

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2004  
-----

Commission file number 1-640  
-----

NL INDUSTRIES, INC.

-----  
(Exact name of Registrant as specified in its charter)

New Jersey

13-5267260

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer  
Identification No.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697

-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (972)233-1700

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

Number of shares of the Registrant's common stock outstanding on April 30, 2004:  
48,352,684.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2003	March 31, 2004
Current assets:		
Cash and cash equivalents	\$ 67,799	\$ 111,647
Restricted cash and cash equivalents	19,029	15,601
Restricted marketable debt securities	6,147	4,267
Accounts and other receivables	156,820	184,091
Refundable income taxes	35,336	14,428
Receivable from affiliates	55	12
Inventories	266,020	227,530
Prepaid expenses	5,257	5,102
Deferred income taxes	10,798	10,154
	-----	-----
Total current assets	567,261	572,832
	-----	-----
Other assets:		
Marketable equity securities	70,487	59,451
Restricted marketable debt securities	6,870	8,782
Investment in TiO2 manufacturing joint venture	129,011	127,211
Receivable from affiliate	14,000	14,000
Other	34,057	33,226
	-----	-----
Total other assets	254,425	242,670
	-----	-----
Property and equipment:		
Land	32,981	32,104
Buildings	179,472	175,143
Equipment	765,704	750,576
Mining properties	83,183	80,642
Construction in progress	9,666	9,108
	-----	-----
	1,071,006	1,047,573
Less accumulated depreciation and amortization	635,267	629,468
	-----	-----
Net property and equipment	435,739	418,108
	-----	-----
	\$1,257,425	\$1,233,607
	=====	=====

See accompanying notes to consolidated financial statements.

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

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2003	March 31, 2004
Current liabilities:		
Current maturities of long-term debt	\$ 288	\$ 279
Accounts payable	103,180	66,779
Accrued liabilities	81,117	86,063
Accrued environmental costs	19,627	17,120
Payable to affiliates	19,537	19,526
Income taxes	12,726	13,050
Deferred income taxes	3,436	1,407
	-----	-----
Total current liabilities	239,911	204,224
	-----	-----

Noncurrent liabilities:		
Long-term debt	356,451	377,531
Accrued pension costs	81,180	80,871
Accrued postretirement benefits costs	23,411	22,563
Accrued environmental costs	57,854	57,061
Deferred income taxes	191,460	182,362
Other	19,453	18,976
	-----	-----
Total noncurrent liabilities	729,809	739,364
	-----	-----
Minority interest	86,791	86,528
	-----	-----
Stockholders' equity:		
Common stock	8,355	8,355
Additional paid-in capital	777,819	777,819
Retained earnings	16,023	18,371
Accumulated other comprehensive income (loss):		
Marketable securities	23,323	16,193
Currency translation	(153,955)	(154,260)
Pension liabilities	(36,209)	(36,209)
Treasury stock	(434,442)	(426,778)
	-----	-----
Total stockholders' equity	200,914	203,491
	-----	-----
	\$1,257,425	\$1,233,607
	=====	=====
Commitments and contingencies (Notes 10 and 12)		

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Three months ended March 31, 2003 and 2004

(In thousands, except per share data)

	2003	2004
Net sales	\$ 252,973	\$ 263,267
Cost of sales	188,417	202,231
	-----	-----
Gross margin	64,556	61,036
Selling, general and administrative expense	29,379	35,244
Other operating income (expense):		
Currency transaction gains (losses), net	(1,098)	254
Disposition of property and equipment	(61)	(23)
Noncompete agreement income	333	-
Other income	148	14
Corporate expense	(15,315)	(6,667)
	-----	-----
Income from operations	19,184	19,370
Other income (expense):		
Trade interest income	163	206
Other interest income	948	770
Securities transactions, net	2,234	(22)
Interest expense	(7,985)	(9,217)
	-----	-----
Income before income taxes and minority interest	14,544	11,107
Provision for income taxes	5,090	2,224
Minority interest in after-tax earnings	24	4,794
	-----	-----
Net income	\$ 9,430	\$ 4,089
	=====	=====
Basic and diluted net income per share	\$ .20	\$ .08
	=====	=====
Weighted-average shares used in the calculation of net income per share:		
Basic	47,693	48,140
Dilutive impact of stock options	51	139
	-----	-----
Diluted	47,744	48,279
	=====	=====

See accompanying notes to consolidated financial statements.

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

Three months ended March 31, 2003 and 2004

(In thousands)

	2003	2004
Net income	\$ 9,430	\$ 4,089
Other comprehensive income (loss), net of tax:		
Marketable securities adjustment:		
Unrealized holding gains (losses) arising during the period	7,093	(7,130)
Reclassification for realized net loss included in net income	(1,474)	-
	5,619	(7,130)
Currency translation adjustment	3,742	(305)
Total other comprehensive income (loss)	9,361	(7,435)
Comprehensive income (loss)	\$ 18,791	\$ (3,346)

See accompanying notes to consolidated financial statements.

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

Three months ended March 31, 2004

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)			Treasury stock	Total
				Marketable securities	Currency translation	Pension liabilities		
Balance at December 31, 2003	\$8,355	\$777,819	\$ 16,023	\$ 23,323	\$(153,955)	\$ (36,209)	\$(434,442)	\$200,914
Net income	-	-	4,089	-	-	-	-	4,089
Distribution of shares of Kronos Worldwide, Inc. common stock	-	-	(1,143)	-	-	-	-	(1,143)
Income tax on distribution	-	-	(598)	-	-	-	-	(598)
Other comprehensive loss, net	-	-	-	(7,130)	(305)	-	-	(7,435)

Treasury stock - reissued	-	-	-	-	-	-	7,664	7,664
Balance at March 31, 2004	\$8,355	\$777,819	\$ 18,371	\$ 16,193	\$(154,260)	\$ (36,209)	\$(426,778)	\$203,491

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Three months ended March 31, 2003 and 2004  
(In thousands)

	2003	2004
Cash flows from operating activities:		
Net income	\$ 9,430	\$ 4,089
Depreciation and amortization	9,691	11,137
Deferred income taxes	1,630	(1,258)
Minority interest	24	4,794
Other, net	(3,992)	1,893
Distributions from (contributions to) TiO2 manufacturing joint venture	(1,250)	1,800
Change in assets and liabilities:		
Accounts and other receivables	(29,298)	(30,909)
Inventories	18,702	33,494
Prepaid expenses	1,960	152
Accrued environmental costs	8,678	(3,300)
Accounts payable and accrued liabilities	(33,174)	(29,115)
Income taxes	339	21,301
Other, net	3,569	(642)
Net cash provided (used) by operating activities	(13,691)	13,436
Cash flows from investing activities:		
Capital expenditures	(6,503)	(4,518)
Change in restricted cash equivalents and restricted marketable debt securities, net	2,050	1,689
Other, net	42	30
Net cash used by investing activities	(4,411)	(2,799)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	16,106	99,968
Principal payments	(342)	(67,468)
Cash dividends paid	(9,539)	-
Distributions to minority interest	-	(5,974)
Treasury stock reissued	77	7,664
Net cash provided by financing activities	6,302	34,190

NL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
Three months ended March 31, 2003 and 2004  
(In thousands)

	2003	2004
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	\$(11,800)	\$ 44,827
Currency translation	422	(979)
Cash and cash equivalents at beginning of period	58,091	67,799
Cash and cash equivalents at end of period	\$ 46,713	\$111,647

Supplemental disclosures - cash paid (received) for:

Interest, net of amounts capitalized  
Income taxes, net

\$ 674  
3,121

\$ 1,085  
(16,952)

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. (NYSE: NL) conducts its titanium dioxide pigments ("TiO2") operations through its 50.5% owned subsidiary, Kronos Worldwide, Inc. (NYSE: KRO) ("Kronos"). At March 31, 2004, Valhi, Inc. and a wholly-owned subsidiary of Valhi held approximately 83% of NL's outstanding common stock, and Contran Corporation and its subsidiaries held approximately 90% of Valhi's outstanding common stock. At March 31, 2004, Valhi and a wholly-owned subsidiary of Valhi also held an additional 43.3% of Kronos' 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, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Mr. Simmons, the Chairman of the Board of Valhi, Contran and the Company, may be deemed to control each of such companies.

The consolidated balance sheet of NL at December 31, 2003 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at March 31, 2004, and the consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for the interim periods ended March 31, 2003 and 2004, have been prepared by the Company, without audit, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). 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 normally included in financial statements prepared in accordance with GAAP has been condensed or omitted, and 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 Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 Annual Report").

In March 2004, the Company paid its \$.20 per share regular quarterly dividend in the form of shares of Kronos common stock in which approximately 345,100 shares were distributed to NL stockholders in the form of a pro-rata dividend. Such shares represented approximately .7% of Kronos' outstanding common stock. The Company's distribution of such shares of Kronos common stock is taxable to the Company, and the Company is required to recognize a taxable gain equal to the difference between the fair market value of the shares of Kronos distributed on the date of distribution and the Company's adjusted tax basis in such shares at the date of distribution. Pursuant to the Company's tax sharing agreement with Valhi, the Company is not required to pay taxes on the tax liability generated for the shares of Kronos distributed to Valhi and its wholly-owned subsidiary. The Company is required to recognize a tax liability with respect to the Kronos shares distributed to NL stockholders other than Valhi and its wholly-owned subsidiary, and such tax liability was approximately \$598,000. In accordance with GAAP, the net carrying value of all of the shares of Kronos distributed (\$1.1 million) and the \$598,000 tax liability have been recognized as a reduction of the Company's stockholders' equity and charged directly to retained earnings.

As disclosed in the 2003 Annual Report, the Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion ("APBO") No. 25, "Accounting for Stock Issued to Employees," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is greater than or equal to the market price on the grant date. Prior to 2003, the Company commenced accounting for its stock options using the variable accounting method of APBO No. 25, which requires the intrinsic value of all unexercised stock options (including stock options with an exercise price at least equal to the market price on the date of grant) to be accrued as an expense, with subsequent increases (decreases) in the Company's market price resulting in recognition of additional compensation expense (income). Net compensation income recognized by the Company in accordance with APBO No. 25 was approximately \$500,000 in the first quarter of 2003, and net compensation cost recognized by the Company was \$1.1 million in the first quarter of 2004.

The following table presents what the Company's consolidated net income, and related per share amounts, would have been in the first quarter of 2003 and 2004 if the Company and its subsidiaries and affiliates had each elected to account for their respective stock-based employee compensation related to stock options in accordance with the fair value-based recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," for all awards granted subsequent to January 1, 1995.

Three months  
ended March 31,  
2003 2004  
(In millions, except  
per share amounts)

Net income as reported	\$ 9.4	\$ 4.1
Adjustments, net of applicable income tax effects and minority interest:		
Stock-based employee compensation expense (income) determined under APBO No. 25	(.3)	.4
Stock-based employee compensation expense determined under SFAS No. 123	(.1)	-
	-----	-----
Pro forma net income	\$ 9.0 =====	\$ 4.5 =====
Basic and diluted net income per share:		
As reported	\$ .20	\$ .08
Pro forma	\$ .19	\$ .09

The Company has complied with the consolidation requirements of FASB Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," as amended, as of March 31, 2004. See Note 13.

Note 2 - Accounts and other receivables:

	December 31, 2003	March 31, 2004
	-----	-----
	(In thousands)	
Trade receivables	\$147,029	\$176,130
Recoverable VAT and other receivables	12,710	10,856
Allowance for doubtful accounts	(2,919)	(2,895)
	-----	-----
	\$156,820 =====	\$184,091 =====

Note 3 - Inventories:

	December 31, 2003	March 31, 2004
	-----	-----
	(In thousands)	
Raw materials	\$ 61,959	\$ 31,591
Work in process	19,855	18,135
Finished products	147,270	142,175
Supplies	36,936	35,629
	-----	-----
	\$266,020 =====	\$227,530 =====

Note 4 - Marketable equity securities:

	December 31, 2003	March 31, 2004
	-----	-----
	(In thousands)	
Valhi common stock	\$ 70,450	\$ 59,430
Other	37	21
	-----	-----
	\$ 70,487 =====	\$ 59,451 =====

At March 31, 2004, the Company owned approximately 4.7 million shares of Valhi common stock with a quoted market price of \$12.62 per share (December 31, 2003 quoted market price - \$14.96 per share).

Note 5 - Other noncurrent assets:

	December 31, 2003	March 31, 2004
	-----	-----

(In thousands)

Deferred financing costs, net	\$ 10,417	\$ 9,695
Goodwill	6,406	6,406
Unrecognized net pension obligations	13,747	13,747
Intangible asset, net	1,859	1,765
Other	1,628	1,613
	-----	-----
	\$ 34,057	\$ 33,226
	=====	=====

## Note 6 - Accrued liabilities:

	December 31, 2003	March 31, 2004
	-----	-----
	(In thousands)	
Employee benefits	\$ 38,368	\$ 33,778
Interest	206	8,043
Other	42,543	44,242
	-----	-----
	\$ 81,117	\$ 86,063
	=====	=====

## Note 7 - Long-term debt:

	December 31, 2003	March 31, 2004
	-----	-----
	(In thousands)	
Kronos International, Inc. and subsidiaries:		
Senior Secured Notes	\$356,136	\$345,848
Revolving credit facility	-	31,551
Other	603	411
	-----	-----
	356,739	377,810
Less current maturities	288	279
	-----	-----
	\$356,451	\$377,531
	=====	=====

During the first quarter of 2004, certain of Kronos International's operating subsidiaries in Europe borrowed a net Euro 26 million (\$32 million when borrowed) under the European revolving credit facility at an interest rate of 3.8%.

## Note 8 - Other noncurrent liabilities:

	December 31, 2003	March 31, 2004
	-----	-----
	(In thousands)	
Employee benefits	\$ 4,849	\$ 4,663
Insurance	4,331	4,553
Other	10,273	9,760
	-----	-----
	\$ 19,453	\$ 18,976
	=====	=====

## Note 9 - Minority interest:

	December 31, 2003	March 31, 2004
	-----	-----
	(In thousands)	
Minority interest in net assets:		
Kronos Worldwide, Inc.	\$ 77,763	\$ 77,507
Other subsidiaries	9,028	9,021
	-----	-----
	\$ 86,791	\$ 86,528



Three months ended  
March 31,

2003	2004
(In thousands)	

Minority interest in net earnings:

Kronos Worldwide, Inc.	\$ -	\$ 4,786
Other subsidiaries	24	8
	\$ 24	\$ 4,794
	\$ 24	\$ 4,794

Note 10 - Provision for income taxes:

Three months ended  
March 31,

2003	2004
(In thousands)	

Expected tax expense	\$ 5.1	\$ 3.9
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	.9	(.1)
Non-U.S. tax rates	.1	.1
Change in deferred income tax valuation allowance, net	(.7)	(3.0)
U.S. state income taxes, net	.1	-
Other, net	(.4)	1.3
	\$ 5.1	\$ 2.2
	\$ 5.1	\$ 2.2

In the first quarter of 2003, Kronos International, Inc. ("KII"), which conducts Kronos' TiO2 operations in Europe, was notified by the German Federal Fiscal Court (the "Court") that the Court had ruled in KII's favor concerning a claim for refund suit in which KII sought refunds of prior taxes paid during the periods 1990 through 1997. KII and the Company's German operating subsidiary were required to file amended tax returns with the German tax authorities to receive refunds for such years, and all of such amended returns were filed during 2003. Such amended returns reflected an aggregate refund of taxes and related interest to the Company's German operating subsidiary of Euro 103.2 million (\$123.0 million), and an aggregate additional liability of taxes and related interest to KII of Euro 91.9 million (\$109.6 million). Assessments and refunds will be processed by year as the respective returns are reviewed by the tax authorities. Certain interest components may also be refunded separately. The German tax authorities have reviewed and accepted the amended return with respect to the 1990 tax year. Through April 2004, KII's German operating subsidiary received net refunds of Euro 16.3 million (\$20.3 million when received). KII believes it will receive the net refunds for the remaining years during 2004. In addition to the refunds for the 1990 to 1997 periods, the court ruling also resulted in a refund of 1999 income taxes and interest for which the Company received Euro 21.5 million (\$24.6 million) in 2003. KII has recognized the aggregate Euro 32.8 million (\$38 million) benefit of such net refunds in its 2003 results of operations.

Certain of the Company's U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including penalties and interest. For example:

- o NL's and NL Environmental Management Services, Inc.'s ("EMS") 1998 U.S. federal income tax returns are currently being examined by the U.S. tax authorities, and NL and EMS have granted extensions of the statute of limitations for assessments until September 30, 2004. Based on the examination to date, NL anticipated that the U.S. tax authorities would propose a substantial tax deficiency, including interest, related to a restructuring transaction. In an effort to avoid protracted litigation and minimize the hazards of such litigation, NL applied to take part in an IRS settlement initiative applicable to transactions similar to the restructuring transaction, and in April 2003 NL received notification from the IRS that NL had been accepted into such settlement initiative. Under this initiative, a final settlement with the IRS is to be reached through expedited negotiations and, if necessary, through a specified expedited arbitration procedure. NL anticipates that settlement of this matter will likely occur in 2004, resulting in payments of federal and state tax and interest ranging from \$33 million to \$45 million. Additional payments in later years may be required as part of the settlement. NL has provided adequate accruals to cover the currently expected range of settlement outcomes.
  
- o Kronos has received a preliminary tax assessment related to 1993 from the Belgian tax authorities proposing tax deficiencies, including related

interest, of approximately Euro 6 million (\$8 million at March 31, 2004). Kronos has filed a protest to this assessment and believes that a significant portion of the assessment is without merit. The Belgian tax authorities have filed a lien on the fixed assets of Kronos' Belgian TiO2 operations in connection with this assessment. In April 2003, Kronos received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999 that, including interest, is expected to be approximately Euro 13 million (\$16 million). Kronos believes the proposed assessment is substantially without merit, and Kronos has filed a written response.

- o The Norwegian tax authorities have notified Kronos of their intent to assess tax deficiencies of approximately kroner 12 million (\$2 million at March 31, 2004) relating to the years 1998 to 2000. Kronos has filed a written protest to this proposed assessment.

No assurance can be given that these tax matters will be resolved in the Company's favor in view of the inherent uncertainties involved in settlement initiatives, 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 its consolidated financial position, results of operations or liquidity.

Note 11 - Employee benefit plans:

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

	Three months ended March 31,	
	2003	2004
	(In thousands)	
Service cost benefits	\$ 1,298	\$ 1,669
Interest cost on projected benefit obligations	4,404	5,031
Expected return on plan assets	(4,903)	(4,722)
Amortization of prior service cost	87	141
Amortization of net transition obligations	172	143
Recognized actuarial losses	446	962
	-----	-----
	\$ 1,504	\$ 3,224
	=====	=====

The components of net periodic postretirement benefits other than pensions ("OPEB") cost are presented in the table below.

	Three months ended March 31,	
	2003	2004
Service cost	\$ 35	\$ 57
Interest cost	511	471
Amortization of prior service credit	(519)	(255)
Recognized actuarial losses	46	71
	-----	-----
	\$ 73	\$ 344
	=====	=====

Note 12 - Commitments and contingencies:

Lead pigment litigation. The Company's former operations included the manufacture of lead pigments for use in paint and lead-based paint. Since 1987, NL, other former manufacturers of lead pigments for use in paint, and lead-based paint, and the Lead Industries Association (which discontinued business operations in 2002) have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, large U.S. cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share liability, intentional tort, fraud and misrepresentation violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and asserted health concerns associated

with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. Several former cases have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of the defendants. In addition, various other cases are pending (in which the Company is not a defendant) seeking recovery for injury allegedly caused by lead pigment and lead-based paint. Although the Company is not a defendant in these cases, the outcome of these cases may have an impact on additional cases being filed against the Company.

The Company believes these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. The Company has neither lost nor settled any of these cases. The Company has not accrued any amounts for the pending lead pigment and lead-based paint litigation. Liability that may result, if any, cannot reasonably be estimated. There can be 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.

Environmental matters and litigation. The Company's operations are governed by various federal, state, local and foreign environmental laws and regulations. Certain of the Company's businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws. As with other companies engaged in similar businesses, certain past and current operations and products of the Company have the potential to cause environmental or other damage. The Company has implemented and continues to implement various policies and programs in an effort to minimize these risks. The Company's policy is to comply with environmental laws and regulations at all of its plants and to continually strive to improve environmental performance in association with applicable industry initiatives. The Company believes that its operations are in substantial compliance with applicable requirements of environmental laws. From time to time, the Company may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies thereunder, could adversely affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances.

The Company's production facilities operate within an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers that allow them to issue operating permits under which the plants must operate. The Company believes all of its plants are in substantial compliance with applicable environmental laws. With respect to the Company's plants, neither the Company nor any of its subsidiaries have been notified of any environmental claim in the United States or any foreign jurisdiction by the U.S. Environmental Protection Agency ("EPA") or any applicable foreign authority or any state, provincial or local authority.

Some of the Company's current and former facilities, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, the Company has been named as a defendant, potentially responsible party ("PRP") or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") and similar state laws in approximately 60 governmental and private actions associated with waste disposal sites, mining locations, and facilities currently or previously owned, operated or used by the Company or its subsidiaries, or their predecessors, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable.

Environmental obligations are difficult to assess and estimate for numerous reasons including the complexity and differing interpretations of governmental regulations, the number of PRPs and the PRPs' ability or willingness to fund such allocation of costs, their financial capabilities and the allocation of costs among PRPs, the solvency of other PRPs, the multiplicity of possible solutions, and the years of investigatory, remedial and monitoring activity required. In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites 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. In addition, with respect to other PRPs and the fact that the Company may be jointly and severally liable for the total remediation cost at certain sites, the Company could ultimately be liable for amounts in excess of its accruals due to, among other things, reallocation of costs among PRPs or the insolvency of one or more PRPs. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

A summary of the activity in the Company's accrued environmental costs during the first quarter of 2004 is presented in the table below.

Amount  
-----  
(In thousands)

Balance at the beginning of the period	\$ 77,481
Additions charged to expense	330
Payments	(3,630)
	-----
Balance at the end of the period	\$ 74,181
	=====

The Company records liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future expenditures are generally not discounted to their present value. Recoveries of remediation costs from other parties, if any, are recognized as assets when their receipt is deemed probable. At March 31, 2004, no receivables for recovery had been recognized.

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 NL's obligation. At March 31, 2004, the Company had accrued \$74 million for those environmental matters which are reasonably estimable. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites for which it is possible to estimate costs is approximately \$108 million. The Company's estimates of such liabilities have not been discounted to present value, and the Company has not recognized any potential insurance recoveries in 2004.

The exact time frame over which the Company makes payments with respect to its accrued environmental costs is unknown and is dependent upon, among other things, the timing of the actual remediation process which in part depends on factors outside the control of the Company. At each balance sheet date, the Company makes an estimate of the amount of its accrued environmental costs which will be paid out over the subsequent 12 months, and the Company classifies such amount as a current liability. The remainder of the accrued environmental costs is classified as a noncurrent liability.

At March 31, 2004, there are approximately 15 sites for which the Company is unable to estimate a range of costs. For these sites, generally the investigation is in the early stages, and it is either unknown as to whether or not the Company actually had any association with the site, or if the Company had association with the site, the nature of its responsibility, if any, for the contamination at the site and the extent of contamination. The timing on when information would become available to the Company to allow the Company to estimate a range of loss is unknown and dependent on events outside the control of the Company, such as when the party alleging liability provides information to the Company.

At March 31, 2004, the Company had \$19 million in restricted cash, restricted cash equivalents and restricted marketable debt securities held by special purpose trusts, the assets of which can only be used to pay for certain of the Company's future environmental remediation and other environmental expenditures (December 31, 2003 - \$24 million). Use of such restricted balances does not affect the Company's Consolidated Statements of Cash Flows.

Other litigation. In May 2004, the court ruled and, among other things, imposed a fine of euro 200,000 against the Company and fines ranging from euro 1,000 to euro 25,000 against various employees of the Company, the liability of which has been undertaken by the Company, in the previously-reported matter concerning fatalities at the Company's Belgian facility. The Company plans to appeal the ruling.

The Company has been named as a defendant in various lawsuits in a variety of jurisdictions, alleging personal injuries as a result of occupational exposure to asbestos, silica and/or mixed dust in connection with formerly owned operations. Approximately 465 of these cases involving a total of approximately 30,000 plaintiffs and their spouses remain pending. Of these plaintiffs, approximately 18,400 are represented by 8 cases pending in Mississippi state court. The Company has not accrued any amounts for this litigation because liability that might result to the Company, if any, cannot be reasonably estimated. In addition, from time to time, the Company has received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries of the Company, including notices provided to insurers with which the Company has entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from the Company.

In addition to the litigation described above, the Company is also involved in various other environmental, contractual, product liability, patent (or other intellectual property), employment and other claims and disputes incidental to its present and former businesses. In certain cases, the Company has insurance coverage for such items. The Company currently believes the disposition of all claims and disputes individually or in the aggregate, should not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

Note 13 - Accounting principle newly adopted in 2004:

The Company complied with the consolidation requirements of FIN No. 46R, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,"

as amended, as of March 31, 2004. The Company does not have any involvement with any variable interest entity (as that term is defined in FIN No. 46R) covered by the scope of FIN No. 46R, and therefore the impact to the Company of adopting the consolidation requirements of FIN No. 46R was not material.

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

### RESULTS OF OPERATIONS:

#### Executive summary

The Company conducts operations for the manufacture and sales of TiO<sub>2</sub>, its principal product, through its subsidiary, Kronos. Relative changes in the Company's sales and income from operations related to its TiO<sub>2</sub> business during the first three months of 2003 and 2004 are primarily due to (i) relative changes in TiO<sub>2</sub> average selling prices and (ii) relative changes in foreign currency exchange rates. Selling prices were generally increasing during the first quarter of 2003, were generally flat during the second quarter of 2003 and were generally decreasing during the third and fourth quarters of 2003 and the first quarter of 2004.

#### Forward-looking information

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts 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," "should," "could," "anticipates," "expects" or comparable terminology, or by discussions of strategies 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 substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission ("SEC") including, but not limited to, the following:

- o Future supply and demand for the Company's products,
- o The cyclical nature of the Company's businesses,
- o Customer inventory levels (such as the extent to which Kronos' customers may, from time to time, accelerate purchases of TiO<sub>2</sub> in advance of anticipated price increases or defer purchases of TiO<sub>2</sub> in advance of anticipated price decreases),
- o Changes in raw material and other operating costs (such as energy costs),
- o The possibility of labor disruptions,
- o General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for TiO<sub>2</sub>),
- o Competitive products and substitute products,
- o Customer and competitor strategies,
- o The impact of pricing and production decisions,
- o Competitive technology positions,
- o Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian kroner and the Canadian dollar),
- o Operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions),
- o The ability of the Company to renew or refinance credit facilities,
- o The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- o Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- o Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products),
- o The ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters) and
- o Possible future litigation.

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 or revise any forward-looking statement whether as a result of new information, future events or otherwise.

	March 31,		%
	2003	2004	Change
	(In millions, except percentages and volumes)		
Net sales	\$253.0	\$263.3	+4%
Cost of sales	188.4	202.3	+7%
Gross margin	64.6	61.0	-6%
Selling, general and administrative expense	(29.4)	(35.2)	+20%
Currency transaction gains (losses), net	(1.1)	.2	
Noncompete agreement income	.3	-	
Other income	.1	-	
Corporate expense	(15.3)	(6.6)	
Income from operations	\$ 19.2	\$ 19.4	+1%
	=====	=====	
TiO2 data:			
Percent change in average selling prices:			
Using actual foreign currency exchange rates			+4%
Impact of changes in foreign currency exchange rates			-8%
			----
In billing currencies			-4%
			=====
Sales volumes*	118	118	
Production volumes*	117	117	

\* Thousands of metric tons

Kronos' sales increased \$10.3 million (4%) in the first quarter of 2004 compared to the first quarter of 2003, as the favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately \$21 million (as more fully discussed below), more than offset the impact of lower average TiO2 selling prices. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices in billing currencies in the first quarter of 2004 were 4% lower than the first quarter of 2003. When translated from billing currencies into U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, Kronos' average TiO2 selling prices in the first quarter of 2004 were 4% higher compared to the first quarter of 2003. Kronos' TiO2 sales volumes in the first quarter of 2004 approximated Kronos' TiO2 sales volumes in the first quarter of 2003.

Kronos' sales are denominated in various currencies, including the U.S. dollar, the euro, other major European currencies and the Canadian dollar. The disclosure of the percentage change in Kronos' average TiO2 selling prices in billing currencies (which excludes the effects of fluctuations in the value of the U.S. dollar relative to other currencies) is considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in Kronos' average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods is considered the most directly comparable financial measure presented in accordance with accounting principles generally accepted in the United States ("GAAP measure"). Kronos discloses percentage changes in its average TiO2 prices in billing currencies because Kronos believes such disclosure provides useful information to investors to allow them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods. The difference between the 4% increase in Kronos' average TiO2 selling prices during the first quarter 2004 as compared to the same period in 2003 using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure) and the 4% decrease in Kronos' average TiO2 selling price in billing currencies (the non-GAAP measure) during such periods is due to the effect of changes in foreign currency exchange rates. The above table presents in a tabular format (i) the percentage change in Kronos' average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), (ii) the percentage change in Kronos' average TiO2 selling prices in billing currencies (the non-GAAP measure) and (iii) the percentage change due to changes in foreign currency exchange rates (or the reconciling item between the non-GAAP measure and the GAAP measure).

Kronos' cost of sales increased \$13.9 million (7%) in the first quarter of 2004 compared to the first quarter of 2003 largely due to the effects of translating foreign currencies (primarily the euro) into U.S. dollars. As a result of the lower average TiO2 selling prices in billing currencies, Kronos' cost of sales, as a percentage of net sales, increased from 74% in the first quarter of 2003 to 77% in the first quarter of 2004. Kronos' TiO2 production volumes in the first quarter of 2004 approximated Kronos' TiO2 production volumes in the first quarter of 2003, with operating rates near full capacity in both periods.

Kronos' gross margins for the first quarter of 2004 decreased \$3.6 million (6%) from the first quarter of 2003 as the unfavorable effect of lower average TiO2 selling prices more than offset the favorable effect on gross margin resulting from relative changes in foreign currency exchange rates.

Selling, general and administrative expenses increased \$5.9 million (20%) in the first quarter of 2004 as compared to the corresponding period in 2003. This increase is largely attributable to the impact of translating foreign currencies (primarily the euro) into U.S. dollars as well as increased compensation costs associated with options to purchase NL common stock held by employees.

Kronos has substantial operations and assets located outside the United States (particularly in Germany, Belgium, Norway and Canada). A significant amount of Kronos' sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, primarily the euro, other major European currencies and the Canadian dollar. In addition, a portion of Kronos' sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of Kronos' foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased TiO2 sales in the first quarter of 2004 by approximately \$21 million compared to the same period in 2003. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted Kronos' foreign currency-denominated operating expenses. Kronos' operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were higher in the first quarter of 2004 compared to the first quarter of 2003. Overall, the net impact of currency exchange rate fluctuations on Kronos' operating income comparisons was not significant in the first quarter of 2004 as compared to the same period in 2003.

Corporate expense for the first quarter of 2004 decreased 56% to \$6.7 million as compared to the first quarter of 2003 primarily due to lower environmental remediation and legal expenses. Corporate expenses are expected to continue to be lower for the full-year 2004 as compared to full-year 2003. However, obligations for environmental remediation are difficult to assess and estimate, and no assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites for which no estimate of liability can presently be made. See Note 12 to the Consolidated Financial Statements.

#### Outlook

The Company expects Kronos' TiO2 sales and production volumes to be higher for the full year 2004 as compared to 2003. Kronos' average TiO2 selling price, which declined during the second half of 2003 and the first quarter of 2004, is expected to cease to decline sometime during the second quarter of 2004 and should rise thereafter. Nevertheless, Kronos expects its average TiO2 selling prices, in billing currencies, to be lower in 2004 as compared to 2003. Overall, Kronos expects its gross margin in 2004 to be lower than 2003. The Company's expectations as to the future prospects of the Company and the TiO2 industry are based upon a number of factors beyond its control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from the Company's expectations, the Company's results of operations could be unfavorably affected.

#### Other income (expense)

	Three months ended March 31		
	2003	2004	Difference
	(In millions)		
Securities transactions, net	\$ 2.2	\$ -	\$ (2.2)
Other interest income	.9	.7	(.2)
Trade interest income	.2	.2	-
Interest expense	(8.0)	(9.2)	(1.2)
	-----	-----	-----
	\$ (4.7)	\$ (8.3)	\$ (3.6)
	=====	=====	=====

Kronos has a significant amount of outstanding indebtedness denominated in the euro, including KII's Euro 285 million Senior Secured Notes. Accordingly, the reported amount of interest expense will vary depending on relative changes in foreign currency exchange rates. Interest expense in the first quarter of 2004 was \$9.2 million, an increase of \$1.2 million from the first quarter of 2003. The increase was due primarily to relative changes in foreign currency exchange rates, which increased the U.S. dollar equivalent of interest expense on the KII Senior Secured Notes by approximately \$1.1 million in the first quarter of 2004 as compared to the first quarter of 2003. Assuming no significant change in interest rates or foreign currency exchange rates, interest expense for the full-year 2004 is expected to be slightly higher than amounts for the same period in 2003.

## Provision for income taxes

The principal reasons for the difference between the Company's effective income tax rate and the U.S. federal statutory income tax rates are explained in Note 10 to the Consolidated Financial Statements.

During the first quarter of 2004, the Company reduced its deferred income tax asset valuation allowance by approximately \$3 million primarily as a result of utilization of certain income tax attributes for which the benefit had not previously been recognized.

At March 31, 2004, Kronos had the equivalent of \$606 million of German income tax loss carryforwards with no expiration date. However, Kronos has provided a deferred income tax asset valuation allowance against substantially all of this loss carryforward because Kronos does not currently believe it meets the "more-likely-than-not" recognition criteria. Kronos periodically evaluates the "more-likely-than-not" recognition criteria with respect to such tax loss carryforwards, and it is possible that in the future Kronos may conclude such carryforwards do meet the recognition criteria, at which time Kronos would reverse all or a portion of such deferred tax asset valuation allowance.

In January 2004, the German federal government enacted new tax law amendments that limit the annual utilization of income tax loss carryforwards effective January 1, 2004. While the new law did not significantly affect the Company's income tax expense and cash tax payments in the first quarter of 2004, it could have a significant effect in the future depending on the level of income earned in Germany..

## Minority interest

See Note 9 to the Consolidated Financial Statements. The Company commenced recognizing minority interest in Kronos following the Company's December 2003 distribution of a portion of the shares of Kronos common stock to the Company's shareholders. Because of such distribution, the Company expects to report a higher amount of minority interest in earnings in 2004 as compared to 2003.

Minority interest in NL's subsidiaries also relates to the Company's majority-owned environmental management subsidiary, EMS. EMS was established in 1998, at which time EMS contractually assumed certain of the Company's environmental liabilities. EMS' earnings are based, in part, upon its ability to favorably resolve these liabilities on an aggregate basis. The shareholders of EMS, other than the Company, actively manage the environmental liabilities and share in 39% of EMS' cumulative earnings. The Company continues to consolidate EMS and provides accruals for the reasonably estimable costs for the settlement of EMS' environmental liabilities, as discussed below.

## Recently adopted accounting principle

See Note 13 to the Consolidated Financial Statements.

## LIQUIDITY AND CAPITAL RESOURCES:

### Consolidated cash flows

The Company's consolidated cash flows from operating, investing and financing activities for the three months ended March 31, 2003 and 2004 are presented below:

	Three months ended March 31,	
	2003	2004
	----- (In millions) -----	
Net cash provided (used) by:		
Operating activities	\$(13.7)	\$ 13.4
Investing activities	(4.4)	(2.8)
Financing activities	6.3	34.2
	-----	-----
Net cash provided (used) by operating, investing and financing activities	\$ (11.8)	\$ 44.8
	=====	=====

### Operating activities

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of the Company. Cash flow from operations is considered the primary source of liquidity for the Company. Changes in TiO2 pricing, production volume and customer demand, among other things, could significantly affect the liquidity of the Company.

Relative changes in assets and liabilities generally result from the timing of production, sales, purchases and income tax payments. Such relative changes can significantly impact the comparability of cash flow from operations from period to period, as the income statement impact of such items may occur in a different period from when the underlying cash transaction occurs. For example, raw materials may be purchased in one period, but the payment for such raw materials may occur in a subsequent period. Similarly, inventory may be sold in one period, but the cash collection of the receivable may occur in a subsequent period.

Cash flows for operating activities increased from \$13.7 million used in



the first quarter of 2003 to \$13.4 million of cash provided by operating activities in the first quarter of 2004. This \$27.1 million increase was due primarily to the net effects of (i) lower net income of \$5.3 million, (ii) higher depreciation expense of \$1.4 million, (iii) higher minority interest in earnings of \$4.8 million, (iv) higher net distributions from the TiO2 manufacturing joint venture of \$1.8 million in the first quarter of 2004 compared to a \$1.3 million contribution in the first quarter of 2003, (v) a lower amount of net cash used from relative changes in the Company's inventories, receivables, payables and accruals of \$5.3 million in the first quarter of 2004 as compared to the first quarter of 2003 and (vi) lower cash paid for income taxes of \$20.1 million. Relative changes in accounts receivable are affected by, among other things, the timing of sales and the collection of the resulting receivables. Relative changes in inventories and accounts payable and accrued liabilities are affected by, among other things, the timing of raw material purchases and the payment for such purchases and the relative difference between production volume and sales volume. Relative changes in accrued environmental costs are affected by, among other things, the period in which recognition of the environmental accrual is recognized and the period in which the remediation expenditure is actually made.

#### Investing and financing activities

The Company's capital expenditures were \$6.5 million and \$4.5 million in the first three months of 2003 and 2004, respectively.

In the first quarter of 2004 KII's operating subsidiaries in Germany, Belgium and Norway borrowed a net Euro 26 million (\$32 million when borrowed) under the European revolving credit facility at an interest rate of 3.8%.

In the first quarter of 2004, the Company paid its regular quarterly dividend to stockholders of \$.20 per share in the form of approximately 345,100 shares of common stock of Kronos. Also in the first quarter of 2004, Kronos paid a regular quarterly cash dividend to its stockholders of \$.25 per share, of which \$6.0 million was paid to Kronos shareholders other than NL and is reflected as a distribution to minority interest on NL's Consolidated Statements of Cash Flows.

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

At March 31, 2004, Kronos and its subsidiaries had (i) current cash and cash equivalents aggregating \$90.4 million (\$40.4 million held by non-U.S. subsidiaries), (ii) current restricted cash equivalents of \$800,000 and (iii) noncurrent restricted marketable debt securities of \$2.5 million. At March 31, 2004, certain of Kronos's subsidiaries had approximately \$121 million available for borrowing with approximately \$76 million available under non-U.S. credit facilities (including approximately \$63 million under the European revolving credit facility and \$9.7 million under Kronos' Canadian bank credit facility) and approximately \$45 million available under the U.S. Credit Facility. At March 31, 2004, KII had approximately \$12 million available for payment of dividends and other restricted payments as defined in the Senior Secured Notes indenture.

At March 31, 2004, NL, exclusive of Kronos and its subsidiaries had (i) current cash and cash equivalents aggregating \$21.2 million, (ii) current restricted cash equivalents of \$14.8 million, (iii) current restricted marketable debt securities of \$4.3 million and (iv) noncurrent restricted marketable debt securities of \$6.3 million. Of such restricted balances, \$19 million was held by special purpose trusts, the assets of which can only be used to pay for certain of NL's future environmental remediation and other environmental expenditures. NL also has a \$200 million long-term note receivable from Kronos due in 2010, which is eliminated in the Company's consolidated financial statements.

#### Income tax contingencies

See Note 10 to the Consolidated Financial Statements for certain income tax examinations currently underway with respect to certain of the Company's income tax returns in various U.S. and non-U.S. jurisdictions.

#### Litigation and environmental matters

See Note 12 to the Consolidated Financial Statements and Part II, Item 1, "Legal Proceedings."

#### Other

The Company periodically evaluates its liquidity requirements, alternative uses of capital, its dividend policy, capital needs and availability of resources in view of, among other things, its dividend policy, debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company has in the past and may in the future 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 industry or other industries, as well as the acquisition of interests in related entities. In the event of any such transaction, the Company may consider using its available cash, issuing its equity securities or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt.

#### Non-GAAP financial measures

In an effort to provide investors with additional information regarding the

Company's results of operations as determined by GAAP, the Company has disclosed certain non-GAAP information which the Company believes provides useful information to investors.

- o The Company discloses percentage changes in Kronos' average TiO2 selling prices in billing currencies, which excludes the effects of foreign currency translation. The Company believes disclosure of such percentage changes allows investors to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods.

#### ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Harold C. Simmons, the Company's Chief Executive Officer, and Gregory M. Swalwell, the Company's Vice President, Finance, have evaluated the Company's disclosure controls and procedures as of March 31, 2004. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

The Company also maintains a system of internal controls over financial reporting. The term "internal control over financial reporting," as defined by regulations of the SEC, means a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

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

There has been no change to the Company's system of internal controls over financial reporting during the quarter ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

#### PART II. OTHER INFORMATION

##### Item 1. Legal Proceedings

Reference is made to Note 12 to the Consolidated Financial Statements and to the 2003 Annual Report for descriptions of certain previously reported legal proceedings.

City of St. Louis v. Lead Industries Association, et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 002-245, Division 1). In March 2004, the court denied defendants' renewed motion to dismiss and motion for summary judgment.

Barker, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-587). With respect to the ten plaintiffs transferred by the trial court to Holmes County, in April 2004 the parties jointly petitioned the Mississippi Supreme Court to transfer the plaintiffs to their appropriate venues. The October 2004 trial date in Jefferson County has been stayed pending plaintiffs' appeal to the Mississippi Supreme Court of the denial of their motion to add additional defendants.

Jackson, et al., v. Phillips Building Supply of Laurel, et al. (Circuit Court of Jones County, Mississippi, Dkt. Co. 2002-10-CV1). In March 2004, defendants filed a motion to sever one of the plaintiffs. In March 2004, the court stayed the case, thus delaying the June 2004 trial date, pending a decision on the motion to sever, which is on appeal to the Mississippi Supreme Court.

Walters v. NL Industries, et al. (Kings County Supreme Court, New York, No.

28087/2002). In March 2004, the Company filed a motion to dismiss based on plaintiffs' failure to provide discovery.

Jones v. NL Industries, Inc., et al. (Circuit Court of LeFlore County, Mississippi, Civil Action No. 2002-0241-CICI). In March 2004, plaintiffs dropped their motion to remand.

Cole, et al. v. ASARCO Incorporated et al. (U.S. District Court for the Northern District of Oklahoma, Case No. 03C V327 EA (J)). In April 2004, the plaintiffs voluntarily dismissed the Company with prejudice from this case.

Crawford, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-304); Barr, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-305); Brewer, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-306); Kloer, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-307); Rhoten, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-308); and Nowlin, et al. v. ASARCO Incorporated, et al. (Case No. CJ-2003-342)(all in the District Court in and for Ottawa County, State of Oklahoma). In April 2004, the plaintiffs voluntarily dismissed the Company with prejudice from these cases.

The Quapaw Tribe of Oklahoma et al. v. ASARCO Incorporated et al. (United States District Court, Northern District of Oklahoma, Case No. 03C-V846 H). The Company has answered the complaint and denied all of the plaintiffs' allegations.

Evans v. Asarco (United States District Court, Northern District of Oklahoma, Case No. 04-CV-94EA(M)). The Company has answered the complaint and denied all of the plaintiffs' allegations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

10.1 - Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 2004

10.2 - Summary of Consulting Arrangement beginning August 1, 2003, as amended, between Lawrence A. Wigdor and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.2 to the Kronos Worldwide, Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004 (management contract, compensatory plan or arrangement)

10.3 - Intercorporate Services Agreement by and between Contran Corporation and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.1 to the Kronos Worldwide, Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004

31.1 - Certification

31.2 - Certification

32.1 - Certification

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended March 31, 2004.

February 20, 2004 - Reported Item 9.

February 24, 2004 - Reported Item 9.

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 May 5, 2004

By /s/ Gregory M. Swalwell

-----  
Gregory M. Swalwell  
Vice President, Finance  
(Principal Financial Officer)

Date May 5, 2004

By /s/ James W. Brown

-----

James W. Brown  
Vice President and Controller  
(Principal Accounting Officer)

## CERTIFICATION

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

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

Date: May 5, 2004

/s/ Harold C. Simmons

-----  
Harold C. Simmons  
Chief Executive Officer

## CERTIFICATION

I, Gregory M. Swalwell, the Chief Financial Officer of NL Industries, Inc., certify that:

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

Date: May 5, 2004

/s/ Gregory M. Swalwell

-----  
 Gregory M. Swalwell  
 Chief Financial Officer

Intercorporate Services Agreement

between

Contran Corporation

and

NL Industries, Inc.

Dated as of January 1, 2004

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INTERCORPORATE SERVICES AGREEMENT

This Intercorporate Services Agreement ("Agreement") is entered into effective as of January 1, 2004 (the "Effective Date"), between Contran Corporation, a Delaware corporation ("Contran"), and NL Industries, Inc., a New Jersey corporation ("NL")

Recitals

A.....NL is an indirectly held subsidiary of Contran.

B.....NL has and will have the need for executive, management, financial, audit, accounting, tax, legal, insurance, risk management, treasury, aviation, human resources, technical, consulting, administrative and other services as required from time to time in the ordinary course of NL's business (collectively, the "Services"), but has determined that it is not cost effective to obtain and separately maintain the infrastructure associated with the Services, particularly the costs associated with attracting and maintaining on its payroll on a full time basis a full complement of skilled employees.

C.....Contran is able and willing to provide the Services to NL, and NL desires to engage Contran as an independent contractor to provide the Services in accordance with the terms set forth in this Agreement.

Agreement

For and in consideration of the mutual promises, representations and covenants contained in this Agreement, the parties agree as follows.

ARTICLE I.  
AMENDS AND SUPERSEDES PRIOR AGREEMENT

This Agreement amends and supersedes in its entirety that certain Intercorporate Services Agreement effective as of January 1, 2003 by and

ARTICLE II.  
RETENTION OF CONTRAN

Section 2.1. Performance of Services.

(a) NL hereby engages and retains Contran to perform the Services and Contran hereby accepts and agrees to provide such Services to NL upon the terms and conditions set forth in this Agreement. All Services to be provided by Contran hereunder shall be performed at the request and under the direction of NL, and Contran shall not have any power to act independently on behalf of NL other than as specifically authorized under this Agreement or from time to time by NL. Contran shall provide Services in connection with routine functions related to the ongoing ordinary course of NL's business. The Services rendered in connection with the conduct of NL's business will be on a scale compared to that existing on the effective date of this Agreement, adjusted for internal corporate growth or contraction, but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects.

(b) Contran shall determine the corporate facilities to be used in rendering the Services and the individuals who will render such Services.

(c) Contran will use reasonable efforts to make the Services available with substantially the same degree of care as it employs in making similar services available for its own operations.

(d) Those employees or agents of Contran who perform similar services for Contran or for other affiliates of Contran, or both, will perform the Services.

(e) Nothing herein shall be deemed to restrict either party or its directors, officers, employees or agents from engaging in any business, or from contracting with other parties, including, without limitation, other affiliates of Contran, for similar or different services.

Section 2.2. Director Services Not Included. The Services do not include any services that employees of Contran may provide to NL in their roles as members of NL's board of directors or any other activity related to such board of directors.

Section 2.3. Outside Services. NL will continue to bear all other costs required for outside services including, but not limited to, the outside services of attorneys, auditors, trustees, consultants, transfer agents and registrars, and it is expressly understood that Contran assumes no liability for any expenses or services other than those stated in this Article.

Section 2.4. Disclaimer, Limited Liability; Indemnification.

(a) Except as expressly provided elsewhere in this Agreement, Contran makes no express or implied representations, warranties or guarantees relating to the Services or the quality or results of the Services to be performed under this Agreement.

(b) Contran, its directors, officers, employees, stockholders or agents shall not be liable to NL or any third party, including any governmental agency, for any claims, demands, losses, liabilities, damages, costs or expenses, including attorneys' and expert witness fees, arising from or in connection with the Services, other than those arising from or in connection with the gross negligence or willful misconduct of Contran or its directors, officers, employees, stockholders or agents (collectively, "No Liability Claims").

(c) NL assumes all liability for, and agrees to defend, indemnify and hold Contran harmless from and against all No Liability Claims. NL assumes all liability for, and agrees to defend, indemnify and hold Contran's directors, officers, employees, stockholders or agents harmless from, No Liability Claims to the same extent that Contran could assume such liability for, or defend, indemnify and hold harmless, such entity or person. NL shall promptly advance expenses as incurred by Contran its directors, officers, employees, stockholders or agents in connection with NL's obligations under this Section.

ARTICLE III.  
COMPENSATION

Section 3.1. Compensation for Services.

(a) Contran and NL shall agree on the aggregate annual amount that NL shall pay Contran for the Services for a particular year.

(b) NL shall pay to Contran one fourth of the annual amount in advance quarterly around the first business day of each quarter.

(c) From time to time upon a change to the annual amount for a particular year, Contran or NL, as applicable, shall promptly make appropriate payments to the other party to reflect such change.

(d) All charges from Contran to NL are intended to be equal to the actual cost of such expenses without premium or mark-up to



Contran.

Section 3.2. Out-of-Pocket Costs. In addition to the fee paid to Contran by NL for the Services, NL will promptly pay to Contran the amount of out-of-pocket costs incurred by Contran in rendering such Services.

ARTICLE IV.  
CONFIDENTIALITY

Section 4.1. Confidentiality. Each party shall hold and shall cause its directors, officers, employees, agents, consultants and advisors ("Representatives") to hold in strict confidence all information concerning the other party unless (i) such party is compelled to disclose such information by judicial or administrative process or, in the opinion of its counsel, by other requirements of law or (ii) such information can be shown to have been (A) in the public domain through no fault of such party or (B) lawfully acquired on a non-confidential basis from other sources. Notwithstanding the foregoing, such party may disclose such information to its Representatives so long as such persons are informed by such party of the confidential nature of such information and are directed by such party to treat such information confidentially. If such party or any of its Representatives becomes legally compelled to disclose any documents or information subject to this Section, such party will promptly notify the other party so that the other party may seek a protective order or other remedy or waive such party's compliance with this Section. If no such protective order or other remedy is obtained or waiver granted, such party will furnish only that portion of the information that it is advised by counsel is legally required and will exercise its reasonable efforts to obtain adequate assurance that confidential treatment will be accorded such information. Such party agrees to be responsible for any breach of this Section by it and its Representatives.

ARTICLE V.  
MISCELLANEOUS

Section 5.1. Maintenance and Inspection of Records. Contran shall keep accurate books, accounts and records regarding the Services as may be reasonably necessary for purposes of this Agreement. NL shall be permitted to inspect such books, accounts and records at any reasonable time.

Section 5.2. Notices. All notices and other communications hereunder shall be in writing, and shall be delivered by hand or mailed by registered or certified mail (return receipt requested) or transmitted by facsimile to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice) and shall be deemed given on the date on which such notice is received:

If to Contran: Contran Corporation.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697  
Attention: General Counsel  
Phone: 972.450.4251  
Fax: 972.448.1445

If to NL: NL Industries, Inc.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697  
Attention: General Counsel  
Phone: 972.450.4251  
Fax: 972.448.1445

Section 5.3. Term; Renewal. The initial term of this Agreement shall commence as of the Effective Date and end on December 31, 2004, but shall be automatically renewed on a quarter-to-quarter basis after the expiration of the initial term. Either party may terminate this Agreement by giving written notice of termination to the other party not less than thirty (30) days in advance of the first day of each successive quarter. In addition, in the event of a material default hereunder by a party, the non-defaulting party may terminate this Agreement upon thirty (30) days prior written notice if such default remains uncured and is continuing for twenty (20) days after receipt by the defaulting party of such written notice of intent to terminate. A final accounting and payment by one party to the other of all amounts payable hereunder shall be made pursuant to the terms hereof within thirty (30) days following such termination.

Section 5.4. Independent Contractor. Contran shall be an independent contractor and not an employee of, or partner or joint venturer with, NL.

Section 5.5. Force Majeure. No party shall be in default of this Agreement or liable to the other party for any delay or default in performance where occasioned by any cause of any kind or extent beyond its control, including but not limited to, armed conflict or economic dislocation resulting therefrom; embargoes; shortages of labor, raw materials, production facilities or transportation; labor difficulties; civil disorders of any kind; action of any civil or military authorities (including, priorities and allocations); fires; floods and accidents. The dates on which the obligations of the party are to be fulfilled shall be extended for a period equal to the time lost by reason of any delay arising, directly or indirectly from:

(a) Any of the foregoing causes, or

(b) Inability of a party, as a result of causes beyond its reasonable control, to obtain instruction or information from the

other party in time to perform its obligations by such dates.

Section 5.6. Entire Agreement. This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof and all prior agreements or understandings shall be deemed merged herein. No representations, warranties and if certifications, express or implied, shall exist as between the parties except as stated herein.

Section 5.7. Amendments. No amendments, waivers or modifications hereof shall be made or deemed to have been made unless in writing, executed by the party to be bound thereby.

Section 5.8. Severability. If any provision in this Agreement or the application of such provision to any person or circumstance shall be invalid, illegal or unenforceable, the remainder of this Agreement or the application of such provision to persons or circumstances other than those to which it is held invalid, illegal or unenforceable shall not be affected thereby.

Section 5.9. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute this Agreement.

Section 5.10. Successors and Assigns. This Agreement shall not be assignable, in whole or in part, directly or indirectly, by any party hereto without the prior written consent of the other party hereto, and any attempt to assign any rights or obligations arising, under this Agreement without such consent shall be void. This Agreement shall be binding, upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 5.11. Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the state of Texas, without giving effect to any choice of law or conflict of law provision or rule (whether of the state of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the state of Texas.

Section 5.12. Submission to Jurisdiction; Service; Waivers. WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT, EACH PARTY (A) IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE FEDERAL OR STATE COURTS LOCATED IN DALLAS COUNTY, TEXAS (B) AGREES THAT THE VENUE FOR ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE EXCLUSIVE TO SUCH COURTS, AND (C) IRREVOCABLY WAIVES ANY OBJECTION IT MAY HAVE AT ANY TIME TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT BROUGHT IN ANY SUCH COURT, IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM AND FURTHER IRREVOCABLY WAIVES THE RIGHT TO OBJECT, WITH RESPECT TO SUCH CLAIM, SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT THAT SUCH COURT DOES NOT HAVE JURISDICTION OVER IT. EACH PARTY HEREBY IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY OF THE AFORESAID COURTS BY THE MAILING OF COPIES OF SUCH PROCESS TO THE PARTY, BY CERTIFIED OR REGISTERED MAIL AT THE ADDRESS SPECIFIED IN SECTION 5.2.

Section 5.13. No Third-Party Beneficiaries. This Agreement is solely for the benefit of the parties hereto and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without reference to this Agreement.

Section 5.14. Titles and Headings. Titles and headings to sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Executed as of the Effective Date.

Contran Corporation

By:

Bobby D. O'Brien, Vice President

NL Industries, Inc.

By:

Robert D. Graham, Vice President

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

In connection with the Quarterly Report of NL Industries, Inc. (the Company) on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Harold C. Simmons, Chief Executive Officer of the Company, and I, Gregory M. Swalwell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Harold C. Simmons  
-----  
Harold C. Simmons  
Chief Executive Officer

/s/ Gregory M. Swalwell  
-----  
Gregory M. Swalwell  
Chief Financial Officer

May 5, 2004

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