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 quarter ended September 30, 1997

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.)
16825 Northchase Drive, Suite 1200, Houston, Texas	77060-2544
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (281) 423-3300

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) had been subject to such filing requirements for the past 90 days. Yes X No

Number of shares of common stock outstanding on October 31, 1997: 51,149,614

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 1996	September 30, 1997
Current assets:		
Cash and cash equivalents, including restricted cash of $10,895 and $9,524	$ 114,115	$ 102,214
Accounts and notes receivable	138,538	160,625
Refundable income taxes	9,267	4,282
Inventories	232,510	172,308
Prepaid expenses	4,219	6,752
Deferred income taxes	1,597	1,498
Total current assets	500,246	447,679
Other assets:		
Marketable securities	23,718	31,147
Investment in joint ventures	181,479	175,423
Prepaid pension cost	24,821	24,408
Deferred income taxes	223	222
Other	24,825	20,357
Total other assets	255,066	251,557
Property and equipment:		
Land	21,963	19,878
Buildings	165,479	153,271
Machinery and equipment	660,333	622,667
Mining properties	95,891	90,277
Construction in progress	13,231	8,469
	956,897	894,562

Less accumulated depreciation and depletion	490,851	470,636
Net property and equipment	466,046	423,926
	$1,221,358	$1,123,162

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND SHAREHOLDERS' DEFICIT	December 31, 1996	September 30, 1997
Current liabilities:		
Notes payable	$ 25,732	$ 17,139
Current maturities of long-term debt	91,946	61,534
Accounts payable and accrued liabilities	153,904	165,773
Payable to affiliates	10,204	10,199
Income taxes	5,664	6,781
Deferred income taxes	2,895	2,660
Total current liabilities	290,345	264,086
Noncurrent liabilities:		
Long-term debt	737,100	694,606
Deferred income taxes	151,221	139,484
Accrued pension cost	57,941	50,588
Accrued postretirement benefits cost	55,935	52,168
Other	132,048	150,650
Total noncurrent liabilities	1,134,245	1,087,496
Minority interest	249	253
Shareholders' deficit:		
Common stock	8,355	8,355
Additional paid-in capital	759,281	759,281
Adjustments:		
Currency translation	(118,629)	(125,199)
Pension liabilities	(1,822)	(1,822)
Marketable securities	1,278	6,107
Accumulated deficit	(485,948)	(509,653)
Treasury stock	(365,996)	(365,742)
Total shareholders' deficit	(203,481)	(228,673)

	$ 1,221,358	$ 1,123,162

Commitments and contingencies (Note 13)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	1996	1997	1996	1997
Revenues and other income:				
Net sales	$ 248,462	$ 248,153	$ 752,064	$ 740,423
Other, net	5,013	3,023	25,890	11,681
	253,475	251,176	777,954	752,104
Costs and expenses:				
Cost of sales	193,271	180,784	557,881	557,442
Selling, general and administrative	45,274	38,448	131,313	152,730
Interest	18,472	19,476	56,127	57,853
	257,017	238,708	745,321	768,025
Income (loss) before income taxes and minority interest ...	(3,542)	12,468	32,633	(15,921)
Income tax expense	698	2,700	11,552	7,749
Income (loss) before minority interest ...	(4,240)	9,768	21,081	(23,670)
Minority interest	9	7	(33)	35
Net income (loss)	$ (4,249)	$ 9,761	$ 21,114	$ (23,705)
Net income (loss) per share of common stock	$ (.08)	$ .19	$ .41	$ (.46)
Weighted average common and common equivalent shares outstanding	51,118	51,585	51,376	51,143

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT

Nine months ended September 30, 1997

(In thousands)

	Common stock	Additional paid-in capital	Adjustments: Currency translation	Adjustments: Pension liabilities	Adjustments: Marketable securities	Accumulated deficit	Treasury stock	Total
Balance at December 31, 1996	$ 8,355	$ 759,281	$(118,629)	$ (1,822)	$ 1,278	$(485,948)	$(365,996)	$(203,481)
Net loss	--	--	--	--	--	(23,705)	--	(23,705)
Adjustments	--	--	(6,570)	--	4,829	--	--	(1,741)
Treasury stock reissued	--	--	--	--	--	--	254	254
Balance at September 30, 1997	$ 8,355	$ 759,281	$(125,199)	$ (1,822)	$ 6,107	$(509,653)	$(365,742)	$(228,673)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 30, 1996 and 1997

(In thousands)

	1996	1997
Cash flows from operating activities:		
Net income (loss)	$ 21,114	$(23,705)
Depreciation, depletion and amortization	30,154	28,414
Noncash interest expense	15,500	17,388
Deferred income taxes	(4,864)	(2,108)
Change in accounting for environmental remediation liabilities	--	30,000
Other, net	(12,401)	(10,729)
	49,503	39,260
Change in assets and liabilities:		
Accounts and notes receivable	(21,289)	(32,834)
Inventories	26,424	44,595

Prepaid expenses	(3,863)	(3,085)
Accounts payable and accrued liabilities	(1,363)	18,792
Income taxes	(166)	8,217
Other, net	(10,994)	(4,132)
Net cash provided by operating activities	38,252	70,813
Cash flows from investing activities:		
Capital expenditures	(52,328)	(23,349)
Purchase of minority interest	(5,168)	--
Investment in joint ventures, net	4,123	5,836
Proceeds from disposition of property and equipment	478	2,922
Net cash used by investing activities	(52,895)	(14,591)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Nine months ended September 30, 1996 and 1997

(In thousands)

	1996	1997
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 64,712	$ 140,000
Principal payments	(43,359)	(203,349)
Deferred financing costs	--	(3,958)
Dividends	(15,333)	--
Other, net	(202)	252
Net cash provided (used) by financing activities	5,818	(67,055)
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(8,825)	(10,833)
Currency translation	(2,312)	(1,068)
Balance at beginning of period	141,333	114,115
Balance at end of period	$ 130,196	$ 102,214
Supplemental disclosures - cash paid for:		
Interest, net of amounts capitalized	$ 31,485	$ 35,262
Income taxes, net	16,652	1,317

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

NL Industries, Inc. conducts its operations primarily through its wholly-owned subsidiaries, Kronos, Inc. (titanium dioxide pigments, or "TiO2") and Rheox, Inc. (specialty chemicals). Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, hold approximately 56% and 18%, respectively, of NL's outstanding common stock, and together may be deemed to control NL. Contran and its subsidiaries and other entities related to Harold C. Simmons hold approximately 92% of Valhi's and 47% of Tremont's outstanding common stock.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 1996 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at September 30, 1997 and the consolidated statements of operations, shareholders' deficit and cash flows for the interim periods ended September 30, 1996 and 1997, have been prepared by the Company, without audit. In the opinion of management, all 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 have been condensed or omitted. Certain prior-year amounts have been reclassified to conform to the 1997 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, 1996 (the "1996 Annual Report").

The Company adopted a new method of accounting as required by the AICPA's Statement of Position ("SOP") No. 96-1, "Environmental Remediation Liabilities," in the first quarter of 1997. The SOP, among other things, expands the types of costs which must be considered in determining environmental remediation accruals. As a result of adopting the SOP, the Company recognized a noncash cumulative charge of $30 million in the first quarter of 1997. The charge is not expected to materially impact the Company's 1997 income tax expense because the Company believes the resulting deferred income tax asset does not currently satisfy the more-likely-than-not realization criteria and, accordingly, the Company has established an offsetting valuation allowance. Such charge is comprised primarily of estimated future undiscounted expenditures associated with managing and monitoring existing environmental remediation sites. The expenditures consist principally of legal and professional fees, but do not include litigation defense costs with respect to situations in which the Company asserts that no liability exists. Previously, such expenditures were expensed as incurred.

Note 2 - Net income (loss) per share of common stock:

Net income (loss) per share of common stock is based on the weighted average number of common shares and equivalents outstanding. Common stock equivalents, consisting of nonqualified stock options, are excluded from the computation when their effect is antidilutive. The Company will retroactively adopt Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings

Per Share," effective December 31, 1997. Basic earnings per share pursuant to SFAS No. 128 will not be materially different from earnings per share presented herein and diluted earnings per share pursuant to SFAS No. 128 is not expected to be materially different from basic earnings per share.

Note 3 - Business segment information:

The Company's operations are conducted in two business segments - TiO2 conducted by Kronos and specialty chemicals conducted by Rheox.

	Three months ended September 30,		Nine months ended September 30,	
	1996	1997	1996	1997
	(In thousands)			
Net sales:				
Kronos	$ 215,038	$ 210,344	$ 649,635	$ 629,087
Rheox	33,424	37,809	102,429	111,336
	$ 248,462	$ 248,153	$ 752,064	$ 740,423
Operating income:				
Kronos	$ 9,640	$ 24,908	$ 64,555	$ 50,412
Rheox	9,831	12,254	32,952	34,597
	19,471	37,162	97,507	85,009
General corporate income (expense):				
Securities earnings, net	1,190	590	3,631	1,817
Expenses, net	(5,731)	(5,808)	(12,378)	(44,894)
Interest expense	(18,472)	(19,476)	(56,127)	(57,853)
	$ (3,542)	$ 12,468	$ 32,633	$ (15,921)

Note 4 - Inventories:

	December 31, 1996	September 30, 1997
	(In thousands)	
Raw materials	$ 43,284	$ 40,139
Work in process	10,356	5,767
Finished products	142,091	94,216
Supplies	36,779	32,186
	$232,510	$172,308

Note 5 - Marketable securities:

	December 31, 1996	September 30, 1997
	(In thousands)	
Available-for-sale securities - noncurrent marketable equity securities:		
Unrealized gains	$ 3,516	$ 9,395
Unrealized losses	(1,550)	--
Cost	21,752	21,752
Aggregate market	$ 23,718	$ 31,147

Note 6 - Investment in joint ventures:

	December 31, 1996	September 30, 1997
	(In thousands)	
TiO2 manufacturing joint venture	$179,195	$173,359
Other	2,284	2,064
	$181,479	$175,423

Note 7 - Other noncurrent assets:

	December 31, 1996	September 30, 1997
	(In thousands)	
Intangible assets, net	$ 7,939	$ 5,075
Deferred financing costs, net	9,791	10,866
Other	7,095	4,416
	$24,825	$20,357

Note 8 - Accounts payable and accrued liabilities:

	December 31, 1996	September 30, 1997
	(In thousands)	
Accounts payable	$ 60,648	$ 58,385
Accrued liabilities:		
Employee benefits	34,618	37,006
Environmental costs	6,000	9,000
Interest	9,429	14,532
Miscellaneous taxes	4,073	1,100
Other	39,136	45,750
	93,256	107,388

	$153,904	$165,773
	========	========

Note 9 - Other noncurrent liabilities:

	December 31, 1996	September 30, 1997
	(In thousands)	
Environmental costs	$106,849	$127,291
Insurance claims and expenses	11,673	11,372
Employee benefits	11,960	10,747
Other	1,566	1,240
	$132,048	$150,650

Note 10 - Notes payable and long-term debt:

	December 31, 1996	September 30, 1997
	(In thousands)	
Notes payable - Kronos (DM 40,000 and DM 30,000, respectively)	$ 25,732	$ 17,139
Long-term debt:		
NL Industries:		
11.75% Senior Secured Notes	$250,000	$250,000
13% Senior Secured Discount Notes	149,756	164,535
	399,756	414,535
Kronos:		
DM bank credit facility (DM 539,971 and DM 288,322, respectively)	347,362	164,718
Joint venture term loan	57,858	46,286
Other	9,125	5,266
	414,345	216,270
Rheox:		
Bank credit facility	14,659	125,250
Other	286	85
	14,945	125,335
	829,046	756,140
Less current maturities	91,946	61,534

	$737,100	$694,606

Rheox has entered into interest rate collar agreements which effectively set minimum and maximum U.S. LIBOR interest rates of 5.25% and 8%, respectively, on $50 million principal amount of its variable-rate bank term loan through May 2001. The margin on such borrowings ranges from .75% to 1.75%, depending upon the level of a certain Rheox financial ratio. Rheox is exposed to interest rate risk in the event of nonperformance by the other parties to the agreements, although Rheox does not anticipate nonperformance by such parties. At September 30, 1997, the estimated fair value of such agreements was estimated to be a $.1 million liability. Such fair value represents the amount Rheox would

pay if it terminated the collar agreements at that date, and is based upon quotes obtained from the counter party financial institutions.

Note 11 - 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.

	Nine months ended September 30,	
	1996	1997
	(In thousands)	
Expected tax expense (benefit)	$ 11,422	$ (5,573)
Non-U.S. tax rates	(273)	(462)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return ...	2,559	2,171
Valuation allowance	(1,150)	10,459
U.S. state income taxes	1,350	1,432
Other, net	(2,356)	(278)
Income tax expense	$ 11,552	$ 7,749

Note 12 - Other income, net:

	Three months ended September 30,		Nine months ended September 30,	
	1996	1997	1996	1997
	(In thousands)			
Interest and dividends	$ 1,190	$ 590	$ 3,631	$ 1,817
Currency transaction gains	4,491			
(losses), net	624	(57)	2,670	
Disposition of property and	(304	2,452		
equipment	(758)		)	(1,677)

Pension curtailment gain	--	--	4,791	--
Technology fee income	2,606	--	8,280	--
Litigation settlement gain	--	--	2,756	--
Other, net	1,351	2,794	3,618	4,742
	$ 5,013	$ 3,023	$ 25,890	$ 11,681

Note 13 - Commitments and contingencies:

For descriptions of certain legal proceedings, income tax and other commitments and contingencies related to the Company, reference is made to (i) Management's Discussion and Analysis of Financial Condition and Results of Operations, (ii) Part II, Item 1 -"Legal Proceedings," (iii) the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 1997 and June 30, 1997, and (iv) the 1996 Annual Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company's chemical operations are conducted in two business segments - TiO2 conducted by Kronos and specialty chemicals conducted by Rheox.

	Three months ended September 30,		% Change	Nine months ended September 30,		% Change
	1996	1997		1996	1997	
	(In millions)			(In millions)		
Net sales:						
Kronos	$215.1	$210.4	-2%	$649.7	$629.2	-3%
Rheox	33.4	37.8	+13%	102.4	111.3	+9%
	$248.5	$248.2	NC	$752.1	$740.5	-2%
Operating income:						
Kronos	$ 9.7	$ 24.9	+157%	$ 64.6	$ 50.4	-22%
Rheox	9.8	12.3	+26%	32.9	34.6	+5%
	$ 19.5	$ 37.2	+91%	$ 97.5	$ 85.0	-13%
Percent changes in TiO2:						
Sales volume			+7%			+12%
Average selling prices (in billing currencies).......			+1%			-8%

Kronos' TiO2 operating income in the third quarter of 1997 increased from the comparable period in 1996 due to higher production and sales volumes, 1% higher average TiO2 selling prices and $9.7 million of income resulting from refunds of German trade capital taxes. Kronos' operating income in the nine months ended September 30, 1997 declined from the 1996 period due to 8% lower average selling prices, partially offset by higher sales and production volumes. Kronos' average TiO2 selling prices for the third quarter of 1997 were 3% higher than the second quarter of 1997 and 6% higher than the first quarter of 1997. Selling prices at the end of the third quarter of 1997 were 2% higher than the average for the quarter. Kronos achieved record third quarter sales volumes reflecting continued strong TiO_2 demand, particularly in Europe. Kronos' third quarter and nine months sales volumes increased 7% and 12%, respectively, from the year-earlier periods.

Kronos' operating income for the third quarter included income of $9.7 million resulting from German trade capital tax refunds related to prior years, including interest. The German tax authorities were required to remit refunds based on (i) recent court decisions which resulted in reducing the trade capital tax base and (ii) prior agreements between the Company and the German tax authorities regarding payment of disputed taxes.

Kronos expects further increases in its TiO_2 selling prices during the fourth quarter of 1997 and expects its full-year 1997 operating income will exceed that of 1996. Kronos' cost of sales as a percentage of net sales compared to 1996 decreased in the third quarter of 1997 and increased in the first nine months of 1997 due to higher average prices in the third quarter of 1997 and lower average prices in the first nine months of 1997. Kronos' selling, general and administrative expenses in the third quarter and the first nine months of

1997 were lower than the 1996 periods due to favorable effects of foreign currency translation and German trade capital tax refunds, partially offset by higher distribution expenses associated with higher 1997 sales volumes.

Rheox's operating income for the third quarter of 1997 increased $2.5 million compared to the third quarter of 1996 on higher sales and production volumes. Rheox's operating income in the first nine months of 1997 was $4.4 million higher than the 1996 period, excluding a first-quarter 1996 $2.7 million gain related to the curtailment of certain U.S. employee pension benefits. Rheox's cost of sales as a percentage of net sales decreased in the third quarter and first nine months of 1997 due to higher production volumes in both periods of 1997 compared to 1996. Selling, general and administrative expenses increased in the third quarter and first nine months of 1997 compared to the 1996 periods primarily due to higher selling and distribution expenses associated with higher 1997 sales volumes.

A significant amount of the Company's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, and fluctuations in the value of the U.S. dollar relative to other currencies decreased the dollar value of sales for the third quarter and first nine months of 1997 by $23 million and $46 million, respectively, compared to the respective 1996 periods. Although exchange rate fluctuations resulted in an unfavorable impact on operating income for the third quarter of 1997, the impact was nominal for the first nine months of 1997 compared with the same periods in 1996.

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

	Three months ended September 30,		Difference	Nine months ended September 30,		Difference
	1996	1997		1996	1997	
Securities earnings ...	$ 1.2	$ .6	$ (.6)	$ 3.6	$ 1.8	$ (1.8)
Corporate expenses, net	(5.7)	(5.8)	(.1)	(12.4)	(44.8)	(32.4)
Interest expense	(18.5)	(19.5)	(1.0)	(56.1)	(57.9)	(1.8)
	$ (23.0)	$ (24.7)	$ (1.7)	$ (64.9)	$ (100.9)	$ (36.0)

Securities earnings declined due to lower average cash equivalent balances available for investment. Corporate expenses, net in the first nine months of 1997 were higher than the comparable period in 1996 due to the $30 million noncash charge related to the Company's adoption of SOP No. 96-1, "Environmental Remediation Liabilities." See Note 1 to the Consolidated Financial Statements. This charge is included in selling, general and administrative expense in the Company's Consolidated Statements of Operations. Interest expense was higher in the third quarter and first nine months of 1997 primarily due to higher variable interest rates and higher average principal balances.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the nine months ended September 30, 1996 and 1997 are presented below.

	Nine months ended September 30,	
	1996	1997
	(In millions)	
Net cash provided (used) by:		
Operating activities	$ 38.3	$ 70.8
Investing activities	(52.9)	(14.6)
Financing activities	5.8	(67.0)
Net cash used by operating, investing and financing activities	$ (8.8)	$(10.8)

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of the Company. Cash flows from operations before change in assets and liabilities in the first nine months of 1997 declined from the comparable period in 1996 primarily due to lower operating income. In the aggregate, changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) provided cash in both the first nine months of 1996 and 1997; however, the cash provided in the first nine months of 1997 was significantly higher than the first nine months of 1996 primarily due to greater reductions in inventory levels in the 1997 period.

Certain of the Company's income tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies. The Company has previously reached an agreement with the German tax authorities, and paid certain tax deficiencies of approximately DM 44 million ($28 million when paid), including interest, which resolved significant tax contingencies for years through 1990. Certain other significant German tax contingencies remain outstanding and will continue to be litigated. The Company has received certain tax assessments aggregating DM 130 million ($74 million), including interest, for years through 1996 and may receive tax assessments for an additional DM 20 million ($11 million) related to these remaining tax contingencies. No payments of tax or interest deficiencies related to these assessments will be required until the litigation is resolved. A recent German tax court proceeding involving a tax issue substantially the same as that involved in the Company's primary remaining income tax contingency was decided in favor of the taxpayer. The German tax authorities have appealed the decision to the German Supreme Court and the Company believes that the decision by the German Supreme Court will be rendered within two years and will become a legal precedent which will likely determine the outcome of the Company's primary dispute with the German tax authorities. Although the Company believes that it will ultimately prevail, the Company has granted a DM 100 million ($57 million at September 30, 1997) lien on its Nordenham, Germany TiO2 plant in favor of the German tax authorities. No assurance can be given that this litigation will be resolved in the Company's favor in view of the inherent uncertainties involved in court proceedings. The Company believes that it has adequately provided

accruals for additional income 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.

In order to improve its near-term liquidity, the Company refinanced its Rheox subsidiary during January 1997, obtaining a net $125 million of new long-term financing. The net proceeds, along with other available funds, were used to prepay DM 207 million ($127 million when paid) of the Company's DM term loan and to repay DM 43 million ($26 million when paid) of the Company's DM revolving credit facility. As a result of the refinancing and prepayment, the Company's aggregate scheduled debt payments for 1997 and 1998 decreased by $103 million ($64 million in 1997 and $39 million in 1998). Additionally, total debt was reduced by $28 million as part of the refinancing. In connection with the prepayment, the Company and its lenders modified certain financial covenants of the DM credit agreement and NL guaranteed the facility. At September 30, 1997, the Company was in compliance with all financial covenants governing its debt agreements.

In the first nine months of 1997, in addition to the above refinancing and prepayment, the Company repaid $12 million of the joint venture term loan, $11 million of Rheox's revolving credit facility, $4 million of Rheox's term loan and DM 10 million ($6 million when paid) of short-term notes payable.

At September 30, 1997, the Company had cash and cash equivalents aggregating $102 million (54% held by non-U.S. subsidiaries) including restricted cash and cash equivalents of $10 million. The Company's subsidiaries had $21 million and $88 million available for borrowing at September 30, 1997 under existing U.S. and non-U.S. credit facilities, respectively.

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, certain of which are on the U.S. Environmental Protection Agency's (the "U.S. EPA") Superfund National Priorities List or similar state lists. On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant. The Company believes it has adequate accruals ($136 million at September 30, 1997) for reasonably estimable costs of such matters, but the Company's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocations of such costs among PRPs. 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 for which it is possible to estimate costs is approximately $180 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. 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.

The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising from the sale of lead pigments and lead-based paints. There is no assurance that the Company will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment and paint litigation is without merit. The Company has not accrued any amounts for such pending litigation. Liability that may result, if any, cannot be reasonably estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to 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 products and to effectively overturn court decisions in which the Company and other pigment manufacturers have been successful. 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. There can be no assurance that additional matters of these types will not arise in the future.

The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, 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, issue additional securities, 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 industry. In the event of any such transactions, the Company may consider using available cash, issuing equity securities or refinancing or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt.

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 involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements in this Quarterly Report could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Quarterly Report and in the 1996 Annual Report, including, without limitation, the portions of such reports under the captions referenced above, and the uncertainties set forth from time to time in the Company's other public reports and filings and public statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the 1996 Annual Report and the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 1997 and June 30, 1997 for descriptions of certain previously-reported legal proceedings.

Wright v. Lead Industries, et al., (Nos. 94 363042 and 363043). In October 1997 the Maryland court of appeals affirmed the previously-reported summary judgment in defendants' favor. The time in which plaintiffs' may seek to review the court of appeals decision has not yet expired.

Gates v. American Cyanamid Co., et al., (No. I1996-2114). In October 1997 plaintiffs indicated that they intend to dismiss this case with prejudice as to all defendants.

Ritchie v. NL Industries, et al., (No. 5:96-CV-166). In August 1997 plaintiffs dismissed the complaint with prejudice against all defendants.

Gould v. NL Industries, Inc., (No. 91-1091) ("Gould Superfund Site," Portland, Oregon). The U.S. EPA, the Company and other PRPs are negotiating the terms of a consent decree to perform the remedial action selected in the amended record of decision. Trial in the action for contribution among the PRPs, previously set for September 1997, has been rescheduled for January 1998.

Granite City Superfund Site. In September 1997 the U.S. EPA informed the Company that past and future cleanup costs are estimated to total approximately $63.5 million.

Cherokee County Sites. In August 1997 the U.S. EPA issued the record of decision for the Baxter Springs and Treece subsites. The U.S. EPA has estimated that the selected remedy will cost approximately $7.1 million.

State of Illinois vs. NL Industries. Inc. et al., (No. 88-CH-11618). In August 1997 the trial court dismissed the case. The State has filed a notice of appeal.

Flacke v. NL Industries, Inc., (No. 1842-80). The case has been settled within previously accrued amounts.

Rhodes, et al. v. ACF Industries, Inc., et al., (No. 95-C-261). An agreement in principle has been reached settling this matter, with the Company being indemnified by another party.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 - Financial Data Schedule for the nine-month period ended September 30, 1997.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended September 30, 1997 and through the date of this report:

July 22, 1997 - reported Items 5 and 7.
October 17, 1997 - reported Items 5 and 7.

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: October 31, 1997
- -----------------------

By /s/ Joseph S. Compofelice

Joseph S. Compofelice
Vice President and
Chief Financial Officer

Date: October 31, 1997 By /s/ Dennis G. Newkirk

Dennis G. Newkirk
Vice President and Controller
(Principal Accounting Officer)

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This schedule contains summary financial information extracted from NL Industries Inc.'s consolidated financial statements for the nine months ended September 30, 1997, and is qualified in its entirety by reference to such consolidated financial statements.
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