A voting common stock and 5,000 shares, or 100%, of Contran's Series E Cumulative preferred stock, both of which are owned by the Family Trust. The value of the collateral is dependent, in part, on the value of the Company as Contran's interest in the Company, through its beneficial ownership of Valhi, is one of Contran's more substantial assets. At June 30, 2003, the outstanding loan balance was \$16.0 million and \$9.0 million was available for additional borrowing by the Family Trust. The loan was classified as noncurrent at June 30, 2003, as the Company does not expect to demand repayment within one year.

Note 8 - Other noncurrent assets:

	June 30, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Deferred financing costs, net	\$10,446	\$10,550
Goodwill	6,406	6,406
Unrecognized net pension obligations	6,439	5,561
Intangible asset, net	2,075	2,230
Restricted cash equivalents	--	1,344
Other	1,954	4,580
	-----	-----
	\$27,320	\$30,671
	=====	=====

Note 9 - Accounts payable and accrued liabilities:

	June 30, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Accounts payable	\$ 76,365	\$ 97,140
	-----	-----
Accrued liabilities:		
Employee benefits	32,513	34,349
Interest	243	240
Deferred income	--	333
Other	41,428	35,512
	-----	-----
	74,184	70,434
	-----	-----
	\$150,549	\$167,574
	=====	=====

Note 10 - Other noncurrent liabilities:

	June 30, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Insurance claims and expenses	\$ 6,621	\$ 7,674
Employee benefits	4,399	4,025
Other	2,934	2,361
	-----	-----
	\$13,954	\$14,060
	=====	=====

Note 11 - Long-term debt:

	June 30, 2003	December 31, 2002
	-----	-----
	(In thousands)	
8.875% Senior Secured Notes, (euro)285 million principal amount	\$325,784	\$296,942
Revolving credit facility	34,293	27,077
Other	1,148	1,887
	-----	-----
	361,225	325,906
Less current maturities	781	1,298
	-----	-----
	\$360,444	\$324,608
	=====	=====

In March 2003 the Company borrowed (euro)15.0 million (\$16.1 million when borrowed) and in April 2003 the Company repaid NOK 80 million (\$11.0 million when repaid) under the revolving credit facility.

Note 12 - Income taxes:

The difference between the provision for income tax expense attributable to income before income taxes and minority interest and the amount that would be expected using the U.S. federal statutory income tax rate of 35% is presented below.

	Six months ended June 30,	
	-----	-----
	2003	2002
	-----	-----
	(In thousands)	
Expected tax expense	\$ 7,463	\$ 9,737
Non-U.S. tax rates	(385)	(708)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return ..	71	202
Refund of prior-year German taxes	(24,564)	--
Valuation allowance	(386)	(3,027)
U.S. state income taxes	407	61
Other, net	293	753
	-----	-----
Income tax (benefit) expense	\$(17,101)	\$ 7,018
	=====	=====

Certain of the Company's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies, including penalties and interest.

The Company's and EMS' 1998 U.S. federal income tax returns are being examined by the U.S. Internal Revenue Service ("IRS") and the Company and EMS have each granted extensions of the statute of limitations for assessment of tax with respect to their 1998 and 1999 income tax returns until September 30, 2004. Based upon the course of the examination, the Company anticipated that the IRS would propose a substantial tax deficiency, including penalties and interest, related to a restructuring transaction. In an effort to avoid protracted litigation and minimize the hazards of such litigation, the Company applied to take part in an IRS settlement initiative applicable to transactions similar to the restructuring transaction, and in April 2003 the Company received notification from the IRS that it had been accepted into the settlement initiative. Under the initiative, no penalties will be assessed and final settlement with the IRS is to be reached through negotiation and, if necessary, through a specified arbitration procedure. The Company anticipates that settlement of the matter will likely occur in 2004, resulting in payments of federal and state tax and interest ranging from \$33 million to \$45 million. Additional payments in later years may be required as part of the settlement. The Company believes that it has provided adequate accruals to cover the currently expected range of settlement outcomes.

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately (euro)10.1 million (\$11.6 million at June 30, 2003). The Company has filed protests to the assessments with respect to such years. The Company is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit. In April 2003 the Company received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999. The anticipated assessment, including interest, is expected to approximate (euro)13.1 million (\$15.0 million at June 30, 2003). The Company believes the proposed assessment related to 1999 is without merit and in April 2003 filed a written response in opposition to the notification of intent to assess.

In 2002, the Company received a notification from the Norwegian tax authorities of their intent to assess tax deficiencies of approximately NOK 12.2 million (\$1.7 million at June 30, 2003) relating to 1998 through 2000. The Company has objected to this proposed assessment in a written response to the Norwegian tax authorities.

In the first quarter of 2003, Kronos was notified by the German Federal Fiscal Court (the "Court") that the Court had ruled in Kronos' favor concerning a claim for refund suit in which Kronos sought refunds of prior taxes paid during the periods 1990 through 1997. Kronos has filed certain amended German tax returns and expects to file additional amended German tax returns claiming such refunds for all years affected by the Court's decision, which is expected to result in an estimated refund of taxes and interest of approximately \$40 million. Receipt of the German tax refunds is subject to satisfaction of various procedural requirements, including a review and acceptance of the amended German tax returns by the German tax authorities. Certain of these procedural requirements were satisfied in the second quarter of 2003 with respect to a portion of the refund claim, and in July 2003 the German tax authorities refunded Kronos a portion of the total anticipated refund. The portion received in July was (euro)21.5 million (\$24.6 million using June 30, 2003 exchange rates). Kronos has reflected this tax refund in its second quarter 2003 results of operations. The Company expects to receive the remaining refunds over the next six to nine months, a portion of which may result in an additional income tax benefit.

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No assurance can be given that the Company's tax matters will be favorably resolved due to the inherent uncertainties involved in court and tax proceedings. The Company believes that it has provided adequate accruals for additional taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

At June 30, 2003 the Company had the equivalent of approximately \$470 million of income tax loss carryforwards in Germany with no expiration date. However, the Company has provided a deferred tax valuation allowance against substantially all of these income tax loss carryforwards because the Company currently believes they do not meet the "more-likely-than-not" recognition criteria. In 2002, the German federal government proposed certain changes to its income tax law, including certain changes that would have imposed limitations on the annual utilization of income tax loss carryforwards. Such proposal, if enacted, would have significantly affected the Company's 2003 and future income tax expense and cash tax payments. In April 2003 the German federal government passed a new tax law which does not contain the provision that would have restricted the utilization of tax loss carryforwards. Furthermore, the provisions contained in the new law are not expected to materially impact the Company's income tax expense or cash tax payments.

At June 30, 2003, the Company had net deferred tax liabilities of \$137 million. The Company operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). The Company has provided a deferred tax valuation allowance of \$197 million at June 30, 2003, principally related to Germany, partially offsetting deferred tax assets which the Company believes do not currently meet the "more-likely-than-not" recognition criteria.

Note 13 - Other income, net:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	(In thousands)			
Securities earnings:				
Interest and dividends	\$ 838	\$ 1,280	\$ 1,786	\$ 2,560
Securities gains (losses), net (see Note 6)	218	(12)	2,452	(12)
	1,056	1,268	4,238	2,548
Currency transactions, net	(2,743)	4,222	(3,841)	4,820
Noncompete agreement income	--	1,000	333	2,000
Disposition of property and equipment	1,116	643	1,055	597
Trade interest income	198	333	361	555
Litigation settlement gains, net	650	435	650	2,355
Other, net	63	5	211	26
	\$ 340	\$ 7,906	\$ 3,007	\$ 12,901

Included in currency transactions, net, in the second quarter of 2002 was a foreign currency transaction gain of \$6.3 million related to the extinguishment of certain intercompany indebtedness with Kronos International, Inc. ("KII").

The Company received a \$20 million fee as part of the sale of Rheox in January 1998 in payment for entering into a five-year covenant not to compete in the rheological products business. The Company amortized the fee to income using the straight-line method over the five-year noncompete period beginning January 30, 1998. The agreement became fully amortized in January 2003.

In all periods presented, the Company recognized litigation settlement gains with former insurance carrier groups to settle certain insurance coverage claims related to environmental remediation. No material settlements relating to litigation concerning environmental remediation coverage are expected to be received.

Note 14 - Commitments and contingencies:

Environmental matters and litigation

Some of the Company's current and former facilities, including several divested secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, the Company has been named as a defendant, potential 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 approximately 70 governmental and private actions associated with waste disposal sites, mining locations, and facilities currently or previously owned, operated or used by the Company or its subsidiaries, or their predecessors, certain of which are on the U.S. Environmental Protection Agency's 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 the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable.

The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, solvency of other PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

Certain of the Company's 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. As with other companies engaged in similar businesses, certain past and current operations and products of the Company have the potential to cause environmental or other damage. The Company has implemented and continues to implement various policies and programs in an effort to minimize these risks. The policy of the Company is to maintain compliance with applicable environmental laws and regulations at all of its facilities and to strive to improve its environmental performance. It is possible that future developments, such as stricter

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requirements of environmental laws and enforcement policies thereunder, could adversely affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances as well as the Company's consolidated financial position, results of operations or liquidity.

At June 30, 2003, the Company had accrued approximately \$88 million for those environmental matters which are reasonably estimable. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites which it is possible to estimate costs is approximately \$125 million. The Company's estimates of such liabilities have not been discounted to present value, and the Company has not recognized any potential insurance recoveries other than the settlements discussed in Note 13.

The Company currently believes the disposition of all claims and disputes, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

At June 30, 2003, the Company had approximately \$24 million in restricted cash, restricted cash equivalents and restricted marketable debt securities held by certain trusts, the assets of which can only be used to pay for certain of the Company's future environmental remediation and other environmental expenditures. Restricted cash decreased approximately \$28 million in the second quarter of 2003 primarily due to a \$30.8 million payment related to the final settlement of the previously-reported Granite City, Illinois lead smelter site. The Company may have to pay up to an additional \$.7 million related to this site upon completion of an EPA audit of certain response costs.

No further material expenditures are expected to be made for this site.

Lead pigment litigation

Since 1987 the Company, other former manufacturers of lead pigments for use in paint and lead-based paint, and the Lead Industries Association have been named as defendants in various legal proceedings seeking damages for personal injury and property damage allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, large U.S. cities or their public housing authorities, school districts and certain others have been asserted as class actions. These legal proceedings seek recovery under a variety of theories, including public and private nuisance, negligent product design, failure to warn, strict liability, breach of warranty, conspiracy/concert of action, enterprise liability, market share liability, intentional tort, and fraud and misrepresentation.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and asserted 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. Most of these legal proceedings are in various pre-trial stages; some are on appeal following dismissal or summary judgment rulings in favor of the defendants.

The Company believes that these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend all actions vigorously. The Company has not accrued any amounts for the pending lead pigment litigation. Liability that may result, if any, cannot reasonably be estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such

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products and (b) effectively overturn the precedent set by court decisions in which the Company 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. The Company currently believes the disposition of all claims and disputes, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. Considering the Company's previous involvement in the lead pigment and lead-based paint businesses, the Company expects that additional lead pigment and lead-based paint litigation may be filed against the Company in the future, asserting similar or different legal theories and seeking similar or different types of damages and relief .

Other litigation

The Company has been named as a defendant in various lawsuits in a variety of jurisdictions, alleging personal injuries as a result of occupational exposure to asbestos, silica and/or mixed dust in connection with formerly owned operations. Approximately 380 of these cases involving a total of approximately 30,825 plaintiffs and their spouses remain pending, including the Rhines case described below. The Company has not accrued any amounts for this litigation. In addition, from time to time, the Company has received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries of the Company, including notices provided to insurers with which the Company has entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from the Company.

Rhines, et al. v. A.O. Smith, et al. (Circuit Court of Covington County, Mississippi, Civil Action No. 2002-191C). In June 2003, the Company was served with a complaint in this case brought on behalf of approximately 3,593 plaintiffs against approximately 265 defendants, alleging injury as a result of exposure to asbestos.

The Company's Belgian subsidiary and various of its Belgian employees are the subject of an investigation by Belgian authorities relating to an accident resulting in two fatalities that occurred in its Langerbrugge, Belgium

facility in October 2000. The investigation stage, which could ultimately result in civil and criminal sanctions against the Company, was completed in 2002. In May 2003 the Belgian authorities referred the proceedings against the Company's Belgian subsidiary and certain of its Belgian employees to the criminal court for trial. The matter has been set for trial in October 2003.

The Company currently believes the disposition of all claims and disputes, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

For descriptions of certain other legal proceedings, environmental, income tax and other commitments and contingencies related to the Company, reference is made to (i) the 2002 Annual Report, (ii) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, and (iii) Note 12.

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

RESULTS OF OPERATIONS

	Three months ended		% Change	Six months ended		% Change
	June 30,			June 30,		
	2003	2002		2003	2002	

(In millions, except percentages and metric tons)

Net sales and operating income						
Net sales	\$266.6	\$226.9	+17%	\$519.6	\$429.3	+21%
Operating income	\$ 35.5	\$ 24.7	+44%	\$ 69.8	\$ 46.8	+49%
Operating income margin percentage	13%	11%		13%	11%	
TiO2 operating statistics						
Percent change in average selling price (in billing currencies)			+7%			+6%
Sales volume (metric tons in thousands)	121.0	122.6	-1%	239.5	235.0	+2%
Production volume (metric tons in thousands)	119.5	113.0	+6%	236.7	218.9	+8%

Kronos' operating income in the second quarter of 2003 increased \$10.8 million or 44% from the second quarter of 2002 primarily due to higher average selling prices and higher production volume, partially offset by higher operating costs, particularly energy costs. Compared with the first quarter of 2003, operating income in the second quarter of 2003 increased \$1.2 million, or 3%.

Operating income in the first half of 2003 increased 49% to \$69.8 million, compared with \$46.8 million in the first half of 2002 due to 6% higher average selling prices in billing currencies (which excludes the effects of foreign currency translation), 2% higher sales volume and 8% higher production volume, partially offset by higher operating costs, particularly energy costs.

Kronos' average selling price in billing currencies during the second quarter of 2003 was 7% higher than the second quarter of 2002 with the greatest improvement being realized in the European and export markets. Compared with the first quarter of 2003, selling prices in billing currencies were flat. The average selling price in billing currencies in June 2003 was comparable to the average selling price in billing currencies for the second quarter of 2003. The Company expects higher average selling prices in billing currencies for full-year 2003 compared to full-year 2002. The Company discloses percentage changes in its average TiO2 selling prices in billing currencies so that such

changes can be analyzed without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons. Generally, when the U.S. dollar strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods. When translated from billing currencies to U.S. dollars using currency exchange rates prevailing during the respective periods, Kronos' second-quarter 2003 average selling price in U.S. dollars was 19% higher than in the second quarter of 2002 and 2% higher

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than the first quarter of 2003. The average selling price expressed in U.S. dollars in June 2003 was 3% higher than the average selling price for the second quarter of 2003. Average selling prices expressed in U.S. dollars increased 18% in the first half of 2003 compared with the first half of 2002.

Second quarter 2003 sales volume of 121,000 metric tons decreased 1% from the record second quarter of 2002 and increased 2% from the first quarter of 2003. Sales volume in the first half of 2003 was a Kronos record 239,500 metric tons. Kronos expects sales volume in the second half of 2003 to be lower than the first half of 2003. Kronos' sales volume for full year 2003 should be slightly higher than full year 2002.

Second quarter 2003 production volume of 119,500 metric tons represented an all-time quarterly record for Kronos and was 6% higher than the second quarter of 2002 and was 2% higher than the first quarter of 2003 with operating rates at near full capacity in all periods presented. Production volume for the first half of 2003 was 236,700 metric tons and represented an all-time first half record. Kronos anticipates its production volume for full year 2003 will be higher than full year 2002. Finished goods inventory levels at the end of the second quarter decreased 2% from March 2003 levels and represented under two months of sales.

The Company expects its TiO2 operating income in 2003 will be higher than 2002, primarily due to higher average TiO2 selling prices in billing currencies, slightly higher sales volume and higher production volume, partially offset by higher operating costs, particularly energy costs. Kronos' TiO2 production volume in 2003 is expected to be higher than Kronos' 2003 TiO2 sales volume with finished goods inventories rising modestly. The Company's expectations as to the future prospects of the Company and the TiO2 industry are based upon a number of factors beyond the Company's control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from the Company's expectations, the Company's results of operations could be unfavorably affected.

Compared to the year-earlier periods, cost of sales as a percentage of net sales decreased in the second quarter and first half of 2003 primarily due to higher average selling prices in billing currencies and higher production volume, partially offset by higher energy costs. Excluding the effects of foreign currency translation, which increased the Company's expenses in the second quarter and first half of 2003 compared to year-earlier periods, the Company's selling, general and administrative expenses, excluding corporate expenses, in the second quarter and first half of 2003 were slightly higher than the second quarter and first half of 2002.

A significant amount of Kronos' sales and operating costs are denominated in currencies other than the U.S. dollar. Fluctuations in the value of the U.S. dollar relative to other currencies, primarily a weaker U.S. dollar compared to the euro and Canadian dollar in the second quarter and first half of 2003 versus the year-earlier periods, increased the dollar value of sales by a net \$27.7 million and \$54.4 million, respectively, when compared to the year-earlier periods. Sales to export markets are typically denominated in U.S. dollars and a weaker U.S. dollar decreases margins on these sales at the Company's non-U.S. subsidiaries. The effect of the weaker U.S. dollar on Kronos' operating costs that are not denominated in U.S. dollars increased operating costs in the second quarter and first half of 2003 compared to the year-earlier periods. In addition, Kronos revalued certain export trade receivables and certain monetary assets held by its subsidiaries whose functional currency is not the U.S. dollar and based on the weaker U.S. dollar reported a revaluation

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loss in the second quarter and first half of 2003. As a result, the net impact of currency exchange rate fluctuations decreased operating income by \$.6 million and \$2.4 million, respectively, in the second quarter and first half of 2003 when compared to the year-earlier periods.

General corporate

The following table sets forth certain information regarding general corporate income (expense).

	Three months ended		Difference	Six months ended		Difference
	June 30,			June 30,		
	2003	2002		2003	2002	
(In millions)						
Securities earnings ...	\$ 1.0	\$ 1.3	\$ (.3)	\$ 4.3	\$ 2.6	\$ 1.7
Other income and litigation settlement gains, net	1.8	1.4	.4	2.2	4.4	(2.2)
Currency transaction gains	--	6.3	(6.3)	--	6.3	(6.3)
Corporate expense	(23.1)	(7.5)	(15.6)	(38.6)	(17.7)	(20.9)
Interest expense	(8.4)	(8.1)	(.3)	(16.4)	(14.6)	(1.8)
	-----	-----	-----	-----	-----	-----
	\$ (28.7)	\$ (6.6)	\$ (22.1)	\$ (48.5)	\$ (19.0)	\$ (29.5)
	=====	=====	=====	=====	=====	=====

Securities earnings for the first half of 2003 were higher than the first half of 2002 primarily due to a \$2.3 million noncash securities transaction gain related to the exchange of the Company's holdings of Tremont Corporation common stock for shares of Valhi, Inc. common stock as a result of a series of merger transactions Valhi completed in February 2003. See Note 6 to the Consolidated Financial Statements. In addition, interest income was lower in the second quarter and the first half of 2003 as compared to the year earlier periods due to lower levels of available funds invested and lower average yields. The Company expects interest income to be lower for full-year 2003 than full-year 2002 due to lower average yields and lower average levels of funds available for investment.

Other corporate income for the first half of 2002 included a \$1.9 million litigation settlement gain with former insurance carrier groups and \$2.0 million in fee income related to a covenant not to compete agreement involving a formerly owned business unit which became fully amortized in January 2003. See Note 13 to the Consolidated Financial Statements. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

Foreign currency transaction gains in the second quarter of 2002 related to the extinguishment of certain intercompany indebtedness with Kronos International, Inc. ("KII"). See Note 13 to the Consolidated Financial Statements.

Corporate expense for the second quarter and first half of 2003 increased \$15.6 million and \$20.9 million, respectively, from comparable prior-year periods primarily due to higher environmental expenses related to remediation of formerly owned business units and higher legal expenses. Compared to the first quarter of 2003, corporate expense in the second quarter of 2003 increased \$7.8 million primarily due to higher environmental expenses. Corporate expenses are expected to be higher for full-year 2003 as compared to full-year

2002 due to higher environmental expenses and slightly higher legal expenses associated with the defense of lead pigment litigation.

Interest expense in the second quarter and first half of 2003 increased \$.3 million and \$1.8 million from the comparable prior-year periods, primarily due to higher levels of outstanding debt and associated currency effects, partially offset by lower interest rates. Interest expense in the second quarter of 2002 included \$2.0 million related to the early extinguishment of the Company's 11.75% Senior Secured Notes. Assuming no significant change in interest rates, interest expense for full-year 2003 is expected to be higher than full-year 2002 due to higher levels of outstanding indebtedness, partially offset by lower average interest rates.

Provision for income taxes

The Company reduced its deferred income tax valuation allowance by \$.4 million in the first half of 2003 and \$3.0 million in the first half of 2002 primarily as a result of utilization of certain tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria.

Other

Minority interest in all presented periods primarily related to NL Environmental Services, Inc.

Recently adopted accounting principles

As described in Note 1 in the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the six months ended June 30, 2003 and 2002 are presented below.

	Six months ended June 30,	
	----- 2003	2002 -----
	(In millions)	
Net cash provided (used) by:		
Operating activities:		
Before changes in assets and liabilities	\$ 49.8	\$ 37.3
Changes in assets and liabilities	(31.1)	(.8)
	-----	-----
	18.7	36.5
Investing activities	(9.7)	(19.3)
Financing activities	(14.4)	39.7
	-----	-----
Net cash used by operating, investing, and financing activities	\$ (5.4)	\$ 56.9
	=====	=====

Operating activities

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly affect the earnings and operating cash flows of the Company. Cash flows from operations is the primary source of liquidity for the Company. Changes in TiO2 pricing, production volume and customer demand, among other things, could significantly affect the liquidity of the Company. Cash flow from operations, before changes in assets and liabilities, increased in the first six months of 2003 from the comparable period in 2002 primarily due to \$22.9 million of higher operating income, \$18.7 million of higher current income tax benefits, net (see Note 12 to the Consolidated Financial Statements), partially offset by \$20.9 million of higher corporate expenses. Cash flow from

operations, before changes in assets and liabilities, in the first half of 2002 included a \$6.3 million foreign currency transaction gain related to the extinguishment of certain intercompany indebtedness with KII.

Changes to the Company's assets and liabilities, excluding the effect of currency translation, in the first half of 2003 compared with the first half of 2002, were negatively affected primarily by \$21.1 million of higher refundable income taxes and \$8.9 million of lower insurance proceeds collected. Further, the net cash used to fund changes in the Company's inventories, accounts and notes receivable, accounts payable and accrued liabilities, and accrued environmental costs (excluding the effect of currency translation) in the first six months of 2003 was comparable to the first six months of 2002. Inventories and accounts payable were affected by certain non-cash accruals for certain titanium ore contracts of \$4.9 million and \$31.6 million at December 31, 2002 and 2001, respectively. These non-cash accruals were reversed as purchases of raw materials were received under the contracts in the first half of 2003 and 2002, respectively.

Investing activities

The Company's capital expenditures were \$13.9 million and \$12.1 million in the first half of 2003 and 2002, respectively. Capital expenditures in first half of 2002 included approximately \$2.2 million related to reconstruction of the Company's Leverkusen, Germany sulfate plant damaged in the March 2001 fire.

In May 2003 the Harold C. Simmons Family Trust No. 2 (the "Family Trust") repaid \$2 million principal amount on the revolving credit agreement. See Note 7 to the Consolidated Financial Statements.

In January 2002, the Company acquired all of the stock and limited liability company units of EWI RE, Inc. and EWI RE, Ltd. (collectively "EWI"), respectively, for an aggregate of \$9.2 million in cash, including capitalized acquisition costs of \$.2 million.

Financing activities

In March 2003 the Company borrowed (euro)15 million (\$16.1 million when borrowed) and in April 2003 the Company repaid NOK 80 million (\$11.0 million when repaid) under the revolving credit facility.

In March 2002, the Company redeemed \$25 million principal amount of its 11.75% Senior Secured Notes using available cash on hand, and in June 2002 the Company redeemed the remaining \$169 million principal amount of such 11.75%

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Senior Secured Notes using a portion of the proceeds from the June 2002 issuance of the (euro)285 million principal amount of the KII 8.875% Senior Secured Notes (\$280 million when issued). Also in June 2002, KII's operating subsidiaries in Germany, Belgium and Norway entered into a new three-year (euro)80 million secured revolving credit facility and borrowed (euro)13 million (\$13 million) and NOK 200 million (\$26 million) which, along with available cash, was used to repay and terminate KII's short term notes payable (\$53.2 million when repaid).

Deferred financing costs of \$9.3 million for the KII 8.875% Senior Secured Notes and the European credit facility are being amortized over the life of the respective agreements and are included in other noncurrent assets as of June 30, 2002.

In the second quarter of 2003, the Company paid a regular quarterly dividend to shareholders of \$.20 per share, aggregating \$9.5 million. Dividends paid during the first half of 2003 totaled \$.40 per share, or \$19.1 million.

In the first half of 2003 and the second quarter of 2002, the Company made no repurchases of common stock. During the first quarter of 2002, the Company purchased approximately 228,000 shares of its common stock in the open market at an aggregate cost of approximately \$3.3 million. The Company is authorized to repurchase approximately 1.3 million additional shares at July 25, 2003. The shares may be purchased over an unspecified period of time and, depending on market conditions, applicable legal requirements, available cash and other factors, the share repurchase program may be suspended at any time and could be terminated prior to completion. The repurchased shares are to be held as treasury shares available for general corporate purposes.

Cash, cash equivalents, restricted cash and restricted marketable debt securities and borrowing availability

At June 30, 2003, the Company had cash and cash equivalents aggregating \$55 million (\$18 million held by non-U.S. subsidiaries) and an additional \$38 million of restricted cash equivalents and restricted marketable debt securities held by the Company, of which \$3 million was classified as a noncurrent asset. Restricted cash decreased approximately \$28 million in the second quarter of 2003 primarily due to a \$30.8 million payment related to the final settlement of the previously-reported Granite City, Illinois lead smelter site. The Company may have to pay up to an additional \$.7 million related to this site upon completion of an EPA audit of certain response costs. No further material expenditures are expected to be made for this site. At June 30, 2003, certain of the Company's subsidiaries had \$102 million available for borrowing with approximately \$57 million available under non-U.S. credit facilities (including \$55 million under the European Credit Facility) and approximately \$45 million under the U.S. Credit Facility. At June 30, 2003, the Company had complied with all financial covenants governing its debt agreements.

Income tax contingencies

See Note 12 to the Consolidated Financial Statements.

Lead pigment litigation, environmental matters and other litigation

See Note 14 to the Consolidated Financial Statements and Part II, Item 1. "Legal Proceedings."

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Other

The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its dividend policy, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company in the past has sought, and in the future may seek, to reduce, refinance, repurchase or restructure indebtedness; raise additional capital; repurchase shares of its common stock; modify its dividend policy; restructure ownership interests; sell interests in subsidiaries or other assets; or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, the Company may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals or other industries, as well as the acquisition of interests in, and loans to, related companies. In the event of any acquisition or joint venture transaction, the Company may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt.

Special note regarding forward-looking statements

The statements contained in this Report on Form 10-Q ("Quarterly Report") which are not historical facts, including, but not limited to, statements found under the captions "Results of Operations" and "Liquidity and Capital Resources" above, are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "will," "should," "could," "anticipates," "expects," or comparable terminology or by discussions of strategy or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve risks and uncertainties, including, but not limited to, the cyclical nature of the titanium dioxide industry, global economic and political conditions, global productive capacity, customer inventory levels, changes in product pricing, changes in product costing, changes in foreign currency exchange rates, competitive technology positions, operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled downtime, transportation interruptions, war and terrorist activities), the ultimate resolution of pending or possible future lead pigment litigation and legislative developments related to the lead pigment litigation, the outcome of other litigation and tax controversies, and other risks and uncertainties included in

this Quarterly Report and in the 2002 Annual Report, and the uncertainties set forth from time to time in the Company's filings with the Securities and Exchange Commission. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the Company's market risks, refer to the caption "Quantitative and Qualitative Disclosures About Market Risk" in the 2002 Annual Report. There have been no material changes to the information provided that would require additional information with respect to the quarter ended June 30, 2003.

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ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the Securities and Exchange Commission ("SEC"), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits 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 required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its 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, the Company's Chief Executive Officer, and Robert D. Hardy, the Company's Chief Financial Officer, have evaluated the Company's disclosure controls and procedures as of June 30, 2003. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

The Company also maintains a system of internal controls over financial reporting. The term "internal control over financial reporting," as defined by regulations of the SEC, means a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's 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 accounting principles generally accepted in the United States of America ("GAAP"), and includes those policies and procedures that:

- o Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company,
- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

There has been no change to the Company's system of internal controls over financial reporting during the quarter ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Note 14 to the Consolidated Financial Statements, and for descriptions of certain previously reported legal proceedings, reference is made to the 2002 Annual Report and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. CV788657). In July 2003, the trial court granted defendants' motion to dismiss all remaining claims in this previously-described case. The time for appeal has not yet run.

State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). In June 2003, the court set April 5, 2004 as the date for the retrial of Phase I of this previously-described case.

Lewis et al. v. Lead Industries Association, et al. (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). In June 2003, the appellate court affirmed the dismissal of five of the six counts of plaintiffs' complaint in this previously-described case, but reversed the dismissal of the conspiracy count. The time for appeal has not yet run.

Borden, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-587). In June 2003, plaintiffs and defendants jointly moved the court to vacate the previously-described October 2003 trial date.

Quitman County School District v. Lead Industries Association, et al. (Circuit Court of Quitman County, Mississippi, Case No. 2001-0106). In June 2003, the Court set a trial date of September 13, 2004 in this previously-described case.

Thomas v. Lead Industries Association, et al. (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411). In June 2003, plaintiff appealed the trial court's grant of summary judgment for defendants in this previously-described case.

City of St. Louis v. Lead Industries Association, et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 002-245, Division 1). In May 2003, plaintiffs filed an amended complaint alleging only a nuisance claim in this previously-described case. Defendants' renewed motion to dismiss and motion for summary judgment are pending. Plaintiffs have moved the Court to set an October 2003 trial date.

City of Milwaukee v. NL Industries, Inc. and Mautz Paint (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV0030066). In May 2003, the court vacated the previously-described October 2003 trial date. No new trial date has been set. Defendants' motion for summary judgment is pending.

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Justice et al. v. Sherwin-Williams, et al. (Superior Court of California, County of San Francisco, No. 314686). This previously-described case has been voluntarily dismissed without prejudice by plaintiffs.

Sabater, et al. v. Lead Industries Association, et al. (Supreme Court of the State of New York, County of Bronx, Index No. 25533/98). Plaintiffs' motion for class certification is pending in this previously-described case.

The Company expects that additional lead pigment litigation and lead-based paint litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

Herd v. ASARCO, et al. (Case No. CJ-2001-443), Reeves v. ASARCO, et al. (Case No. CJ-02-8), Carr v. ASARCO, et al. (Case No. CJ-02-59), Edens v. ASARCO et al. (Case No. CJ-02-245, and Koger v. ASARCO et al. (Case No. CJ-02-284). In May 2003, the Company was voluntarily dismissed with prejudice by plaintiffs from these previously-described cases.

Cole, et al. v. ASARCO Incorporated et al. (U.S. District Court for the Northern District of Oklahoma, Case No. 03C V327 EA (J)). In June 2003, the Company was served with a complaint in this purported class action on behalf of two classes of persons living in the Picher/Cardin, Oklahoma, area: (1) a medical monitoring class of persons who have lived in the area since 1994; and (2) a property owner class of residential, commercial and government property owners. Plaintiffs are nine individuals and, in their official capacities, the Mayor of Picher and the Chairman of the Picher/Cardin School Board. Plaintiffs allege causes of action in trespass and nuisance and seek a medical monitoring program, a relocation program, property damages, and punitive damages.

Crawford, et al. v. ASARCO, Incorporated, et al. (Case No. CJ-03-304); Barr, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-305); Brewer, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-306); Kloer, et al. v. ASARCO, Incorporated, et al. (Case No. CJ-03-307); Rhoten, et al. v. Asarco Incorporated, et al. (Case No. CJ-03-308) (all in the District Court in and for Ottawa County, State of Oklahoma). In July 2003, the Company was served with complaints in these five cases asserting personal injuries due to exposure to lead from mining waste on behalf of, respectively, two, four, two, three, and four children. Each complaint alleges causes of action in negligence, strict liability, nuisance, and attractive nuisance; and each seeks \$20 million in compensatory and \$20 million in punitive damages. The Company intends to answer each complaint denying all liability and to defend itself vigorously.

United States of America v. NL Industries, Inc., et al., (United States District Court for the Southern District of Illinois, Civ. No. 91-CV 00578). In May 2003, the court entered the previously-described consent decree between the United States and the Company. Pursuant to the consent decree, the Company in June 2003 paid \$30.8 million to the United States, and will pay up to an additional \$.7 million upon completion of an EPA audit of certain response costs.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Shareholders on May 20, 2003. All the nominees for director were elected with the voting results for each as follows:

Director	Shares For	Shares Withheld
Mr. J. Landis Martin	46,641,822	190,018
Mr. George E. Poston	46,425,918	405,922
Mr. Glenn R. Simmons	46,641,816	190,024
Mr. Harold C. Simmons	46,640,586	191,254
General Thomas P. Stafford	46,660,008	171,832
Dr. R. Gerald Turner	46,653,138	178,702
Mr. Steven L. Watson	45,118,497	1,713,343

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The Company has retained a signed original of any exhibit listed below that contains signatures, and the Company will provide any such exhibit to the SEC or its staff upon request.

10.1 - Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 2003.

10.2 - Intercorporate Services Agreement by and between Titanium Metals Corporation and the Registrant effective as of January 1, 2003.

99.1 - Certification.

99.2 - Certification.

99.3 - Certification.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended June 30, 2003 through the date of this report:

July 14, 2003 - Reported Items 7 and 9.

July 25, 2003 - Reported Items 7 and 9.

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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: July 25, 2003

By /s/ Robert D. Hardy

Robert D. Hardy
Principal Financial and Accounting Officer

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INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement"), effective as of January 1, 2003, amends and supersedes that certain Intercorporate Services Agreement effective as of January 1, 2002 between CONTRAN CORPORATION, a Delaware corporation ("Contran"), and NL INDUSTRIES, INC., a New Jersey corporation ("NL").

Recitals

A. NL desires to have the services of certain Contran personnel and Contran is willing to provide such services under the terms of this Agreement.

B. Contran desires to have the services of certain NL personnel and NL is willing to provide such services under the terms of this Agreement.

C. The costs of maintaining the additional personnel necessary to perform the functions provided for by this Agreement would exceed the amount charged to such party that is contained in the net fee set forth in Section 4 of this Agreement and that the terms of this Agreement are no less favorable to each party than could otherwise be obtained from a third party for comparable services.

D. Each party desires to continue receiving the services presently provided by the other party and its affiliates and each party is willing to continue to provide such services under the terms of this Agreement.

Agreement

For and in consideration of the mutual premises, representations and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto mutually agree as follows:

Section 1. Contran Services to be Provided. Contran agrees to make available to NL, upon request, the following services (the "Contran Services") to be rendered by the internal staff of Contran and affiliates of Contran:

(a) Consultation and assistance in the development and implementation of NL's corporate business strategies, plans and objectives;

(b) Consultation and assistance in management and conduct of corporate affairs and corporate governance consistent with the charter and bylaws of NL;

(c) Consultation and assistance in preparation and review of periodic financial statements and reports to be filed with public and regulatory entities and those required to be prepared for financial institutions or pursuant to indentures and credit agreements;

(d) Ongoing consultation and assistance in connection with NL's credit facilities and the KII Senior Note indenture;

(e) Consultation and assistance in the preparation and filing of tax returns, examinations by government authorities and tax planning;

(f) certain administration and management services with respect to NL's insurance and risk management needs, including, without limitation, administration of NL's:

(i) property and casualty insurance program,

(ii) claims management program,

(iii) property loss control program; and

(iv) management of EWI, RE.

(g) Such other services as may be requested by NL from time to time.

Section 2. NL Services to be Provided. NL agrees to make available to Contran, upon request, the following services (the "NL Services," and collectively with the Contran Services, the "Services") to be rendered by the internal staff of NL:

(a) certain administration and support services with respect to Contran's insurance and risk management needs; and

(b) Such other services as may be requested by Contran from time to time.

This Agreement does not apply to, and the Services provided for herein do not include, any services that Harold C. Simmons, Glenn R. Simmons or Steven L. Watson may provide to NL in their roles as members of NL's board of directors or any other activity related to such board of directors.

Section 3. Miscellaneous Services. It is the intent of the parties hereto that each party to this Agreement provide (a "Providing Party") only such Services as are requested by the other party (a "Receiving Party") in connection with routine management, financial and administrative functions related to the ongoing operations of the Receiving Party and not with respect to special projects, including corporate investments, acquisitions and divestitures. The parties hereto contemplate that the Services rendered by a Providing Party in connection with the conduct of each Receiving Party's business will be on a scale compared to that existing on the effective date of this Agreement, adjusted for internal corporate growth or contraction, but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects. Each Receiving Party will continue to bear all other costs required for outside services including, but not limited to, the outside services of attorneys, auditors, trustees, consultants, transfer agents and registrars, and it is expressly understood that each Providing Party assumes no liability for any expenses or services other than those stated in this Agreement to be provided by such party. In addition to the amounts charged to a Receiving Party for Services provided pursuant to this Agreement, such Receiving Party will pay the Providing Party the amount of out-of-pocket costs incurred by the Providing Party in rendering such Services.

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Section 4. Net Fee for Services. NL agrees to pay to Contran a net annual fee of \$1,970,000 payable in quarterly installments of \$492,500 each on the first business day of each quarter, commencing as of January 1, 2003, pursuant to this Agreement. In addition to the net annual fee:

(a) Contran shall credit or pay to NL additional amounts plus all related out-of-pocket costs, all as agreed to by the parties, for all NL Services provided under Subsection 2(b); and

(b) NL shall credit or pay to Contran additional amounts plus all related out-of-pocket costs, all as agreed to by the parties, for all Contran Services provided under Subsection 1(f).

Section 5. Original Term. Subject to the provisions of Section 6 hereof, the original term of this Agreement shall be from January 1, 2003 to December 31, 2003.

Section 6. Extensions. This Agreement shall be extended on a quarter-to-quarter basis after the expiration of its original term unless written notification is given by Contran or NL thirty (30) days in advance of the first day of each successive quarter or unless it is superseded by a subsequent written agreement of the parties hereto.

Section 7. Limitation of Liability. In providing Services hereunder, each Providing Party shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but no Providing Party nor any officer, director, employee or agent of such party nor or its affiliates shall be liable to a Receiving Party for any error of judgment or mistake of law or for any loss incurred by the Receiving Party in connection with the matter to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Providing Party.

Section 8. Indemnification. Each Receiving Party shall indemnify and hold harmless the Providing Party, its affiliates and their respective officers,

directors and employees from and against any and all losses, liabilities, claims, damages, costs and expenses (including attorneys' fees and other expenses of litigation) to which such Providing Party or person may become subject arising out of the Services provided by such Providing Party to the Receiving Party hereunder, provided that such indemnity shall not protect any person against any liability to which such person would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on the part of such person.

Section 9. Confidentiality. Except as otherwise required by applicable law, each of the parties agrees that it will maintain in confidence all confidential information regarding the other party supplied to it in the course of the performance of this Agreement.

Section 10. Further Assurances. Each of the parties will make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

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Section 11. Notices. All communications hereunder shall be in writing and shall be addressed, if intended for Contran, to Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240, Attention: President, or such other address as it shall have furnished to NL in writing, and if intended for NL, to Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas 77060, Attention: President, or such other address as it shall have furnished to Contran in writing.

Section 12. Amendment and Modification. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

Section 13. Successor and Assigns. This Agreement shall be binding upon and inure to the benefit of Contran and NL and their respective successors and assigns, except that neither party may assign its rights under this Agreement without the prior written consent of the other party.

Section 14. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the state of Texas.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

CONTRAN CORPORATION

By: /s/ Steven L. Watson

Steven L. Watson
President

NL INDUSTRIES, INC.

By: /s/ J. Landis Martin

J. Landis Martin
Chief Executive Officer

TIMET/NL ISA

INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement") is made effective as of January 1, 2003, by and between Titanium Metals Corporation ("TIMET"), a Delaware corporation, and NL Industries, Inc. ("NL"), a New Jersey corporation.

WHEREAS, TIMET desires that NL provide certain tax services and use of NL's corporate aircraft to TIMET, as set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and promises set forth herein and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement agree as follows:

1. Services Provided. NL will make available to TIMET and its subsidiaries the following services (the "Services"):

- (a) consultation and assistance in tax management, administration, and reporting; and
- (b) use of corporate aircraft.

2. Fees for Services and Reimbursement of Expenses. During the Term (as defined below) of the Agreement, TIMET shall pay to NL an annual fee of \$14,200 for the Services described in Paragraph 1(a) above payable in quarterly installments of \$3,550 plus all out-of-pocket expenses incurred in connection with the performance of such Services. Regarding Services described in Paragraph 1(b), TIMET will pay to NL within thirty (30) days after receipt of an invoice an amount equal to TIMET's share of NL's corporate aircraft expenses which includes TIMET's share of the monthly management fee (computed on a per hour basis) and actual flight hour costs at a rate of \$1,953 per hour (subject to annual escalation) plus fuel variable charges, segment fees and excise taxes. Notwithstanding the foregoing, in the event that TIMET determines, in its sole discretion, that it no longer desires certain of the Services or NL determines, in its sole discretion, that it no longer desires to provide certain of the Services, then TIMET or NL, as appropriate, shall provide the other party with a thirty (30) day prior written notice of cancellation describing the Services to be terminated or discontinued and TIMET and NL during such ninety-day period shall agree to a pro-rata reduction of the fees due hereunder for such terminated or discontinued Services.

3. Limitation of Liability. In providing Services hereunder, NL shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither NL nor any officer, director, employee or agent of NL shall be liable to TIMET or its subsidiaries for any error of judgment or mistake of law or for any loss incurred by TIMET or its subsidiaries in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of NL or from NL's reckless disregard of obligations and duties under this Agreement.

4. Indemnification of NL by TIMET. TIMET shall indemnify and hold harmless NL, its subsidiaries and their respective officers, directors and employees from and against any and all losses, liabilities, claims, damages, costs and expenses (including reasonable attorneys' fees and other expenses of litigation) to which such party may become subject arising out of the provision by NL to TIMET and its subsidiaries of any of the Services, provided that such indemnity shall not protect any such party against any liability to which such person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of obligations and duties hereunder.

5. Further Assurance. Each of the parties will make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

6. Notices. All communications hereunder shall be in writing and shall be addressed to:

If to NL: NL Industries, Inc.
16825 Northchase Drive, Suite 1200
Houston, Texas 77060
Attention: General Counsel

If to TIMET: Titanium Metals Corporation
1999 Broadway, Suite 4300
Denver, Colorado 80202
Attention: General Counsel

or such other address as the parties shall have specified in writing.

7. Amendment and Modification. Neither this Agreement nor any item hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

8. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto, provided that this Agreement may not be assigned by either of the parties hereto without the prior written consent of the other party.

9. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or

interpretation of this Agreement. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. This Agreement shall be governed in all respects, including validity, interpretation and affect, by the laws of the State of Texas.

10. Term of Agreement. This Agreement shall be effective as of January 1, 2003, and shall remain in effect for a term of one year until December 31, 2003 (the "Term"); provided, however, the Agreement shall be extended on a quarter-to-quarter basis after the expiration of the Term unless written notification is given by either party thirty (30) days in advance of the first day of each successive quarter or unless it is terminated or superseded by a subsequent written agreement of the parties hereto. Upon such termination or upon the expiration of this Agreement, the parties' rights and obligations hereunder shall cease and terminate except with respect to rights and obligations arising on or prior to the date of expiration or termination and the rights and obligations arising under paragraph 4 above.

11. Confidentiality. Except as otherwise required by applicable law, each of the parties agrees that it will maintain in confidence all confidential information regarding the other party supplied to it in the course of the performance of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the 20th day of May, 2003, which Agreement will be deemed to be effective as of January 1, 2003.

NL INDUSTRIES, INC.

By: /s/ Robert D. Hardy

Robert D. Hardy
Vice President

TITANIUM METALS CORPORATION

By: /s/ Robert E. Musgraves

Robert E. Musgraves
Chief Operating Officer - North America

CERTIFICATION

I, Harold C. Simmons, the Chief Executive Officer of NL Industries, Inc., certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of NL Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2003

/s/ Harold C. Simmons

Harold C. Simmons
Chief Executive Officer

CERTIFICATION

I, Robert D. Hardy , the Chief Financial Officer of NL Industries, Inc., certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of NL Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2003

/s/ Robert D. Hardy

Robert D. Hardy
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NL Industries, Inc. (the Company) on Form 10-Q for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Harold C. Simmons, Chief Executive Officer of the Company, and I, Robert D. Hardy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harold C. Simmons

Harold C. Simmons
Chief Executive Officer

/s/ Robert D. Hardy

Robert D. Hardy
Chief Financial Officer

July 25, 2003

Note: The certification the registrant furnishes in this exhibit is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.