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, 2001

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 November 9, 2001: 49,399,984

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	September 30, 2001	December 31, 2000
Current assets:		
Cash and cash equivalents	$ 97,000	$ 120,378
Restricted cash equivalents	80,198	69,242
Accounts and notes receivable	145,042	131,540
Receivable from affiliates	21,659	214
Refundable income taxes	337	12,302
Inventories	186,793	205,973
Prepaid expenses	6,977	2,458
Deferred income taxes	11,829	11,673
Total current assets	549,835	553,780
Other assets:		
Marketable securities	44,614	47,186
Receivable from affiliate	11,900	--
Investment in TiO2 manufacturing joint venture	144,228	150,002
Prepaid pension cost	22,516	22,789
Restricted cash equivalents	12,656	17,942
Other	5,977	4,707
Total other assets	241,891	242,626
Property and equipment:		
Land	24,640	24,978
Buildings	125,038	129,019

Machinery and equipment	523,005	530,920
Mining properties	67,310	67,134
Construction in progress	27,124	4,586
	767,117	756,637
Less accumulated depreciation and depletion	442,274	432,255
Net property and equipment	324,843	324,382
	$1,116,569	$1,120,788

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	September 30, 2001	December 31, 2000
Current liabilities:		
Notes payable	$ 47,435	$ 69,970
Current maturities of long-term debt	917	730
Accounts payable and accrued liabilities	140,275	147,877
Payable to affiliates	9,543	10,634
Accrued environmental costs	64,634	53,307
Income taxes	13,976	13,616
Deferred income taxes	1,319	1,822
Total current liabilities	278,099	297,956
Noncurrent liabilities:		
Long-term debt	195,920	195,363
Deferred income taxes	151,927	145,673
Accrued environmental costs	41,749	57,133
Accrued pension cost	17,360	21,220
Accrued postretirement benefits cost	29,680	29,404
Other	16,813	23,272
Total noncurrent liabilities	453,449	472,065
Minority interest	7,211	6,279
Shareholders' equity:		
Common stock	8,355	8,355
Additional paid-in capital	777,597	777,528
Retained earnings	191,697	141,073
Accumulated other comprehensive loss	(190,009)	(181,872)
Treasury stock	(409,830)	(400,596)
Total shareholders' equity	377,810	344,488

	$ 1,116,569	$ 1,120,788

Commitments and contingencies (Note 14)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues and other income:				
Net sales	$206,952	$242,309	$653,117	$724,444
Litigation settlement gains, net	--	--	10,582	43,000
Insurance recoveries, net	3,900	--	5,829	--
Other, net	2,926	4,906	11,144	20,352
	213,778	247,215	680,672	787,796
Costs and expenses:				
Cost of sales	145,945	159,021	447,167	482,319
Selling, general and administrative	30,665	33,972	92,323	104,194
Interest	6,949	7,717	20,812	23,470
	183,559	200,710	560,302	609,983
Income before income taxes and minority interest	30,219	46,505	120,370	177,813
Income tax expense	9,681	14,882	38,896	58,843
Income before minority interest	20,538	31,623	81,474	118,970
Minority interest	--	1,454	953	1,655
Net income	$ 20,538	$ 30,169	$ 80,521	$117,315
Earnings per share:				
Basic	$ .41	$ .60	$ 1.61	$ 2.32
Diluted	$ .41	$ .60	$ 1.61	$ 2.31
Weighted average shares used in the calculation of earnings per share:				
Basic	49,621	50,203	49,876	50,539
Dilutive impact of stock options	84	403	153	330

Diluted	49,705	50,606	50,029	50,869

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Net income	$ 20,538	$ 30,169	$ 80,521	$ 117,315
Other comprehensive income (loss), net of tax:				
Marketable securities adjustment:				
Unrealized holding gain (loss) arising during the period	(5,258)	2,021	(1,669)	2,729
Reclassification adjustment for loss (gain) included in net income	--	(50)	736	(50)
	(5,258)	1,971	(933)	2,679
Currency translation adjustment	13,161	(18,623)	(7,204)	(41,219)
Total other comprehensive income (loss)	7,903	(16,652)	(8,137)	(38,540)
Comprehensive income	$ 28,441	$ 13,517	$ 72,384	$ 78,775

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Nine months ended September 30, 2001

(In thousands)

			Accumulated other comprehensive income (loss)			
Common stock	Additional paid-in capital	Retained earnings	Currency translation	Marketable securities	Treasury stock	Total

Balance at December 31, 2000	$ 8,355	$ 777,528	$ 141,073	$(190,757)	$ 8,885	$(400,596)	$ 344,488
Net income	--	--	80,521	--	--	--	80,521
Other comprehensive income (loss), net	--	--	--	(7,204)	(933)	--	(8,137)
Dividends	--	--	(29,897)	--	--	--	(29,897)
Tax benefit of stock options exercised	--	69	--	--	--	--	69
Treasury stock:							
Acquired (677 shares)	--	--	--	--	--	(9,853)	(9,853)
Reissued (37 shares)	--	--	--	--	--	619	619
Balance at September 30, 2001	$ 8,355	$ 777,597	$ 191,697	$(197,961)	$ 7,952	$(409,830)	$ 377,810

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 30, 2001 and 2000

(In thousands)

	2001	2000
Cash flows from operating activities:		
Net income	$ 80,521	$ 117,315
Depreciation, depletion and amortization	22,335	22,790
Deferred income taxes	7,340	33,301
Distributions from TiO2 manufacturing joint venture	5,513	7,550
Litigation settlement gain, net included in restricted cash	(10,307)	(43,000)
Pension cost, net	(2,458)	(10,488)
Net (gains) losses from securities transactions	1,133	(5,630)
Insurance recoveries, net	(5,829)	--
Other, net	(624)	1,357
	97,624	123,195
Change in assets and liabilities:		
Accounts and notes receivable	(15,494)	(37,921)
Inventories	15,676	27,740
Prepaid expenses	(3,891)	(4,123)
Accounts payable and accrued liabilities	(7,872)	7,910
Income taxes	12,018	6,708
Other, net	(5,637)	(4,347)
Net cash provided by operating activities	92,424	119,162
Cash flows from investing activities:		
Capital expenditures	(32,391)	(19,757)
Property damaged by fire:		
Insurance proceeds	10,500	--
Other, net	(2,100)	--
Loans to affiliates:		
Loans	(33,400)	--
Collections	500	--
Purchase of Tremont Corporation common stock	--	(26,040)
Change in restricted cash equivalents, net	700	(102)
Other, net	84	249
Net cash used by investing activities	(56,107)	(45,650)

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Nine months ended September 30, 2001 and 2000

(In thousands)

	2001	2000
Cash flows from financing activities:		
Dividends paid	$ (29,897)	$ (22,721)
Treasury stock:		
Purchased	(9,853)	(29,180)
Reissued	619	1,581
Indebtedness:		
Borrowings	1,437	--
Principal payments	(22,132)	(29,034)
Other, net	(5)	(6)
Net cash used by financing activities	(59,831)	(79,360)
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(23,514)	(5,848)
Currency translation	136	(3,312)
Balance at beginning of period	120,378	134,224
Balance at end of period	$ 97,000	$ 125,064
Supplemental disclosures - cash paid for:		
Interest	$ 14,239	$ 16,428
Income taxes, net	19,538	18,838

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 titanium dioxide pigments ("TiO2") operations through its wholly owned subsidiary, Kronos, Inc. At September 30, 2001, Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, held approximately 61% and 21%, respectively, of NL's outstanding common stock. At September 30, 2001, Contran and its subsidiaries held approximately 94% of Valhi's outstanding common stock, and a company 80% owned by Valhi and 20% owned by NL held approximately 80% of Tremont'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 of NL and the Chairman of the Board and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies. See Note 6.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 2000 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at September 30, 2001 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the interim periods ended September 30, 2001 and 2000 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 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, 2000 (the "2000 Annual Report").

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, effective January 1, 2001. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, all derivatives are recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives is dependent upon the intended use of the derivative. As permitted by the transition requirements of SFAS No. 133, as amended, the Company exempted from the scope of SFAS No. 133 all host contracts containing embedded derivatives which were issued or acquired prior to January 1, 1999. The Company is not a party to any significant derivative or hedging instrument covered by SFAS No. 133 at September 30, 2001, and there was no impact on the Company's financial statements from adopting SFAS No. 133.

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.

Note 3 - Business segment information:

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

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(In thousands)			
Net sales	$ 206,952	$ 242,309	$ 653,117	$ 724,444
Other income (expense), excluding corporate	(337)	1,404	1,673	5,518

	206,615	243,713	654,790	729,962
Cost of sales	145,945	159,021	447,167	482,319
Selling, general and administrative, excluding corporate	24,448	27,181	74,315	81,154
Operating income	36,222	57,511	133,308	166,489
Insurance recoveries, net	3,900	--	5,829	--
Income before corporate items, income taxes and minority interest	40,122	57,511	139,137	166,489
General corporate income (expense):				
Securities earnings, net	2,145	2,494	5,937	11,602
Litigation settlement gains, net and other income	1,129	1,008	14,127	46,232
Corporate expenses	(6,228)	(6,791)	(18,019)	(23,040)
Interest expense	(6,949)	(7,717)	(20,812)	(23,470)
Income before income taxes and minority interest	$ 30,219	$ 46,505	$ 120,370	$ 177,813

Note 4 - Inventories:

	September 30, 2001	December 31, 2000
	(In thousands)	
Raw materials	$ 40,160	$ 66,061
Work in process	7,321	7,117
Finished products	111,879	107,120
Supplies	27,433	25,675
	$186,793	$205,973

Note 5 - Marketable securities:

	September 30, 2001	December 31, 2000
	(In thousands)	
Available-for-sale marketable equity securities:		
Unrealized gains	$ 15,004	$ 14,912
Unrealized losses	(2,770)	(1,244)
Cost	32,380	33,518
Aggregate fair value	$ 44,614	$ 47,186

In June 2001, the Company recognized a $1.1 million noncash securities loss related to an other-than-temporary decline in value of certain available-for-sale securities held by the Company. See Note 11.

Note 6 - Receivable from affiliates:

A majority-owned subsidiary of the Company, NL Environmental Management Services, Inc. ("EMS"), loaned $13.4 million to Tremont under a reducing revolving loan agreement in the first quarter of 2001. See Note 1. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime plus 2% (8.75% at September 30, 2001), is due March 31, 2003 and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The maximum amount available for borrowing by Tremont reduces by $250,000 per quarter. In each of the second and third quarters of 2001, Tremont repaid $250,000 of the loan. At September 30, 2001, the outstanding loan balance was $12.9 million and no amounts were available for additional borrowings by Tremont.

In May 2001, a wholly owned subsidiary of EMS loaned $20 million to the Harold C. Simmons Family Trust #2 (the "Trust"), one of the trusts described in Note 1, under a $25 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 (6.75% at September 30, 2001), 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 Trust. At September 30, 2001, $5 million was available for additional borrowing by the Trust.

Note 7 - Accounts payable and accrued liabilities:

	September 30, 2001	December 31, 2000
	(In thousands)	
Accounts payable	$ 54,643	$ 64,553
Accrued liabilities:		
Employee benefits	29,367	34,160
Interest	11,241	5,019
Deferred income	4,000	4,000
Other	41,024	40,145
	85,632	83,324
	$140,275	$147,877

Note 8 - Other noncurrent liabilities:

	September 30, 2001	December 31, 2000
	(In thousands)	
Insurance claims and expenses	$ 9,592	$10,314
Employee benefits	3,703	7,721
Deferred income	1,333	4,333
Other	2,185	904

	$16,813	$23,272

Note 9 - Notes payable and long-term debt:

	September 30, 2001	December 31, 2000
	(In thousands)	
Notes payable - Kronos	$ 47,435	$ 69,970
Long-term debt:		
NL Industries, Inc. - 11.75% Senior Secured Notes (See Note 13)	$194,000	$194,000
Kronos	2,837	2,093
	196,837	196,093
Less current maturities	917	730
	$195,920	$195,363

Notes payable consists of euro 27.2 million and NOK 200 million at September 30, 2001 and euro 51 million and NOK 200 million at December 31, 2000.

Note 10 - 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, 2001	2000
	(In thousands)	
Expected tax expense	$ 42,130	$ 62,235
Non-U.S. tax rates	(3,451)	(3,917)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return	416	1,015
Valuation allowance	(1,343)	(2,116)
U.S. state income taxes	444	691
Other, net	700	935
Income tax expense	$ 38,896	$ 58,843

Note 11 - Litigation settlement gains, net and other income, net:

Litigation settlement gains, net

In the first quarter of 2001 and the second quarter of 2000, the Company recognized litigation settlement gains with former insurance carrier groups of $10.6 million and $43 million, respectively, to settle certain insurance coverage claims related to environmental remediation. A majority of the proceeds from these settlements were transferred to special-purpose trusts established by the insurance carrier groups to pay future remediation and other environmental expenditures of the Company. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

Other income, net

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(In thousands)			
Securities earnings:				
Interest and dividends	$ 2,145	$ 2,417	$ 7,070	$ 5,972
Securities transactions	--	77	(1,133)	5,630
	2,145	2,494	5,937	11,602
Currency transactions, net	(1,183)	602	98	4,256
Noncompete agreement income	1,000	1,000	3,000	3,000
Disposition of property and equipment	3	(271)	(416)	(1,219)
Trade interest income	611	648	1,680	1,475
Other, net	350	433	845	1,238
	$ 2,926	$ 4,906	$ 11,144	$ 20,352

In the second quarter of 2000, the Company recognized a $5.6 million securities gain related to common stock received from the demutualization of an insurance company from which the Company had purchased certain insurance policies.

Note 12 - Leverkusen fire and insurance claim:

A fire on March 20, 2001 damaged a section of the Company's Leverkusen, Germany 35,000 metric ton sulfate-process TiO_2 plant ("Sulfate Plant") and, as a result, production of TiO_2 at the Leverkusen facility was halted. The fire did not enter the Company's adjacent 125,000 metric ton chloride-process TiO_2 plant ("Chloride Plant"), but did damage certain support equipment necessary to operate that plant. The damage to the support equipment resulted in a temporary shutdown of the Chloride Plant.

On April 8, 2001, repairs to the damaged support equipment were substantially completed and full production resumed at the Chloride Plant. The Sulfate Plant became approximately 50% operational in September 2001 and became fully operational in late October 2001.

During the third quarter of 2001, the Company's insurance carriers approved payment of $8 million ($6.8 million received as of September 30, 2001) as a partial payment for property damage costs and business interruption losses caused by the Leverkusen fire. Three million dollars of this payment represented partial compensation for business interruption losses which was recorded as a reduction of cost of sales to offset unallocated period costs that resulted from lost production. The remaining $5 million represented property damage recoveries against which the Company recorded $1.1 million of expenses related to clean-up costs, resulting in a net gain of $3.9 million. In the first nine months of 2001, the Company's insurance carriers approved payment of $18.5 million ($17.3 million received as of September 30, 2001) for losses caused by the Leverkusen fire, including the $8 million discussed above. Eight million dollars of this payment was for business interruption losses and the remaining $10.5 million was for property damage losses against which the Company recorded $4.7 million of expenses resulting in a net gain of $5.8 million.

In October 2001, the Company reached an agreement in principle with its insurance carriers to settle the coverage claim involving the Leverkusen fire.

The Company expects to receive an additional $38 million in insurance recoveries, of which approximately $13 million relates to property damage costs, and approximately $25 million relates to business interruption losses and extra expenses resulting from the fire. The Company expects to report a gain, net of certain expenses, related to this insurance settlement in the fourth quarter of 2001.

Note 13 - Condensed consolidating financial information:

The Company's 11.75% Senior Secured Notes (the "Notes") are collateralized by a series of intercompany notes to NL (the "Parent Issuer"). The Notes are also collateralized by a first priority lien on the stock of Kronos. A second priority lien on the stock of NL Capital Corporation ("NLCC") collateralized the notes until February 2000, at which time it was merged into KII and became included in the first priority lien on the stock of Kronos.

In the event of foreclosure, the holders of the Notes would have access to the consolidated assets, earnings and equity of the Company. The Company believes the collateralization of the Notes, as described above, is the functional economic equivalent of a joint and several, full and unconditional guarantee of the Notes by Kronos and, prior to its merger into KII, NLCC.

Management believes that separate financial statements would not provide additional material information that would be useful in assessing the financial position of Kronos and NLCC (the "Guarantor Subsidiaries"). In lieu of providing separate financial statements of the Guarantor Subsidiaries, the Company has included condensed consolidating financial information of the Parent Issuer, Guarantor Subsidiaries and non-guarantor subsidiaries in accordance with Rule 3-10(e) of the SEC's Regulation S-X. The Guarantor Subsidiaries and the non-guarantor subsidiaries comprise all of the direct and indirect subsidiaries of the Parent Issuer.

Investments in subsidiaries are accounted for by NL under the equity method, wherein the parent company's share of earnings is included in net income. Elimination entries eliminate (i) the parent's investments in subsidiaries and the equity in earnings of subsidiaries, (ii) intercompany payables and receivables and (iii) other transactions between subsidiaries.

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
September 30, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,088	$ 65,190	$ 28,722	$ --	$ 97,000
Restricted cash equivalents	80,198	--	--	--	80,198
Accounts and notes receivable	750	144,220	72	--	145,042
Receivable from affiliates	17,394	--	21,714	(17,449)	21,659
Refundable income taxes	--	337	--	--	337
Inventories	--	186,793	--	--	186,793
Prepaid expenses	510	6,467	--	--	6,977
Deferred income taxes	4,748	7,081	--	--	11,829
Total current assets	106,688	410,088	50,508	(17,449)	549,835
Other assets:					
Investment in subsidiaries	1,044,649	--	294	(1,044,943)	--
Marketable securities	343	--	44,271	--	44,614
Notes receivable from affiliates	194,000	612,183	34,900	(829,183)	11,900
Investment in TiO2 manufacturing joint venture	--	144,228	--	--	144,228
Prepaid pension cost	2,228	20,288	--	--	22,516
Restricted cash equivalents	12,656	--	--	--	12,656
Other	1,368	4,609	--	--	5,977
Total other assets	1,255,244	781,308	79,465	(1,874,126)	241,891
Property and equipment, net	3,900	320,943	--	--	324,843

	$ 1,365,832	$ 1,512,339	$ 129,973	$(1,891,575)	$ 1,116,569

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet, (Continued)
September 30, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Notes payable	$ --	$ 47,435	$ --	$ --	$ 47,435
Current maturities of long-term debt ...	--	917	--	--	917
Accounts payable and accrued liabilities	29,199	110,884	192	--	140,275
Payable to affiliates	13,420	12,918	654	(17,449)	9,543
Accrued environmental costs	7,018	--	57,616	--	64,634
Income taxes	459	13,517	--	--	13,976
Deferred income taxes	--	1,319	--	--	1,319
Total current liabilities	50,096	186,990	58,462	(17,449)	278,099
Noncurrent liabilities:					
Long-term debt	194,000	1,920	--	--	195,920
Notes payable to affiliate	635,183	194,000	--	(829,183)	--
Deferred income taxes	73,227	78,573	127	--	151,927
Accrued environmental costs	8,005	7,442	26,302	--	41,749
Accrued pension cost	1,464	15,896	--	--	17,360
Accrued postretirement benefits cost ...	16,352	13,328	--	--	29,680
Other	9,695	7,118	--	--	16,813
Total noncurrent liabilities	937,926	318,277	26,429	(829,183)	453,449
Minority interest	--	287	6,924	--	7,211
Shareholders' equity	377,810	1,006,785	38,158	(1,044,943)	377,810
	$ 1,365,832	$ 1,512,339	$ 129,973	$(1,891,575)	$ 1,116,569

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
December 31, 2000
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 3,632	$ 52,979	$ 63,767	$ --	$ 120,378
Restricted cash equivalents	69,242	--	--	--	69,242
Accounts and notes receivable	172	131,295	73	--	131,540
Receivable from affiliates	6,189	--	216	(6,191)	214
Refundable income taxes	10,512	1,790	--	--	12,302
Inventories	--	205,973	--	--	205,973
Prepaid expenses	347	2,111	--	--	2,458
Deferred income taxes	6,394	5,279	--	--	11,673
Total current assets	96,488	399,427	64,056	(6,191)	553,780
Other assets:					
Investment in subsidiaries	687,300	--	285	(687,585)	--

Marketable securities	452	--	46,734	--	47,186
Notes receivable from affiliates	194,000	301,695	23,000	(518,695)	--
Investment in TiO2 manufacturing joint venture	--	150,002	--	--	150,002
Prepaid pension cost	1,772	21,017	--	--	22,789
Restricted cash equivalents	17,942	--	--	--	17,942
Other	1,739	2,968	--	--	4,707
Total other assets	903,205	475,682	70,019	(1,206,280)	242,626
Property and equipment, net	4,425	319,957	--	--	324,382
	$ 1,004,118	$ 1,195,066	$ 134,075	$(1,212,471)	$ 1,120,788

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet, (Continued)
December 31, 2000
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Notes payable	$ --	$ 69,970	$ --	$ --	$ 69,970
Current maturities of long-term debt	--	730	--	--	730
Accounts payable and accrued liabilities	24,098	123,555	224	--	147,877
Payable to affiliates	2,140	14,073	612	(6,191)	10,634
Accrued environmental costs	5,046	--	48,261	--	53,307
Income taxes	--	13,604	12	--	13,616
Deferred income taxes	--	1,822	--	--	1,822
Total current liabilities	31,284	223,754	49,109	(6,191)	297,956
Noncurrent liabilities:					
Long-term debt	194,000	1,363	--	--	195,363
Notes payable to affiliate	324,695	194,000	--	(518,695)	--
Deferred income taxes	70,985	73,699	989	--	145,673
Accrued environmental costs	6,729	8,699	41,705	--	57,133
Accrued pension cost	1,438	19,782	--	--	21,220
Accrued postretirement benefits cost	15,039	14,365	--	--	29,404
Other	15,460	7,812	--	--	23,272
Total noncurrent liabilities	628,346	319,720	42,694	(518,695)	472,065
Minority interest	--	299	5,980	--	6,279
Shareholders' equity	344,488	651,293	36,292	(687,585)	344,488
	$ 1,004,118	$ 1,195,066	$ 134,075	$(1,212,471)	$ 1,120,788

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Three months ended September 30, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 206,952	$ --	$ --	$ 206,952
Interest and dividends	6,754	10,131	1,482	(15,611)	2,756
Equity in income of subsidiaries	25,804	--	--	(25,804)	--
Insurance recoveries, net	--	3,900	--	--	3,900
Other income, net	1,129	(959)	(11)	11	170
	33,687	220,024	1,471	(41,404)	213,778
Costs and expenses:					

Cost of sales	--	145,945	--	--	145,945
Selling, general and administrative	(1,800)	31,355	1,110	--	30,665
Interest	15,689	6,871	--	(15,611)	6,949
	13,889	184,171	1,110	(15,611)	183,559
Income before income taxes and minority interest	19,798	35,853	361	(25,793)	30,219
Income tax expense (benefit)	(740)	10,411	10	--	9,681
Net income	$ 20,538	$ 25,442	$ 351	$ (25,793)	$ 20,538

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Three months ended September 30, 2000
(In thousands)

	NL Industries Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 242,309	$ --	$ --	$ 242,309
Interest and dividends	8,326	6,557	1,563	(13,381)	3,065
Equity in income of subsidiaries	39,177	--	--	(39,177)	--
Other income, net	1,085	756	--	--	1,841
	48,588	249,622	1,563	(52,558)	247,215
Costs and expenses:					
Cost of sales	--	159,021	--	--	159,021
Selling, general and administrative	5,493	29,530	(1,051)	--	33,972
Interest	13,531	7,567	--	(13,381)	7,717
	19,024	196,118	(1,051)	(13,381)	200,710
Income before income taxes and minority interest	29,564	53,504	2,614	(39,177)	46,505
Income tax expense (benefit)	(605)	15,487	--	--	14,882
Income before minority interest	30,169	38,017	2,614	(39,177)	31,623
Minority interest	--	8	1,446	--	1,454
Net income	$ 30,169	$ 38,009	$ 1,168	$ (39,177)	$ 30,169

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Nine months ended September 30, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 653,117	$ --	$ --	$ 653,117
Interest and dividends	20,751	25,590	4,603	(42,194)	8,750
Equity in income of subsidiaries	100,325	--	--	(100,325)	--
Litigation settlement gains, net	10,582	--	--	--	10,582
Insurance recoveries, net	--	5,829	--	--	5,829
Other income, net	2,412	(18)	(11)	11	2,394

	134,070	684,518	4,592	(142,508)	680,672
Costs and expenses:					
Cost of sales	--	447,167	--	--	447,167
Selling, general and administrative	9,257	82,694	372	--	92,323
Interest	42,415	20,591	--	(42,194)	20,812
	51,672	550,452	372	(42,194)	560,302
Income before income taxes and minority interest	82,398	134,066	4,220	(100,314)	120,370
Income tax expense	1,877	37,009	10	--	38,896
Income before minority interest	80,521	97,057	4,210	(100,314)	81,474
Minority interest	--	9	944	--	953
Net income	$ 80,521	$ 97,048	$ 3,266	$(100,314)	$ 80,521

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Nine months ended September 30, 2000
(In thousands)

	NL Industries Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 724,444	$ --	$ --	$ 724,444
Interest and dividends	23,500	18,136	4,365	(38,554)	7,447
Equity in income of subsidiaries	153,635	--	--	(153,635)	--
Litigation settlement gains, net	43,000	--	--	--	43,000
Other income, net	8,862	4,043	--	--	12,905
	228,997	746,623	4,365	(192,189)	787,796
Costs and expenses:					
Cost of sales	--	482,319	--	--	482,319
Selling, general and administrative	19,698	85,012	(516)	--	104,194
Interest	38,661	23,363	--	(38,554)	23,470
	58,359	590,694	(516)	(38,554)	609,983
Income before income taxes and minority interest	170,638	155,929	4,881	(153,635)	177,813
Income tax expense	53,323	5,520	--	--	58,843
Income before minority interest	117,315	150,409	4,881	(153,635)	118,970
Minority interest	--	33	1,622	--	1,655
Net income	$ 117,315	$ 150,376	$ 3,259	$(153,635)	$ 117,315

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Nine months ended September 30, 2001
(In thousands)

NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated

Net cash provided (used) by operating activities	$ 18,618	$ 99,115	$ (2,133)	$ (23,176)	$ 92,424
Cash flows from investing activities:					
Capital expenditures	--	(32,391)	--	--	(32,391)
Loans to affiliates, net	--	(11,938)	(32,900)	11,938	(32,900)
Change in restricted cash	8,024	--	--	(7,324)	700
Other, net	7	8,477	(8)	8	8,484
Net cash provided (used) by investing activities	8,031	(35,852)	(32,908)	4,622	(56,107)
Cash flows from financing activities:					
Dividends, net	(29,897)	(30,500)	--	30,500	(29,897)
Treasury stock:					
Purchased	(9,853)	--	--	--	(9,853)
Reissued	619	--	--	--	619
Indebtedness:					
Borrowings	--	1,437	--	--	1,437
Principal payments	--	(22,132)	--	--	(22,132)
Loans from affiliates	11,938	--	--	(11,938)	--
Other, net	--	3	--	(8)	(5)
Net cash provided (used) by financing activities	(27,193)	(51,192)	--	18,554	(59,831)
Cash and cash equivalents:					
Net change from:					
Operating, investing and financing activities	(544)	12,071	(35,041)	--	(23,514)
Currency translation	--	140	(4)	--	136
	(544)	12,211	(35,045)	--	(23,378)
Balance at beginning of period	3,632	52,979	63,767	--	120,378
Balance at end of period	$ 3,088	$ 65,190	$ 28,722	$ --	$ 97,000

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Nine months ended September 30, 2000
(In thousands)

	NL Industries Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	$ 16,862	$ 145,433	$ (133)	$ (43,000)	$ 119,162
Cash flows from investing activities:					
Capital expenditures	(21)	(19,736)	--	--	(19,757)
Purchase of Tremont Corporation common stock	(9,520)	--	(16,520)	--	(26,040)
Change in restricted cash	(102)	--	--	--	(102)
Loans to affiliates	--	(35,872)	30,000	5,872	--
Investment in subsidiary	(16,600)	--	--	16,600	--
Other, net	181	68	--	--	249
Net cash provided (used) by investing activities	(26,062)	(55,540)	13,480	22,472	(45,650)
Cash flows from financing activities:					
Treasury stock:					
Purchased	(29,180)	--	--	--	(29,180)
Reissued	1,581	--	--	--	1,581
Dividends, net	(22,721)	(43,000)	--	43,000	(22,721)
Principal payments on debt	--	(29,034)	--	--	(29,034)
Loans from affiliates	48,872	(43,000)	--	(5,872)	--
Capital contributions	--	--	16,600	(16,600)	--
Other, net	--	(6)	--	--	(6)
Net cash provided (used) by financing activities	(1,448)	(115,040)	16,600	20,528	(79,360)
Cash and cash equivalents:					
Net change from:					
Operating, investing and financing activities	(10,648)	(25,147)	29,947	--	(5,848)
Currency translation	--	(3,305)	(7)	--	(3,312)
	(10,648)	(28,452)	29,940	--	(9,160)
Balance at beginning of period	13,415	113,062	7,747	--	134,224
Balance at end of period	$ 2,767	$ 84,610	$ 37,687	$ --	$ 125,064

Note 14 - 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, 2001 and June 30, 2001, and (iv) the 2000 Annual Report.

Note 15 - Accounting principles not yet adopted:

The Company will adopt SFAS No. 143, Accounting for Asset Retirement Obligations, no later than 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 would be 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 would be accreted to its present value, and the capitalized cost would be 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. The Company is still studying this newly-issued standard to determine, among other things, whether it has any asset retirement obligations which are covered under the scope of SFAS No. 143, and the effect, if any, to the Company of adopting this standard has not yet been determined.

The Company will adopt SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, no later than January 1, 2002. SFAS No. 144 retains the fundamental provisions of existing generally accepted accounting principles with respect to the recognition and measurement of long-lived asset impairment contained in SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. However, SFAS No. 144 provides new guidance intended to address certain significant implementation issues associated with SFAS No. 121, including expanded guidance with respect to appropriate cash flows to be used to determine whether recognition of any long-lived asset impairment is required, and if required how to measure the amount of the impairment. SFAS No. 144 also requires that any net assets to be disposed of by sale be reported at the lower of carrying value or fair value less cost to sell, and expands the reporting of discontinued operations to include any component of an entity with operations and cash flows that can be clearly distinguished from the rest of the entity. The Company is still studying this newly-issued standard, and the effect, if any, to the Company of adopting SFAS No. 144 has not yet been determined.

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

RESULTS OF OPERATIONS

	Three months ended September 30,		% Change	Nine months ended September 30,		% Change
	2001	2000		2001	2000	
	(In millions, except percentages and metric tons)					
Net sales and operating income						
Net sales	$207.0	$242.3	-15%	$653.1	$724.4	-10%

Operating income	$ 36.2	$ 57.5	-37%	$133.3	$166.5	-20%
Operating income margin percentage	18%	24%			20%	23%
TiO2 operating statistics						
Percent change in average selling price (in billing currencies)			-6%			n/c
Sales volume (metric tons in thousands)	103	113	-9%	311	343	-10%
Production volume (metric tons in thousands)	109	113	-4%	315	329	-4%

Kronos' operating income in the third quarter of 2001 decreased $21.3 million or 37% from the third quarter of 2000 due to lower average selling prices in billing currencies and lower sales and production volumes. Kronos' operating income in the first nine months of 2001 decreased $33.2 million or 20% from the first nine months of 2000 due to lower sales and production volumes.

Kronos' average selling price in billing currencies (which excludes the effects of foreign currency translation) during the third quarter of 2001 was 6% lower than the third quarter of 2000 and 4% lower than the second quarter of 2001. Compared to the second quarter of 2001, prices in billing currencies were lower in all major markets. The average selling price in billing currencies in September was 1% lower than the average selling price during the third quarter as prices continued to trend downward. Kronos' average selling price in billing currencies for the first nine months of 2001 was comparable to the first nine months of 2000. Due to the global economic slowdown, the Company expects its average selling price in billing currencies will continue to trend downward through the end of the year and perhaps into the first quarter of 2002. The Company expects a lower average selling price for full-year 2001 compared to the full-year average selling price in 2000.

Kronos' third-quarter 2001 sales volume decreased 9% from the near record third quarter of 2000 and decreased 2% from the second quarter of 2001. Sales volume in the third quarter of 2001 was 17% and 4% lower in Europe and North America, respectively, compared to the third quarter of 2000, while export volume increased moderately. Compared to the second quarter of 2001, sales volume decreased in Europe and North America while sales volume increased moderately in the export markets. Sales volume in the first nine months of 2001 was 10% lower than in the first nine months of 2000. Kronos anticipates its sales volume for full-year 2001 will be lower than that of 2000. Finished goods inventory levels at the end of September represented about two months of sales.

Third-quarter 2001 production volume was 4% lower than the comparable 2000 period with operating rates at 95% in the third quarter of 2001 compared to near full capacity in the third quarter of 2000. Kronos'

production volume in the first nine months of 2001 was 4% lower than the first nine months of 2000 with operating rates at 94% in the first nine months of 2001 compared to near full capacity in the first nine months of 2000. The lower production volume was primarily related to lost sulfate-process production at the Company's Leverkusen facility due to the previously reported fire in March 2001. See Note 12 to the Consolidated Financial Statements. The Leverkusen sulfate-process plant became approximately 50% operational in September 2001 and became fully operational in late October 2001. Kronos anticipates its production volume for full-year 2001 will be lower than that of 2000.

During the third quarter of 2001, the Company's insurance carriers approved payment of $8 million ($6.8 million received as of September 30, 2001) as a partial payment for property damage costs and business interruption losses caused by the Leverkusen fire. Three million dollars of this payment represented partial compensation for business interruption losses which was recorded as a reduction of cost of sales to offset unallocated period costs that resulted from lost production. The remaining $5 million represented property damage recoveries against which the Company recorded $1.1 million of expenses related to clean-up costs, resulting in a net gain of $3.9 million. In the first nine months of 2001, the Company's insurance carriers approved payment of $18.5 million ($17.3 million received as of September 30, 2001) for losses caused by the Leverkusen fire, including the $8 million discussed above. Eight million dollars of this payment was for business interruption losses and the remaining $10.5 million was for property damage losses against which the Company recorded $4.7 million of expenses resulting in a net gain of $5.8 million.

In October 2001, the Company reached an agreement in principle with its insurance carriers to settle the coverage claim involving the Leverkusen fire. The Company expects to receive an additional $38 million in insurance recoveries, of which approximately $13 million relates to property damage costs, and approximately $25 million relates to business interruption losses and extra expenses resulting from the fire. The Company expects to report a gain, net of certain expenses, related to this insurance settlement in the fourth quarter of 2001.

Kronos expects its full-year 2001 operating income will be significantly lower than 2000 primarily because of lower average selling prices in billing currencies, lower sales and production volumes and higher energy costs.

Compared to the year-earlier periods, cost of sales as a percentage of net sales increased in both the third quarter and first nine months of 2001 primarily due to lower production volume. Excluding the effects of foreign currency translation, which decreased the Company's expenses in the third quarter and first nine months of 2001 compared to year-earlier periods, the Company's selling, general and administrative expenses, excluding corporate expenses, in the third quarter and first nine months of 2001 were slightly lower compared to the year-earlier periods.

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 stronger U.S. dollar compared to the euro in the third quarter and first nine months of 2001 versus the year-earlier periods, decreased the dollar value of sales in the third quarter and first nine months of 2001 by a net $6 million and $24 million, respectively, when compared to the year-earlier periods. When translated from billing currencies to U.S. dollars using currency exchange rates prevailing during the respective periods, Kronos' third-quarter 2001 average selling price in U.S. dollars was 9% lower than in the third quarter of 2000 and 4% lower than the second quarter of 2001. Kronos' average selling price in U.S. dollars for the first nine months of 2001 decreased 4% from the first nine months of 2000. The effect of the stronger U.S. dollar on Kronos' operating

costs that are not denominated in U.S. dollars reduced operating costs in the third quarter and first nine months of 2001 compared to the year-earlier periods. In addition, sales to export markets are typically denominated in U.S. dollars and a stronger U.S. dollar improves margins on these sales at the Company's non-U.S. subsidiaries. The favorable margin on export sales tends to offset the unfavorable effect of translating local currency profits to U.S. dollars when the dollar is stronger. As a result, the net impact of currency exchange rate fluctuations on operating income in the third quarter and first nine months of 2001 was not significant when compared to the year-earlier periods.

General corporate

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

	Three months ended September 30,		Difference	Nine months ended September 30,		Difference
	2001	2000		2001	2000	
			(In millions)			
Securities earnings	$ 2.1	$ 2.5	$ (.4)	$ 6.0	$ 11.6	$ (5.6)
Corporate income	1.1	1.0	.1	14.1	46.2	(32.1)
Corporate expense	(6.2)	(6.8)	.6	(18.0)	(23.0)	5.0

Interest expense	(6.9)	(7.7)	.8	(20.8)	(23.5)	2.7
	$ (9.9)	$ (11.0)	$ 1.1	$ (18.7)	$ 11.3	$ (30.0)

Securities earnings in the first nine months of 2001 declined from the comparable period in 2000 primarily due to a $5.6 million second-quarter 2000 securities gain related to common stock received from the demutualization of an insurance company from which the Company had purchased certain insurance policies.

Corporate income in the first quarter of 2001 and the second quarter of 2000 includes litigation settlement gains with former insurance carrier groups of $10.6 million and $43 million, respectively. See Note 11 to the Consolidated Financial Statements. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

Corporate expense in the first nine months of 2001 was lower than the year-earlier period, primarily due to lower environmental remediation accruals and lower legal fees.

Interest expense in the third quarter and first nine months of 2001 decreased 10% and 11%, respectively, from the comparable periods in 2000 primarily due to lower average interest rates as a result of the December 2000 refinancing of $50 million of the Company's fixed-rate public debt with lower variable-rate bank debt, and lower levels of outstanding debt. In the second and third quarters of 2001, the Company repaid $6.5 million and $14.9 million, respectively, of its euro-denominated short-term debt with excess cash flow from operations. The Company expects its full-year 2001 interest expense will be lower than full-year 2000.

Provision for income taxes

The Company reduced its deferred income tax valuation allowance by $1.3 million in the first nine months of 2001 and $2.1 million in the first nine months of 2000 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.

Accounting principles not yet adopted

See Note 15 to the Consolidated Financial Statements.

Other

Minority interest primarily relates to the Company's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS").

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the nine months ended September 30, 2001 and 2000 are presented below.

	Nine months ended September 30,	
	2001	2000
	(In millions)	
Net cash provided (used) by:		
Operating activities:		
Before changes in assets and liabilities	$ 97.2	$ 123.2
Changes in assets and liabilities	(4.8)	(4.0)
	92.4	119.2

Investing activities	(56.1)	(45.6)
Financing activities	(59.8)	(79.4)
Net cash used by operating, investing, and financing activities	$ (23.5)	$ (5.8)

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 flow from operations, before changes in assets and liabilities, in the first nine months of 2001 decreased from the comparable period in 2000 primarily due to lower operating income. The net cash used to fund changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) in the first nine months of 2001 was comparable to the first nine months of 2000 with higher inventory balances and decreases in accounts payable and accrued liabilities offset by decreases in accounts and notes receivable balances in the first nine months of 2001.

Investing activities

In February 2001, EMS loaned $13.4 million to Tremont under a reducing revolving loan agreement. See Note 1 to the Consolidated Financial Statements. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime plus 2% (8.75% at September 30, 2001), is due March 31, 2003 and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The maximum amount available for borrowing by Tremont reduces by $250,000 per quarter. In each of the second and third quarters of 2001, Tremont repaid $250,000 of the loan. At September 30, 2001, the outstanding loan balance was $12.9 million and no amounts were available for additional borrowings by Tremont.

In May 2001, a wholly owned subsidiary of EMS loaned $20 million to the Harold C. Simmons Family Trust #2 (the "Trust"), one of the trusts described in Note 1 to the Consolidated Financial Statements, under a $25 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 (6.75% at September 30, 2001), 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 Trust. At September 30, 2001, $5 million was available for additional borrowing by the Trust.

In the second and third quarters of 2001, the Company's capital expenditures include an aggregate of $11.7 million for the rebuilding of its Leverkusen sulfate plant.

In the second and third quarters of 2001, the Company received $5.5 million and $5 million, respectively, of insurance proceeds for property damage resulting from the Leverkusen fire and paid $1 million and $1.1 million, respectively, of expenses related to repairs and clean-up costs.

Financing activities

In the second and third quarters of 2001, the Company repaid euro 7.6 million ($6.5 million when paid) and euro 16.4 million ($14.9 million when paid), respectively, of its euro-denominated short-term debt with excess cash flow from operations.

In the third quarter of 2001, the Company paid a regular quarterly dividend to shareholders of $.20 per share, aggregating $9.9 million. Dividends paid during the first nine months of 2001 totaled $.60 per share or $29.9 million. On October 24, 2001, the Company's Board of Directors declared a regular quarterly dividend of $.20 per share to shareholders of record as of December 10, 2001 to be paid on December 24, 2001.

Pursuant to its share repurchase program, the Company purchased 465,000 shares of its common stock at an aggregate cost of $7.1 million in the third quarter of 2001 and 677,000 shares at an aggregate cost of $9.9 million in the first nine months of 2001. In October 2001, the Company's Board of Directors authorized the purchase of up to an additional 1.5 million shares. An additional 13,000 shares at an aggregate cost of $.2 million were purchased in October 2001, with 1,576,000 shares remaining for purchase under the repurchase program.

Cash, cash equivalents, restricted cash equivalents and borrowing availability

At September 30, 2001, the Company had cash and cash equivalents aggregating $97 million ($59 million held by non-U.S. subsidiaries) and an additional $93 million of restricted cash equivalents held by U.S. subsidiaries, of which $13 million was classified as a noncurrent asset. The Company's subsidiaries had $25 million available for borrowing at September 30, 2001 under existing non-U.S. credit facilities.

Income tax contingencies

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 interest.

The Company received tax assessments from the Norwegian tax authorities proposing tax deficiencies, including related interest, of NOK 39.3 million pertaining to 1994 and 1996. The Company was unsuccessful in appealing the tax assessments and in June 2001 paid NOK 39.3 million ($4.3 million when paid) to the Norwegian tax authorities. The Company was adequately reserved for this contingency. The lien on the Company's Fredrikstad, Norway TiO_2 plant in favor of the Norwegian tax authorities has been released.

The Company has received preliminary tax assessments for the years 1991 to 1998 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately euro 13.6 million ($12.5 million at September 30, 2001). The Company has filed protests to the assessments for the years 1991 to 1997 and expects to file a protest for 1998. The Company is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit.

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.

Environmental matters and litigation

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, including sites for which EMS has contractually assumed the Company's obligation. The Company believes it has adequate accruals ($106 million at September 30, 2001) 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 $170 million. The Company's estimates of such liabilities have not been discounted to present value. No assurance can be given that actual costs will not exceed either 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. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes with respect to site cleanup costs or allocation of such costs among 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. Furthermore, there can be no assurance that additional environmental matters will not arise in the future.

Lead pigment litigation

The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of 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 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 products and (b) effectively overturn 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. There can be no assurance that additional matters of these types will not arise in the future. See Item 1 - "Legal Proceedings."

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 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; 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," "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 cyclicality 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), recoveries from insurance claims and the timing thereof, the ultimate resolution of pending or possible future lead pigment litigation and legislative developments related to the lead paint litigation, the outcome of other litigation, and other risks and uncertainties included in this Quarterly Report and in the 2000 Annual Report, and the uncertainties set forth from time to time in the Company's other public reports and filings. 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the 2000 Annual Report and the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2001 and June 30, 2001 for descriptions of certain previously reported legal proceedings.

Brenner, et al. v. American Cyanamid, et al. (No. 12596-93). In November 2001, the Fourth Department intermediate appellate court unanimously affirmed the dismissal of plaintiff's complaint by the trial court.

County of Santa Clara v. Atlantic Richfield Company, et al. (No. CV788657). In September 2001, the trial judge dismissed without leave to amend plaintiffs' nuisance claim and their product liabilities claims for properties not owned by plaintiffs.

Sabater, et al. v. Lead Industries Association, et al. (No. 25533/98). In September 2001, the Federal Court dismissed the Federal Home Loan Mortgage Corporation and remanded the case to state court.

City of Milwaukee v. NL Industries, Inc. and Mautz Paint (No. 01CV003066). In October 2001, the trial court denied the Company's motion to dismiss plaintiff's conspiracy claim for lack of particularity.

Jefferson County School District v. Lead Industries Association, et al. (No. 2001-69). In July 2001, plaintiff filed a motion to remand the case to state court.

It is possible that other governmental entities or other plaintiffs may file claims related to lead pigment and paint similar to those described above and in the 2000 Annual Report.

Since the filing of the 2000 Annual Report, the Company has been named as a defendant in asbestos cases in various jurisdictions on behalf of approximately 2,000 additional personal injury claimants.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Revolving Loan Note dated May 4, 2001 with Harold C.

Simmons Family Trust No. 2 and EMS Financial, Inc.

10.2 Security Agreement dated May 4, 2001 by and between Harold C. Simmons Family Trust No. 2 and EMS Financial, Inc.

(b) Reports on Form 8-K

There were no Reports on Form 8-K filed during the quarter ended September 30, 2001 and through the date of this report.

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: November 9, 2001

By /s/ Susan E. Alderton

Susan E. Alderton
Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2001

By /s/ Robert D. Hardy

Robert D. Hardy
Vice President and Controller
(Principal Accounting Officer)

REVOLVING LOAN NOTE

$25,000,000 May 4, 2001

FOR VALUE RECEIVED, the undersigned, The Harold C. Simmons Family Trust No. 2 ("Maker"), promises to pay, on demand, subject to sixty days notice unless there shall have occurred an "Event of Default" as defined below and as a result this Note shall have at once become due and payable (the "Maturity Date"), to the order of EMS Financial, Inc. a New Jersey corporation ("Payee") or any subsequent holder, at its offices at 16825 Northchase Drive, Suite 1200, Houston TX 77060, or such other place designated by holder in writing, the principal sum of TWENTY-FIVE MILLION DOLLARS ($25,000,000), or such lesser amount as shall equal the aggregate principal amount of all revolving loans made to Maker by Payee hereunder (the "Revolving Loans"), together with interest from the date hereof on the unpaid balance of this Note as it may exist from time to time at the rate (herein called the "Applicable Rate") equal to prime, determined at the beginning of each calendar quarter, and in no event shall the Applicable Rate exceed the maximum interest rate permitted to be charged from time to time under applicable law (herein called the "Maximum Rate"). The Applicable Rate shall be determined based upon the published prime rate. Accrued interest on this Note shall be computed daily on the basis of a 365-day/366 day year, as applicable, applied to the unpaid principal balance at the close of business each day and the aggregate of such daily amounts of accrued interest shall be payable quarterly on the first business day following the end of each calendar quarter. Notwithstanding the foregoing, if at any time the Applicable Rate exceeds the Maximum Rate, the rate of interest payable under this Note shall be limited to the Maximum Rate as provided above.

Subject to the terms and conditions set forth in this Note, Payee shall make Revolving Loans to Maker at any time and from time to time from the date of this Note until the Maturity Date, in an aggregate principal amount not to exceed at any one time $25,000,000 (the "Maximum Revolving Loan Amount") at such time. Revolving Loans made under this Note shall be in an integral multiple of $200,000 and shall be wired by Payee to the account of Maker requested by Maker prior to 3:00 p.m., New York time, on the borrowing date proposed by Maker. Maker shall give Payee irrevocable written notice of all proposed Revolving Loans not later than three business days prior to the proposed borrowing (a "Borrowing Notice"). Such Borrowing Notice shall specify the aggregate principal amount of the Revolving Loan that Maker is requesting Payee to make and the requested effective date of the proposed Revolving Loan. Each Revolving Loan shall bear interest on the outstanding principal balance thereof from the date such Revolving Loan is made at the Applicable Rate. Proceeds of each Revolving Loan shall be used for the general purposes of the Maker including to refinance existing obligations of the Maker.

Payee shall, and is hereby authorized by Maker to, endorse on the schedule attached hereto an appropriate notation evidencing the date and amount of each Revolving Loan from Payee and the date and amount of each payment and prepayment with respect thereto; provided that the failure of the Payee to make such a notation on this Note or any error in such notation shall not affect the obligations of Maker under this Note.

Maker shall pay Payee on the last day of each quarter end, in immediately available funds, a revolving loan commitment fee (the "Fee") equal to 1/2 of 1% per annum on the average unused amount of the Maximum Revolving Loan Amount for each quarter. Such Fee shall be computed on the basis of the actual number of days elapsed during the calendar quarter on the basis of a 365 or 366 day year, as applicable. Such Fee shall commence on the date of this Note and cease to accrue on the earlier of the Maturity Date or any termination of Payee's commitment to make Revolving Loans.

Maker shall have the right at any time, in its sole discretion and upon not less than 10 days written notice to Payee, to permanently reduce or terminate the Maximum Revolving Loan Amount, provided, however, that each partial reduction thereof shall be in an integral multiple of $200,000. Any reduction of the Maximum Revolving Loan Amount shall be accompanied by payment in full of any principal over the reduced Maximum Revolving Loan Amount plus accrued interest thereon and accrued Fee computed as provided in the previous paragraph.

Payee shall have the right at any time, in its sole discretion and upon not less than 60 days written notice to Maker (unless there shall have occurred and be continuing an Event of Default), to permanently reduce or terminate the Maximum Revolving Loan Amount, provided, however, that each partial reduction thereof shall be in an integral multiple of $200,000. Any reduction of the Maximum Revolving Loan Amount shall require Maker to remit payment in full of any principal over the reduced Maximum Revolving Loan Amount plus accrued interest and accrued Fee computed as provided in the paragraph above upon the expiration of such 60 day notice period.

The principal balance of this Note may be prepaid and discharged in whole or in part by Maker at any time and from time to time, without premium, penalty or fee. Any such prepayment may be subsequently reborrowed.

The Maker, signers, sureties, guarantors and endorsers of this Note, jointly and severally, except as otherwise expressly set forth herein, waive demand, presentment, notice of nonpayment or dishonor, diligence in collecting, grace, notice of any protest, and consent to all extensions for any periods of time and partial payments, before or after maturity.

If this Note is not paid at maturity, howsoever such maturity may be brought about, and the same is placed in the hands of an attorney for collection, or if this Note is collected by suit or through bankruptcy, probate or other legal proceedings, Maker agrees to pay holder's costs of collection, when incurred, including reasonable attorney's fees.

No delay in the payments to holder or in the exercise of any power or right under this Note, or under any instrument securing payment hereof or executed in connection herewith, shall operate as a waiver thereof, nor shall a single or partial exercise of any power or right preclude other or further exercise thereof or exercise of any other power or right.

Payment of the indebtedness evidenced by this Note is secured by the security interests established by the following documents (the "Security Documents"), to wit:

A Security Agreement dated as of May 4, 2001 executed by the Maker and Payee covering certain securities owned by Maker.

The term default shall include any or all of the following:

(a) The assignment or voluntary or involuntary conveyance by Maker of legal or beneficial interest, or Maker's mortgage, pledge or grant of a security interest in any of the Collateral (as defined in the Security Agreement); or

(b) The filing or issuance of a notice of any lien, warrant for distraint or notice of levy for taxes or assessment against the Collateral (except for those liens not securing indebtedness for borrowed money which are being contested in good faith and for which adequate reserves have been created); or

(c) Maker's nonpayment of any installment of principal, interest or the Fee under this Note; or

(d) The adjudication of Maker as bankrupt, or the taking of any voluntary action by Maker or any involuntary action against Maker seeking an adjudication of Maker as bankrupt, or seeking relief by or against Maker under any provision of the United States Bankruptcy Code;

(e) The failure by Maker to comply with any other covenant in this Note or in the Security Documents;

(f) Maker's default in any payment (regardless of amount) of principal or interest on any other indebtedness for borrowed money; or

(g) Maker's default in the observance or performance of any other agreement or condition relating to any such other indebtedness for borrowed money or contained in any instrument evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder of the indebtedness to cause, such other indebtedness for borrowed money to become due prior to its stated maturity.

An "Event of Default" shall be deemed to have occurred immediately upon any default described in clause (d) or (g) above, if any default described in clauses (c) or (f) above is not cured within 5 days, and if any default described in clauses (a), (b), or (e) is not cured within 30 days after written notice from Payee to Maker.

If an Event of Default relating to a default described in clause (d) above shall occur, the entire principal balance and accrued interest owing thereon shall automatically become due and payable, without presentment, demand, protest or notice of any kind, all of which are expressly waived by Maker, and the commitment to make Revolving Loans shall automatically be terminated. If any other Event of Default has occurred and is continuing, the entire principal

balance and accrued interest owing hereof shall at once become due and payable and the commitment to make Revolving Loans shall be terminated without notice, at the option of the Payee, and the property covered by the Security Documents shall be subject to foreclosure under applicable law. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default. In the event any payment, including interest or principal, required to be made under this Note is not made when due, interest on the overdue sum shall accrue at the Applicable Rate plus four percent.

So long as the Note shall remain unpaid, the Maker shall furnish to the Payee:

(a) as soon as available and in any event not later than 75 days after the end of each of the first three quarters of each fiscal year of the Maker, the unaudited balance sheet of the Maker as of the end of such quarter and the unaudited statements of income and cash flows of the Maker for the period commencing at the end of the previous year and ending with the end of such quarter, all in reasonable detail and duly certified with respect to such statements (subject to year-end adjustments) by the Trustee of the Maker as being complete and accurate in all material respects;

(b) as soon as available and in any event not later than 75 days after the end of each of the first three quarters of each fiscal year of Contran Corporation, the unaudited consolidated balance sheet of Contran Corporation as of the end of such quarter and the unaudited consolidated statements of income and cash flows of Contran Corporation for the period commencing at the end of the previous year and ending with the end of such quarter, all in reasonable detail and duly certified with respect to such unaudited consolidated statements (subject to year-end adjustments) by an officer of Contran Corporation as being complete and accurate in all material respects;

(c) as soon as available and in any event not later than 120 days after the end of each fiscal year of the Maker, a copy of the unaudited balance sheet of the Maker as of the end of such fiscal year and unaudited statement of income and of cash flows of the Maker for such fiscal year, all in reasonable detail and duly certified with respect to such statements by the Trustee of Maker as being complete and accurate in all material respects;

(d) as soon as available and in any event not later than 120 days after the end of each fiscal year of Contran Corporation, a copy of the annual audit report for such year, including therein consolidated balance sheets of Contran Corporation as of the end of such fiscal year and consolidated statements of income and retained earnings and of cash flows of the Contran Corporation for such fiscal year, in each case with unqualified certification by PricewaterhouseCoopers LLP or other independent certified public accountants of national recognized standing reasonably acceptable to Payee.

This Note shall be construed in accordance with the laws of the State of New Jersey and the laws of the United States applicable to transactions in New Jersey.

IN WITNESS WHEREOF, the undersigned Maker has executed this Note as of the day of May 4, 2001.

The Harold C. Simmons Family Trust No. 2

By: /s/H. Simmons

H. Simmons

Its: Trustee

Acknowledged and agreed to by the undersigned solely with respect to its obligations in the second and third paragraph of this Note:

EMS Financial, Inc.

By: /s/Robert D. Hardy

Robert D. Hardy

Its: Treasurer

SCHEDULE OF REVOLVING LOANS

Type of Transaction (Loan or Payment)	Date	Amount

EXHIBIT 10.2

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement"), dated this 4th day of May, 2001, by and between The Harold C. Simmons Family Trust No. 2 (hereinafter called "Pledgor"), whose principal office is at 5430 LBJ Freeway, Suite 1700, Dallas TX 75240 and EMS Financial, Inc. a New Jersey corporation (the "Secured Party"), in its capacity as the holder of the Note (as defined below).

Section 1. Security Interest. For value received, Pledgor hereby grants to Secured Party, upon the terms and conditions of this Agreement, to secure the "Obligation", as described in Section 2 below, a security interest in and to any and all present or future rights of Pledgor in and to all of the following rights, interests and property (all of the following being herein sometimes called the "Pledged Shares"):

> 15,768 shares of Pledgor's Class A Common Stock of Contran Corporation, par value of $.01 per share.

As used in this Agreement, the "Collateral" shall include the Pledged Shares together with any and all products and proceeds of the Pledged Shares, including, without limitation, all dividends, cash, instruments, subscriptions, warrants and any other rights and options and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Shares.

Section 2. Loan Agreement. This Agreement is being executed and delivered pursuant to the terms, conditions and requirements of that certain Revolving Loan Note, dated as of May 4, 2001 ("Revolving Note"), pursuant to which Secured Party has loaned monies to, and may in the future loan monies to Pledgor. The security interests herein granted ("Security Interests") shall secure full payment and performance of: (a) that certain Revolving Loan Note of even date herewith in the principal amount of $25,000,000, made by Pledgor and payable to the order of Secured Party (such note and any notes given in modification, renewal, extension or substitution thereof being herein sometimes collectively referred to as the "Notes" and individually as the "Note"); and (b) the due and punctual observance and performance of each and every agreement, covenant and condition on Pledgor's part to be observed or performed under this Agreement or the Note (all of which debts, duties, liabilities and obligations hereinbefore described and covered by this Agreement and the Note are hereinafter referred to as the "Obligation").

Section 3. Priority. Pledgor represents and warrants that the Security Interests are first and prior security interests in and to all of the Collateral, subject to no other liens thereon or security interests therein.

Section 4. Title to Collateral. Pledgor represents and warrants to Secured Party that: (a) Pledgor is the sole, direct, legal and beneficial owner of the Collateral; (b) no dispute, right of offset, counterclaim, or defense to the Security Interests exists with respect to all or any part of the Collateral; and (c) Pledgor will defend the Collateral against the claims and demands of all persons other than any subordinate claims or liens permitted by Secured Party in its sole discretion.

Section 5. Pledgor's Obligations. So long as the Note is outstanding, Pledgor covenants and agrees with Secured Party: (a) not to permit any part of the Collateral to be levied upon under any legal process; (b) not to dispose of any of the Collateral without the prior written consent of Secured Party; (c) to comply with all applicable federal, state and local statutes, laws, rules and regulations, the noncompliance with which could have a material and adverse effect on the value of the Collateral; and (d) to pay all taxes accruing after the date hereof which constitute, or may constitute, a lien against the Collateral, prior to the date when penalties or interest would attach to such taxes; provided, that Pledgor may contest any such tax claim if done diligently and in good faith.

Pledgor agrees to execute and deliver to Secured Party (i) stock powers appropriately endorsed in blank, with respect to the Collateral, and (ii) such other documents of transfer as Secured Party may from time to time request to enable Secured Party to transfer the Collateral into its name or the name of its nominee.

Pledgor agrees (i) immediately to deliver to Secured Party or its nominee all certificates evidencing any of the Collateral which may at any time come into the possession of Pledgor, (ii) to execute and deliver to Secured Party such financing statements as Secured Party may request with respect to the Collateral, and (iii) to take such other steps as Secured Party may from time to time reasonably request to perfect Secured Party's security interest in the Collateral under applicable law. Pledgor agrees that this Agreement or a photocopy of this Agreement shall be sufficient as a financing statement.

Section 6. Event of Default. As used herein, the term default shall include any or all of the following:

(a) The assignment or voluntary or involuntary conveyance by Pledgor of legal or beneficial interest, or Pledgor's mortgage, pledge or grant of a security interest in any of the Collateral (as defined herein); or

(b) The filing or issuance of a notice of any lien, warrant for distraint or notice of levy for taxes or assessment against the Collateral (except for those liens not securing indebtedness for borrowed money which are being contested in good faith and for which adequate reserves have been created); or

(c) Pledgor's nonpayment of any installment of principal or interest or fees under the Note; or

(d) The adjudication of Pledgor as bankrupt, or the taking of any voluntary action by Pledgor or any involuntary action against Pledgor seeking an adjudication of Pledgor as bankrupt, or seeking relief by or against Pledgor under any provision of the United States Bankruptcy Code; or

(e) The failure by Pledgor to comply with any other covenant contained in the Note or this Agreement; or

(f) Pledgor's default in any payment (regardless of amount) of principal of or interest on any other indebtedness for borrowed money; or

(g) Pledgor's default in the observance or performance of any other agreement or condition relating to any such other indebtedness for borrowed money or contained in any instrument evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder of the indebtedness to cause, such other indebtedness for borrowed money to become due prior to its stated maturity.

An "Event of Default" shall be deemed to have occurred immediately upon any default described in clause (d) or (g) above; if any default described in clauses (c) or (f) above is not cured within 5 days; and if any default described in clauses (a), (b), or (e) is not cured within 30 days after written notice from Secured Party to Pledgor.

Section 7. Remedies. Upon the occurrence and during the continuation of an Event of Default as defined herein, in addition to any and all other rights and remedies which Secured Party may then have hereunder or under the Note, under the Uniform Commercial Code of the State of New Jersey or of any other pertinent jurisdiction (the "Code"), or otherwise, Secured Party may, at its option: (a) reduce its claim to judgment or foreclosure or otherwise enforce the Security Interests, in whole or in part, by any available judicial procedure; (b) sell, or otherwise dispose of, at the office of Secured Party, or elsewhere, all or any part of the Collateral, and any such sale or other disposition may be as a unit or in parcels, by public or private proceedings, and by way of one or more contracts (it being agreed that the sale of any part of the Collateral shall not exhaust the Secured Party's power of sale, but sales may be made from time to time, and at any time, until all of the Collateral has been sold or until the Obligation has been paid and performed in full); (c) at its discretion, retain the Collateral in satisfaction of the Obligation whenever the circumstances are such that Secured Party is entitled to do so under the Code or otherwise; and (d) exercise any and all other rights, remedies and privileges he may have under the Note and the other documents defining the Obligation.

Pledgor will pay to Secured Party all expenses (including, without limitation, court costs and attorneys' fees and expenses) of, or incident to, (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale or collection of or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of Secured Party hereunder, or (iv) the failure by Pledgor to perform or observe any provision hereof. All such reimbursement obligations shall constitute a part of the Obligation.

In view of the fact that federal and state securities laws may impose certain restrictions on the method by which a sale of the Collateral may be effected, Pledgor agrees that upon the occurrence and during the continuance of an Event of Default, Secured Party may, from time to time, attempt to sell all or any part of the Collateral by means of a private placement restricting the bidders and prospective purchasers to those who are qualified and will represent and agree that they are purchasing for investment only and not for distribution. In so doing, Secured Party may solicit offers to buy the Collateral, or any part of it, from a limited number of investors deemed by Secured Party, in its reasonable judgment, to be financially responsible parties who might be interested in purchasing the Collateral. If Secured Party solicits such offers, then the acceptance by Secured Party of the highest offer obtained therefrom shall be deemed to be a commercially reasonable method of disposing of such Collateral.

Section 8. Application of Proceeds by Secured Party. Any and all proceeds ever received by Secured Party from any sale or other disposition of the Collateral, or any part thereof, or the exercise of any other remedy pursuant hereto shall be applied by Secured Party to the Obligation in such order and manner as Secured Party, in its sole discretion, may deem appropriate, notwithstanding any directions or instructions to the contrary by Pledgor; provided that the proceeds and/or accounts shall be applied toward satisfaction of the Obligation. Any proceeds received by Secured Party under this Agreement in excess of those necessary to fully and completely satisfy the Obligation shall be distributed to Pledgor.

Section 9. Notice of Sale. Reasonable notification of the time and place of any public sale of the Collateral, or reasonable notification of the time after which any private sale or other intended disposition of the Collateral is to be made, shall be sent to Pledgor and to any other persons entitled under the Code to notice; provided, that if any of the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party may sell, pledge, assign or otherwise dispose of the Collateral without notification, advertisement or other notice of any kind. It is agreed that notice sent or given not less than ten (10) calendar days prior to the taking of the action to which the notice relates is reasonable notification and notice for the purposes of this paragraph.

Section 10. Right to Vote Collateral; Receipt of Dividends, Etc.

(a) Unless an Event of Default shall have occurred and be continuing, the Pledgor shall have the right, from time to time, to vote and to give consents, ratifications and waivers with respect to the Collateral, and the Secured Party shall, upon receiving a written request from the Pledgor, which request shall be deemed to be a representation and warranty by the Pledgor that no Event of Default has occurred and is continuing, deliver to the Pledgor or, as specified in such request, such proxies, powers of attorney, consents, ratifications and waivers in respect of any Collateral which are registered in the name of the Secured Party or a nominee as shall be specified in such request and be in form and substance satisfactory to the Secured Party.

(b) If an Event of Default shall have occurred and be continuing, all rights of the Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 10 (a) above shall end upon five days' notice from the Secured Party to the Pledgor and thereafter the Secured Party shall have the right to the extent permitted by law, and the Pledgor shall take all such action as may be necessary or appropriate to give effect to such right, to vote and to give consents, ratifications and waivers, and take any other action with respect to all Collateral with the same force and effect as if the Secured Party were the absolute and sole owner thereof.

(c) Unless an Event of Default shall have occurred and be continuing, the Pledgor shall be entitled to receive all regular cash dividends. Any other extraordinary dividends or distributions or proceeds therefrom on account of the Collateral shall, if received by the Pledgor, be received in trust for the benefit of the Secured Party, be segregated from the other property or funds of the Pledgor, and be forthwith delivered to the Secured Party as collateral in the same form as so received (with any necessary endorsement).

Section 11. Delivery of Notices. Any notice or demand required to be given hereunder shall be in writing and shall be deemed to have been duly given and received, if given by hand, when a writing containing such notice is received by the person to whom addressed or, if given by mail, two (2) business days after a certified or registered letter containing such notice, with postage prepaid, is deposited in the United States mails, addressed to:

If to Secured Party:

EMS Financial, Inc.
16825 Northchase Drive
Suite 1200
Houston TX 77060
Attn: Vice President and Secretary

If to Pledgor:

The Harold C. Simmons Family Trust No. 2
5430 LBJ Freeway
Suite 1700
Dallas TX 75240
Attn: Trust Counsel

Any such address may be changed from time to time by serving notice to the other party as above provided. A business day shall mean a day of the week which is not a Saturday or Sunday or a holiday recognized by national banking associations.

Section 12. Binding Effect. This Agreement shall be binding upon Pledgor, its successors and assigns, and shall inure to the benefit of Secured Party, its heirs, successors, assigns, executors, administrators, and personal or legal representatives.

Section 13. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the state of New Jersey.

Section 14. Severability. In the event that any one or more of the provisions contained in this Agreement are held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement.

Section 15. Lender Appointed Attorney-in-Fact. Upon the occurrence and during the continuance of an Event of Default, Pledgor hereby appoints Secured Party as Pledgor's attorney-in-fact, with full authority in the place and stead of Pledgor and in the name of Pledgor or otherwise, from time to time in its discretion to take any action and to execute any instrument which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, endorse and collect all instruments made payable to Pledgor representing any distribution, interest payment or other dividend or distribution in respect of the Collateral or any part thereof and to give full discharge for the same. This power of attorney created under this Section 15, being coupled with an interest, shall be irrevocable for the term of this Agreement and thereafter as long as any of the Obligation shall be

outstanding, but shall not be deemed to authorize Secured Party to take an action which Pledgor could not be required to take hereunder.

Section 16. Lender's Duty. Secured Party shall not be liable for any acts, omissions, errors of judgment or mistakes of fact or law including, without limitation, acts, omissions, errors or mistakes with respect to the Collateral, except with respect to Secured Party's custodial duties and for those arising out of or in connection with the Secured Party's gross negligence or willful misconduct. Without limiting the generality of the foregoing, Secured Party shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other parties but may do so at its option, and all expenses incurred in connection therewith shall be for the sole account of Pledgor, and shall be added to the Obligation secured hereby.

EXECUTED as of the day and year first herein set forth.

SECURED PARTY:

EMS Financial, Inc.

By: /s/ Robert D. Hardy

Robert D. Hardy
Title: Treasurer

PLEDGOR:

The Harold C. Simmons Family Trust No. 2

By: /s/ H. Simmons

H. Simmons
Title: Trustee