SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - For the fiscal year ended December 31, 2001

OR

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

Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey	13-5267260
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock ($.125 par value)	New York Stock Exchange Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 14, 2002 approximated $137 million.

There were 48,820,984 shares of common stock outstanding at March 14, 2002.

Documents incorporated by reference:

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

Forward-Looking Information.

The statements contained in this Annual Report on Form 10-K ("Annual Report") which are not historical facts, including, but not limited to, statements found (i) under the captions "Industry," "Products and operations," "Manufacturing process and raw materials," "Competition," "Patents and Trademarks," "Foreign Operations," and "Regulatory and Environmental Matters," all contained in Item 1. Business; (ii) under the captions "Lead pigment litigation," "Environmental matters and litigation," and "Other Litigation," all contained in Item 3. Legal Proceedings; (iii) under the captions "Results of Operations" and "Liquidity and Capital Resources," both contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; (iv) under the captions "Currency exchange rates," "Marketable equity security prices," and "Other," all contained in Item 7A. Quantitative and Qualitative Disclosures About Market Risk; and (v) in Note 20, "Commitments and contingencies - Legal proceedings" to the Consolidated Financial Statements, are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "will," "should," "anticipates," "expects," "could" or comparable terminology or by discussions of strategy or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct.

Such statements by their nature involve risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such forward-looking statements.

Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Annual Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties including, but not limited to, the cyclicality of the titanium dioxide industry, global economic and political conditions, global productive capacity, customer inventory levels, changes in product pricing, changes in product costing, changes in foreign currency exchange rates, competitive technology positions, operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled downtime, transportation interruptions, war and terrorist activities), recoveries from insurance claims and the timing thereof, the ultimate resolution of pending or possible future lead pigment litigation and legislative developments related to the lead paint litigation, the outcome of other litigation, and other risks and uncertainties included in the Company's filings with the Securities and Exchange Commission. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

General

NL Industries, Inc., organized as a New Jersey corporation in 1891, conducts its operations through its principal wholly owned subsidiary, Kronos, Inc. Kronos is the world's fifth largest producer of titanium dioxide pigments ("TiO2") with an estimated 11% share of worldwide TiO2 sales volume in 2001. Approximately one-half of Kronos' 2001 sales volume was in Europe, where Kronos is the second largest producer of TiO2. NL and its consolidated subsidiaries are sometimes referred to herein collectively as the "Company."

The Company's primary objective is to maximize total shareholder return. The Company continues to take steps towards achieving its objective, including (i) controlling costs, (ii) investing in certain cost effective debottlenecking projects to increase TiO2 production capacity and efficiency, (iii) maintaining its regular quarterly dividend of $.20 per share, and (iv) improving its capital structure. The Company periodically considers mergers or acquisitions, which may be within or outside the chemical industry, and acquisitions of additional TiO2 production capacity to meet its objective.

Industry

Titanium dioxide pigments are chemical products used for imparting whiteness, brightness and opacity to a wide range of products, including paints, plastics, paper, fibers and ceramics. TiO2 is considered a "quality-of-life" product with demand affected by gross domestic product in various regions of the world.

Pricing within the global TiO2 industry is cyclical, and changes in industry economic conditions can significantly impact the Company's earnings and operating cash flows. The Company's average TiO2 selling price on a billing currency basis decreased from the preceding quarter during each quarter of 2001, reversing the upward trend in prices that began in the fourth quarter of 1999 and continued through the fourth quarter of 2000. Industry-wide demand for TiO2 weakened throughout 2001, with full year demand estimated as 7% lower than the previous year. This is believed to have been the result of a slowdown in economic growth and a reduction in customer inventory levels. Volume demand in 2002 is anticipated to increase, if an expected recovery in worldwide economic growth materializes.

Kronos has an estimated 18% share of European TiO2 sales volume and an estimated 13% share of North American TiO2 sales volume. Per capita consumption of TiO2 in the United States and Western Europe far exceeds that in other areas of the world and these regions are expected to continue to be the largest consumers of TiO2. Significant regions for TiO2 consumption could emerge in Eastern Europe, the Far East or China if the economies in these regions develop to the point that quality-of-life products, including TiO2, are in greater demand. Kronos believes that, due to its strong presence in Western Europe, it is well positioned to participate in growth in consumption of TiO2 in Eastern Europe. Geographic segment information is contained in Note 3 to the Consolidated Financial Statements.

Products and operations

TiO2 is produced in two crystalline forms: rutile and anatase. Rutile TiO2 is a more tightly bound crystal that has a higher refractive index than anatase TiO2 and, therefore, better opacification and tinting strength in many applications. Although many end-use applications can use either form of TiO2, rutile TiO2 is the preferred form for use in coatings, plastics and ink. Anatase TiO2 has a bluer undertone and is less abrasive than rutile TiO2, and it is often preferred for use in paper, ceramics, rubber and man-made fibers.

The Company believes that there are no effective substitutes for TiO2. However, extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used in a number of Kronos' markets. Generally, extenders are used to reduce to some extent the utilization of higher-cost TiO2. The use of extenders has not significantly changed TiO2 consumption over the past decade because, to date, extenders generally have failed to match the performance characteristics of TiO2. As a result, the Company believes that the use of extenders will not materially alter the growth of the TiO2 business in the foreseeable future.

Kronos currently produces over 40 different TiO2 grades, sold under the Kronos trademark, which provide a variety of performance properties to meet customers' specific requirements. Kronos' major customers include domestic and international paint, plastics and paper manufacturers.

Kronos is one of the world's leading producers and marketers of TiO2. Kronos and its distributors and agents sell and provide technical services for its products to over 4,000 customers with the majority of sales in Europe and North America. TiO2 is distributed by rail, truck and ocean carrier in either dry or slurry form. Kronos' manufacturing facilities are located in Germany, Canada, Belgium and Norway and Kronos owns a one-half interest in a TiO2 manufacturing joint venture located in Louisiana, U.S.A. Kronos has sales and marketing activities in over 100 countries worldwide. Kronos and its predecessors have produced and marketed TiO2 in North America and Europe for over 80 years. As a result, Kronos believes that it has developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products in domestic and international markets. By volume, approximately one-half of Kronos' 2001 TiO2 sales were to Europe, with 38% to North America and the balance to export markets.

Kronos is also engaged in the mining and sale of ilmenite ore (a raw material used as a feedstock by sulfate-process TiO2 plants) and has estimated ilmenite reserves that are expected to last at least 20 years. Kronos is also engaged in the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the pigment production processes). Kronos' water treatment chemicals (marketed under the name Ecochem) are used as treatment and conditioning agents for industrial effluents and municipal wastewater, and in the manufacture of iron pigments.

A fire on March 20, 2001 damaged a section of the Company's Leverkusen, Germany 35,000 metric ton sulfate-process TiO2 plant ("Sulfate Plant") and, as a result, production of TiO2 at the Leverkusen facility was halted. The fire did not enter the Company's adjacent 125,000 metric ton chloride-process TiO2 plant ("Chloride Plant"), but did damage certain support equipment necessary to operate that plant. The damage to the support equipment resulted in a temporary shutdown of the Chloride Plant. On April 8, 2001, repairs to the damaged support equipment were substantially completed and full production resumed at the Chloride Plant. The Sulfate Plant became approximately 50% operational in September 2001 and became fully operational in late October 2001. See Note 17 to the Consolidated Financial Statements.

Manufacturing process and raw materials

TiO2 is manufactured by Kronos using both the chloride process and the sulfate process. Approximately 70% of Kronos' current production capacity is based on its chloride process which generates less waste than the sulfate process. The sulfate process is a batch chemical process that uses sulfuric acid to extract TiO2. Sulfate technology normally produces either anatase or rutile pigment. The chloride process is a continuous process in which chlorine is used to extract rutile TiO2. In general, the chloride process is also less intensive than the sulfate process in terms of capital investment, labor and energy. Because much of the chlorine is recycled and higher titanium-containing feedstock is used, the chloride process produces less waste. Once an intermediate TiO2 pigment has been produced by either the chloride or sulfate process, it is 'finished' into products with specific performance characteristics for particular end-use applications through proprietary processes involving various chemical surface treatments and intensive milling and micronizing.

Due to environmental factors and customer considerations, the proportion of TiO2 industry sales represented by chloride-process pigments has increased relative to sulfate-process pigments and, in 2001, chloride-process production facilities represented approximately 60% of industry capacity.

Kronos produced 412,000 metric tons of TiO2 in 2001, compared to a record 441,000 metric tons produced in 2000 and 411,000 metric tons in 1999. Kronos' average production capacity utilization rate in 2001 was 91%, down from near full capacity in 2000, primarily due to lost production volume resulting from the Leverkusen fire and the Company's decision to curtail production in the fourth quarter of 2001 as demand remained soft. Kronos believes its current annual attainable production capacity is approximately 455,000 metric tons, including its one-half interest in the joint venture-owned Louisiana plant (see "TiO2 manufacturing joint venture"). The Company expects its production capacity will be increased by approximately 25,000 metric tons primarily at its chloride facilities, with moderate capital expenditures, bringing Kronos' capacity to approximately 480,000 metric tons during 2005.

The primary raw materials used in the TiO2 chloride production process are titanium-containing feedstock derived from beach sand ilmenite, natural rutile ore, chlorine and coke. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited number of suppliers around the world, principally in Australia, South Africa, Canada, India and the United States.

Kronos purchases slag refined from ilmenite sand from Richards Bay Iron and Titanium (Proprietary) Limited (South Africa), a 51%-owned subsidiary of Rio Tinto plc (U.K.), under a long-term supply contract that expires at the end of 2006. Natural rutile ore is purchased primarily from Iluka Resources, Limited (Australia), a company formed through the merger of Westralian Sands Limited (Australia) and RGC Mineral Sands, Ltd., under a long-term supply contract that expires at the end of 2005. The Company does not expect to encounter difficulties obtaining long-term extensions to existing supply contracts prior to the expiration of the contracts. Raw materials purchased under these contracts and extensions thereof are expected to meet Kronos' chloride feedstock requirements over the next several years.

The primary raw materials used in the TiO2 sulfate production process are titanium-containing feedstock derived primarily from rock and beach sand ilmenite and sulfuric acid. Sulfuric acid is available from a number of

suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. As one of the few vertically integrated producers of sulfate-process pigments, Kronos operates a rock ilmenite mine in Norway, which provided all of Kronos' feedstock for its European sulfate-process pigment plants in 2001. For its Canadian sulfate-process plant, Kronos also purchases sulfate grade slag from Q.I.T. Fer et Titane Inc. (Canada), a wholly owned subsidiary of Rio Tinto Iron & Titanium, Inc., under a long-term supply contract which expires in 2006.

Kronos believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate for the next several years. Kronos does not expect to experience any interruptions of its raw material supplies because of its long-term supply contracts. However, political and economic instability in certain countries from which the Company purchases its raw material supplies could adversely affect the availability of such feedstock. Should Kronos' vendors not be able to meet their contractual obligations or should Kronos be otherwise unable to obtain necessary raw materials, the Company may incur higher costs for raw materials or may be required to reduce production levels, which may have a material adverse effect on the Company's financial position, results of operations or liquidity.

TiO2 manufacturing joint venture

Subsidiaries of Kronos and Huntsman International Holdings LLC ("Huntsman") each own a 50%-interest in a manufacturing joint venture, Louisiana Pigment Company ("LPC"). LPC owns and operates a chloride-process TiO2 plant located in Lake Charles, Louisiana. Production from the plant is shared equally by Kronos and Huntsman (the "Partners") pursuant to separate offtake agreements.

A supervisory committee, composed of four members, two of whom are appointed by each Partner, directs the business and affairs of LPC including production and output decisions. Two general managers, one appointed and compensated by each Partner, manage the operations of the joint venture acting under the direction of the supervisory committee.

The manufacturing joint venture operates on a break-even basis and, accordingly, the Company reports no equity in earnings of the joint venture. Kronos' cost for its share of the TiO2 produced is equal to its share of the joint venture's costs. Kronos' share of net costs is reported as cost of sales as the related TiO2 acquired from the joint venture is sold.

Competition

The TiO2 industry is highly competitive. Kronos competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO2 grades are considered specialty pigments, the majority of Kronos' grades and substantially all of Kronos' production are considered commodity pigments with price generally being the most significant competitive factor. During 2001 Kronos had an estimated 11% share of worldwide TiO2 sales volume, and Kronos believes that it is the leading seller of TiO2 in a number of countries, including Germany and Canada.

Kronos' principal competitors are E.I. du Pont de Nemours & Co. ("DuPont"); Millennium Chemicals, Inc.; Huntsman; Kerr-McGee Corporation; and Ishihara Sangyo Kaisha, Ltd. Kronos' five largest competitors have estimated individual shares of TiO2 production capacity ranging from 23% to 5%, and an

estimated aggregate 70% share of worldwide TiO2 production volume. DuPont has about one-half of total U.S. TiO2 production capacity and is Kronos' principal North American competitor.

Capacity additions that are the result of construction of greenfield plants in the worldwide TiO2 market require significant capital and substantial lead time, typically three to five years in the Company's experience. No greenfield plants have been announced, but industry capacity can be expected to increase as Kronos and its competitors debottleneck existing plants. In addition to potential capacity additions, certain competitors have announced that they have either idled or shut down facilities. Based on the factors described under the caption "Industry" above, the Company expects that the average annual increase in industry capacity from announced debottlenecking projects will be less than the average annual demand growth for TiO2 over the next three to five years.

No assurance can be given that future increases in the TiO2 industry production capacity and future average annual demand growth rates for TiO2 will conform to the Company's expectations. If actual developments differ from the Company's expectations, the Company and the TiO2 industry's performance could be unfavorably affected.

Research and Development

The Company's expenditures for research and development and certain technical support programs have averaged approximately $6 million annually during the past three years. Research and development activities are conducted principally at the Leverkusen, Germany facility. Such activities are directed primarily toward improving both the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications.

Patents and Trademarks

Patents held for products and production processes are believed to be important to the Company and to the continuing business activities of Kronos. The Company continually seeks patent protection for its technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties.

The Company's major trademarks, including Kronos, are protected by registration in the United States and elsewhere with respect to those products it manufactures and sells.

Foreign Operations

The Company's chemical businesses have operated in non-U.S. markets since the 1920s. Most of Kronos' current production capacity is located in Europe and Canada with non-U.S. net property and equipment aggregating $323 million at December 31, 2001. Net property and equipment in the U.S., including 50% of the property and equipment of LPC, was $132 million at December 31, 2001. Kronos' European operations include production facilities in Germany, Belgium and Norway. Approximately $577 million of the Company's 2001 consolidated sales were to non-U.S. customers, including $104 million to customers in areas other than Europe and Canada. Sales to customers in the U.S. aggregated $258 million in 2001. Foreign operations are subject to, among other things, currency exchange rate fluctuations and the Company's results of operations have, in the

past, been both favorably and unfavorably affected by fluctuations in currency exchange rates. Effects of fluctuations in currency exchange rates on the Company's results of operations are discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures about Market Risk."

Political and economic uncertainties in certain of the countries in which the Company operates may expose it to risk of loss. The Company does not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar event. The Company cannot predict, however, whether events of this type in the future could have a material effect on its operations. The Company's manufacturing and mining operations are also subject to extensive and diverse environmental regulation in each of the foreign countries in which they operate. See "Regulatory and Environmental Matters."

Customer Base and Seasonality

The Company believes that neither its aggregate sales nor those of any of its principal product groups are concentrated in or materially dependent upon any single customer or small group of customers. Kronos' largest ten customers accounted for approximately 25% of net sales in 2001. Neither the Company's business as a whole nor that of any of its principal product groups is seasonal to any significant extent. Due in part to the increase in paint production in the spring to meet the spring and summer painting season demand, TiO_2 sales are generally higher in the second and third calendar quarters than in the first and fourth calendar quarters.

Employees

As of December 31, 2001, the Company employed approximately 2,500 persons, excluding the joint venture employees, with approximately 100 employees in the United States and approximately 2,400 at sites outside the United States. Hourly employees in production facilities worldwide, including LPC, are represented by a variety of labor unions, with labor agreements having various expiration dates. The Company believes its labor relations are good.

Regulatory and Environmental Matters

Certain of the Company's businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws. As with other companies engaged in similar businesses, certain past and current operations and products of the Company have the potential to cause environmental or other damage. The Company has implemented and continues to implement various policies and programs in an effort to minimize these risks. The policy of the Company is to maintain compliance with applicable environmental laws and regulations at all its facilities and to strive to improve its environmental performance. 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 as well as the Company's consolidated financial position, results of operations or liquidity.

The Company's U.S. manufacturing operations are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act ("RCRA"), the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), as well as the state counterparts of these statutes. The Company believes LPC and a slurry facility owned by the Company in Lake Charles, Louisiana are in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. The Company has no other U.S. plants. From time to time, the Company's facilities may be subject to environmental regulatory enforcement under such statutes. Resolution of such matters typically involves the establishment of compliance programs. Occasionally, resolution may result in the payment of penalties, but to date such penalties have not involved amounts having a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company's European and Canadian production facilities operate in an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers which allow them to issue operating permits required for the plants to operate. The Company believes that all its plants are in substantial compliance with applicable environmental laws.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory denominator is provided by the European Union (the "EU"). Germany and Belgium are members of the EU and follow its initiatives. Norway, although not a member, generally patterns its environmental regulatory actions after the EU. The Company believes that Kronos is in substantial compliance with agreements reached with European regulatory authorities and with an EU directive to control the effluents produced by TiO_2 production facilities.

The Company has a contract with a third party to treat certain effluents of its German sulfate-process plants. Either party may terminate the contract after giving four years advance notice with regard to its Nordenham, Germany plant. Under certain circumstances, Kronos may terminate the contract after giving six months notice with respect to treatment of effluents from the Leverkusen, Germany plant.

The Company's capital expenditures related to its ongoing environmental protection and improvement programs in 2001 were approximately $5 million, and are currently expected to be approximately $5 million in 2002 and $4 million in 2003.

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, pursuant to CERCLA and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, or its subsidiaries, or their predecessors, certain of which are on the U.S. Environmental Protection Agency's ("U.S. EPA") Superfund National Priorities List or similar state lists. See Item 3. "Legal Proceedings."

Principal Shareholders

At December 31, 2001, Valhi, Inc. ("Valhi") and Tremont Corporation ("Tremont"), each affiliates of Contran Corporation ("Contran"), held approximately 61% and 21%, respectively, of NL's outstanding common stock. At

December 31, 2001, Contran and its subsidiaries held approximately 94% of Valhi's outstanding common stock, and a company 80% owned by Valhi and 20% owned by NL held approximately 80% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies.

ITEM 2. PROPERTIES

Kronos currently operates four TiO_2 facilities in Europe (Leverkusen and Nordenham, Germany; Langerbrugge, Belgium; and Fredrikstad, Norway). In North America, Kronos has a facility in Varennes, Quebec, Canada and, through the manufacturing joint venture described above, a one-half interest in a plant in Lake Charles, Louisiana. The Company also owns a slurry plant in Lake Charles, Louisiana. See Notes 11 and 14 to the Consolidated Financial Statements.

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO_2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with about one-third of Kronos' current TiO_2 production capacity, is located within an extensive manufacturing complex owned by Bayer AG. Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, Bayer provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and the supplies and services agreement have certain restrictions regarding Kronos' ability to transfer ownership or use of the Leverkusen facility.

All of Kronos' principal production facilities described above are owned, except for the land under the Leverkusen facility. Kronos has a governmental concession with an unlimited term to operate its ilmenite mine in Norway.

The Company has under lease various corporate and administrative offices located in the U.S. and various sales offices located in the U.S., France, the Netherlands, Denmark and the U.K. In January 2002 the Company announced its intent to close its New York administrative office.

ITEM 3. LEGAL PROCEEDINGS

Lead pigment litigation

The Company was formerly involved in the manufacture of lead pigments for use in paint and lead-based paint. During the past 14 years, the Company has been named as a defendant or third party defendant in various legal proceedings alleging that the Company and approximately seven other companies that formerly manufactured lead pigments for use in paint (together, the "former pigment manufacturers") and lead-based paint are responsible for personal injury, property damage and governmental expenditures allegedly associated with the use of these products. These cases assert a combination of claims that generally include negligent product design, negligent failure to warn, supplier negligence, fraud and deceit, public and private nuisance, restitution, indemnification, conspiracy, concert of action, aiding and abetting, strict liability/failure to warn, and strict liability/defective design, violations of state consumer protection statutes, enterprise liability, market share liability, and similar claims. The Company has neither lost nor settled any of these cases. Considering the Company's previous involvement in the lead pigment and lead-based paint businesses, there can be no assurance that additional litigation, similar to that described below, will not be filed.

The Company has not accrued any amounts for this litigation. There is no assurance that the Company will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, the Company believes that the pending cases are without merit and will continue to defend the cases vigorously. Liability that may result, if any, cannot reasonably be estimated.

In 1989 and 1990 the Housing Authority of New Orleans ("HANO") filed third-party complaints against the former pigment manufacturers and the Lead Industries Association (the "LIA") in 14 actions commenced by residents of HANO units seeking compensatory and punitive damages for injuries allegedly caused by lead pigment. All but two of these actions, Hall v. HANO, et al. (No. 89-3552) and Allen v. HANO, et al. (No. 89-427) Civil District Court for the Parish of Orleans, State of Louisiana, have been dismissed. These two cases have been inactive since 1992.

In June 1989 a complaint was filed in the Supreme Court of the State of New York, County of New York, against the former pigment manufacturers and the LIA. Plaintiffs sought damages in excess of $50 million for monitoring and abating alleged lead paint hazards in public and private residential buildings, diagnosing and treating children allegedly exposed to lead paint in city buildings, the costs of educating city residents to the hazards of lead paint, and liability in personal injury actions against the City and the Housing Authority based on alleged lead poisoning of city residents (The City of New York, the New York City Housing Authority and the New York City Health and Hospitals Corp. v. Lead Industries Association, Inc., et al., No. 89-4617). As a result of pre-trial motions, the New York City Housing Authority is the only remaining plaintiff in the case and is pursuing damage claims only with respect to two housing projects. Discovery is proceeding.

In August 1992 the Company was served with an amended complaint in Jackson, et al. v. The Glidden Co., et al., Court of Common Pleas, Cuyahoga County, Cleveland, Ohio (Case No. 236835). Plaintiffs seek compensatory and punitive damages for personal injury caused by the ingestion of lead, and an order directing defendants to abate lead-based paint in buildings. Plaintiffs

purport to represent a class of similarly situated persons throughout the State of Ohio. While the trial court has denied plaintiffs' motion for class certification, discovery and pre-trial proceedings are continuing with the individual plaintiffs.

In December 1998 the Company was served with a complaint on behalf of four children and their guardians in Sabater, et al. v. Lead Industries Association, et al. (Supreme Court of the State of New York, County of Bronx, Index No. 25533/98). Plaintiffs purport to represent a class of all children and mothers similarly situated in New York State. The complaint seeks damages from the LIA and other former pigment manufacturers for establishment of property abatement and medical monitoring funds and compensatory damages for alleged injuries to plaintiffs. Discovery regarding class certification is proceeding.

In September 1999 an amended complaint was filed in Thomas v. Lead Industries Association, et al. (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411) adding as defendants the former pigment manufacturers to a suit originally filed against plaintiff's landlords. Plaintiff, a minor, alleges injuries purportedly caused by lead on the surfaces of premises in homes in which he resided. Plaintiff seeks compensatory and punitive damages, and the Company has denied liability. Pre-trial motions and discovery are proceeding. Trial is scheduled for June 2003.

In October 1999 the Company was served with a complaint in State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). The State seeks compensatory and punitive damages for medical, school, and public and private building abatement expenses that the State alleges were caused by lead paint, and for funding of a public education campaign and health screening programs. Plaintiff seeks judgments of joint and several liability against the former pigment manufacturers and the LIA. A trial date has been set for September 2002 at which the issue of whether lead pigment in paint on Rhode Island buildings is a public nuisance will be tried, and discovery is proceeding.

In October 1999 the Company was served with a complaint in Cofield, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004491). Plaintiffs, six homeowners, seek to represent a class of all owners of nonrental residential properties in Maryland. Plaintiffs seek compensatory and punitive damages in excess of $20,000 per household for the existence of lead-based paint in their homes, including funds for monitoring, detecting and abating lead-based paint in those residences. Plaintiffs allege that the former pigment manufacturers and other companies alleged to have manufactured paint and/or gasoline additives, the LIA, and the National Paint and Coatings Association (the "NPCA") are jointly and severally liable. In August 2001 plaintiffs voluntarily dismissed substantially all of their claims, and in December 2001 the trial court dismissed the remaining claim. The time for appeal of that ruling has not expired.

In October 1999 the Company was served with a complaint in Smith, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004490). Plaintiffs, seven minors, each seek compensatory damages of $5 million and punitive damages of $10 million for alleged injuries due to lead-based paint. Plaintiffs allege that the former pigment manufacturers and other companies alleged to have manufactured paint and/or gasoline additives, the LIA, and the NPCA are jointly and severally liable. The Company has denied liability, and all defendants filed motions to dismiss various of the claims. In February 2002 the trial court dismissed all claims except those relating to product liability for lead paint and the Maryland Consumer Protection Act. Pre-trial proceedings and discovery are continuing.

In February 2000 the Company was served with a complaint in 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). Plaintiff seeks compensatory and punitive damages for its expenses discovering and abating lead-based paint, detecting lead poisoning and providing medical care and educational programs for City residents, and the costs of educating children suffering injuries due to lead exposure. Plaintiff seeks judgments of joint and several liability against the former pigment manufacturers and the LIA. The defendants' motion to dismiss the case is currently pending.

In April 2000 the Company was served with a complaint in County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. CV788657) brought against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara seeks to represent a class of California governmental entities (other than the state and its agencies) to recover compensatory damages for funds the plaintiffs have expended or will in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. Santa Cruz, Solano, Alameda, San Francisco, and Kern counties, the cities of San Francisco and Oakland, the Oakland and San Francisco unified school districts and housing authorities and the Oakland Redevelopment Agency have joined the case as plaintiffs. Pre-trial proceedings and discovery are continuing.

In June 2000 two complaints were filed in Texas state court, Spring Branch Independent School District v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2000-31175), and Houston Independent School District v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2000-33725). The School Districts seek past and future damages and exemplary damages for costs they have allegedly incurred or will incur due to the presence of lead-based paint in their buildings from the former pigment manufacturers and the LIA . The Company has denied all liability. Discovery and pre-trial motions are proceeding in both cases. Trial is scheduled in the Spring Branch case for September 2002.

In June 2000 a complaint was filed in Illinois state court, Lewis, et al. v. Lead Industries Association, et al. (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). Plaintiffs seek to represent two classes, one of all minors between ages six months and six years who resided in housing in Illinois built before 1978, and one of all individuals between ages six and twenty years who lived between ages six months and six years in Illinois housing built before 1978 and had blood lead levels of 10 micrograms/deciliter or more. The complaint seeks damages jointly and severally from the former pigment manufacturers and the LIA to establish a medical screening fund for the first class to determine blood lead levels, a medical monitoring fund for the second class to detect the onset of latent diseases, and a fund for a public education campaign. Pre-trial motions by the defendants to dismiss all claims are pending.

In October 2000 the Company was served with a complaint filed in California state court, Justice, et al. v. Sherwin-Williams Company, et al. (Superior Court of California, County of San Francisco, No. 314686). Plaintiffs are two minors who seek general, special and punitive damages from the former pigment manufacturers and the LIA for injuries alleged to be due to ingestion of paint containing lead in their residence. The Company has denied all liability. Discovery is proceeding.

In January 2001 the Company was served with a complaint in Gaines, et al., v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-0604). The complaint seeks joint and several

liability for compensatory and punitive damages from the Company, Sherwin-Williams, and four local paint retailers on behalf of a minor and his mother alleging injuries due to exposure to lead pigment and/or paint. The case has been removed to federal court and that court has dismissed the local paint retailers. Discovery and pre-trial motions are proceeding.

In February 2001 the Company was served with a complaint in Borden, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-587). The complaint seeks joint and several liability for compensatory and punitive damages from more than 40 manufacturers and retailers of lead pigment and/or paint, including the Company, on behalf of 18 adult residents of Mississippi who were allegedly exposed to lead during their employment in construction and repair activities. Pre-trial proceedings are continuing.

In May 2001 the Company was served with a complaint in City of Milwaukee v. NL Industries, Inc. and Mautz Paint (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV003066). Plaintiff seeks compensatory and equitable relief for lead hazards in Milwaukee homes, restitution for amounts it has spent to abate lead, and punitive damages. The Company has denied all liability. Pre-trial proceedings are continuing.

In May 2001 the Company was served with a complaint in Harris County, Texas v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2001-21413). The complaint seeks actual and punitive damages and asserts claims jointly and severally against the former pigment manufacturers and the LIA for past and future damages due to the presence of lead paint in County-owned buildings. The Company has denied all liability. Discovery and pre-trial motions are continuing.

In June 2001 a complaint was filed in Jefferson County School District v. Lead Industries Association, et al. (Circuit Court of Jefferson County, Mississippi, Case No. 2001-69). The complaint seeks joint and several liability for compensatory and punitive damages for the abatement of lead paint in Jefferson County Schools from the former pigment manufacturers and local paint retailers. The Company has denied all liability. The case was removed to federal court and pre-trial proceedings are continuing.

In December 2001 the Company was served with a complaint in Quitman County School District v. Lead Industries Association, et al. (Circuit Court of Quitman County, Mississippi, Case No. 2001-0106). The complaint asserts joint and several liability and seeks compensatory and punitive damages for the abatement of lead paint in Quitman County schools from the former pigment manufacturers, local paint retailers and others. The Company has denied all liability. Pre-trial proceedings, including those related to the removal of the case to federal court, are continuing.

In January and February 2002 the Company was served with complaints by 22 New Jersey municipalities and counties which have been consolidated as In re: Lead Paint Litigation, Superior Court of New Jersey, Middlesex County, Case Code 702. Each complaint seeks abatement of lead paint from all housing and all public buildings in each jurisdiction and punitive damages jointly and severally from the former pigment manufacturers and the LIA. The Company intends to deny all allegations of liability.

In January 2002 the Company was served with a complaint in Jackson, et al., v. Phillips Building Supply of Laurel, et al., Circuit Court of Jones

County, Mississippi, Dkt. Co. 2002-10-CV1. The complaint seeks joint and several liability from three local retailers and six non-Mississippi companies that sold paint for compensatory and punitive damages on behalf of four adults for injuries alleged to have been caused by the use of lead paint. The case has been removed to federal court. The Company has denied all allegations of liability and pre-trial proceedings are continuing.

In February 2002 the Company was served with a complaint in Liberty Independent School District v. Lead Industries Association, et al. , District Court of Liberty County, Texas, No. 63,332. The school district seeks compensatory and punitive damages jointly and severally from the former pigment manufacturers and the LIA for property damage to its buildings. The Company has denied all allegations of liability.

In addition to the foregoing litigation, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn court decisions in which the Company and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date which are expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity, the imposition of market share liability or other legislation could have such an effect.

The Company has filed actions seeking declaratory judgment and other relief against various insurance carriers with respect to costs of defense and indemnity coverage for certain of its environmental and lead pigment litigation. NL Industries, Inc. v. Commercial Union Insurance Cos., et al., Nos. 90-2124, - -2125 (HLS) (District Court of New Jersey). The action relating to lead pigment litigation defense costs filed in May 1990 against Commercial Union Insurance Company ("Commercial Union") sought to recover defense costs incurred in the City of New York lead pigment case and two other lead pigment cases which have since been resolved in the Company's favor. The action relating to lead paint litigation defense costs has been settled. The Company has also settled insurance coverage claims concerning environmental claims with certain of the defendants in the New Jersey environmental coverage litigation, including the Company's principal former carriers, as more fully described below. The settled claims are to be dismissed from the New Jersey litigation in accordance with the terms of the settlement agreements. The Company also continues to negotiate with several other insurance carriers with respect to possible settlement of claims that are being asserted in the New Jersey environmental litigation, although there can be no assurance that settlement agreements can be reached with these other carriers. No further material settlements relating to litigation concerning environmental remediation coverage are expected. The issue of whether insurance coverage for defense costs or indemnity or both will be found to exist for lead pigment litigation depends upon a variety of factors, and there can be no assurance that such insurance coverage will be available. The Company has not considered any potential insurance recoveries for lead pigment or environmental litigation in determining related accruals.

Environmental matters and litigation

The Company has been named as a defendant, PRP, or both, pursuant to CERCLA and similar state laws in approximately 75 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.

The extent of CERCLA liability cannot accurately be determined until the Remedial Investigation and Feasibility Study ("RIFS") is complete, the U.S. EPA issues a record of decision and costs are allocated among PRPs. The extent of liability under analogous state cleanup statutes and for common law equivalents are subject to similar uncertainties. The Company believes it has provided adequate accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 2001, the Company had accrued $107 million for those environmental matters which are reasonably estimable. The Company determines the amount of accrual on a quarterly basis by analyzing and estimating the range of reasonably possible costs to the Company. Such costs include, among other things, expenditures for remedial investigations, monitoring, managing, studies, certain legal fees, cleanup, removal and remediation. It is not possible to estimate the range of costs for certain sites. The Company has estimated that 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 $160 million. The Company's estimate of such liability has not been discounted to present value and the Company has not reduced its accruals for any potential insurance recoveries. No assurance can be given that actual costs will not exceed either accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes with respect to site cleanup costs or allocation of such costs among PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. Furthermore, there can be no assurance that additional environmental matters will not arise in the future. More detailed descriptions of certain legal proceedings relating to environmental matters are set forth below.

In June 2000 the Company recognized a $43 million net gain from a settlement with one of the two principal former insurance carriers, and in December 2000 the Company recognized a $26.5 million net gain from a settlement with certain members of the other principal former insurance carrier. The settlement gains are stated net of $3.1 million in commissions, and the gross settlement proceeds of $72.6 million were transferred by the carriers to special purpose trusts established to pay future remediation and other environmental expenditures of the Company. A settlement with remaining members of the second carrier group was reached in January 2001, and the Company recognized a $10.3 million gain in the first quarter of 2001. In 2001 the Company also recognized $1.4 million of other litigation settlement gains. The settlements resolved court proceedings that the Company initiated to seek reimbursement for legal defense expenditures and indemnity coverage for certain of its environmental remediation expenditures. No further material settlements relating to litigation

concerning environmental remediation coverage are expected. See Note 16 to the Consolidated Financial Statements.

In July 1991 the United States filed an action in the U.S. District Court for the Southern District of Illinois against the Company and others (United States of America v. NL Industries, Inc., et al., Civ. No. 91-CV 00578) with respect to the Granite City, Illinois lead smelter formerly owned by the Company. The complaint seeks injunctive relief to compel the defendants to comply with an administrative order issued pursuant to CERCLA, and fines and treble damages for the alleged failure to comply with the order. The Company and the other parties did not implement the order, believing that the remedy selected by the U.S. EPA was invalid, arbitrary, capricious and was not selected in accordance with law. The complaint also seeks recovery of past costs and a declaration that the defendants are liable for future costs. Although the action was filed against the Company and ten other defendants, there are 330 other PRPs who have been notified by the U.S. EPA. Some of those notified were also respondents to the administrative order. In September 1995 the U.S. EPA released its amended decision selecting cleanup remedies for the Granite City site. In September 1997 the U.S. EPA informed the Company that past and future cleanup costs are estimated to total approximately $63.5 million. In 1999 the U.S. EPA and certain other PRPs entered into a consent decree settling their liability at the site for approximately 50% of the site costs. The Company and the U.S. EPA reached an agreement in principle in 1999 to settle the Company's liability at the site for $31.5 million. The Company and the U.S. EPA are negotiating a consent decree embodying the terms of this agreement in principle.

The Company reached an agreement in 1999 with the other PRPs at a formerly owned lead smelter site in Pedricktown, New Jersey to settle the Company's liability for $6 million, of which $4.8 million has been paid as of December 31, 2001. The settlement does not resolve issues regarding the Company's potential liability in the event site costs exceed $21 million. The Company does not presently expect site costs to exceed such amount and has not provided accruals for such contingency.

In 1998 the Company reached an agreement to settle litigation with the other PRPs at a lead smelter site in Portland, Oregon that was formerly owned by the Company. Under the agreement, the Company agreed to pay a portion of future cleanup costs. In 2000 the construction of the remediation was completed and is now in the operation and maintenance phase.

In 2000 the Company reached an agreement with the other PRPs at the Baxter Springs subsite in Cherokee County, Kansas, to resolve the Company's liability. The Company and others formerly mined lead and zinc in the Baxter Springs subsite. Under the agreement, the Company agreed to pay a portion of the cleanup costs associated with the Baxter Springs subsite. The U.S. EPA has estimated the total cleanup costs in the Baxter Springs subsite to be $5.4 million. The remedial action phase of the cleanup is underway.

In 1996 the U.S. EPA ordered the Company to perform a removal action at a formerly owned facility in Chicago, Illinois. The Company has complied with the order and has completed the on-site work at the facility. The Company is conducting an investigation regarding potential offsite contamination.

Residents in the vicinity of the Company's former Philadelphia lead chemicals plant commenced a class action allegedly comprised of over 7,500 individuals seeking medical monitoring and damages allegedly caused by emissions

from the plant. Wagner, et al. v. Anzon, Inc. and NL Industries, Inc., No. 87-4420, Court of Common Pleas, Philadelphia County. The complaint sought compensatory and punitive damages from the Company and the current owner of the plant, and alleged causes of action for, among other things, negligence, strict liability, and nuisance. A class was certified to include persons who resided, owned or rented property, or who work or have worked within up to approximately three-quarters of a mile from the plant from 1960 through the present. In December 1994 the jury returned a verdict in favor of the Company and the verdict was affirmed on appeal. Residents also filed consolidated actions in the United States District Court for the Eastern District of Pennsylvania, Shinozaki v. Anzon, Inc. and Wagner and Antczak v. Anzon and NL Industries, Inc. Nos. 87-3441, 87-3502, 87-4137 and 87-5150. The consolidated action is a putative class action seeking CERCLA response costs, including cleanup and medical monitoring, declaratory and injunctive relief and civil penalties for alleged violations of the RCRA, and also asserting pendent common law claims for strict liability, trespass, nuisance and punitive damages. The court dismissed the common law claims without prejudice, dismissed two of the three RCRA claims as against the Company with prejudice, and stayed the case pending the outcome of the state court litigation.

In 2000 the Company reached an agreement with the other PRPs at the Batavia Landfill Superfund Site in Batavia, New York to resolve the Company's liability. The Batavia Landfill is a former industrial waste disposal site. Under the agreement, the Company agreed to pay 40% of the future remedial construction costs, which the U.S. EPA has estimated to be approximately $11 million in total. Under the settlement, the Company is not responsible for costs associated with the operation and maintenance of the remedy. In addition, the Company received approximately $2 million from settling PRPs. The remedial action phase of the remedy is underway.

In October 2000 the Company was served with a complaint in Pulliam, et al. v. NL Industries, Inc., et al., No. 49F12-0104-CT-001301, filed in superior court in Marion County, Indiana, on behalf of an alleged class of all persons and entities who own or have owned property or have resided within a one-mile radius of an industrial facility formerly owned by a subsidiary of the Company in Indianapolis, Indiana. Plaintiffs allege that they and their property have been injured by lead dust and particulates from the facility and seek unspecified actual and punitive damages and a removal of all alleged lead contamination under various theories, including negligence, strict liability, battery, nuisance and trespass. In December 2000 the Company answered the complaint denying all allegations of wrongdoing and liability. Discovery is proceeding.

See Item 1. "Business - Regulatory and Environmental Matters."

Other litigation

The Company has been named as a defendant in various lawsuits in a variety of jurisdictions alleging personal injuries as a result of occupational exposure to asbestos, silica and/or mixed dust in connection with formerly owned operations. Various of these actions remain pending, including the following matters.

In March 1997 the Company was served with a complaint in Ernest Hughes, et al. v. Owens-Corning Fiberglass, Corporation, et al., No. 97-C-051, filed in the Fifth Judicial District Court of Cass County, Texas, on behalf of approximately 4,000 plaintiffs and their spouses alleging injury due to exposure to asbestos and seeking compensatory and punitive damages. The Company has filed an answer denying the material allegations. The case has been inactive since 1998.

In February 1999 and October 2000 the Company was served with complaints in Cosey, et al. v. Bullard, et al., No. 95-0069, and Pierce, et al. v. GAF, et al., No. 2006-150, filed in the Circuit Court of Jefferson County, Mississippi, on behalf of approximately 4,600 plaintiffs and 275 plaintiffs, respectively, alleging injury due to exposure to asbestos and/or silica and seeking compensatory and punitive damages. The Cosey case was removed to federal court and has been transferred to the eastern district of Pennsylvania for consolidated proceedings. The Company has filed answers in both cases denying the material allegations of the complaint.

In addition, the Company is a defendant in various asbestos, silica and/or mixed dust cases pending in various jurisdictions on behalf of approximately 6,900 personal injury claimants.

In August and September 2000 the Company and one of its subsidiaries, NLO, Inc. ("NLO"), were named as defendants in four lawsuits filed in federal court in the Western District of Kentucky against the Department of Energy ("DOE") and a number of other defendants alleging that nuclear materials supplied by, among others, the Feed Materials Production Center ("FMPC") in Fernald, Ohio, owned by the DOE and formerly managed under contract by NLO, harmed employees and others at the DOE's Paducah, Kentucky Gaseous Diffusion Plant ("PGDP"). With respect to each of the cases listed below, the Company believes that the DOE is obligated to provide defense and indemnification pursuant to its contract with NLO, and pursuant to its statutory obligation to do so, as the DOE has in several previous cases relating to management of the FMPC, and the Company has so advised the DOE. Answers in the four cases have not been filed. The Company and NLO have moved to dismiss the complaints in all four actions and, as described below, three of the cases have been settled subject to court approval. If those motions are not granted, the Company and NLO intend to deny all allegations of wrongdoing and liability and to defend the cases vigorously.

* In Rainer, et al. v. E.I. du Pont de Nemours, et al., ("Rainer I") No. 5:00CV-223-M, plaintiffs purport to represent a class of former employees at the PGDP and a class consisting of members of the former employees' households and seek actual and punitive damages of $5 billion each for alleged negligence, infliction of emotional distress, ultra-hazardous activity/strict liability, strict products liability and battery. No answer or response to that complaint is yet due.

* In Rainer, et al. v. Bill Richardson, et al. ("Rainer II"), No. 5:00CV-220-M, plaintiffs purport to represent the same classes regarding the same matters alleged in Rainer I, and allege a violation of constitutional rights and seek the same recovery sought in Rainer I, as well as asserting claims for battery, fraud, deceit, and misrepresentation, infliction of emotional distress, negligence, and conspiracy, concert of action, joint venture and enterprise liability. No answer or response to that complaint is yet due.

* In Dew, et al. v. Bill Richardson, et al. ("Dew"), No. 5:00CV-221-M, plaintiffs purport to represent classes of all PGDP employees who sustained pituitary tumors or cancer as a result of exposure to radiation and seek actual and punitive damages of $2 billion each for alleged violation of constitutional rights, assault and battery, fraud and misrepresentation, infliction of emotional distress, negligence, ultra-hazardous activity/strict liability, strict products liability, conspiracy, concert of action, joint venture and enterprise liability, and equitable estoppel. Pre-trial proceedings and discovery continue.

* In Shaffer, et al. v. Atomic Energy Commission, et al. ("Shaffer"), No. 5:00CV-307-M, plaintiffs purport to represent classes of PGDP employees and household members, subcontractors at PGDP, and landowners near the PGDP and seek actual and punitive damages of $1 billion each and medical monitoring for the same counts alleged in Dew. In March 2001, the magistrate judge ordered that the landowner plaintiffs be severed from the action and pursue their claims in a separate action, Oreskovich v. Atomic Energy Commission, No. 01CV-63-M. All of the Oreskovich plaintiffs subsequently dismissed their claims against the Company and NLO with prejudice.

Subject to court approval, the Company and NLO have reached an agreement pursuant to which the Rainer I, Rainer II, and Shaffer cases against the Company and NLO will be settled and dismissed with prejudice. The trial court approved the settlement in March 2002; the time during which the approval may be appealed has not yet expired. The DOE has agreed to reimburse the Company for the settlement amount.

The Company is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its present and former businesses, and the disposition of past properties and former businesses.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

NL's common stock is listed and traded on the New York Stock Exchange and the Pacific Exchange under the symbol "NL." As of March 14, 2002, there were approximately 6,000 holders of record of NL common stock. The following table sets forth the high and low sales prices for NL common stock on the New York Stock Exchange ("NYSE") Composite Tape. On March 14, 2002, the closing price of NL common stock according to the NYSE Composite Tape was $16.17.

	High	Low	Dividends Declared
Year ended December 31, 2001:			
First quarter	$ 24.31	$ 16.25	$ .20
Second quarter	18.00	11.60	.20
Third quarter	16.75	13.80	.20
Fourth quarter	15.70	12.04	.20
Year ended December 31, 2000:			
First quarter	$ 16.38	$ 13.00	$ .15
Second quarter	19.00	13.13	.15
Third quarter	24.38	15.50	.15
Fourth quarter	25.00	18.94	.20

The Company's indenture to its 11.75% Senior Secured Notes due 2003 limits the ability of the Company to pay dividends, acquire treasury shares and make other restricted payments, as defined. The aggregate amount of dividends and other restricted payments since October 1993 may not exceed 50% of the aggregate consolidated net income, as defined in the indenture, since October 1993. At December 31, 2001, $20 million was available for restricted payments including dividends, acquisition of treasury shares and affiliate stock purchases.

The Company paid four quarterly $.20 per share cash dividends in 2001. On February 6, 2002, the Company's Board of Directors declared a regular quarterly dividend of $.20 per share to shareholders of record as of March 8, 2002 to be paid on March 22, 2002. The declaration and payment of future dividends is discretionary, and the amount, if any, will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Company's Board of Directors.

Pursuant to its share repurchase program, the Company purchased 1,059,000 shares of its common stock in the open market at an aggregate cost of $15.5 million in 2001, 1,682,000 shares of its common stock at an aggregate cost of $30.9 million in 2000 and 552,000 shares of its common stock in the open market at an aggregate cost of $7.2 million in 1999. Approximately 1,207,000 additional shares are available for purchase under the Company's share repurchase program. The available shares may be purchased over an unspecified period of time, and are to be held as treasury shares available for general corporate purposes.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain amounts have been reclassified to conform with the current year's consolidated financial statement presentation.

	Years ended December,				
	2001	2000	1999	1998	1997
	(In millions, except per share amounts)				
INCOME STATEMENT DATA:					
Net sales	$ 835.1	$ 922.3	$ 908.4	$ 894.7	$ 837.2
Operating income	169.2	212.5	145.7	171.2	82.5
Income (loss) from continuing operations	121.4	155.3	159.8	89.9	(29.9)
Net income (loss)	121.4	154.6	159.8	366.7	(9.5)
Earnings per share:					
Basic:					
Income (loss) from continuing operations	$ 2.44	$ 3.08	$ 3.09	$ 1.75	$ (.58)
Net income (loss)	2.44	3.07	3.09	7.13	(.19)
Diluted:					
Income (loss) from continuing operations	$ 2.44	$ 3.06	$ 3.08	$ 1.73	$ (.58)
Net income (loss)	2.44	3.05	3.08	7.05	(.19)
Cash dividends per share	$ .80	$ .65	$ .14	$ .09	$ --
BALANCE SHEET DATA at year end:					
Cash, cash equivalents, current and noncurrent restricted cash equivalents and current and noncurrent marketable debt securities	$ 199.0	$ 207.6	$ 151.8	$ 163.1	$ 106.1
Current assets	559.1	553.8	506.4	546.8	454.9
Total assets	1,151.1	1,120.8	1,056.2	1,155.6	1,098.5
Current liabilities	299.1	298.0	264.8	310.7	276.7
Long-term debt including current maturities	196.5	196.1	244.5	357.6	744.2
Shareholders' equity (deficit)	386.9	344.5	271.1	152.3	(222.3)
CASH FLOW DATA:					
Operating activities	$ 129.7	$ 139.7	$ 108.3	$ 45.1	$ 89.2
Investing activities	(57.2)	(56.2)	(38.4)	417.3	(11.1)
Financing activities	(75.5)	(95.7)	(88.0)	(396.2)	(82.6)
Operating, investing and financing activities	(3.0)	(12.2)	(18.1)	66.2	(4.5)
OTHER NON-GAAP FINANCIAL DATA:					
EBITDA (1)	$ 206.7	$ 286.3	$ 162.5	$ 187.4	$ 67.6

	Years ended December,				
	2001	2000	1999	1998	1997
	(In millions, except per share amounts)				
OTHER DATA:					
Net debt at year end (2)	$ 43.7	$ 58.5	$149.8	$226.7	$652.0
Interest expense, net (3)	18.7	22.9	30.3	43.1	63.0
Cash interest expense, net (4)	21.8	23.8	28.6	24.8	39.9
Capital expenditures	53.7	31.1	35.6	22.4	28.2
TiO2 OPERATING STATISTICS:					
Average selling price in billing currencies index (1983=100)	156	161	153	154	133
Sales volumes (metric tons in thousands)	402	436	427	408	427
Production volume (metric tons in thousands)	412	441	411	434	408
Production capacity at beginning of year (metric tons in thousands)	450	440	440	420	400
Production rate as a percentage of capacity	91%	Full	93%	Full	Full

(1) EBITDA, as presented, represents operating income less corporate expense, plus (i) litigation settlement gains, net, (ii) other corporate income, (iii) depreciation, depletion and amortization and (iv) insurance recoveries, net. EBITDA is presented as a supplement to the Company's operating income and cash flow from operations because the Company believes that EBITDA is a widely accepted financial indicator of cash flows and the ability to service debt. EBITDA should not be considered as an alternative to, or more meaningful than, operating income or net income determined under U.S. generally accepted accounting principles ("GAAP") as an indicator of the Company's operating performance, or cash flows from operating, investing and financing activities determined under GAAP as a measure of liquidity. EBITDA is not intended to depict funds available for reinvestment or other discretionary uses, as the Company has significant debt requirements and other commitments. Investors should consider certain factors in evaluating the Company's EBITDA, including interest expense, income taxes, noncash income and expense items, changes in assets and liabilities, capital expenditures, investments in joint ventures and other items included in GAAP cash flows as well as future debt repayment requirements and other commitments, including those described in Notes11, 14 and 20 to the Consolidated Financial Statements. The Company believes that the trend of its EBITDA is consistent with the trend of its GAAP operating income, except in (i) 1997 when EBITDA decreased and operating income increased from 1996 amounts due to a $30 million noncash charge related to the Company's adoption of SOP 96-1, "Environmental Remediation Liabilities" and (ii) 2000 when $70 million of net litigation settlement gains are included in EBITDA and excluded from operating income, which treatment results in a higher percentage increase over 1999 for EBITDA as compared to the percentage increase over 1999 for operating income. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of operating income and cash flows during the last three years and the Company's outlook. EBITDA as a measure of a company's performance may not be comparable to other companies, unless substantially all companies and analysts determine EBITDA as computed and presented herein.

(2) Net debt represents notes payable and long-term debt less cash, cash equivalents, current and noncurrent restricted cash equivalents and current and noncurrent marketable debt securities.

(3) Interest expense, net represents interest expense less general corporate interest and dividend income.

(4) Cash interest expense, net represents interest expense, net as defined in (3) above less noncash interest expense plus noncash interest income. Noncash interest expense includes deferred interest expense on the Senior Secured Discount Notes in 1996 through 1998 and amortization of deferred financing costs. Noncash interest income includes interest income on restricted cash and restricted marketable debt securities in 2001 and 2000.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" are based upon the Company's consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. On an on-going basis, the Company evaluates its estimates, including those related to inventory reserves, impairments of investments in marketable equity securities and investments accounted for by the equity method, the recoverability of other long-lived assets, pension and other post-retirement benefit obligations and the underlying actuarial assumptions related thereto, and the realization of deferred income tax assets and accruals for environmental remediation, litigation, income tax and other contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from previously-estimated amounts under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

* The Company provides reserves for estimated obsolescence or unmarketable finished goods inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand for its products and market conditions. If actual market conditions are less favorable than those projected by management, additional finished goods inventory reserves may be required. The Company provides reserves for tools and supplies inventory generally based on both historical and expected future usage requirements.

* The Company owns investments in certain companies that are accounted for either as marketable equity securities or under the equity method. For all of such investments, the Company records an impairment charge when it believes an investment has experienced a decline in fair value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

* The Company recognizes an impairment charge associated with its long-lived assets, including property and equipment, whenever it determines that recovery of such long-lived asset is not probable. Such determination is made in accordance with applicable GAAP requirement associated with the long-lived asset, and is based upon, among other things, estimates of the amount of future net cash flows to be generated by the long-lived asset and estimates of the current fair value of the asset. Adverse changes in such estimates of future net cash flows or estimates of fair value could result in an inability to recover the carrying value of the long-lived asset, thereby possibly requiring an impairment charge to be recognized in the future.

* The Company records a valuation allowance to reduce its deferred income tax assets to the amount that is believed to be realizable under the "more-likely-than-not" recognition criteria. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, it is possible that in the future the Company may change its estimate of the amount of the deferred income tax assets that would "more-likely-than-not" be realized, resulting in an adjustment to the deferred income tax asset valuation allowance that would either increase or decrease, as applicable, reported net income in the period such change in estimate was made.

* The Company records an accrual for environmental, legal, income tax and other contingencies when estimated future expenditures associated with such contingencies become probable, and the amounts can be reasonably estimated. However, new information may become available, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount required to be accrued for such matters (and therefore a decrease or increase in reported net income in the period of such change).

RESULTS OF OPERATIONS

General

The Company's operations are conducted by Kronos in the TiO_2 business segment. As discussed below, average TiO_2 selling prices in billing currencies (which excludes the effects of foreign currency translation) decreased in 2001 compared with 2000 and increased in 2000 compared with 1999. Kronos' operating income declined $43.3 million in 2001 compared with 2000 and increased $66.8 million in 2000 compared with 1999. Gross profit margins were 31% in 2001, 34% in 2000 and 27% in 1999.

Many factors influence TiO2 pricing levels, including (i) industry capacity, (ii) worldwide demand growth, (iii) customer inventory levels and purchasing decisions and (iv) relative changes in foreign currency exchange rates. Kronos believes that the TiO2 industry has long-term growth potential, as discussed in "Item 1. Business - Industry" and "- Competition."

	Years ended December 31,			% Change	
	2001	2000	1999	2001-00	2000-99
	(In millions)				
Net sales and operating income					
Net sales	$835.1	$922.3	$908.4	-9%	+ 2%
Operating income	$169.2	$212.5	$145.7	-20%	+46%
Operating income margin percentage	20%	23%	16%		
TiO2 operating statistics					
Percent change in average selling prices (in billing currencies) .				-3%	+6%
Sales volume (metric tons in thousands)	402	436	427	-8%	+2%
Production volume (metric tons in thousands)	412	441	411	-6%	+7%
Production rate as a percent of capacity	91%	Full	93%		

Kronos' operating income in 2001, including business interruption proceeds of $27.3 million, was lower than 2000, primarily due to lower average TiO2 selling prices in billing currencies and lower sales and production volumes. Kronos' operating income for 2000 was higher than 1999 due to higher average TiO2 selling prices in billing currencies and higher production and sales volumes.

Average TiO2 selling prices in billing currencies during 2001 were 3% lower than 2000, with lower prices in all major regions. Pigment prices decreased from the preceding quarter during each quarter of 2001, reversing the upward trend that began in the fourth quarter of 1999 and continued through the fourth quarter of 2000. The rate of price declines increased in the fourth quarter of 2001 to 5% over the third quarter of 2001, and December 2001 prices were 2% lower than the average selling price for the quarter. The average selling price in billing currencies in December 2001 was 13% below the December 2000 average selling price. The most significant price erosion during this time period occurred in the European and export markets. TiO2 average selling prices continued to trend downward in the first quarter of 2002. Average TiO2 selling prices in billing currencies in 2000 were 6% higher than 1999, with higher prices in all major regions.

Industry-wide demand was weak throughout 2001 as compared to 2000 and 1999 levels. Sales volume of 402,000 metric tons of TiO2 in 2001 was 8% lower than 2000, primarily due to lower sales in Europe and North America. Kronos' sales volume in the fourth quarter of 2001 decreased 1% from the fourth quarter of 2000 and 11% from the third quarter of 2001. Approximately one-half of Kronos' 2001 TiO2 sales volume was attributable to markets in Europe with approximately 38% attributable to North America, and the balance to other regions. Sales volume in 2000 was 2% higher than 1999, primarily due to higher sales in Europe and North America. Industry-wide demand was weak in early 1999. Demand in the second half of 1999 and the first three quarters of 2000 was stronger than comparable year-earlier periods as a result of, among other things, customers buying in advance of anticipated price increases. Demand softened in the fourth quarter of 2000 and weakened throughout 2001.

The Company's production volume was 412,000 metric tons in 2001, a decrease of 6% from a record 441,000 metric tons produced in 2000. Operating rates were at 91% in 2001 down from near full capacity in 2000, primarily due to lost production resulting from the Leverkusen fire and the Company's decision to curtail production in the fourth quarter of 2001 as demand remained soft. Kronos' production volume in 2000 increased 7% compared with the 411,000 metric tons produced in 1999. Operating rates in 1999 were 93%. Production volume was curtailed in the beginning of the first quarter of 1999 in order to manage inventory levels. Finished goods inventory levels increased in the fourth quarter of 2001 and at the end of 2001 represented approximately two and one-half months of sales.

The Company settled the insurance coverage claim involving the Leverkusen fire for $56.4 million during the fourth quarter of 2001 ($46.9 million received as of December 31, 2001, with the remaining $9.5 million received in January 2002), of which $27.3 million related to business interruption and $29.1 million related to property damage, clean-up costs and other extra expenses. The Company recognized a $17.5 million pre-tax gain in 2001 related to the property damage recovery after deducting $11.6 million of clean-up costs and other extra expenses incurred and the carrying value of assets destroyed in the fire. The gain was excluded from the determination of operating income. The $27.3 million of business interruption proceeds recognized in 2001 were allocated between other income, excluding corporate, which reflects recovery of lost margin ($7.2 million) and as a reduction of cost of sales to offset unallocated period costs ($20.1 million). The business interruption insurance proceeds distorted Kronos' operating income margin percentage in 2001 as there were no sales associated with the lost margin operating income recognized. No additional insurance recoveries related to the Leverkusen fire are expected to be received. See Notes 15 and 17 to the Consolidated Financial Statements.

The Company's efforts to debottleneck Kronos' production facilities to meet long-term demand continue to prove successful. The Company expects Kronos' production capacity of 455,000 metric tons at the end of 2001 will be increased to approximately 480,000 metric tons during 2005, primarily at its chloride facilities, with moderate capital expenditures.

The Company expects TiO_2 industry demand in 2002 will improve over 2001 levels, because it expects worldwide economic conditions to improve and customer inventory levels to increase. Kronos' TiO_2 production volume in 2002 is expected to approximate Kronos' 2002 TiO_2 sales volume. In January 2002, Kronos announced price increases in all major markets of approximately 5% to 8% above existing December 2001 prices, scheduled to be implemented late in the first quarter of 2002 and early in the second quarter of 2002. Kronos is hopeful that it will realize such announced prices increases, but the extent to which Kronos can realize these and possibly other price increases during 2002 will depend on improving market conditions and global economic recovery. However, because TiO_2 prices were generally declining during all of 2001, the Company believes that its average 2002 prices in billing currencies will be significantly below its average 2001 prices, even if the recently-announced price increases are realized. Overall, the Company expects its TiO_2 operating income in 2002 will be significantly lower than 2001, primarily due to lower average TiO_2 selling prices. The Company's expectations as to the future prospects of the Company and the TiO_2 industry are based upon a number of factors beyond the Company's control, including worldwide growth of gross domestic product, competition in the market place, 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.

Excluding the effects of foreign currency translation, which reduced the Company's expenses in both 2001 and 2000 compared to the year-earlier periods, Kronos' cost of sales in 2001 was lower than 2000 due to lower sales volume partially offset by higher unit costs, which resulted primarily from lower production levels. The effects of lower TiO_2 sales volume and production volume were partially offset by business interruption proceeds. Kronos' cost of sales in 2000 was lower than 1999 primarily due to lower unit costs, which resulted primarily from higher production levels. Cost of sales, as a percentage of net sales, increased in 2001 primarily due to the impact on net sales of lower average selling prices and higher unit costs partially offset by business interruption insurance recoveries, and decreased in 2000 primarily due to the impact on net sales of higher average selling prices and lower unit costs.

Excluding the effects of foreign currency translation, which reduced the Company's expense in both 2001 and 2000 compared to the year-earlier periods, selling, general and administrative expenses ("SG&A"), excluding corporate expenses, decreased in 2001 from the year-earlier period due to lower variable compensation expense and lower selling and distribution expenses associated with lower 2001 sales volume. SG&A, excluding corporate expenses, increased in 2000 from the year-earlier period primarily due to higher variable compensation expense and higher selling and distribution expenses associated with higher 2000 sales volumes. SG&A, excluding corporate expenses, as a percentage of net sales, was 12% in each of 2001, 2000 and 1999. See discussion of corporate expenses below.

The Company has substantial operations and assets located outside the United States (principally Germany, Norway, Belgium and Canada). The Company's non-U.S. sales and operating costs are subject to currency exchange rate fluctuations which may impact reported earnings and may affect the comparability of period-to-period revenues and expenses expressed in U.S. dollars. A significant amount of the Company's sales (57% in 2001) are denominated in currencies other than the U.S. dollar, principally the euro, other major European currencies and the Canadian dollar. Certain purchases of raw materials, primarily titanium-containing feedstocks, are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local currencies. Fluctuations in the value of the U.S. dollar relative to other currencies, primarily a stronger U.S. dollar compared to the euro, decreased sales by $19 million and $68 million during 2001 and 2000, respectively, compared with the year-earlier period. When translated to U.S. dollars using currency exchange rates prevailing during the respective periods, Kronos' average selling prices for 2001 decreased 5% from 2000. Kronos' average selling prices in U.S. dollars for 2000 decreased 1% from 1999. The effect of the stronger U.S. dollar on Kronos' operating costs that are not denominated in U.S. dollars reduced operating costs in 2001 and 2000 compared with the respective prior year. In addition, sales to export markets are typically denominated in U.S. dollars and a stronger U.S. dollar improves margins on these sales at the Company's non-U.S. subsidiaries. The favorable margin on export sales tends to offset the unfavorable effect of translating local currency profits to U.S. dollars when the dollar is stronger. As a result, the net impact of currency exchange rate fluctuations on operating income in 2001 and 2000 was not significant when compared to the year-earlier periods.

General corporate

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

	Years ended December 31,			Change	
	2001	2000	1999	2001-00	2000-99
	(In millions)				
Securities earnings:					
Interest and dividends	$ 8.9	$ 8.3	$ 6.6	$ .6	$ 1.7
Securities transactions, net	(1.1)	2.5	--	(3.6)	2.5
Corporate income	16.3	73.7	4.6	(57.4)	69.1
Corporate expense	(25.9)	(29.6)	(21.5)	3.7	(8.1)
Interest expense	(27.6)	(31.2)	(36.9)	3.6	5.7
	$ (29.4)	$ 23.7	$ (47.2)	$ (53.1)	$ 70.9

Corporate interest and dividend income, including noncash interest income on restricted cash balances and restricted marketable debt securities, fluctuate in part based upon the amount of funds invested and yields thereon. Average funds invested in 2001 and 2000 were higher compared with the respective prior year primarily due to the increase in restricted cash related to litigation settlement proceeds in January 2001 and July 2000. See Note 16 to the Consolidated Financial Statements. The Company expects security earnings to be lower in 2002 than 2001 due to (i) lower average yields and (ii) lower average levels of funds available for investment due to lower 2002 operating cash flow and the Company's decision to prepay $25 million of its 11.75% Senior Secured Notes. See Note 23 to the Consolidated Financial Statements.

Securities transactions, net in 2001 related to a second-quarter $1.1 million noncash securities loss related to an other-than-temporary decline in value of certain available-for-sale securities held by the Company. Securities transactions, net in 2000 included a second-quarter $5.6 million securities gain related to common stock received from the demutualization of an insurance company from which the Company had purchased certain insurance policies and a fourth-quarter $3.1 million noncash securities loss related to an other-than-temporary decline in value of certain available-for-sale securities held by the Company. See Note 6 to the Consolidated Financial Statements.

Corporate income in 2001 and 2000 included gains of $11.7 million and $69.5 million, respectively, related principally to settlements with former insurance carrier groups. No further material settlements relating to litigation concerning environmental remediation coverage are expected. See Note 16 to the Consolidated Financial Statements. The Company recognized $4.0 million in each of 2001, 2000 and 1999 of income related to the straight-line, five-year amortization of $20 million of proceeds received in conjunction with the 1998 sale of its specialty chemicals business attributable to a five-year agreement by the Company not to compete in the rheological products business.

Corporate expense in 2001 decreased from 2000, primarily as a result of lower legal expenses and lower variable compensation expense. The Company expects corporate expense in 2002 will be comparable to or somewhat higher than 2001 levels.

Interest expense in 2001 declined compared with the prior year primarily due to reduced levels of its outstanding 11.75% Senior Secured Notes (resulting from a $50 million prepayment in December 2000) and lower euro-denominated debt. Interest expense in 2000 declined compared to 1999 due to reduced levels of outstanding euro-denominated debt. Assuming no significant change in interest rates, interest expense in 2002 is expected to be lower compared with 2001 due to lower levels of outstanding indebtedness. See Note 23 to the Consolidated Financial Statements.

Provision for income taxes

The principal reasons for the difference between the U.S. Federal statutory income tax rates and the Company's effective income tax rates are explained in Note 14 to the Consolidated Financial Statements. The Company's operations are conducted on a worldwide basis and the geographic mix of income can significantly impact the Company's effective income tax rate. In 2001 the Company's effective income tax rate varied from the normally expected rate primarily due to the recognition of certain German income tax attributes which previously did not meet the "more-likely-than-not" recognition criteria and incremental U.S. taxes on undistributed earnings of certain non-U.S. subsidiaries. In 2000 the Company's effective income tax rate varied from the normally expected rate primarily due to the geographic mix of income, changes in the German income tax "base" rate and the recognition of certain deductible tax assets which previously did not meet the "more-likely-than-not" recognition criteria. In 1999 the Company's effective tax rate varied from the normally expected rate due predominantly to the recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria. Also in 2000 and 1999, the Company recognized certain one-time benefits related to German tax settlements.

Effective January 1, 2001, the Company and its qualifying subsidiaries were included in the consolidated U.S. federal tax return of Contran (the "Contran Tax Group"). As a member of the Contran Tax Group, the Company is a party to a tax sharing agreement (the "Contran Tax Agreement"). The Contran Tax Agreement provides that the Company compute its provision for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the Contran Tax Agreement and using the tax elections made by Contran, the Company makes payments to or receives payments from Valhi in amounts it would have paid to or received from the U.S. Internal Revenue Service had it not been a member of the Contran Tax Group. Refunds are limited to amounts previously paid under the Contran Tax Agreement unless the Company was entitled to a refund from the U.S. Internal Revenue Service on a separate-company basis. Pursuant to the Contran Tax Agreement, the Company has a $2.2 million receivable from Valhi related to capital loss carrybacks which would have been recoverable from the U.S. Internal Revenue Service. See Note 14 to the Consolidated Financial Statements.

Other

Minority interest

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

environmental liabilities and share in 39% of EMS' cumulative earnings, as defined in the formation documents. The Company includes liabilities contractually assumed by EMS in its consolidated balance sheet.

Related party transactions

The Company is a party to certain transactions with related parties. See "Liquidity and Capital Resources - Investing Cash Flows" and Note 19 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows for each of the past three years are presented below.

	Years ended December 31,		
	2001	2000	1999
	(In millions)		
Operating activities:			
Before changes in assets and liabilities ..	$ 135.3	$ 153.1	$ 115.7
Changes in assets and liabilities	(5.6)	(13.4)	(7.4)
	129.7	139.7	108.3
Investing activities	(57.2)	(56.2)	(38.4)
Financing activities	(75.5)	(95.7)	(88.0)
Net cash used by operating, investing and financing activities	$ (3.0)	$ (12.2)	$ (18.1)

Operating cash flows

Certain items included in the determination of net income do not represent current inflows or outflows of cash. For example, the net litigation settlement proceeds of $10.3 million and $69.5 million received in 2001 and 2000, respectively, that were transferred by the insurance carriers to special purpose trusts did not result in an increase in operating cash flow. Further, insurance recoveries, net of $17.5 million in 2001 are excluded from the determination of operating cash flow. These insurance proceeds are shown in the statement of cash flows under investing activities to partially offset the cash outflow impact of capital expenditures related to the Leverkusen sulfate plant reconstruction. Noncash interest income consists of earnings on restricted cash and restricted marketable debt securities which is not available for general corporate purposes. Certain other items included in the determination of net income have an impact on cash flows from operating activities, but the impact of such items on cash will differ from their impact on net income. For example, the amount of income or expense recorded for pension and OPEB assets and obligations (which depend upon a number of factors, including actuarial assumptions used to value obligations) will generally differ from the outflows of cash for such benefits. See Note 12 to the Consolidated Financial Statements.

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, before changes in assets and liabilities decreased $17.8 million in 2001 and increased $37.4 million in 2000 from the preceding year.

Operating cash flows, before changes in assets and liabilities, in 2001 compared with 2000 were unfavorably affected by $43.3 million of lower operating

income, partially offset by $9.0 million of lower payments to fund the Company's pension plans, $6.6 million of lower current tax expense, $3.8 million of higher distributions from LPC, $3.8 million of lower corporate expenses and $2.0 million of lower cash interest expense, net.

Operating cash flows in 2000 compared with 1999 were favorably affected by $66.8 million higher operating income and $4.8 million of lower cash interest expense, net, partially offset by $5.3 million of higher payments to fund the Company's pension plans, $8.2 million of higher corporate expenses, $16.1 million of higher current tax expense, and $6.1 million of lower distributions from LPC.

Changes in the Company's assets and liabilities (excluding the effect of currency translation) in 2001 compared with 2000 were favorably affected by higher accounts payable of $21.8 million and a net decrease in accrued environmental costs of $8.4 million primarily related to the use of assets from the Company's special purpose trusts. The Company's assets and liabilities were unfavorably affected by higher inventories of $9.3 million, lower accounts with affiliates, net of $5.5 million, and payment of accrued supplemental retirement benefits of $4.5 million. In 2001 and 2000, pursuant to terms of certain titanium ore contracts, the Company purchased, in advance of receipt, $31.6 million and $15.3 million, respectively, of titanium ore, a raw material, which is reflected in both inventory and accounts payable and had no net effect on operating cash flow.

Changes in the Company's assets and liabilities (excluding the effect of currency translation) in 2000 compared with 1999 were unfavorably affected by higher inventories of $44.1 million partially offset by lower receivables of $23.7 million and lower environmental accruals of $12.6 million.

Investing cash flows

The Company's capital expenditures were $53.7 million, $31.1 million and $35.6 million in 2001, 2000 and 1999, respectively. Capital expenditures in 2001 include an aggregate of $22.3 million for the rebuilding of the Company's Leverkusen, Germany sulfate plant. The Company received $23.4 million of insurance proceeds for property damage resulting from the Leverkusen fire and paid $3.2 million of expenses related to repairs and clean-up costs. Capital expenditures in 1999 were higher due to $6.0 million of expenditures for a landfill expansion for the Company's Belgian facility. Capital expenditures at LPC were approximately $4.0 million in each of 2001, 2000 and 1999 and are not included in the Company's capital expenditures.

The Company's capital expenditures during the past three years include an aggregate of $23.0 million ($5.0 million in 2001) for the Company's ongoing environmental protection and compliance programs. The Company's estimated 2002 and 2003 capital expenditures are $32.0 million for each year, and include $5.0 million and $4.0 million, respectively, in the area of environmental protection and compliance. Included in the 2002 capital expenditure estimate is $4.0 million to complete reconstruction of the Leverkusen, Germany sulfate plant.

In February 2001, EMS loaned $13.4 million to Tremont Corporation ("Tremont") under a reducing revolving loan agreement. See Notes 1 and 7 to the Consolidated Financial Statements. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime plus 2% (8% at December 31, 2001), is due March 31, 2003 and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The creditworthiness

of Tremont is dependent, in part, on the value of the Company as Tremont's interest in the Company is one of Tremont's more substantial assets. The maximum amount available for borrowing by Tremont reduces by $250,000 per quarter. In each of the second, third and fourth quarters of 2001, Tremont repaid $250,000 of the loan. At December 31, 2001, the outstanding loan balance was $12.7 million and no amounts were available for additional borrowings by Tremont.

In May 2001, a wholly owned subsidiary of EMS loaned $20.0 million to the Harold C. Simmons Family Trust No. 2 (the "Family Trust"), one of the trusts described in Notes 1 and 7 to the Consolidated Financial Statements, under a $25.0 million revolving credit agreement. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime (6% at December 31, 2001), is due on demand with 60 days notice and is collateralized by 13,749 shares, or approximately 35%, of Contran's outstanding Class A voting common stock and 5,000 shares, or 100%, of Contran's Series E Cumulative preferred stock, both of which are owned by the Family Trust. The value of the collateral is dependent, in part, on the value of the Company as Contran's interest in the Company, through its beneficial ownership of Valhi, is one of Contran's more substantial assets. At December 31, 2001, $5.0 million was available for additional borrowing by the Family Trust.

In November 2001, $7.9 million of restricted cash related to certain letters of credit supporting certain insurance related contracts was released.

In January 2002, the Company purchased EWI RE, Inc. and EWI RE, Ltd. (collectively "EWI") for approximately $9.0 million. See Notes 19 and 23 to the Consolidated Financial Statements.

During 2000 the Company purchased 1,000,000 shares of Tremont's common stock in market transactions for an aggregate of $26 million. See Notes 1 and 6 to the Consolidated Financial Statements. Tremont owns 10.2 million shares, or 21%, of NL's outstanding common stock.

Financing cash flows

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

In the second and third quarters of 2000 the Company repaid euro 17.9 million ($16.7 million when paid) and euro 13.0 million ($12.2 million when paid), respectively, of its euro-denominated short-term debt with cash flow from operations. In December 2000 the Company borrowed $43 million of short-term non-U.S. dollar-denominated bank debt and used the proceeds along with cash on hand to redeem $50 million (par value) of the Company's 11.75% Senior Secured Notes.

In the first quarter of 1999 the Company prepaid the remaining balance of DM 107 million ($60 million when paid) of a term loan that was part of the Company's previous DM bank credit facility, principally by drawing DM 100 million ($56 million when drawn) on the revolving portion of the DM credit facility. In the second and third quarters of 1999, the Company repaid DM 60 million ($33 million when paid) of the DM revolving credit facility with cash provided from operations. The revolver's outstanding balance of DM 120 million was further reduced in October 1999 by DM 20 million ($11 million when paid). In

December 1999 the Company borrowed $26 million of short-term unsecured euro-denominated bank debt and used the proceeds along with cash on hand to prepay the remaining balance of DM 100 million ($52 million when paid) of the revolving portion of the DM credit facility. The DM credit facility was then terminated, which released collateral and eliminated certain restrictive loan covenants.

On February 6, 2002, the Company gave notice to the trustee of its intention to redeem $25 million principal amount of the 11.75% Senior Secured Notes due 2003 on March 22, 2002, at the current call price of 100%. See Note 23 to the Consolidated Financial Statements. The Company may redeem additional 11.75% Senior Secured Notes in 2002.

The 11.75% Senior Secured Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among others, restrict the ability of the Company and its subsidiaries to incur debt, incur liens, pay dividends, merge or consolidate with, or sell or transfer all or substantially all of their assets to another entity. In the event of a Change of Control, as defined in the indenture, the Company would be required to make an offer to purchase the 11.75% Senior Secured Notes at 101% of the principal amount. The Company would also be required to make an offer to purchase a specified amount of the 11.75% Senior Secured Notes at par value in the event the Company generates a certain amount of net proceeds from the sale of assets outside the ordinary course of business, and such net proceeds are not otherwise used for specified purposes within a specified time period. See Note 11 to the Consolidated Financial Statements. Other than operating lease commitments disclosed in Note 20 to the Consolidated Financial Statements, the Company is not party to any off-balance sheet financing arrangements.

Dividends paid during 2001, 2000 and 1999 totaled $39.8 million, $32.7 million and $7.2 million, respectively. At December 31, 2001, the Company had $20 million available for payment of dividends, acquisition of treasury shares, acquisition of affiliate stock and other restricted payments as defined in the 11.75% Senior Secured Notes indenture. On February 6, 2002, the Company's Board of Directors declared a regular quarterly dividend of $.20 per share to shareholders of record as of March 8, 2002 to be paid on March 22, 2002.

Pursuant to its share repurchase program, the Company purchased 1,059,000 shares of its common stock in the open market at an aggregate cost of $15.5 million in 2001, 1,682,000 shares of its common stock at an aggregate cost of $30.9 million in 2000 and 552,000 shares of its common stock in the open market at an aggregate cost of $7.2 million in 1999. Approximately 1,207,000 additional shares are available for purchase under the Company's share repurchase program. The available shares may be purchased over an unspecified period of time, and are to be held as treasury shares available for general corporate purposes.

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

At December 31, 2001, the Company had cash and cash equivalents aggregating $116 million (29% held by non-U.S. subsidiaries) and $83 million of restricted cash equivalents and restricted marketable debt securities held by U.S. subsidiaries, of which $16 million was classified as a noncurrent asset. At December 31, 2001, the Company's subsidiaries had $8 million available for borrowing under non-U.S. credit facilities. At December 31, 2001, the Company had complied with all financial covenants governing its debt agreements.

Based upon the Company's expectations for the TiO2 industry and anticipated demands on the Company's cash resources as discussed herein, the Company expects to have sufficient liquidity to meet its near-term obligations including operations, capital expenditures, debt service and current dividend policy. To the extent that actual developments differ from Company's expectations, the Company's liquidity could be adversely affected.

Income taxes

Certain of the Company's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies, including penalties and interest. See Note 14 to the Consolidated Financial Statements.

A reduction in the German "base" income tax rate from 30% to 25%, enacted in October 2000, became effective January 1, 2001. The reduction in the German income tax rate resulted in $5.7 million of additional deferred income tax expense in the fourth quarter of 2000 due to a reduction of the Company's deferred income tax asset related to certain German tax attributes. The Company does not expect its future current income tax expense to be affected by the rate change in Germany.

The Company received tax assessments from the Norwegian tax authorities proposing tax deficiencies, including related interest, of NOK 39.3 million pertaining to 1994 and 1996. The Company was unsuccessful in appealing the tax assessments and in June 2001 paid NOK 39.3 million ($4.3 million when paid) to the Norwegian tax authorities. The Company was adequately reserved for this contingency. The lien on the Company's Fredrikstad, Norway TiO2 plant in favor of the Norwegian tax authorities has been released.

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately euro 10.4 million ($9.2 million at December 31, 2001). The Company has filed protests to the assessments for the years 1991 to 1997. The Company is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit.

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

At December 31, 2001, the Company had net deferred tax liabilities of $133 million. The Company operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). The Company has provided a deferred tax valuation allowance of $154 million at December 31, 2001, principally related to Germany, partially offsetting deferred tax assets which the Company believes do not currently meet the "more-likely-than-not" recognition criteria.

Environmental matters and litigation

The Company has been named as a defendant, PRP, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed the Company's obligation. The Company believes it has adequate accruals for reasonably estimable costs of such matters, but the Company's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocation of such costs among PRPs.

The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale of lead pigments and lead-based paints. There is no assurance that the Company will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment and paint litigation is without merit. The Company has not accrued any amounts for such pending litigation. Liability that may result, if any, cannot reasonably be estimated. The Company currently believes the disposition of all claims and disputes, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future. See Item 3. "Legal Proceedings" and Note 20 to the Consolidated Financial Statements.

Foreign operations

As discussed above, the Company has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amount of the Company's assets and liabilities related to its non-U.S. operations, and therefore the Company's consolidated net assets, will fluctuate based upon changes in currency exchange rates. At December 31, 2001, the Company had substantial net assets denominated in the euro, Canadian dollar, Norwegian kroner and United Kingdom pound sterling.

Euro currency

Beginning January 1, 1999, certain members of the European Union ("EU"), including Germany, Belgium, the Netherlands and France, adopted a new European currency unit (the "euro") as their common legal currency. Following the introduction of the euro, the participating countries' national currencies remain legal tender as denominations of the euro from January 1, 1999 through January 1, 2002, and the exchange rates between the euro and such national currency units are fixed. Beginning January 1, 2002, national currency units were exchanged for euros and the euro became the primary legal tender currency.

The Company conducts substantial operations in Europe. As of January 1, 2001, the functional currency of the Company's German, Belgian, Dutch and French operations have been converted to the euro from their respective national currencies. The Company has assessed and evaluated the impact of the euro conversion on its business and made the necessary system conversions. The euro

conversion may impact the Company's operations including, among other things, changes in product pricing decisions necessitated by cross-border price transparencies. Such changes in product pricing decisions could impact both selling prices and purchasing costs and, consequently, favorably or unfavorably impact results of operations, financial condition or liquidity.

Other

The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company in the past has sought, and in the future may seek, to reduce, refinance, repurchase or restructure indebtedness; raise additional capital; issue additional securities; repurchase shares of its common stock; modify its dividend policy; restructure ownership interests; sell interests in subsidiaries or other assets; or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, the Company may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals or other industries, as well as the acquisition of interests in related companies. In the event of any acquisition or joint venture transaction, the Company may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt. See Note 11 to the Consolidated Financial Statements.

Summary of debt and other contractual commitments

As more fully described in the Notes to the Consolidated Financial Statements, the Company is a party to various debt, lease and other agreements which contractually and unconditionally commit the Company to pay certain amounts in the future. See Notes 11 and 20 to the Consolidated Financial Statements. The following table summarizes such contractual commitments that are unconditional both in terms of timing and amount by the type and date of payment.

	Unconditional Payment Due Date				
Contractual Commitment	2002	2003 - 2004	2005 - 2006	2007 and after	Total
	(In millions)				
Indebtedness	$ 47.2	$ 195.2	$ .2	$ --	$ 242.6
Property and equipment	11.0	--	--	--	11.0
Operating leases	4.0	5.2	2.8	20.1	32.1
	$ 62.2	$ 200.4	$ 3.0	$ 20.1	$ 285.7

In addition, the Company is a party to certain other agreements that contractually and unconditionally commit the Company to pay certain amounts in the future. However, while the Company believes it is probable that amounts will be spent in the future under such contracts, the amount and/or the timing of such future payments will vary depending on certain provisions of the applicable contract. Agreements to which the Company is a party that fall into this category, more fully described in Note 20 to the Consolidated Financial Statements, includes the Company's long-term supply contracts for the purchase of chloride-process TiO_2 feedstock.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The Company is exposed to market risk from changes in currency exchange rates, interest rates and equity security prices. In the past, the Company has periodically entered into interest rate swaps or other types of contracts in order to manage a portion of its interest rate market risk. Otherwise, the Company has not generally entered into forward or option contracts to manage such market risks, nor has the Company entered into any such contract or other type of derivative instrument for trading purposes. The Company was not a party to any forward or derivative option contracts related to currency exchange rates, interest rates or equity security prices at December 31, 2001 or 2000. See Notes 2 and 21 to the Consolidated Financial Statements.

Interest rates

The Company is exposed to market risk from changes in interest rates, primarily related to indebtedness. At December 31, 2001, the Company's aggregate indebtedness was split between 81% of fixed-rate instruments and 19% of variable-rate borrowings (2000 - 73% fixed-rate and 27% variable-rate). The large percentage of fixed-rate debt instruments minimizes earnings volatility which would result from changes in interest rates. The following table presents principal amounts and weighted-average interest rates, by contractual maturity dates, for the Company's aggregate indebtedness at December 31, 2001 and 2000. At December 31, 2001 and 2000, all outstanding fixed-rate indebtedness was denominated in U.S. dollars, and all outstanding variable-rate indebtedness was denominated in either euros or Norwegian kroner. Information shown below for such euro- and kroner-denominated indebtedness is presented in its U.S. dollar equivalent at December 31, 2001 using that date's exchange rate of 1.13 euro per U.S. dollar (2000 - 1.08 euro per U.S. dollar) and 9.02 kroner per U.S. dollar (2000 - 8.90 kroner per U.S. dollar). Certain kroner-denominated capital leases totaling $2.5 million in 2001 and $2.1 million in 2000 have been excluded from the table below.

	Contractual Maturity Date				Fair value at December 31,
	N/A	2002	2003	Total	2001
	(In millions)				
December 31, 2001:					
Fixed-rate debt (U.S. dollar-denominated):					
Principal amount		$ --	$ 194.0	$ 194.0	$ 194.9
Weighted-average interest rate		--	11.75%	11.75%	
Variable-rate debt (Non-U.S. dollar-denominated):					
Principal amount - euro-denominated		$ 24.0	$ --	$ 24.0	$ 24.0
Weighted-average interest rate		3.8%	--	3.8%	
Principal amount - kroner denominated		$ 22.2	$ --	$ 22.2	$ 22.2
Weighted-average interest rate		7.3%	--	7.3%	

	2001	2002	2003	Total	2000
	(In millions)				
December 31, 2000:					
Fixed-rate debt (U.S.dollar-denominated):					
Principal amount	$ --	$ --	$ 194.0	$ 194.0	$ 195.9
Weighted-average interest rate	--	--	11.75%	11.75%	
Variable-rate debt (Non-U.S. dollar-denominated):					
Principal amount - euro-denominated	$ 47.5	$ --	$ --	$ 47.5	$ 47.5
Weighted-average interest rate	5.3%	--	--	5.3%	
Principal amount - kroner denominated	$ 22.5	$ --	$ --	$ 22.5	$ 22.5
Weighted-average interest rate	7.9%	--	--	7.9%	

Currency exchange rates

The Company is exposed to market risk arising from changes in currency exchange rates as a result of manufacturing and selling its products worldwide. Earnings are primarily affected by fluctuations in the value of the U.S. dollar relative to the euro, Canadian dollar, Norwegian kroner and the United Kingdom pound sterling. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of risks and uncertainties related to the conversion of certain of these currencies to the euro.

At December 31, 2001, the Company had $24.0 million of indebtedness denominated in euros (2000 - $47.5 million) and $22.2 million of indebtedness denominated in Norwegian kroner (2000 - $22.5 million). The potential increase in the U.S. dollar equivalent of the principal amount outstanding resulting from a hypothetical 10% adverse change in exchange rates would be approximately $4.6 million (2000 - $7.0 million).

Marketable equity and marketable debt security prices

The Company is exposed to market risk due to changes in prices of the marketable equity securities which are held. The fair value of such equity securities at December 31, 2001 and 2000 was $45.2 million and $47.2 million, respectively. The potential change in the aggregate fair value of these investments, assuming a 10% change in prices, would be $4.5 million and $4.7 million, respectively. The fair value of marketable debt securities at December 31, 2001 was $19.7 million. The potential change in the aggregate fair value of these investments assuming a 10% change in prices would be $2.0 million. The Company did not hold any investments in marketable debt securities at December 31, 2000.

Other

The Company believes there are certain shortcomings in the sensitivity analyses presented above, which analyses are required under the Securities and Exchange Commission's regulations. For example, the hypothetical affect of changes in interest rates discussed above ignores the potential effect on other variables which affect the Company's results of operations and cash flows, such as demand for the Company's products, sales volumes and selling prices and operating expenses. Contrary to the above assumptions, changes in interest rates rarely result in simultaneous parallel shifts along the yield curve. Accordingly, the amounts presented above are not necessarily an accurate reflection of the potential losses the Company would incur assuming the hypothetical changes in market prices were actually to occur.

The above discussion and estimated sensitivity analysis amounts include forward-looking statements of market risk which assume hypothetical changes in market prices. Actual future market conditions could differ materially from such assumptions. Accordingly, such forward-looking statements should not be considered to be projections by the Company of future events, gains or losses.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is contained in a separate section of this Annual Report. See "Index of Financial Statements and Schedules" on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the Company's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report (the "NL Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the NL Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the NL Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the NL Proxy Statement. See also Note 19 to the Consolidated Financial Statements.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) and (d) Financial Statements and Schedules

The consolidated financial statements and schedules listed by the Registrant on the accompanying Index of Financial Statements and Schedules (see page F-1) are filed as part of this Annual Report.

(b) Reports on Form 8-K

There were no Reports on Form 8-K filed during the quarter ended December 31, 2001 and through the date of this report.

(c) Exhibits

Included as exhibits are the items listed in the Exhibit Index. NL will furnish a copy of any of the exhibits listed below upon payment of $4.00 per exhibit to cover the costs to NL of furnishing the exhibits. Instruments defining the rights of holders of debt issues which do not exceed 10% of consolidated total assets will be furnished to the Securities and Exchange Commission upon request.

Item No.	Exhibit Index
3.1	By-Laws, as amended on June 28, 1990 - incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990.
3.2	Certificate of Amended and Restated Certificate of Incorporation dated June 28, 1990 - incorporated by reference to Exhibit 1 to the Registrant's Proxy Statement on Schedule 14A for the annual meeting held on June 28, 1990.
4.1	Registration Rights Agreement dated October 30, 1991, by and between the Registrant and Tremont Corporation - incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
4.2	Indenture dated October 20, 1993 governing the Registrant's 11.75% Senior Secured Notes due 2003, including form of Senior Note - incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
4.3	Senior Mirror Notes dated October 20, 1993 - incorporated by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
4.4	Senior Note Subsidiary Pledge Agreement dated October 20, 1993 between Registrant and Kronos, Inc. - incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
4.5	Third Party Pledge and Intercreditor Agreement dated October 20, 1993 between Registrant, Chase Manhattan Bank (National Association) and Chemical Bank - incorporated by reference to Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.1	Lease Contract dated June 21, 1952, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschrankter Haftung (German language version and English translation thereof) - incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1985.
10.2	Contract on Supplies and Services among Bayer AG, Kronos Titan-GmbH and Kronos International, Inc. dated June 30, 1995 (English translation from German language document) - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
10.3**	Richards Bay Slag Sales Agreement dated May 1, 1995 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.4**	Amendment to Richards Bay Slag Sales Agreement dated May 1, 1999 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
10.5**	Amendment to Richards Bay Slag Sales Agreement dated June 1, 2001 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc.
10.6	Formation Agreement dated as of October 18, 1993 among Tioxide Americas Inc., Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.7	Joint Venture Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.8	Kronos Offtake Agreement dated as of October 18, 1993 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.9	Amendment No. 1 to Kronos Offtake Agreement dated as of December 20, 1995 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.
10.10	Tioxide Americas Offtake Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.11	Amendment No. 1 to Tioxide Americas Offtake Agreement dated as of December 20, 1995 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.
10.12	TCI/KCI Output Purchase Agreement dated as of October 18, 1993 between Tioxide Canada Inc. and Kronos Canada, Inc. - incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.13	TAI/KLA Output Purchase Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.14	Master Technology Exchange Agreement dated as of October 18, 1993 among Kronos, Inc., Kronos Louisiana, Inc., Kronos International, Inc., Tioxide Group Limited and Tioxide Group Services Limited - incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.15	Parents' Undertaking dated as of October 18, 1993 between ICI American Holdings Inc. and Kronos, Inc. - incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.16	Allocation Agreement dated as of October 18, 1993 between Tioxide Americas Inc., ICI American Holdings, Inc., Kronos, Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
10.17	Form of Director's Indemnity Agreement between NL and the independent members of the Board of Directors of NL - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987.
10.18*	1989 Long Term Performance Incentive Plan of NL Industries, Inc. - incorporated by reference to Exhibit B to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 8, 1996.
10.19*	NL Industries, Inc. Variable Compensation Plan - incorporated by reference to Exhibit A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 8, 1996.
10.20*	NL Industries, Inc. Variable Compensation Plan - incorporated by reference to Exhibit B to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 9, 2001.
10.21*	NL Industries, Inc. 1992 Non-Employee Director Stock Option Plan, as adopted by the Board of Directors on February 13, 1992 - incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held April 30, 1992.
10.22*	NL Industries, Inc. 1998 Long-Term Incentive Plan - incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 6, 1998.
10.23	Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 2001 - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

10.24	Intercorporate Service Agreement by and between Titanium Metals Corporation and the Registrant effective as of January 1, 2001 - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
10.25	Intercorporate Services Agreement by and between Tremont Corporation and the Registrant effective as of January 1, 2001 - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
10.26	Insurance Sharing Agreement, effective January 1, 1990, by and between the Registrant, NL Insurance, Ltd. (an indirect subsidiary of Tremont Corporation) and Baroid Corporation - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
10.27*	Executive severance agreement effective as of March 9, 1995 by and between the Registrant and Lawrence A. Wigdor - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
10.28*	Executive severance agreement effective as of July 24, 1996 by and between the Registrant and J. Landis Martin - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.
10.29*	Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. effective as of January 1, 1991 - incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.
10.30*	Amended and Restated Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. effective as of May 1, 2001.
10.31*	Agreement to Defer Bonus Payment dated February 20, 1998 between the Registrant and Lawrence A. Wigdor and related trust agreement - incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report of Form 10-K for the year ended December 31, 1997.
10.32*	Agreement to Defer Bonus Payment dated January 10, 2002 between the Registrant and Lawrence A. Wigdor and related trust agreements.
10.33*	Agreement to Defer Bonus Payment dated February 20, 1998 between the Registrant and J. Landis Martin and related trust agreement - incorporated by reference to Exhibit 10.49 to the Registrant's Annual Report of Form 10-K for the year ended December 31, 1997.
10.34	Revolving Loan Note dated February 9, 2001 with Tremont Corporation as Maker and NL Environmental Management Services, Inc. as Payee - incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

10.35	Security Agreement dated February 9, 2001 by and between Tremont Corporation and NL Environmental Management Services, Inc. - incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
10.36	Tax Agreement between Valhi, Inc. and NL Industries, Inc. effective as of January 1, 2001- incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
10.37	Subscription Agreement by and among Valhi, Inc., Tremont Holdings, LLC and Tremont Group, Inc. effective as of December 31, 2000 - incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
10.38	Revolving Loan Note dated May 4, 2001 with Harold C. Simmons Family Trust No. 2 and EMS Financial, Inc. - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
10.39	Security Agreement dated May 4, 2001 by and between Harold C. Simmons Family Trust No. 2 and EMS Financial, Inc. - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
10.40	Purchase Agreement dated January 4, 2002 by and among Kronos, Inc. as the Purchaser, and Big Bend Holdings LLC and Contran Insurance Holdings, Inc., as Sellers regarding the sale and purchase of EWI RE, Inc. and EWI RE, Ltd.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Accountants.
99.1	Annual Report of NL Industries, Inc. Retirement Savings Plan (Form 11-K) to be filed under Form 10-K/A to the Registrant's Annual Report on Form 10-K within 180 days after December 31, 2001.

All documents in the Exhibit Index above that have been incorporated by reference were previously filed by the Registrant under SEC File Number 1-640.

* Management contract, compensatory plan or arrangement.

** Portions of the exhibit have been omitted pursuant to a request for confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By /s/ J. Landis Martin

J. Landis Martin, March 14, 2002
President and Chief Financial Officer

/s/ J. Landis Martin
- ------------------------------------
J. Landis Martin, March 14, 2002
Director, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Harold C. Simmons

Harold C. Simmons, March 14, 2002
Chairman of the Board

/s/ Glenn R. Simmons
- ------------------------------------
Glenn R. Simmons, March 14, 2002
Director

/s/ Steven L. Watson

Steven L. Watson, March 14, 2002
Director

/s/ Kenneth R. Peak
- ------------------------------------
Kenneth R. Peak, March 14, 2002
Director

/s/ Dr. Lawrence A. Wigdor

Dr. Lawrence A. Wigdor,
March 14,2002
Director, President and Chief Executive Officer of Kronos

/s/ General Thomas P. Stafford
- ------------------------------------
General Thomas P. Stafford,
March 14, 2002
Director

/s/ Ann Manix

Ann Manix, March 14, 2002
Director

/s/ Robert D. Hardy
- ------------------------------------
Robert D. Hardy, March 14, 2002
Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

NL INDUSTRIES, INC.

ANNUAL REPORT ON FORM 10-K

Items 8, 14(a) and 14(d)

Index of Financial Statements and Schedules

Financial Statements	Pages
Report of Independent Accountants	F-2
Consolidated Balance Sheets - December 31, 2001 and 2000	F-3 / F-4
Consolidated Statements of Income - Years ended December 31, 2001, 2000 and 1999	F-5 / F-6
Consolidated Statements of Comprehensive Income - Years ended December 31, 2001, 2000 and 1999	F-7
Consolidated Statements of Shareholders' Equity - Years ended December 31, 2001, 2000 and 1999	F-8
Consolidated Statements of Cash Flows - Years ended December 31, 2001, 2000 and 1999	F-9 / F-11
Notes to Consolidated Financial Statements	F-12 / F-56
Financial Statement Schedules	
Report of Independent Accountants	S-1
Schedule I - Condensed Financial Information of Registrant	S-2 / S-7
Schedule II - Valuation and Qualifying Accounts	S-8

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of NL Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the consolidated financial position of NL Industries, Inc. at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Houston, Texas
March 1, 2002

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(In thousands, except per share data)

ASSETS	2001	2000
Current assets:		
Cash and cash equivalents	$ 116,037	$ 120,378
Restricted cash equivalents	63,257	69,242
Restricted marketable debt securities	3,583	--
Accounts and notes receivable	125,721	131,540
Receivable from affiliates	3,698	214
Refundable income taxes	1,530	12,302
Inventories	231,056	205,973
Prepaid expenses	3,193	2,458
Deferred income taxes	11,011	11,673
Total current assets	559,086	553,780
Other assets:		
Marketable equity securities	45,227	47,186
Receivable from affiliates	31,650	--
Investment in TiO2 manufacturing joint venture	138,428	150,002
Prepaid pension cost	18,411	22,789
Restricted marketable debt securities	16,121	--
Restricted cash equivalents	--	17,942
Unrecognized net pension obligations	5,901	--
Other	6,517	4,707
Total other assets	262,255	242,626
Property and equipment:		
Land	24,579	24,978
Buildings	130,710	129,019
Machinery and equipment	537,958	530,920
Mining properties	67,649	67,134
Construction in progress	5,071	4,586
	765,967	756,637
Less accumulated depreciation and depletion	436,217	432,255
Net property and equipment	329,750	324,382
	$1,151,091	$1,120,788

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2001 and 2000

(In thousands, except per share data)

LIABILITIES AND SHAREHOLDERS' EQUITY	2001	2000
Current liabilities:		
Notes payable	$ 46,201	$ 69,970
Current maturities of long-term debt	1,033	730
Accounts payable and accrued liabilities	176,223	147,877
Payable to affiliates	6,919	10,634
Accrued environmental costs	59,891	53,307
Income taxes	7,277	13,616
Deferred income taxes	1,530	1,822
Total current liabilities	299,074	297,956
Noncurrent liabilities:		
Long-term debt	195,465	195,363
Deferred income taxes	143,256	145,673
Accrued environmental costs	47,589	57,133
Accrued pension cost	26,985	21,220
Accrued postretirement benefits cost	29,842	29,404
Other	14,729	23,272
Total noncurrent liabilities	457,866	472,065
Minority interest	7,208	6,279
Shareholders' equity:		
Preferred stock - 5,000 shares authorized, no shares issued or outstanding	--	--
Common stock - $.125 par value; 150,000 shares authorized; 66,845 and 66,839 shares issued	8,355	8,355
Additional paid-in capital	777,597	777,528
Retained earnings	222,722	141,073
Accumulated other comprehensive income (loss):		
Currency translation	(208,349)	(190,757)
Marketable securities	8,350	8,885
Pension liabilities	(6,352)	--
Treasury stock, at cost (17,808 and 16,787 shares)	(415,380)	(400,596)
Total shareholders' equity	386,943	344,488
	$ 1,151,091	$ 1,120,788

Commitments and contingencies (Notes 7, 14 and 20)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2001, 2000 and 1999

(In thousands, except per share data)

	2001	2000	1999
Revenues and other income:			
Net sales	$ 835,099	$ 922,319	$ 908,387
Litigation settlement gains, net	11,730	69,465	--
Insurance recoveries, net	17,468	--	--
Other income, net	23,136	23,283	23,646
	887,433	1,015,067	932,033
Costs and expenses:			
Cost of sales	578,060	610,449	662,315
Selling, general and administrative	124,512	137,178	134,342
Interest	27,569	31,243	36,884
	730,141	778,870	833,541
Income before income taxes, minority interest and extraordinary item	157,292	236,197	98,492
Income tax expense (benefit)	34,925	78,420	(64,601)
Income before minority interest and extraordinary item	122,367	157,777	163,093
Minority interest	960	2,436	3,322
Income before extraordinary item	121,407	155,341	159,771
Extraordinary item - early extinguishment of debt, net of tax benefit of $394	--	(732)	--
Net income	$ 121,407	$ 154,609	$ 159,771

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

Years ended December 31, 2001, 2000 and 1999

(In thousands, except per share data)

	2001	2000	1999
Basic earnings per share:			
Income before extraordinary item ...	$ 2.44	$ 3.08	$ 3.09
Extraordinary item	--	(.01)	--
Net income	$ 2.44	$ 3.07	$ 3.09
Diluted earnings per share:			
Income before extraordinary item ...	$ 2.44	$ 3.06	$ 3.08
Extraordinary item	--	(.01)	--
Net income	$ 2.44	$ 3.05	$ 3.08
Weighted average shares used in the calculation of earnings per share:			
Basic	49,732	50,415	51,774
Dilutive impact of stock options ...	124	334	93
Diluted	49,856	50,749	51,867

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Net income	$ 121,407	$ 154,609	$ 159,771
Other comprehensive income (loss), net of tax:			
Marketable securities adjustment:			
Unrealized holding gains (losses) arising during the period	(1,275)	4,064	(1,641)
Add: reclassification adjustment for loss included in net income	740	1,964	--
	(535)	6,028	(1,641)
Minimum pension liabilities adjustment	(6,352)	1,756	1,431
Currency translation adjustment	(17,592)	(30,735)	(26,582)
Total other comprehensive loss	(24,479)	(22,951)	(26,792)
Comprehensive income	$ 96,928	$ 131,658	$ 132,979

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2001, 2000 and 1999

(In thousands, except per share data)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss) - Currency translation	Pension liabilities	Marketable securities
Balance at December 31, 1998	$ 8,355	$ 774,288	$(133,379)	$(133,440)	$ (3,187)	$ 4,498
Net income	--	--	159,771	--	--	--
Other comprehensive income (loss), net of tax	--	--	--	(26,582)	1,431	(1,641)
Common dividends declared - $.14 per share	--	--	(7,242)	--	--	--
Tax benefit of stock options exercised	--	16	--	--	--	--
Treasury stock:						
Acquired (552 shares)	--	--	--	--	--	--
Reissued (25 shares)	--	--	--	--	--	--
Balance at December 31, 1999	8,355	774,304	19,150	(160,022)	(1,756)	2,857
Net income	--	--	154,609	--	--	--
Other comprehensive income (loss), net of tax	--	--	--	(30,735)	1,756	6,028
Common dividends declared - $.65 per share	--	--	(32,686)	--	--	--
Tax benefit of stock options exercised	--	3,224	--	--	--	--
Treasury stock:						
Acquired (1,682 shares)	--	--	--	--	--	--
Reissued (450 shares)	--	--	--	--	--	--
Balance at December 31, 2000	8,355	777,528	141,073	(190,757)	--	8,885
Net income	--	--	121,407	--	--	--
Other comprehensive loss, net of tax	--	--	--	(17,592)	(6,352)	(535)
Common dividends declared - $.80 per share	--	--	(39,758)	--	--	--
Tax benefit of stock options exercised	--	69	--	--	--	--
Treasury stock:						
Acquired (1,059 shares)	--	--	--	--	--	--
Reissued (38 shares)	--	--	--	--	--	--
Balance at December 31, 2001	$ 8,355	$ 777,597	$ 222,722	$(208,349)	$ (6,352)	$ 8,350

	Treasury stock	Total
Balance at December 31, 1998	$ (364,801)	$152,334
Net income	--	159,771
Other comprehensive income (loss), net of tax	--	(26,792)
Common dividends declared - $.14 per share	--	(7,242)
Tax benefit of stock options exercised	--	16
Treasury stock:		
Acquired (552 shares)	(7,210)	(7,210)
Reissued (25 shares)	210	210
Balance at December 31, 1999	(371,801)	271,087
Net income	--	154,609
Other comprehensive income (loss), net of tax	--	(22,951)
Common dividends declared - $.65 per share	--	(32,686)
Tax benefit of stock options exercised	--	3,224
Treasury stock:		
Acquired (1,682 shares)	(30,886)	(30,886)
Reissued (450 shares)	2,091	2,091
Balance at December 31, 2000	(400,596)	344,488
Net income	--	121,407
Other comprehensive loss, net of tax	--	(24,479)
Common dividends declared - $.80 per share	--	(39,758)
Tax benefit of stock options exercised	--	69
Treasury stock:		
Acquired (1,059 shares)	(15,502)	(15,502)
Reissued (38 shares)	718	718
Balance at December 31, 2001	$ (415,380)	$386,943

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 121,407	$ 154,609	$ 159,771
Depreciation, depletion and amortization	29,599	29,733	33,730
Noncash interest income on restricted cash and restricted marketable debt securities	(3,580)	(1,531)	--
Noncash interest expense	467	599	1,682
Deferred income taxes	3,256	40,186	(86,772)
Minority interest	960	2,436	3,322
Net (gains) losses from:			
Securities transactions	1,133	(2,531)	--
Disposition of property and equipment	735	1,562	429
Pension cost, net	(2,967)	(11,816)	(4,702)
Other postretirement benefits, net	531	1,062	(5,459)
Distributions from TiO2 manufacturing joint venture	11,313	7,550	13,650
Litigation settlement gains, net	(10,307)	(69,465)	--
Insurance recoveries, net	(17,468)	--	--
Extraordinary item	--	732	--
Other, net	261	--	--
	135,340	153,126	115,651
Change in assets and liabilities:			
Accounts and notes receivable	902	1,417	(22,289)
Inventories	(32,698)	(23,395)	20,663
Prepaid expenses	(526)	(244)	(463)
Accounts payable and accrued liabilities	31,091	9,301	7,315
Income taxes	4,107	4,843	6,729
Accounts with affiliates	(5,670)	(123)	(3,572)
Accrued environmental costs	7,068	(1,279)	(13,856)
Other noncurrent assets	(1,937)	(168)	1,090
Other noncurrent liabilities	(7,944)	(3,723)	(2,960)
Net cash provided by operating activities	129,733	139,755	108,308

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Cash flows from investing activities:			
Capital expenditures	$ (53,669)	$ (31,089)	$ (35,559)
Property damaged by fire:			
Insurance proceeds	23,361	--	--
Other, net	(3,205)	--	--
Loans to affiliates:			
Loans	(33,400)	--	--
Collections	750	--	--
Purchase of Tremont Corporation common stock	--	(26,040)	--
Change in restricted cash equivalents and restricted marketable debt securities, net	8,509	630	(5,176)
Proceeds from disposition of property and equipment	419	139	2,344
Proceeds from disposition of marketable securities	4	158	--
Other, net	--	(33)	--
Net cash used by investing activities	(57,231)	(56,235)	(38,391)
Cash flows from financing activities:			
Indebtedness:			
Borrowings	1,437	44,923	82,038
Principal payments	(22,428)	(79,162)	(155,787)
Dividends paid	(39,758)	(32,686)	(7,242)
Treasury stock:			
Purchased	(15,502)	(30,886)	(7,210)
Reissued	718	2,091	210
Distributions to minority interests	(5)	(6)	(6)
Net cash used by financing activities	(75,538)	(95,726)	(87,997)
Net change during the year from operating, investing and financing activities	$ (3,036)	$ (12,206)	$ (18,080)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Cash and cash equivalents:			
Net change during the year from:			
Operating, investing and financing activities	$ (3,036)	$ (12,206)	$ (18,080)
Currency translation	(1,305)	(1,640)	(2,649)
	(4,341)	(13,846)	(20,729)
Balance at beginning of year	120,378	134,224	154,953
Balance at end of year	$ 116,037	$ 120,378	$ 134,224
Supplemental disclosures - cash paid for:			
Interest	$ 27,143	$ 32,354	$ 35,540
Income taxes	29,770	33,398	14,963

Note 1 - Organization and basis of presentation:

NL Industries, Inc. ("NL") conducts its titanium dioxide pigments ("TiO2") operations through its wholly owned subsidiary, Kronos, Inc. ("Kronos"). At December 31, 2001, Valhi, Inc. ("Valhi") and Tremont Corporation ("Tremont"), each affiliates of Contran Corporation ("Contran"), held approximately 61% and 21%, respectively, of NL's outstanding common stock. At December 31, 2001, Contran and its subsidiaries held approximately 94% of Valhi's outstanding common stock, and a company 80% owned by Valhi and 20% owned by NL held approximately 80% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies. See Notes 7 and 19.

Note 2 - Summary of significant accounting policies:

Principles of consolidation and management's estimates

The accompanying consolidated financial statements include the accounts of NL and its majority-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. Certain prior-year amounts have been reclassified to conform to the current year presentation. The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results may differ from previously estimated amounts under different assumptions or conditions.

Translation of foreign currencies

Assets and liabilities of subsidiaries whose functional currency is other than the U.S. dollar are translated at year-end rates of exchange and revenues and expenses are translated at weighted average exchange rates prevailing during the year. Resulting translation adjustments are included in other comprehensive income (loss), net of related income taxes. Currency transaction gains and losses are recognized in income currently.

Cash equivalents

Cash equivalents include U.S. Treasury securities purchased under short-term agreements to resell and bank deposits with original maturities of three months or less.

Restricted cash equivalents and restricted marketable debt securities

Restricted cash equivalents and restricted marketable debt securities are primarily invested in U.S. government securities and money market funds that invest primarily in U.S. government securities. At December 31, 2001 and 2000, restricted cash equivalents of approximately $8.6 million and $17.1 million, respectively, collateralized undrawn letters of credit, and restricted cash equivalents and restricted marketable debt securities of approximately $74.4 million and $70.1 million, respectively, were held by special purpose trusts established to pay future environmental remediation obligations and other environmental expenditures of the Company. Generally, restricted cash and restricted marketable debt securities are classified as either a current or noncurrent asset depending upon the classification of the liability to which the restricted amount relates. Additionally, restricted marketable debt securities are generally classified as either current or noncurrent assets depending upon the maturity date of each marketable debt security and are carried at market which approximates cost. Unrealized gains and losses on available-for-sale debt securities are included in other comprehensive income (loss), net of related deferred income taxes. See Note 6. Gains and losses on available-for-sale debt securities are recognized in income upon realization and are computed based on specific identification of the debt securities sold.

Marketable equity securities and securities transactions

Marketable equity securities are carried at market based on quoted market prices. Unrealized gains and losses on available-for-sale equity securities are included in other comprehensive income (loss), net of related deferred income taxes. See Note 6. Gains and losses on available-for-sale equity securities are recognized in income upon realization and are computed based on specific identification of the equity securities sold. Declines in value that are judged to be other-than-temporary are reported in other income, net.

Inventories

Inventories are stated at the lower of cost (principally average cost) or market. Amounts are removed from inventories at average cost.

Investment in TiO2 manufacturing joint venture

Investment in a 50%-owned manufacturing joint venture is accounted for by the equity method.

Property, equipment, depreciation and depletion

Property and equipment are stated at cost. Interest costs related to major, long-term capital projects are capitalized as a component of construction costs. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized.

Depreciation is computed principally by the straight-line method over the estimated useful lives of ten to forty years for buildings and three to twenty years for machinery and equipment. Depletion of mining properties is computed by the unit-of-production and straight-line methods.

When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed to determine if an impairment exists. Such events or changes in circumstances include, among other things, (i) significant current and prior periods or current and projected periods with operating losses, (ii) a significant decrease in the market value of an asset or (iii) a significant change in the extent or manner in which an asset is used. All relevant factors are considered. The test for impairment is performed by comparing the estimated future undiscounted cash flows (exclusive of interest expense) associated with the asset to the asset's net carrying value to determine if a write-down to market value or discounted cash flow value is required. Effective January 1, 2002, the Company will assess impairment of other long-lived assets (such as property and equipment and mining properties) in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 as discussed under "New accounting principles not yet adopted."

Long-term debt

Long-term debt is stated net of unamortized original issue discount ("OID"). OID is amortized over the period during which cash interest payments are not required and deferred financing costs are amortized over the term of the applicable issue, both by the interest method.

Employee benefit plans

Accounting and funding policies for retirement plans and postretirement benefits other than pensions ("OPEB") are described in Note 12.

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 not less than the market price on the grant date. Compensation cost recognized by the Company in accordance with APBO No. 25 was nil in 2001, $1.7 million in 2000 and nil in 1999.

Environmental remediation costs

Environmental remediation costs are accrued when estimated future expenditures are probable and reasonably estimable. The estimated future expenditures generally are not discounted to present value. Recoveries of remediation costs from other parties, if any, are reported as receivables when their receipt is deemed probable. At December 31, 2001 and 2000, no receivables for recoveries have been recognized.

Net sales

The Company adopted the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," as amended, in 2000. Revenue generally is realized or realizable and earned when all of the requirements of SAB No. 101 are met, including when title and the risks and rewards of ownership passes to the customer (generally at the time the product is shipped to the customer). The impact of adopting SAB No. 101 was not material. Amounts charged to customers for shipping and handling are included in net sales.

Repair and maintenance costs

The Company performs planned major maintenance activities during the year. Repair and maintenance costs estimated to be incurred in connection with planned major maintenance activities are accrued in advance and are included in cost of goods sold.

Shipping and handling costs

Shipping and handling costs are included in selling, general and administrative expense and were $49 million in 2001, $50 million in 2000 and $54 million in 1999.

Income taxes

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including investments in subsidiaries and unconsolidated affiliates not included in the Company's U.S. tax group (the "NL Tax Group"). The Company periodically evaluates its deferred tax assets in the various taxing jurisdictions in which it operates and adjusts any related valuation allowance. The Company's valuation allowance is equal to the amount of deferred tax assets which the Company believes do not meet the "more-likely-than-not" recognition criteria.

Effective January 1, 2001, the Company and its qualifying subsidiaries were included in the consolidated U.S. federal tax return of Contran (the "Contran Tax Group"). As a member of the Contran Tax Group, the Company is a party to a tax sharing agreement (the "Contran Tax Agreement"). The Contran Tax Agreement provides that the Company compute its provision for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the Contran Tax Agreement and using the tax elections made by Contran, the Company makes payments to or receives payments from Valhi in amounts it would have paid to or received from the U.S. Internal Revenue Service had it not been a member of the Contran Tax Group. Refunds are limited to amounts previously paid under the Contran Tax Agreement unless the Company was entitled to a refund from the U.S. Internal Revenue Service on a separate company basis. Pursuant to the Contran Tax Agreement, the Company has a $2.2 million receivable from Valhi related to capital loss carrybacks which would have been recoverable from the U.S. Internal Revenue Service.

Derivatives and hedging activities

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, effective January 1, 2001. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, all derivatives are recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives is dependent upon the intended use of the derivative. As permitted by the transition requirements of SFAS No. 133, as amended, the Company exempted from the scope of SFAS No. 133 all host contracts containing embedded derivatives which were issued or acquired prior to January 1, 1999. The Company is not a party to any significant derivative or hedging instrument covered by SFAS No. 133 at December 31, 2001, and there was no impact on the Company's financial statements from adopting SFAS No. 133.

The Company periodically uses interest rate swaps, currency swaps and other types of contracts to manage interest rate and foreign exchange risk with respect to financial assets or liabilities. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does it currently anticipate doing so in the future. The Company was not a party to any such contracts during 2001, 2000 and 1999.

Earnings per share

Basic earnings per share is based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average number of common shares outstanding and the dilutive impact of outstanding stock options. The weighted average number of outstanding stock options which were excluded from the calculation of diluted earnings per share because their impact would have been antidilutive aggregated 876,000, 222,000 and 1,511,000 in 2001, 2000 and 1999, respectively. There were no adjustments to income from continuing operations or net income in the computation of the diluted earnings per share amounts.

Other

Effective July 1, 2001, the Company adopted SFAS No. 141, "Business Combinations," for all business combinations initiated on or after July 1, 2001, and all purchase business combinations (including step acquisitions). Under SFAS No. 141, all business combinations will be accounted for by the purchase method, and the pooling-of-interests method will be prohibited.

New accounting principles not yet adopted

The Company will adopt SFAS No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. Under SFAS No. 142, goodwill, including goodwill arising from the difference between the cost of an investment accounted for by the equity method and the amount of the underlying equity in net assets of such equity method investee ("equity method goodwill"), will not be amortized on a periodic basis. Instead, goodwill (other than equity method goodwill) will be subject to an impairment test to be performed at least on an annual basis, and impairment reviews may result in future periodic write-downs charged to earnings. Equity method goodwill will not be tested for impairment in accordance with SFAS No. 142; rather, the overall carrying amount of an equity method investee will continue to be reviewed for impairment in accordance with existing GAAP. There is currently no equity method goodwill associated with any of the Company's equity method investees. All goodwill arising in a purchase business combination (including step acquisitions) completed on or after July 1, 2001 would not be periodically amortized from the date of such combination. The Company had no goodwill at December 31, 2001.

The Company will adopt SFAS No. 143, "Accounting for Asset Retirement Obligations," no later than January 1, 2003. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation covered under the scope of SFAS No. 143 would be recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability would be accreted to its present value, and the capitalized cost would be depreciated over the useful life of the related asset. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement. The Company is still studying this standard to determine, among other things,

whether it has any asset retirement obligations which are covered under the scope of SFAS No. 143, and the effect, if any, to the Company of adopting SFAS No. 143 has not yet been determined.

The Company will adopt SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. SFAS No. 144 retains the fundamental provisions of existing GAAP with respect to the recognition and measurement of long-lived asset impairment contained in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." However, SFAS No. 144 provides new guidance intended to address certain significant implementation issues associated with SFAS No. 121, including expanded guidance with respect to appropriate cash flows to be used to determine whether recognition of any long-lived asset impairment is required, and if required how to measure the amount of the impairment. SFAS No. 144 also requires that any net assets to be disposed of by sale to be reported at the lower of carrying value or fair value less cost to sell, and expands the reporting of discontinued operations to include any component of an entity with operations and cash flows that can be clearly distinguished from the rest of the entity. The Company believes the adoption of SFAS No. 144 will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Note 3 - Business and geographic segments:

The Company's operations are conducted by Kronos in one operating business segment - the production and sale of TiO_2. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. At December 31, 2001 and 2000, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $394 million and $352 million, respectively.

The Company evaluates its TiO_2 segment performance based on operating income. Operating income is defined as income before income taxes, minority interest, extraordinary items, interest expense, certain nonrecurring items and certain general corporate items. Corporate items excluded from operating income include corporate expense, interest and dividend income not attributable to TiO_2 operations, litigation settlement gains, securities transaction gains and losses and gains and losses from the disposal of long-lived assets outside the ordinary course of business. The accounting policies of the TiO_2 segment are the same as those described in Note 2. Interest income included in the calculation of TiO_2 operating income is disclosed in Note 15 as "Trade interest income."

Segment assets are comprised of all assets attributable to the reportable operating segment. The Company's investment in the TiO_2 manufacturing joint venture (see Note 8) is included in TiO_2 business segment assets. Corporate assets are not attributable to the TiO_2 operating segment and consist principally of cash, cash equivalents, restricted cash equivalents, restricted marketable debt securities, marketable equity securities and certain receivables from affiliates. For geographic information, net sales are attributed to the place of manufacture (point of origin) and the location of the customer (point of destination); property and equipment are attributed to their physical location.

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Business segment - TiO2			
Net sales	$ 835,099	$ 922,319	$ 908,387
Other income, excluding corporate	10,815	8,167	12,484
	845,914	930,486	920,871
Cost of sales	578,060	610,449	662,315
Selling, general and administrative, excluding corporate	98,667	107,554	112,888
Operating income	169,187	212,483	145,668
Insurance recoveries, net	17,468	--	--
Income before corporate items, income taxes, minority interest and extraordinary item	186,655	212,483	145,668
General corporate income (expense):			
Securities earnings:			
Interest and dividends	8,886	8,346	6,597
Securities transactions, net	(1,133)	2,531	--
Litigation settlement gains, net and other income	16,298	73,704	4,565
Corporate expense	(25,845)	(29,624)	(21,454)
Interest expense	(27,569)	(31,243)	(36,884)
Income before income taxes, minority interest and extraordinary item	$ 157,292	$ 236,197	$ 98,492
Capital expenditures:			
Kronos	$ 53,656	$ 31,066	$ 32,703
General corporate	13	23	2,856
	$ 53,669	$ 31,089	$ 35,559
Depreciation, depletion and amortization:			
Kronos	$ 28,907	$ 28,989	$ 33,047
General corporate	692	744	683
	$ 29,599	$ 29,733	$ 33,730

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Geographic areas			
Net sales - point of origin:			
Germany	$ 398,470	$ 444,050	$ 459,467
United States	278,624	313,426	299,520
Canada	149,412	154,579	162,746
Belgium	126,782	137,829	138,671
Norway	102,843	98,300	88,277
Other	82,320	92,691	90,442
Eliminations	(303,352)	(318,556)	(330,736)
	$ 835,099	$ 922,319	$ 908,387
Net sales - point of destination:			
Europe	$ 425,338	$ 480,388	$ 478,652
United States	258,347	283,327	268,037
Canada	47,061	53,060	60,834
Latin America	25,514	27,104	35,308
Asia	46,169	45,922	41,612
Other	32,670	32,518	23,944
	$ 835,099	$ 922,319	$ 908,387

	December 31,		
	2001	2000	1999
	(In thousands)		
Identifiable assets			
Net property and equipment:			
Germany	$ 182,387	$ 173,385	$ 190,292
Canada	54,676	57,929	62,334
Belgium	46,841	46,778	49,146
Norway	38,549	38,361	39,845
Other	7,297	7,929	6,841
	$ 329,750	$ 324,382	$ 348,458
Total assets:			
Kronos	$ 900,401	$ 893,340	$ 972,549
General corporate	250,690	227,448	83,624
	$1,151,091	$1,120,788	$1,056,173

Note 4 -Accounts and notes receivable:

	December 31, 2001	December 31, 2000
	(In thousands)	
Trade receivables	$ 99,989	$ 114,776
Insurance claims receivable	11,505	2,236
Recoverable VAT and other receivables	16,585	16,750
Allowance for doubtful accounts	(2,358)	(2,222)
	$ 125,721	$ 131,540

Note 5 - Inventories:

	December 31, 2001	December 31, 2000
	(In thousands)	
Raw materials	$ 79,162	$ 66,061
Work in process	9,675	7,117
Finished products	117,201	107,120
Supplies	25,018	25,675
	$231,056	$205,973

Note 6- Marketable equity securities and securities transactions:

	December 31, 2001	December 31, 2000
	(in thousands)	
Available-for-sale marketable equity securities:		
Unrealized gains	$ 14,917	$ 14,912
Unrealized losses	(2,070)	(1,244)
Cost	32,380	33,518
Aggregate fair value	$ 45,227	$ 47,186

During 2000 the Company purchased 1,000,000 shares of Tremont's common stock in market transactions for an aggregate of $26.0 million. Before the close of business on December 31, 2000, the Company held 16% of Tremont's outstanding common stock, including approximately 36,000 shares previously held by the Company, and Valhi held an additional 64% of Tremont's outstanding common stock. Effective with the close of business on December 31, 2000, the Company contributed substantially all of its Tremont shares, and Valhi contributed all of its Tremont shares, to a newly formed company, Tremont Group, Inc. ("Tremont Group"), in return for a 20% and 80% respective ownership interest in Tremont Group. After the contributions, Tremont Group held the 80% of Tremont previously owned by the Company and Valhi. At December 31, 2001 and 2000, the aggregate fair value of the Company's indirect investment in Tremont was $29.9 million and $33.1 million, respectively.

The Company's stock of Tremont Group is redeemable at the option of the Company for fair value based upon the value of the underlying Tremont shares,

and the Company accounts for its investment in Tremont Group as an available-for-sale marketable equity security. The Company also held 1,186,200 shares of Valhi's outstanding common stock (approximately 1%) at December 31, 2001 and 2000. At December 31, 2001, the aggregate adjusted cost basis and fair value of the Valhi common stock was $5.9 million ($5.9 million in 2000) and $15.1 million ($13.6 million in 2000), respectively. The Company accounts for investments in its parent companies as available-for-sale marketable equity securities carried at fair value. See Note 1.

In 2000 the Company received approximately 390,000 shares of common stock pursuant to the demutualization of an insurance company from which the Company had purchased certain insurance policies. The Company recognized a $5.6 million securities gain based on the insurance company's initial public offering price of $14.25 per share. The shares were placed in a Voluntary Employees' Beneficiary Association ("VEBA") trust, the assets of which may only be used to pay for certain retiree benefits. The Company accounted for the $5.6 million contribution of the insurance company's common stock to the trust as a reduction of its accrued postretirement benefits cost liability. The shares were sold by the trust in 2000 for $7.8 million or $20 per share. See Notes 12 and 15.

In 2001 and 2000 the Company recognized noncash securities losses of $1.1 million and $3.1 million, respectively, related to other-than-temporary declines in value of certain available-for-sale marketable equity securities held by the Company. See Note 15.

Note 7 - Receivable from affiliates:

A majority-owned subsidiary of the Company, NL Environmental Management Services, Inc. ("EMS"), loaned $13.4 million to Tremont under a reducing revolving loan agreement in the first quarter of 2001. See Note 1. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime plus 2% (8% at December 31, 2001), is due March 31, 2003 and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The creditworthiness of Tremont is dependent in part on the value of the Company as Tremont's interest in the Company is one of Tremont's more substantial assets. The maximum amount available for borrowing by Tremont reduces by $250,000 per quarter. In each of the second, third and fourth quarters of 2001, Tremont repaid $250,000 of the loan. At December 31, 2001, the outstanding loan balance was $12.7 million and no amounts were available for additional borrowings by Tremont. See Note 19.

In May 2001, a wholly owned subsidiary of EMS loaned $20 million to the Harold C. Simmons Family Trust No. 2 ("Family Trust"), one of the trusts described in Note 1, under a $25 million revolving credit agreement. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime (6% at December 31, 2001), is due on demand with sixty days notice and is collateralized by 13,749 shares, or approximately 35%, of Contran's outstanding Class A voting common stock and 5,000 shares, or 100%, of Contran's Series E Cumulative preferred stock, both of which are owned by the Family Trust. The value of this collateral is dependent in part on the value of the Company as Contran's interest in the Company, through its beneficial ownership of Valhi, is one of Contran's more substantial assets. At December 31, 2001, $5 million was available for additional borrowing by the Family Trust. The loan was classified as noncurrent at December 31, 2001 as the Company does not expect to demand repayment within one year. See Note 19.

Note 8 - Investment in TiO2 manufacturing joint venture:

Kronos Louisiana, Inc. ("KLA"), a wholly owned subsidiary of Kronos, owns a 50% interest in Louisiana Pigment Company, L.P. ("LPC"). LPC is a manufacturing joint venture that is also 50%-owned by Tioxide Americas Inc. ("Tioxide"), a wholly owned subsidiary of Huntsman International Holdings LLC, a 60%-owned subsidiary of Huntsman Corporation. LPC owns and operates a chloride-process TiO2 plant in Lake Charles, Louisiana.

KLA is required to purchase one-half of the TiO2 produced by LPC. LPC operates on a break-even basis and, accordingly, the Company reports no equity in earnings of LPC. Kronos' cost for its share of the TiO2 produced is equal to its share of LPC's costs. Kronos' share of net costs is reported as cost of sales as the related TiO2 acquired from LPC is sold.

LPC made cash distributions of $22.6 million in 2001, $15.1 million in 2000 and $27.3 million in 1999, equally split between the partners.

Summary balance sheets of LPC are shown below.

	December 31,	
	2001	2000
	(In thousands)	
ASSETS		
Current assets	$ 45,872	$ 56,063
Property and equipment, net	250,501	264,918
	$296,373	$320,981
LIABILITIES AND PARTNERS' EQUITY		
Other liabilities, primarily current	$ 16,767	$ 18,749
Partners' equity	279,606	302,232
	$296,373	$320,981

Summary income statements of LPC are shown below.

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Revenues and other income:			
Kronos	$ 93,393	$ 92,530	$ 85,304
Tioxide	94,009	93,366	86,309
Interest	303	578	569
	187,705	186,474	172,182
Cost and expenses:			
Cost of sales	187,295	186,045	171,829
General and administrative	410	429	353
	187,705	186,474	172,182
Net income	$ --	$ --	$ --

Note 9 - Accounts payable and accrued liabilities:

	December 31,	
	2001	2000
	(In thousands)	
Accounts payable	$ 99,358	$ 64,553
Accrued liabilities:		
Employee benefits	29,722	34,160
Interest	4,980	5,019
Deferred income	4,000	4,000
Other	38,163	40,145
	76,865	83,324
	$176,223	$147,877

Note 10 - Other noncurrent liabilities:

	December 31,	
	2001	2000
	(In thousands)	
Insurance claims expense	$ 8,789	$10,314
Employee benefits	3,476	7,721
Deferred income	333	4,333
Other	2,131	904
	$14,729	$23,272

Note 11 - Notes payable and long-term debt:

	December 31,	
	2001	2000
	(In thousands)	
Notes payable	$ 46,201	$ 69,970
Long-term debt:		
NL - 11.75% Senior Secured Notes	$194,000	$194,000
Kronos	2,498	2,093
	196,498	196,093
Less current maturities	1,033	730
	$195,465	$195,363

The Company's $194 million of 11.75% Senior Secured Notes due 2003 (the "Notes") are collateralized by a series of intercompany notes from Kronos International, Inc. ("KII"), a wholly owned subsidiary of Kronos, to NL, the interest rate and payment terms of which mirror those of the respective Notes (the "Mirror Notes"). The Notes are also collateralized by a first priority lien on the stock of Kronos.

In the event of foreclosure, the holders of the Notes would have access to the consolidated assets, earnings and equity of the Company. The Company believes the collateralization of the Notes, as described above, is the functional economic equivalent of a full and unconditional guarantee of the Notes by Kronos. In lieu of providing separate audited financial statements of Kronos, the Company has included condensed consolidating financial information in accordance with Rule 3-10 (e) of the SEC's Regulation S-X. See Note 24.

The Company redeemed $50 million (par value) of the Notes on December 29, 2000 at 101.5%. The remaining Notes are redeemable, at the Company's option, at a redemption price of 100% of the principal amount. The Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among others, restrict the ability of the Company and its subsidiaries to incur debt, incur liens, pay dividends, merge or consolidate with, or sell or transfer all or substantially all of their assets to another entity. In the event of a Change of Control, as defined in the indenture, the Company would be required to make an offer to purchase the Notes at 101% of the principal amount of the Notes. The Company would also be required to make an offer to purchase a specified amount of the Notes at par value in the event the Company generates a certain amount of net proceeds from the sale of assets outside the ordinary course of business, and such net proceeds are not otherwise used for specified purposes within a specified time period. At December 31, 2001, $20 million was available for payment of dividends pursuant to the terms of the indenture. The quoted market price of the Notes per $100 principal amount was $100.47 and $101 at December 31, 2001 and 2000, respectively.

On February 6, 2002, the Company gave notice to the trustee of its intention to redeem $25 million principal amount of the Notes on March 22, 2002, at the current call price of 100%.

Notes payable consist of short-term borrowings denominated in non-U.S. currencies due within one year from non-U.S. banks. Borrowings total $46 million

(euro 27 million and NOK 200 million) at December 31, 2001 and $70 million (euro 51 million and NOK 200 million) at December 31, 2000. Interest rates on notes payable ranged from 3.84% to 7.27% at December 31, 2001 and from 5.33% to 7.92% at December 31, 2000.

Unused lines of credit available for borrowing under the Company's non-U.S. credit facilities approximated $8 million at December 31, 2001.

The aggregate maturities of long-term debt at December 31, 2001 are shown in the table below.

Years ending December 31,	Amount (In thousands)
2002	$ 1,033
2003	195,008
2004	216
2005	115
2006	112
2007	14
	$ 196,498

Note 12 - Employee benefit plans:

Company-sponsored pension plans

The Company maintains various defined benefit and defined contribution pension plans covering substantially all employees. Non-U.S. employees are covered by plans in their respective countries and a majority of U.S. employees are eligible to participate in a contributory savings plan.

The Company contributes to eligible U.S. employees' accounts an amount equal to approximately 4% (4% in 2000 and 3% in 1999) of the employee's annual eligible earnings and partially matches employee contributions to the U.S. contributory savings plan. The Company also has a nonqualified defined contribution plan covering certain executives, and participants receive benefits based on a formula involving eligible earnings. The Company's expense related to these plans was $.8 million in 2001, $1.6 million in 2000 and $1.1 million in 1999.

Certain actuarial assumptions used in measuring the defined benefit pension assets, liabilities and expenses are presented below.

	December 31,		
	2001	2000	1999
	(Percentages)		
Discount rate	5.8 to 7.3	6.0 to 7.8	5.8 to 7.5
Rate of increase in future compensation levels.	2.8 to 4.5	3.0 to 4.5	2.5 to 4.5
Long-term rate of return on plan assets	6.8 to 8.5	7.0 to 9.0	6.0 to 9.0

Plan assets are comprised primarily of investments in U.S. and non-U.S. corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

SFAS No. 87, "Employers' Accounting for Pension Costs" requires that an additional pension liability be recognized when the unfunded accumulated pension benefit obligation exceeds the unfunded accrued pension liability. Variances from actuarially assumed rates will change the actuarial valuation of accrued pension liabilities, pension expense and funding requirements in future periods.

The components of the net periodic defined benefit pension cost are set forth below.

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Net periodic pension cost:			
Service cost benefits	$ 3,976	$ 4,063	$ 3,942
Interest cost on projected benefit obligation ("PBO")	15,605	15,088	16,170
Expected return on plan assets	(16,143)	(15,403)	(15,567)
Amortization of prior service cost	201	238	267
Amortization of net transition obligation ...	510	530	578
Recognized actuarial losses	443	226	1,144
	$ 4,592	$ 4,742	$ 6,534

The funded status of the Company's defined benefit pension plans is set forth below.

	December 31, 2001	December 31, 2000
	(In thousands)	
Change in PBO:		
Beginning of year	$ 248,355	$ 260,186
Service cost	3,976	4,063
Interest	15,605	15,088
Participant contributions	1,005	1,027
Amendments	1,819	--
Actuarial loss	10,149	1,022
Benefits paid	(15,849)	(16,993)
Change in currency exchange rates	(3,255)	(16,038)
End of year	261,805	248,355
Change in fair value of plan assets:		
Beginning of year	216,984	218,942
Actual return on plan assets	4,711	11,762
Employer contributions	7,559	16,558
Participant contributions	1,005	1,027
Benefits paid	(15,849)	(16,993)
Change in currency exchange rates	(6,143)	(14,312)
End of year	208,267	216,984
Funded status at year end:		
Plan assets less than PBO	(53,538)	(31,371)
Unrecognized actuarial loss	44,744	24,191
Unrecognized prior service cost	4,371	1,693
Unrecognized net transition obligation	4,269	786
	$ (154)	$ (4,701)
Amounts recognized in the balance sheet:		
Prepaid pension cost	$ 18,411	$ 22,789
Accrued pension cost:		
Current	(5,993)	(6,270)
Noncurrent	(26,985)	(21,220)
Unrecognized net pension obligations	5,901	--
Accumulated other comprehensive loss	8,512	--
	$ (154)	$ (4,701)

Selected information related to the Company's defined benefit pension plans that have accumulated benefit obligations in excess of fair value of plan assets is presented below. At December 31, 2001 and 2000, 78% and 76%, respectively, of the projected benefit obligations of such plans relate to non-U.S. plans.

	December 31, 2001	December 31, 2000
	(In thousands)	
Projected benefit obligation	$228,647	$190,141
Accumulated benefit obligation	206,669	169,077
Fair value of plan assets	174,832	149,767

Incentive bonus programs

Certain employees are eligible to participate in the Company's various incentive bonus programs. The programs provide for annual payments, which may be in the form of cash or NL common stock. The amount of the annual payment paid to an employee, if any, is based on formulas involving the profitability of Kronos in relation to the annual operating plan and, for most of these employees, individual performance.

Postretirement benefits other than pensions

In addition to providing pension benefits, the Company currently provides certain health care and life insurance benefits for eligible retired employees. Certain of the Company's Canadian employees may become eligible for such postretirement health care and life insurance benefits if they reach retirement age while working for the Company. In 1989 the Company began phasing out such benefits for currently active U.S. employees over a ten-year period and U.S. employees retiring after 1998 are not entitled to any such benefits. The majority of all retirees are required to contribute a portion of the cost of their benefits and certain current and future retirees are eligible for reduced health care benefits at age 65. With the exception of the $5.6 million contributed in 2000 to the VEBA trust discussed in Note 6, the Company's policy is to fund medical claims as they are incurred, net of any contributions by the retirees.

For measuring the OPEB liability at December 31, 2001, the expected rate of increase in health care costs is 8% in 2002 decreasing to 5.5% in 2007 and thereafter. Other weighted-average assumptions used to measure the liability and expense are presented below.

	December 31, 2001	December 31, 2000	December 31, 1999
	(Percentages)		
Discount rate	7.0	7.3	7.5
Long-term rate for compensation increases	6.0	6.0	6.0
Long-term rate of return on plan assets	7.7	7.7	9.0

Variances from actuarially assumed rates will change accrued OPEB liabilities, net periodic OPEB expense and funding requirements in future periods. If the health care cost trend rate was increased (decreased) by one percentage point for each year, postretirement benefit expense would have increased approximately $.2 million (decreased by $.1 million) in 2001, and the projected benefit obligation at December 31, 2001 would have increased by approximately $1.6 million (decreased by $1.4 million).

The components of the Company's net periodic postretirement benefit cost are set forth below.

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Net periodic OPEB cost (benefit):			
Service cost benefits	$ 94	$ 84	$ 40
Interest cost on PBO	2,536	2,646	2,069
Expected return on plan assets	(773)	(521)	(526)
Amortization of prior service cost	(2,075)	(2,075)	(2,075)
Recognized actuarial losses (gains)	27	24	(573)
	$ (191)	$ 158	$(1,065)

	December 31,	
	2001	2000
	(In thousands)	
Change in PBO:		
Beginning of year	$ 37,040	$ 37,354
Service cost	94	84
Interest cost	2,536	2,646
Actuarial losses	792	1,672
Plan asset reimbursements	1,197	--
Benefits paid from:		
Company funds	--	(1,790)
Plan assets	(6,377)	(2,859)
Change in currency exchange rates	(145)	(67)
End of year	35,137	37,040
Change in fair value of plan assets:		
Beginning of year	11,842	5,968
Actual return on plan assets	460	2,705
Employer contributions	475	6,028
Benefits paid	(6,377)	(2,859)
End of year	6,400	11,842
Funded status at year end:		
Plan assets less than PBO	(28,737)	(25,198)
Unrecognized actuarial gain	(105)	(1,135)
Unrecognized prior service cost	(5,783)	(7,858)
	$(34,625)	$(34,191)
Amounts recognized in the balance sheet:		
Current	$ (4,783)	$ (4,787)
Noncurrent	(29,842)	(29,404)
	$(34,625)	$(34,191)

Note 13 - Shareholders' equity:

Common stock

	Shares of common stock		
	Issued	Treasury stock	Outstanding
	(In thousands)		
Balance at December 31, 1998	66,839	15,028	51,811
Treasury shares acquired	--	552	(552)
Treasury shares reissued	--	(25)	25
Balance at December 31, 1999	66,839	15,555	51,284
Treasury shares acquired	--	1,682	(1,682)
Treasury shares reissued	--	(450)	450
Balance at December 31, 2000	66,839	16,787	50,052
Treasury shares acquired	--	1,059	(1,059)
Treasury shares reissued	--	(38)	38
Other	6	--	6
Balance at December 31, 2001	66,845	17,808	49,037

Pursuant to its share repurchase program, the Company purchased 1,059,000 shares of its common stock in the open market at an aggregate cost of $15.5 million in 2001, 1,682,000 shares of its common stock at an aggregate cost of $30.9 million in 2000 and 552,000 shares of its common stock in the open market at an aggregate cost of $7.2 million in 1999. Approximately 1,207,000 additional shares are available for purchase under the Company's share repurchase program. The available shares may be purchased over an unspecified period of time, and are to be held as treasury shares available for general corporate purposes.

The Company increased the regular quarterly dividend from $.03 per share to $.035 per share in February 1999 and subsequently paid four quarterly $.035 per share cash dividends in 1999. In February 2000 the Company increased the regular quarterly dividend to $.15 per share and subsequently paid three quarterly $.15 per share cash dividends in the first nine months of 2000. In October 2000 the Company increased the regular quarterly dividend to $.20 per share and subsequently paid a quarterly $.20 per share cash dividend in the fourth quarter of 2000. The Company paid four quarterly $.20 per share cash dividends in 2001. On February 6, 2002, the Company's Board of Directors declared a regular quarterly dividend of $.20 per share to shareholders of record as of March 8, 2002 to be paid on March 22, 2002.

Common stock options

The NL Industries, Inc. 1998 Long-Term Incentive Plan ("NL Option Plan") provides for the discretionary grant of restricted common stock, stock options, stock appreciation rights ("SARs") and other incentive compensation to officers and other key employees of the Company and non-employee directors. Although certain stock options granted pursuant to a similar plan which preceded the NL Option Plan ("Predecessor Option Plan") remain outstanding at December 31, 2001, no additional options may be granted under the Predecessor Option Plan.

Up to five million shares of NL common stock may be issued pursuant to the NL Option Plan and, at December 31, 2001, 3,663,000 shares were available for future grants. The NL Option Plan provides for the grant of options that qualify as incentive options and for options which are not so qualified. Generally, stock options and SARs (collectively, "options") are granted at a price equal to or greater than 100% of the market price at the date of grant, vest over a five year period and expire ten years from the date of grant. Restricted stock, forfeitable unless certain periods of employment are completed, is held in escrow in the name of the grantee until the restriction period expires. No SARs have been granted under the NL Option Plan.

Changes in outstanding options granted pursuant to the NL Option Plan, the Predecessor Option Plan and the nonemployee director plan are summarized in the table below.

	Shares	Exercise price per share Low	Exercise price per share High	Amount payable upon exercise
	(In thousands, except per share amounts)			
Outstanding at December 31, 1998	2,119	$ 5.00	$ 24.19	$ 31,019
Granted	410	11.28	15.19	5,377
Exercised	(25)	5.00	11.81	(209)
Forfeited	(67)	8.69	22.63	(1,244)
Outstanding at December 31, 1999	2,437	5.00	24.19	34,943
Granted	432	14.25	14.44	6,165
Exercised	(918)	5.00	17.97	(9,508)
Forfeited	(349)	8.69	24.19	(7,237)
Outstanding at December 31, 2000	1,602	5.00	21.97	24,363
Granted	484	20.11	20.51	9,737
Exercised	(38)	11.28	21.97	(627)
Forfeited	(34)	11.28	20.11	(513)
Outstanding at December 31, 2001	2,014	$ 5.00	$ 21.97	$ 32,960

At December 31, 2001, 2000 and 1999 options to purchase 658,560, 363,480 and 1,255,901 shares, respectively, were exercisable and options to purchase 391,000 shares become exercisable in 2002. Of the exercisable options, options to purchase 386,760 shares at December 31, 2001 had exercise prices less than the Company's December 31, 2001 quoted market price of $15.27 per share. Outstanding options at December 31, 2001 expire at various dates through 2011, with a weighted-average remaining life of seven years.

The pro forma information required by SFAS No. 123, "Accounting for Stock-Based Compensation," is based on an estimation of the fair value of options issued subsequent to January 1, 1995. The weighted-average fair values of options granted during 2001, 2000 and 1999 were $7.52, $4.83 and $6.94 per share, respectively. The fair values of employee stock options were calculated using the Black-Scholes stock option valuation model with the following weighted average assumptions for grants in 2001, 2000 and 1999: stock price volatility of 46%, 48% and 50% in 2001, 2000 and 1999, respectively; risk-free rate of return

of 5% in 2001 and 2000 and 6% in 1999; dividend yield of 4.0% in 2001, 4.9% in 2000 and 1.2% in 1999; and an expected term of 9 years in 2001, 2000 and 1999. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

The Company's pro forma net income and basic net income per common share were as follows. The pro forma impact on earnings per common share for 2001, 2000 and 1999 is not necessarily indicative of future effects on earnings per share.

	Years ended December 31,		
	2001	2000	1999
	(In thousands except per share amounts)		
Net income - as reported	$ 121,407	$ 154,609	$ 159,771
Net income - pro forma	$ 118,959	$ 152,201	$ 156,868
Net income per basic common share - as reported	$ 2.44	$ 3.07	$ 3.09
Net income per basic common share - pro forma .	$ 2.39	$ 3.02	$ 3.03

Preferred stock

The Company is authorized to issue a total of five million shares of preferred stock. The rights of preferred stock as to dividends, redemption, liquidation and conversion are determined upon issuance.

Note 14 - Income taxes:

The components of (i) income from continuing operations before income taxes and minority interest ("pretax income"), (ii) the difference between the provision for income taxes attributable to pretax income and the amounts that would be expected using the U.S. federal statutory income tax rate of 35%, (iii) the provision for income taxes and (iv) the comprehensive tax provision are presented below.

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Pretax income:			
U.S	$ 3,267	$ 73,646	$ 23,642
Non-U.S	154,025	162,551	74,850
	$ 157,292	$ 236,197	$ 98,492
Expected tax expense	$ 55,052	$ 82,669	$ 34,472
Non-U.S. tax rates	(3,887)	(6,445)	6,119
Resolution of German income tax audits	--	(5,500)	(36,490)
Change in valuation allowance:			
Corporate restructuring in Germany and other	(23,247)	--	(77,580)
Change in German income tax law	--	--	24,070
Recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria	(1,460)	(2,600)	(15,807)
Incremental tax on income of companies not included in the NL Tax Group	6,009	1,943	2,747
German rate change adjustment of deferred taxes	--	5,695	--
U.S. state income taxes	459	1,348	(680)
Other, net	1,999	1,310	(1,452)
Income tax expense (benefit)	$ 34,925	$ 78,420	$ (64,601)
Provision for income taxes:			
Current income tax expense (benefit):			
U.S. federal	$ 1,352	$ (8,255)	$ 193
U.S. state	1,309	622	(2,489)
Non-U.S	29,008	45,867	24,467
	31,669	38,234	22,171
Deferred income tax expense (benefit):			
U.S. federal	12,369	32,128	(47,426)
U.S. state	(850)	726	1,809
Non-U.S	(8,263)	7,332	(41,155)
	3,256	40,186	(86,772)
	$ 34,925	$ 78,420	$ (64,601)
Comprehensive provision (benefit) for income taxes allocable to:			
Pretax income	$ 34,925	$ 78,420	$ (64,601)
Extraordinary item	--	(394)	--
Additional paid-in capital	(69)	(3,224)	(16)
Other comprehensive income (loss):			
Marketable equity securities	(287)	3,244	(883)
Pension liabilities	(2,160)	--	--
	$ 32,409	$ 78,046	$ (65,500)

The components of the net deferred tax liability are summarized below:

	December 31,			
	2001		2000	
	Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities
	(In thousands)			
Tax effect of temporary differences relating to:				
Inventories	$ 3,202	$ (2,849)	$ 4,027	$ (2,966)
Property and equipment	42,721	(54,084)	61,738	(53,753)
Accrued postretirement benefits cost	11,398	--	13,145	--
Accrued (prepaid) pension cost	2,711	(21,224)	4,348	(22,928)
Accrued environmental costs	35,508	--	37,761	--
Noncompete agreement	1,517	--	2,917	--
Other accrued liabilities and deductible differences	18,647	--	18,327	--
Other taxable differences	--	(131,094)	--	(122,561)
Tax on unremitted earnings of non-U.S .. subsidiaries	--	(3,933)	--	(4,396)
Tax loss and tax credit carryforwards	118,828	--	119,064	--
Valuation allowance	(154,437)	--	(190,312)	--
Gross deferred tax assets (liabilities)	80,095	(213,184)	71,015	(206,604)
Reclassification, principally netting by tax jurisdiction	(68,398)	68,398	(59,109)	59,109
Net total deferred tax assets (liabilities)	11,697	(144,786)	11,906	(147,495)
Net current deferred tax assets (liabilities)	11,011	(1,530)	11,673	(1,822)
Net noncurrent deferred tax assets (liabilities)	$ 686	$(143,256)	$ 233	$(145,673)

Changes in the Company's deferred income tax valuation allowance are summarized below.

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Balance at the beginning of year	$ 190,312	$ 233,595	$ 134,477
Recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria	(24,707)	(2,600)	(70,946)
Increase in certain deductible temporary differences which the Company believes do not meet the "more-likely-than-not" recognition criteria	--	--	1,629
Offset to the change in gross deferred income tax assets due principally to redeterminations of certain tax attributes and implementation of certain tax planning strategies	(3,681)	(24,955)	183,150
Foreign currency translation	(7,487)	(15,728)	(14,715)
Balance at the end of year	$ 154,437	$ 190,312	$ 233,595

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

A reduction in the German "base" income tax rate from 30% to 25%, enacted in October 2000, became effective January 1, 2001. The reduction in the German income tax rate resulted in $5.7 million of additional deferred income tax expense in the fourth quarter of 2000 due to a reduction of the Company's deferred income tax asset related to certain German tax attributes. The Company does not expect its future current income tax expense to be affected by the rate change in Germany.

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

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately (euro)10.4 million ($9.2 million at December 31, 2001). The Company has filed protests to the assessments for the years 1991 to 1997. The Company is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit.

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

During the fourth quarter of 2001, the Company completed a restructuring of its German subsidiaries, and as a result recognized a $17.6 million net income tax benefit. This benefit is comprised of a $23.2 million decrease in the valuation allowance due to a change in estimate of the Company's ability to utilize certain German income tax attributes that did not previously meet the "more-likely-than-not" recognition criteria offset by $5.6 million of incremental U.S. taxes on undistributed earnings of certain foreign subsidiaries.

The Company recognized a $90 million noncash income tax benefit in 1999 related to (i) a favorable resolution of the Company's previously reported tax contingency in Germany ($36 million) and (ii) a net reduction in the Company's deferred income tax valuation allowance due to a change in estimate of the Company's ability to utilize certain income tax attributes under the "more-likely-than-not" recognition criteria ($54 million).

The $54 million net reduction in the Company's deferred income tax valuation allowance in 1999 is comprised of (i) a $78 million decrease in the valuation allowance to recognize the benefit of certain deductible income tax attributes which the Company now believes meets the recognition criteria as a result of, among other things, a corporate restructuring of the Company's German subsidiaries offset by (ii) a $24 million increase in the valuation allowance to reduce the previously recognized benefit of certain other deductible income tax attributes which the Company now believes do not meet the recognition criteria due to a change in German tax law.

At December 31, 2001, the Company had, for U.S. federal income tax purposes, a net operating loss carryforward of approximately $25 million, of which $3 million expires in 2019 and $22 million expires in 2021 and approximately $5.7 million of alternative minimum tax credit carryforwards with no expiration date. The Company also has approximately $317 million of income tax loss carryforwards in Germany with no expiration date. Unutilized foreign tax credit carryovers of $2 million expired in 1999.

Note 15 - Other income, net:

	Years ended December 31,		
	2001	2000	1999
	(In thousands)		
Securities earnings:			
Interest and dividends	$ 8,886	$ 8,346	$ 6,597
Securities gains (losses), net	(1,133)	2,531	--
	7,753	10,877	6,597
Currency transaction gains, net	1,188	6,499	10,161
Noncompete agreement income	4,000	4,000	4,000
Trade interest income	2,332	2,333	2,365
Disposition of property and equipment	(735)	(1,562)	(429)
Insurance recoveries, net (See Note 17)	7,222	--	--
Other, net	1,376	1,136	952
	$ 23,136	$ 23,283	$ 23,646

The Company received a $20 million fee as part of the sale of Rheox in January 1998 in payment for entering into a five-year covenant not to compete in the rheological products business. The Company is amortizing the fee to income

using the straight-line method over the five-year noncompete period beginning January 30, 1998.

Note 16 - Litigation settlement gains, net:

In June 2000 the Company recognized a $43 million net gain from a settlement with one of its two principal former insurance carriers, and in December 2000 the Company recognized a $26.5 million net gain from a settlement with certain members of the other principal former insurance carrier. The settlement gains are stated net of $3.1 million in commissions, and the gross settlement proceeds of $72.6 million were transferred by the carriers to special purpose trusts established to pay future remediation and other environmental expenditures of the Company.

A settlement with remaining members of the second carrier group was reached in January 2001, and the Company recognized a $10.3 million gain in the first quarter of 2001. The gross settlement proceeds of $10.7 million were transferred by the carriers to the above mentioned special purpose trusts. In 2001 the Company also recognized $1.4 million of other litigation settlement gains.

The settlements resolved court proceedings that the Company initiated to seek reimbursement for legal defense expenditures and indemnity coverage for certain of its environmental remediation expenditures. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

Note 17 - Leverkusen fire and insurance claim:

A fire on March 20, 2001 damaged a section of the Company's Leverkusen, Germany 35,000 metric ton sulfate-process TiO2 plant ("Sulfate Plant") and, as a result, production of TiO2 at the Leverkusen facility was halted. The fire did not enter the Company's adjacent 125,000 metric ton chloride-process TiO2 plant ("Chloride Plant"), but did damage certain support equipment necessary to operate that plant. The damage to the support equipment resulted in a temporary shutdown of the Chloride Plant.

On April 8, 2001, repairs to the damaged support equipment were substantially completed and full production resumed at the Chloride Plant. The Sulfate Plant became approximately 50% operational in September 2001 and became fully operational in late October 2001. The damages to property and the business interruption losses caused by the fire were covered by insurance as noted below, but the effect on the financial results of the Company on a quarter-to-quarter basis was impacted by the timing and amount of insurance recoveries.

The Company reached an agreement and settled the coverage claim involving the Leverkusen fire for $56.4 million during the fourth quarter of 2001 ($46.9 million received as of December 31, 2001, with the remaining $9.5 million received in January 2002), of which $27.3 million related to business interruption and $29.1 million related to property damage, clean-up costs and other extra expenses. The Company recognized a $17.5 million pre-tax gain in 2001 related to the property damage recovery after deducting $11.6 million of clean-up costs and other extra expenses incurred and the carrying value of assets destroyed in the fire. The gain was excluded from the determination of operating income. The $27.3 million of business interruption proceeds recognized in 2001 were allocated between other income, excluding corporate, which reflects recovery of lost margin ($7.2 million) and as a reduction of cost of sales to

offset unallocated period costs ($20.1 million). No additional insurance recoveries related to the Leverkusen fire are expected to be received.

Note 18 - Other items:

Advertising costs are expensed as incurred and were $1 million in each of 2001, 2000 and 1999.

Research, development and certain sales technical support costs are expensed as incurred and approximated $6 million in each of 2001 and 2000 and $7 million in 1999.

Interest capitalized in connection with long-term capital projects was nil in each of 2001, 2000 and 1999.

Note 19 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, tax sharing agreements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly held minority equity interest in another related party. While no transactions of the type described above are planned or proposed with respect to the Company other than as set forth in this Annual Report on Form 10-K, the Company continuously considers, reviews and evaluates, and understands that Contran, Valhi and related entities consider, review and evaluate, such transactions. Depending upon the business, tax and other objectives then relevant, and restrictions under the indentures and other agreements, it is possible that the Company might be a party to one or more such transactions in the future.

It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

The Company is a party to various intercorporate services agreements ("ISA") with various related parties discussed below. Under the ISA's, employees of one company will provide certain management, tax planning, financial and administrative services to the other company on a fee basis. Such charges are based upon estimates of the time devoted by the employees of the provider of the services to the affairs of the recipient, and the compensation of such persons. Because of the number of companies affiliated with Contran, the Company believes it benefits from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. These ISA's are reviewed and approved by the Company's Board of Directors including members who are not officers or directors of any other entity that may be deemed to be related to the Company.

The Company is a party to an intercorporate services agreement with Contran ("Contran ISA") whereby Contran provides certain management services to the Company on a fee basis. Intercorporate services fee expense related to the Contran ISA was $1.2 million in 2001 and $1.0 million in each of 2000 and 1999.

The Company was a party in 2000 and 1999 to an intercorporate services agreement with Valhi ("Valhi ISA") whereby Valhi and the Company provide certain management, financial and administrative services to each other on a fee basis. Net intercorporate services fee expense related to the Valhi ISA was $.2 million in 2000 and $.1 million in 1999.

The Company is party to an intercorporate services agreement with Tremont ("Tremont ISA"). Under the terms of the contract, the Company provides certain management and financial services to Tremont on a fee basis. Intercorporate services fee income related to the Tremont ISA was $.1 million in each of 2001, 2000 and 1999.

The Company is party to an intercorporate services agreement ("TIMET ISA") with Titanium Metals Corporation ("TIMET"), approximately 39% of the outstanding common stock of which is currently held by Tremont at December 31, 2001. Under the terms of the contract, the Company provides certain management and financial services to TIMET on a fee basis. Intercorporate services fee income related to the TIMET ISA was $.2 million in 2001, $.4 million in 2000 and $.3 million in 1999.

The Company was party in 2000 and 1999 to an intercorporate services agreement ("CompX ISA") with CompX International, Inc. ("CompX"), a subsidiary of Valhi, Under the terms of the contract, the Company provides certain management and administrative services to CompX on a fee basis. Intercorporate services fee income related to the CompX ISA was $.2 million in 2000 and $.1 million in 1999.

Purchases of TiO2 from LPC were $93.4 million in 2001, $92.5 million in 2000 and $85.3 million in 1999.

The Company and Tall Pines Insurance Company ("Tall Pines") (formerly NL Insurance, Ltd. of Vermont), a wholly owned subsidiary of Tremont, are parties to an Insurance Sharing Agreement with respect to certain loss payments and reserves established by Tall Pines that (i) arise out of claims against other entities for which the Company is contractually responsible and (ii) are subject to payment by Tall Pines under certain reinsurance contracts. Also, Tall Pines will credit the Company with respect to certain underwriting profits or credit recoveries that Tall Pines receives from independent reinsurers that relate to retained liabilities. At December 31, 2001, the Company has $1.7 million of restricted cash that collateralizes certain of Tall Pines' outstanding letters of credit.

Tall Pines, Valmont Insurance Company ("Valmont")and EWI RE, Inc. and EWI RE, Ltd. (collectively "EWI") provide for or broker certain of the Company's, its joint venture's and its affiliates' insurance policies. Valmont is a wholly owned insurance company of Valhi. An entity controlled by one of Harold C. Simmons' daughters and Contran owned all of the outstanding common stock of EWI at December 31, 2001. On January 7, 2002, the Company purchased EWI for $9 million. See Note 23. Through December 31, 2000, Harold C. Simmons' son-in-law managed the operations of EWI. Subsequent to December 31, 2000, this son-in-law provides advisory services to EWI as requested by EWI. Consistent with insurance industry practices, Tall Pines, Valmont and EWI receive

commissions from the insurance and reinsurance underwriters for the policies that they provide or broker. The Company and its joint venture paid approximately $10.1 million, $5.7 million and $3.7 million in 2001, 2000 and 1999, respectively, for policies provided or brokered by Tall Pines, Valmont and EWI. These amounts principally included payments for reinsurance and insurance premiums paid to unrelated third parties, but also included commissions paid to Tall Pines, Valmont and EWI. In the Company's opinion, the amounts that the Company paid for these insurance policies and the allocation among the Company and its affiliates of relative insurance premiums are reasonable and similar to those they could have obtained through unrelated insurance companies and/or brokers. The Company expects that these relationships with Tall Pines, Valmont and EWI will continue in 2002.

During 2000 the Company purchased 414,000 shares of its common stock from officers and directors of the Company for an aggregate of $9.4 million. Such purchases were at market prices on the respective dates of purchase.

From time to time, the Company loans funds to related parties. See Note 7. These loans permit the Company to earn a higher rate of return on cash not needed at the time for use in its operations than it could otherwise earn. While such loans are of a lesser credit quality than cash equivalent instruments otherwise available to the Company, the Company believes that it has evaluated the credit risks involved, and that those risks are reasonable and reflected in the terms of the loans.

Amounts receivable from and payable to affiliates are summarized in the following table.

	December 31,	
	2001	2000
	(In thousands)	
Current receivable from affiliates:		
Tremont	$ 1,000	$ --
Valhi - income taxes	2,194	--
TIMET	459	1
CompX	45	82
Other	--	131
	$ 3,698	$ 214
Current payable to affiliates:		
Tremont	$ 544	$ 1,923
LPC	6,362	8,711
Other	13	--
	$ 6,919	$10,634
Noncurrent receivable from affiliates:		
Family Trust	$20,000	$ --
Tremont	11,650	--
	$31,650	$ --

Amounts payable to LPC are generally for the purchase of TiO_2 (see Note 8), and amounts payable to Tremont principally relate to the Company's Insurance Sharing Agreement described above.

Note 20 - Commitments and contingencies:

Leases

The Company leases, pursuant to operating leases, various manufacturing and office space and transportation equipment. Most of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases management expects that, in the normal course of business, leases will be renewed or replaced by other leases.

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO2 production capacity, is located within the lessor's extensive manufacturing complex, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and the supplies and services agreements restrict the Company's ability to transfer ownership or use of the Leverkusen facility.

Net rent expense aggregated $9 million in each of 2001, 2000 and 1999. At December 31, 2001, minimum rental commitments under the terms of noncancellable operating leases were as follows:

	Real Estate	Equipment
	(In thousands)	
Years ending December 31,		
2002	$ 1,855	$ 2,190
2003	1,636	1,235
2004	1,440	903
2005	1,062	439
2006	1,026	245
2007 and thereafter	19,437	700
	$26,456	$ 5,712

Capital expenditures

At December 31, 2001, the estimated cost to complete capital projects in process approximated $11 million, including $4 million to complete the reconstruction of the Leverkusen Sulfate Plant.

Purchase commitments

The Company has long-term supply contracts that provide for the Company's chloride feedstock requirements through 2006. The agreements require the Company purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately $159 million.

Legal proceedings

Lead pigment litigation. Since 1987 the Company, other former manufacturers of lead pigments for use in paint and lead-based paint, and the Lead Industries Association have been named as defendants in various legal

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

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and asserted health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. Most of these legal proceedings are in various pre-trial stages; some are on appeal.

The Company believes that these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend all actions vigorously. The Company has not accrued any amounts for the pending lead pigment litigation. Considering the Company's previous involvement in the lead and lead pigment businesses, there can be no assurance that additional litigation similar to that currently pending will not be filed.

Environmental matters and litigation. Some of the Company's current and former facilities, including several divested secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, the Company has been named as a defendant, potential responsible party ("PRP") or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations, and facilities currently or previously owned, operated or used by the Company or its subsidiaries, or their predecessors, certain of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable.

At December 31, 2001, the Company had accrued $107 million for those environmental matters which are reasonably estimable. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites which it is possible to estimate costs is approximately $160 million. The Company's estimates of such liabilities have not been discounted to present value, and the Company has not recognized any potential insurance recoveries other than the settlements in 2001 and 2000 discussed in Note 16.

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, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate

presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

Certain of the Company's businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws. As with other companies engaged in similar businesses, certain past and current operations and products of the Company have the potential to cause environmental or other damage. The Company has implemented and continues to implement various policies and programs in an effort to minimize these risks. The policy of the Company is to maintain compliance with applicable environmental laws and regulations at all of its facilities and to strive to improve its environmental performance. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies thereunder, could adversely affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances as well as the Company's consolidated financial position, results of operations or liquidity.

Other litigation. The Company is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its present and former businesses.

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. See Item 3. "Legal Proceedings."

Concentrations of credit risk

Sales of TiO_2 accounted for more than 90% of net sales from continuing operations during each of the past three years. The remaining sales result from the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the TiO_2 production processes). TiO_2 is generally sold to the paint, plastics and paper industries. Such markets are generally considered "quality-of-life" markets whose demand for TiO_2 is influenced by the relative economic well-being of the various geographic regions. TiO_2 is sold to over 4,000 customers, with the top ten customers approximating 25% of net sales in each of the last three years. Approximately one-half of the Company's TiO_2 sales by volume were to Europe in each of the past three years and approximately 38% in 2001 and 37% in both 2000 and 1999 of sales were attributable to North America.

Consolidated cash, cash equivalents, current and noncurrent restricted cash equivalents includes $121 million and $159 million invested in U.S. Treasury securities purchased under short-term agreements to resell at December 31, 2001 and 2000, respectively, of which $62 million and $67 million, respectively, of such securities are held in trust for the Company by a single U.S. bank.

Note 21 - Financial instruments:

Summarized below is the estimated fair value and related net carrying value of the Company's financial instruments.

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash, cash equivalents, current and noncurrent restricted cash equivalents and current and noncurrent marketable debt securities	$ 199.0	$ 199.0	$ 207.6	$ 207.6
Marketable equity securities - classified as available-for-sale	45.2	45.2	47.2	47.2
Notes payable and long-term debt:				
Fixed rate with market quotes - 11.75% Senior Secured Notes	$ 194.0	$ 194.9	$ 194.0	$ 195.9
Variable rate debt	48.7	48.7	72.1	72.1
Common shareholders' equity	$ 386.9	$ 748.8	$ 344.5	$ 1,213.8

Fair value of the Company's marketable equity securities, marketable debt securities and Notes are based upon quoted market prices and the fair value of the Company's common shareholder's equity is based upon quoted market prices for NL's common stock at the end of the year. The Company held no derivative financial instruments at December 31, 2001 or 2000.

Note 22 - Quarterly financial data (unaudited):

	Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share amounts)			
Year ended December 31, 2001:				
Net sales	$226,060	$220,105	$206,952	$181,982
Cost of sales	149,902	151,320	145,945	130,893
Operating income	51,916	45,170	36,222	35,879(a)
Net income	34,559	25,424	20,538	40,886(a)
Earnings per share - net income:				
Basic	$ .69	$ .51	$ .41	$ .83(a)
Diluted	$ .69	$ .51	$ .41	$ .83(a)
Weighted average common shares and potential common shares outstanding:				
Basic	50,079	49,932	49,621	49,304
Diluted	50,349	50,027	49,705	49,339
Year ended December 31, 2000:				
Net sales	$231,009	$251,126	$242,309	$197,875
Cost of sales	159,265	164,033	159,021	128,130
Operating income	46,235	62,743	57,511	45,994
Income from continuing operations	23,708	63,438	30,169	38,026(b)
Net income	23,708	63,438	30,169	37,294(b)
Earnings per share:				
Basic:				
Income from continuing operations	$ .47	$ 1.26	$ .60	$ .76(b)
Net income	$ .47	$ 1.26	$ .60	$ .75(b)
Diluted:				
Income from continuing operations	$ .46	$ 1.25	$ .60	$ .75(b)
Net income	$ .46	$ 1.25	$ .60	$ .74(b)
Weighted average common shares and potential common shares outstanding:				
Basic	50,920	50,499	50,203	50,045
Diluted	51,154	50,850	50,606	50,385

The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted average number of shares used in the per share computations.

(a) Operating income in the fourth quarter of 2001 included $16.6 million of pretax insurance recoveries for business interruption related to prior quarters due to the Leverkusen fire. Net income in the fourth quarter of 2001 also included $11.6 million net of pretax insurance recoveries for property damage related to the Leverkusen fire and a $17.6 million net income tax benefit related to a restructuring of the Company's German subsidiaries.

(b) Income from continuing operations in the fourth quarter of 2000 included a $26.5 million pretax net litigation settlement gain (see Note 16) and a $3.1 million noncash securities loss (see Note 6). Net income in the fourth quarter of 2000 also included a $.7 million extraordinary item for early extinguishment of debt, net of tax.

Note 23 - Subsequent events:

Through January 7, 2002, an entity controlled by one of Harold C. Simmons' daughters (the wife of the son-in-law who provides services to EWI) owned a majority of EWI, and Contran owned the remainder of EWI. On January 7, 2002, the Company purchased EWI from its previous owners for an aggregate cash purchase price of approximately $9 million, and EWI became a wholly owned subsidiary of the Company. The purchase was approved by a special committee of the Company's Board of Directors consisting of two of its independent directors, and the purchase price was negotiated by the special committee based upon its consideration of relevant factors, including but not limited to due diligence performed by independent consultants and an appraisal of EWI conducted by an independent third party selected by the special committee.

On February 6, 2002, the Company gave notice to the trustee of its intention to redeem $25 million principal amount of its 11.75% Senior Secured Notes due 2003 on March 22, 2002, at the current call price of 100%.

Note 24 - Condensed consolidating financial information:

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

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

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

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

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
December 31, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 10,413	$ 54,717	$ 50,907	$ --	$ 116,037
Restricted cash equivalents	63,257	--	--	--	63,257
Restricted marketable debt securities	3,583	--	--	--	3,583
Accounts and notes receivable	1,621	123,870	230	--	125,721
Receivable from affiliates	8,106	47	1,514	(5,969)	3,698
Refundable income taxes	--	1,528	2	--	1,530
Inventories	--	231,056	--	--	231,056
Prepaid expenses	551	2,642	--	--	3,193
Deferred income taxes	6,371	4,640	--	--	11,011
Total current assets	93,902	418,500	52,653	(5,969)	559,086
Other assets:					
Investment in subsidiaries	1,072,551	--	288	(1,072,839)	--
Marketable equity securities	216	--	45,011	--	45,227
Receivable from affiliates	194,000	655,918	31,650	(849,918)	31,650
Investment in TiO2 manufacturing joint venture	--	138,428	--	--	138,428
Prepaid pension cost	2,368	16,043	--	--	18,411
Restricted marketable debt securities	16,121	--	--	--	16,121
Other	1,318	11,100	--	--	12,418
Total other assets	1,286,574	821,489	76,949	(1,922,757)	262,255
Property and equipment, net	3,725	326,025	--	--	329,750
	$ 1,384,201	$ 1,566,014	$ 129,602	$(1,928,726)	$ 1,151,091

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet, (Continued)
December 31, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Notes payable	$ --	$ 46,201	$ --	$ --	$ 46,201
Current maturities of long-term debt ...	--	1,033	--	--	1,033
Accounts payable and accrued liabilities	23,544	152,633	46	--	176,223
Payable to affiliates	1,083	11,365	440	(5,969)	6,919
Accrued environmental costs	10,529	--	49,362	--	59,891
Income taxes	96	7,181	--	--	7,277
Deferred income taxes	--	1,530	--	--	1,530
Total current liabilities	35,252	219,943	49,848	(5,969)	299,074
Noncurrent liabilities:					
Long-term debt	194,000	1,465	--	--	195,465
Notes payable to affiliate	655,918	194,000	--	(849,918)	--
Deferred income taxes	78,708	64,163	385	--	143,256
Accrued environmental costs	7,489	6,732	33,368	--	47,589
Accrued pension cost	1,427	25,558	--	--	26,985
Accrued postretirement benefits cost ...	16,806	13,036	--	--	29,842
Other	7,658	7,071	--	--	14,729
Total noncurrent liabilities	962,006	312,025	33,753	(849,918)	457,866
Minority interest	--	284	6,924	--	7,208
Shareholders' equity	386,943	1,033,762	39,077	(1,072,839)	386,943
	$1,384,201	$1,566,014	$ 129,602	$(1,928,726)	$1,151,091

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

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,632	$ 52,979	$ 63,767	$ --	$ 120,378
Restricted cash equivalents	69,242	--	--	--	69,242
Accounts and notes receivable	172	131,295	73	--	131,540
Receivable from affiliates	6,189	--	216	(6,191)	214
Refundable income taxes	10,512	1,790	--	--	12,302
Inventories	--	205,973	--	--	205,973
Prepaid expenses	347	2,111	--	--	2,458
Deferred income taxes	6,394	5,279	--	--	11,673
Total current assets	96,488	399,427	64,056	(6,191)	553,780
Other assets:					
Investment in subsidiaries	687,300	--	285	(687,585)	--
Marketable equity securities	452	--	46,734	--	47,186
Receivable from affiliates	194,000	301,695	23,000	(518,695)	--
Investment in TiO2 manufacturing joint venture	--	150,002	--	--	150,002
Prepaid pension cost	1,772	21,017	--	--	22,789
Restricted cash equivalents	17,942	--	--	--	17,942
Other	1,739	2,968	--	--	4,707
Total other assets	903,205	475,682	70,019	(1,206,280)	242,626
Property and equipment, net	4,425	319,957	--	--	324,382
	$1,004,118	$1,195,066	$ 134,075	$(1,212,471)	$1,120,788

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

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

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Year ended December 31, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$835,099	$ --	$ --	$835,099
Interest and dividends	27,323	36,060	5,803	(57,968)	11,218
Equity in income of subsidiaries	154,410	--	--	(154,410)	--
Litigation settlement gains, net	11,730	--	--	--	11,730
Insurance recoveries, net	--	17,468	--	--	17,468
Other income (expense), net	3,464	8,483	(11)	(18)	11,918
	196,927	897,110	5,792	(212,396)	887,433
Costs and expenses:					
Cost of sales	--	578,060	--	--	578,060
Selling, general and administrative	13,831	109,535	1,146	--	124,512
Interest	58,263	27,274	--	(57,968)	27,569
	72,094	714,869	1,146	(57,968)	730,141
Income before income taxes and minority interest	124,833	182,241	4,646	(154,428)	157,292
Income tax expense	3,426	31,483	16	--	34,925
Income before minority interest	121,407	150,758	4,630	(154,428)	122,367
Minority interest	--	16	944	--	960
Net income	$121,407	$150,742	$ 3,686	$(154,428)	$121,407

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Year ended December 31, 2000
(In thousands)

	NL Industries Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 922,319	$ --	$ --	$ 922,319
Interest and dividends	31,598	25,587	5,937	(52,443)	10,679
Equity in income of subsidiaries	173,620	--	--	(173,620)	--
Litigation settlement gains, net	69,465	--	--	--	69,465
Other income, net	12,595	5,834	--	(5,825)	12,604
	287,278	953,740	5,937	(231,888)	1,015,067
Costs and expenses:					
Cost of sales	--	610,449	--	--	610,449
Selling, general and administrative	25,381	112,429	(632)	--	137,178
Interest	52,701	30,985	--	(52,443)	31,243
	78,082	753,863	(632)	(52,443)	778,870
Income before income taxes, minority interest and extraordinary item	209,196	199,877	6,569	(179,445)	236,197
Income tax expense	53,855	22,850	12	1,703	78,420
Income before minority interest and extraordinary item	155,341	177,027	6,557	(181,148)	157,777
Minority interest	--	47	2,389	--	2,436
Income before extraordinary item	155,341	176,980	4,168	(181,148)	155,341
Extraordinary item - early extinguishment of debt, net of tax benefit of $394	(732)	--	--	--	(732)
Net income	$ 154,609	$ 176,980	$ 4,168	$ (181,148)	$ 154,609

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Year ended December 31, 1999
(In thousands)

	NL Industries Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$908,387	$ --	$ --	$908,387
Interest and dividends	30,843	24,425	6,823	(53,129)	8,962
Equity in income of subsidiaries	154,625	--	--	(154,625)	--
Other income, net	4,565	10,119	--	--	14,684
	190,033	942,931	6,823	(207,754)	932,033
Costs and expenses:					
Cost of sales	--	662,315	--	--	662,315
Selling, general and administrative	16,037	116,138	2,167	--	134,342
Interest	49,872	40,141	--	(53,129)	36,884
	65,909	818,594	2,167	(53,129)	833,541
Income before income taxes and minority interest	124,124	124,337	4,656	(154,625)	98,492
Income tax benefit	35,647	26,955	1,999	--	64,601
Income before minority interest	159,771	151,292	6,655	(154,625)	163,093
Minority interest	--	48	3,274	--	3,322
Net income	$159,771	$151,244	$ 3,381	$(154,625)	$159,771

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2001
(In thousands)

	NL Industries Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	$ (3,905)	$ 157,306	$ (3,169)	$(20,499)	$ 129,733
Cash flows from investing activities:					
Capital expenditures	(13)	(53,656)	--	--	(53,669)
Property damaged by fire:					
Insurance proceeds	--	23,361	--	--	23,361
Other, net	--	(3,205)	--	--	(3,205)
Change in restricted cash equivalents and restricted marketable debt securities, net	18,539	--	--	(10,030)	8,509
Loans to affiliates, net	--	(69,678)	(9,650)	46,678	(32,650)
Other, net	24	399	(8)	8	423
Net cash provided (used) by investing activities	18,550	(102,779)	(9,658)	36,656	(57,231)
Cash flows from financing activities:					
Indebtedness:					
Borrowings	--	1,437	--	--	1,437
Principal payments	--	(22,428)	--	--	(22,428)
Treasury stock purchased, net	(14,784)	--	--	--	(14,784)
Dividends, net	(39,758)	(30,500)	(29)	30,529	(39,758)
Loans from affiliates	46,678	--	--	(46,678)	--
Other, net	--	3	--	(8)	(5)
Net cash used by financing activities	(7,864)	(51,488)	(29)	(16,157)	(75,538)
Cash and cash equivalents:					
Net change from:					
Operating, investing and financing activities	6,781	3,039	(12,856)	--	(3,036)
Currency translation	--	(1,301)	(4)	--	(1,305)
	6,781	1,738	(12,860)	--	(4,341)
Balance at beginning of year	3,632	52,979	63,767	--	120,378
Balance at end of year	$ 10,413	$ 54,717	$ 50,907	$ --	$ 116,037

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2000
(In thousands)

	NL Industries Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$ 12,318	$ 177,642	$ 4,795	$(55,000)	$ 139,755
Cash flows from investing activities:					
Capital expenditures	(23)	(31,066)	--	--	(31,089)
Purchase of Tremont Corporation common stock	(26,040)	--	--	--	(26,040)
Change in restricted cash equivalents	4,480	--	(3,850)	--	630
Loans to affiliates	50,000	(115,856)	55,000	10,856	--
Other, net	107	77	--	80	264
Net cash provided (used) by investing activities	28,524	(146,845)	51,150	10,936	(56,235)
Cash flows from financing activities:					
Indebtedness:					
Borrowings	--	44,923	--	--	44,923
Principal payments	(50,000)	(29,162)	--	--	(79,162)
Treasury stock:					
Purchased	(30,886)	--	--	--	(30,886)
Reissued	2,091	--	--	--	2,091
Dividends, net	(32,686)	(55,000)	--	55,000	(32,686)
Loans from affiliates	60,856	(50,000)	--	(10,856)	--
Other, net	--	(6)	80	(80)	(6)
Net cash provided (used) by financing activities	(50,625)	(89,245)	80	44,064	(95,726)
Cash and cash equivalents:					
Net change from:					
Operating, investing and financing activities	(9,783)	(58,448)	56,025	--	(12,206)
Currency translation	--	(1,635)	(5)	--	(1,640)
	(9,783)	(60,083)	56,020	--	(13,846)
Balance at beginning of year	13,415	113,062	7,747	--	134,224
Balance at end of year	$ 3,632	$ 52,979	$ 63,767	$ --	$ 120,378

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Year ended December 31, 1999
(In thousands)

	NL Industries Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	$ 28,742	$ 134,937	$(5,371)	$(50,000)	$ 108,308
Cash flows from investing activities:					
Capital expenditures	(2,856)	(32,703)	--	--	(35,559)
Change in restricted cash equivalents	(12,065)	--	6,889	--	(5,176)
Other, net	(17)	2,334	--	27	2,344
Net cash provided (used) by investing activities	(14,938)	(30,369)	6,889	27	(38,391)
Cash flows from financing activities:					
Indebtedness:					
Borrowings	--	82,038	--	--	82,038
Principal payments	--	(155,787)	--	--	(155,787)
Treasury stock purchased	(7,000)	--	--	--	(7,000)
Dividends, net	(7,242)	(50,030)	30	50,000	(7,242)
Other, net	--	(6)	27	(27)	(6)
Net cash provided (used) by financing activities	(14,242)	(123,785)	57	49,973	(87,997)
Cash and cash equivalents:					
Net change from:					
Operating, investing and financing activities	(438)	(19,217)	1,575	--	(18,080)
Currency translation	--	(2,649)	--	--	(2,649)
	(438)	(21,866)	1,575	--	(20,729)
Balance at beginning of year	13,853	134,928	6,172	--	154,953
Balance at end of year	$ 13,415	$ 113,062	$ 7,747	$ --	$ 134,224

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors of NL Industries, Inc.:

Our audits of the consolidated financial statements referred to in our report dated March 1, 2002 appearing on page F-2 in the 2001 Annual Report to Shareholders on Form 10-K of NL Industries, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 14(a) and (d) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Houston, Texas
March 1, 2002

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheets

December 31, 2001 and 2000

(In thousands)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,413	$ 3,632
Restricted cash equivalents	63,257	69,242
Restricted marketable debt securities	3,583	--
Accounts and notes receivable	1,621	172
Receivable from subsidiaries	8,106	6,189
Refundable income taxes	--	10,512
Prepaid expenses	551	347
Deferred income taxes	6,371	6,394
Total current assets	93,902	96,488
Other assets:		
Marketable equity securities	216	452
Notes receivable from subsidiary	194,000	194,000
Investment in subsidiaries	1,072,551	687,300
Restricted marketable debt securities	16,121	17,942
Prepaid pension cost	2,368	1,772
Other	1,318	1,739
Total other assets	1,286,574	903,205
Property and equipment, net	3,725	4,425
	$1,384,201	$1,004,118
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 23,544	$ 24,098
Payable to affiliates	1,083	2,140
Accrued environmental costs	10,529	5,046
Income taxes	96	--
Total current liabilities	35,252	31,284
Noncurrent liabilities:		
Long-term debt	194,000	194,000
Notes payable to affiliates	655,918	324,695
Deferred income taxes	78,708	70,985
Accrued environmental costs	7,489	6,729
Accrued pension cost	1,427	1,438
Accrued postretirement benefits cost	16,806	15,039
Other	7,658	15,460
Total noncurrent liabilities	962,006	628,346
Shareholders' equity	386,943	344,488
	$1,384,201	$1,004,118

Contingencies (Note 4)

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Income

Years ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Revenues and other income:			
Equity in income from continuing operations of subsidiaries	$ 154,410	$ 173,620	$ 154,625
Interest and dividends	4,354	2,961	1,184
Interest income from subsidiaries	22,969	28,637	29,659
Securities transactions, net	(1,133)	8,356	--
Litigation settlement gains, net	11,730	69,465	--
Other income, net	4,597	4,239	4,565
	196,927	287,278	190,033
Costs and expenses:			
General and administrative	13,831	25,381	16,037
Interest	58,263	52,701	49,872
	72,094	78,082	65,909
Income before income taxes and extraordinary item	124,833	209,196	124,124
Income tax expense (benefit)	3,426	53,855	(35,647)
Income before extraordinary item	121,407	155,341	159,771
Extraordinary item	--	(732)	--
Net income	$ 121,407	$ 154,609	$ 159,771

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows

Years ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 121,407	$ 154,609	$ 159,771
Equity in income of subsidiaries	(154,410)	(173,620)	(154,625)
Distributions from subsidiaries	30,500	55,000	50,000
Noncash interest income, net	(3,113)	(932)	(390)
Deferred income taxes	7,498	71,837	(18,071)
Securities gains, net	1,133	(8,356)	--
Litigation settlement gains, net	(10,307)	(69,465)	--
Other, net	1,824	(4,399)	(3,164)
	(5,468)	24,674	33,521
Change in assets and liabilities, net	1,563	(12,356)	(4,779)
Net cash provided (used) by operating activities	(3,905)	12,318	28,742
Cash flows from investing activities:			
Change in restricted cash equivalents and restricted marketable debt securities, net	18,539	4,480	(12,065)
Capital expenditures	(13)	(23)	(2,856)
Purchase of Tremont Corporation common stock	--	(26,040)	--
Loans to affiliates	--	50,000	--
Investments in subsidiaries	--	(80)	(27)
Proceeds from disposition of marketable equity securities	4	158	--
Other, net	20	29	10
Net cash provided (used) by investing activities	18,550	28,524	(14,938)

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows (Continued)

Years ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Cash flows from financing activities:			
Dividends	$(39,758)	$(32,686)	$ (7,242)
Treasury stock:			
Purchased	(15,502)	(30,886)	(7,210)
Reissued	718	2,091	210
Indebtedness - principal payments	--	(50,000)	--
Loans from affiliates	46,678	60,856	--
Net cash used by financing activities	(7,864)	(50,625)	(14,242)
Net change from operating, investing and financing activities	6,781	(9,783)	(438)
Balance at beginning of year	3,632	13,415	13,853
Balance at end of year	$ 10,413	$ 3,632	$ 13,415

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Notes to Condensed Financial Information

Note 1 - Basis of presentation:

The Consolidated Financial Statements of NL Industries, Inc. (the "Company") and the related Notes to Consolidated Financial Statements are incorporated herein by reference.

Note 2 - Net receivable from (payable to) subsidiaries and affiliates:

	December 31,	
	2001	2000
	(In thousands)	
Current:		
Receivable from:		
Kronos:		
Income taxes	$ 64	$ 1,260
Other, net	4,943	4,103
Valhi - income taxes	2,194	--
TIMET	459	1
CompX	45	82
Other	401	743
	$ 8,106	$ 6,189
Payable to:		
Tremont	$ (553)	$ (1,925)
EMS	(74)	(146)
Other	(456)	(69)
	$ (1,083)	$ (2,140)
Noncurrent:		
Notes receivable from Kronos	$ 194,000	$ 194,000
Notes payable to:		
Kronos	$(655,918)	$(301,695)
EMS	--	(23,000)
	$(655,918)	$(324,695)

Note 3 - Long-term debt:

See Note 11 of the Consolidated Financial Statements for a description of the Notes. The Company's $194 million of 11.75% Senior Secured Notes at December 31, 2001 are due October 2003. The Company has guaranteed Kronos' non-U.S. dollar-denominated notes payable of $46 million.

Note 4 - Contingencies:

See Legal proceedings in Note 20 to the Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Balance at beginning of year	Charges (credits) to costs and expenses	Deductions	Currency translation adjustments	Balance at end of year
Year ended December 31, 2001:					
Allowance for doubtful accounts and notes receivable	$ 2,222	$ 485	$ (245)(a)	$ (104)	$ 2,358
Amortization of intangibles	$ --	$ --	$ --	$ --	$ --
Year ended December 31, 2000:					
Allowance for doubtful accounts and notes receivable	$ 2,075	$ 342	$ (67)(a)	$ (128)	$ 2,222
Amortization of intangibles	$22,095	$ 113	$(20,429)	$(1,779)	$ --
Year ended December 31, 1999:					
Allowance for doubtful accounts and notes receivable	$ 2,377	$ 140	$ (180)(a)	$ (262)	$ 2,075
Amortization of intangibles	$23,704	$1,851	$ --	$(3,460)	$22,095

(a) Amounts written off, less recoveries.

Certain prior-year amounts have been reclassified to conform to the current year presentation.

AMENDMENT TO RICHARDS BAY SLAG SALES AGREEMENT

THIS AMENDING AGREEMENT dated June 1st, 2001 is made by and between RICHARDS BAY IRON AND TITANIUM (PROPRIETARY) LIMITED, a South African corporation with offices at Richards Bay, Natal, South Africa (hereafter called "RBI") and KRONOS INC., a Delaware corporation with offices at 5 Cedar Brook Drive, Cranbury, New Jersey, 08512, USA (hereinafter "Buyer").

WHEREAS, RBIT and Buyer entered into an agreement for the purchase and sale of titanium bearing slag produced at RBIT's plant at Richards Bay, Natal, South Africa (hereafter "RBIT Product") dated as of the 1st day of May, 1995, amended as of November 3, 1997 and May 1, 1999 (hereafter called the "Agreement");

WHEREAS, the parties wish to amend the Agreement to provide for the extension of the Term of the Agreement;

NOW THEREFORE, for and in consideration of the covenants and conditions herein contained, the parties hereto agree to amend the Agreement effective January 1, 2001 as follows:

1. Article III shall be replaced with the following:

   This Agreement shall be in effect for a term of twelve (12) years commending on January 1, 1995 up to and including December 31, 2006 (the "Term"), subject to prior termination as hereinafter provided.

2. Paragraph D of Article IV of the Agreement shall be replaced by the following:

   "For 1998 onward the annual Contracted Quantity shall be as follows:

   [***]

   Buyer shall commit to the actual quantity to be purchased in each of such years within the above range by written notice to RBIT on or before September 30th of the previous year, failing which such quantity shall be determined by RBIT.

   [***]

3. The provisions of Paragraph E of Article IV of the Agreement shall also be interpreted to apply to the Total Quantity and any required adjustments shall be reflected in the Final Annual Invoice of January 2007.

4. Article V.A.3. shall be replaced with the following:

   "3.For 1997 to 2000 inclusively, the Basic Price of RB Slag shall be the previous year's Basic Price plus Escalation as herein defined. [***]

   4.For 2002, the Basic Price of RB Slag shall be the 2001 Basic Price. [***]

5. For 2003 to 2006 inclusively, the Basic Price of RB Slag shall be the previous year's Basic Price plus Escalation as herein defined."

5. In the year 2004 and in each subsequent year during the Term of the Agreement, if the difference in the escalated Basic Price of RB Slag to Kronos and the average escalated Basic Price to RBIT's other major contract customers in any such year is greater than the change in the US All urban CPI over the 12-month period ending December 31st of the preceding year, RIT will approach Kronos to realign the Basic Price. If the parties are unable to agree on a new Basic Price, either party may terminate the Agreement on 12 months written notice but no sooner than July 1st, 2005. Contracted Quantities will be prorated if termination occurs prior to year-end.

   Should RBIT offer spot quantities of RB Slag for sale to major contract customers during the Term of the Agreement, Kronos Inc. shall be offered a quantity in proportion to its Contracted Quantity and have 7 days in which to accept or decline such offer.

6. The parties hereby ratify and confirm the terms and conditions of the Agreement not specifically amended pursuant to this Amending Agreement.

[***] - Confidential treatment requested.

IN WITNESS WHEREOF, the parties have caused this Amending Agreement to be executed by their duly authorized representatives.

RICHARDS BAY IRON AND TITANIUM (PROPRIETARY) LIMITED		KRONOS, INC.	
By:	/s/ J. George Deyzel	By:	/s/ Lawrence A. Wigdor
Name:	J. George Deyzel	Name:	Lawrence A. Wigdor
Title:	Chief Executive Officer/ Managing Director	Title:	Chief Executive Officer

EXHIBIT 10.20

VARIABLE COMPENSATION PLAN

ARTICLE I
GENERAL

1.1. Establishment and Purpose of the Plan:

NL Industries, Inc., a New Jersey corporation, hereby adopts this Variable Compensation Plan (the "Plan"). The purpose of the Plan is to attract and retain high quality executives, officers and employees and provide further incentives to such executives and employees to maximize the Company's annual financial performance and thereby increase shareholder value.

1.2. Definitions:

Whenever used in this Plan, the following terms shall have the meanings set forth below unless otherwise expressly provided.

(a) "Award Group" means one of the following groups to which Participants may be designated as provided in the Plan or such other groups as may be designated by the Committee from time to time:

Group I
Group II
Group III
Group IV

(b) Except as provided in Article VI, "Base Salary" means the regular salary actually paid during a Plan Year to a Participant while participating in the Plan. Regular salary shall include any salary reduction contributions made to the Company's 401(k) Plan or other deferred compensation plans, but shall be exclusive of any Variable Compensation Awards under the Plan and of any other bonuses, incentive pay, or special awards.

(c) "Board" means the Board of Directors of NL Industries, Inc.

(d) "CEO" means the Company's Chief Executive Officer.

(e) "Certain Executive Officers" means those Executive Officers of the Company who are designated by the Committee to be Group III or Group IV Participants and whose total non-performance based compensation from the Company for the applicable Plan Year would otherwise be in excess of the amount deductible by the Company pursuant to Section 162(m) of the Code, including Qualifying Group III Participants.

(f) "Code" means the Internal Revenue Code of 1986, as amended (the "Code").

(g) "Committee" means the Management Development and Compensation Committee of the Board or such other committee as may be designated from time to time by the Board, which shall consist of two or more members who meet the requirements of Section 162(m) of the Code. The members of the Committee shall be appointed by the Board, and any vacancy on the Committee shall be filled by the Board.

(h) "Company" means NL Industries, Inc. and its direct or indirect subsidiaries.

(i) "Company Performance Level" means with respect to each Award Group the Minimum Company Performance Level, Target Company Performance Level or Maximum Company Performance Level (each as described in Section 4.3 below) achieved or to be achieved by the Company or applicable Company business segment for the applicable Plan Year.

(j) "Employee" means a regular U.S. salaried employee of the Company.

(k) "Executive Officers" shall have the meaning set forth in rule 16a-1(f) promulgated under section 16(a) of the Securities Exchange Act of 1934.

(l) "401(k) Plan" means an employee welfare plan of the Company qualified under the provisions and regulations of Section 401(k) of the Code.

(m) "Individual Performance Level" with respect to each Participant (excluding Certain Executive Officers) means the individual performance rating assigned by the Company to such Participant for the applicable Plan Year. Individual performance rating initially shall consist of a relative rating scale from "outstanding" to "marginal" for all Participants (excluding Certain Executive Officers) for any Plan Year. The Committee may terminate, change or adopt a different individual performance rating scale as it determines appropriate from time to time.

(n) "Participant" means an Employee selected or designated for participation in the Plan for a specified Plan Year including Certain Executive Officers.

(o) "Performance Percentage" with respect to Award Groups I, II, and III (excluding Qualifying Group III Participants, as defined below) means the percentage assigned by the Committee to each such Award Group at each different combination of Individual Performance Level and Company Performance Level for such Award Group. With respect to Participants in Award Group III whose total non-performance based compensation from the Company for the applicable Plan Year otherwise would be in excess of the amount deductible by the Company pursuant to Section 162(m) of the Code ("Qualifying Group III Participants"), no Individual

Performance Level shall be assigned to such Qualifying Group III Participants in determining the applicable Performance Percentage for such Plan Year. Instead the Performance Percentage for Qualifying Group III Participants shall be the highest Performance Percentage available at the applicable Company Performance Level for Award Group III Participants in general. The Committee, in its sole discretion, may decrease such Performance Percentage and the corresponding Variable Compensation Awards applicable to such Qualifying Group III Participants. With respect to Award Group IV Participants, the initial Performance Percentages for the Company Performance Levels shall be as follows: 150% for Maximum Company Performance Level, 100% for Target Company Performance Level and 50% for Minimum Company Performance Level. The Performance Percentages with respect to each Award Group for any Plan Year may be set or changed by the Committee during the first ninety (90) days of such Plan Year.

(p) "Plan Year" means the Company's fiscal year.

(q) "Variable Compensation Award" with respect to any Participant for any Plan Year means an amount to be paid by the Company to such Participant under the terms of the Plan equal to the product of (A) the applicable Performance Percentage for such Participant for such Plan Year, times (B) the Base Salary of such Participant for such Plan Year.

1.3 Gender and Number:

Except when otherwise indicated by the context, words in the masculine gender, when used in the Plan, shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

ARTICLE II
ADMINISTRATION OF THE PLAN

2.1 Administration:

(a) The Plan shall be administered by the Committee. Except with respect to Committee's administrative authority regarding Executive Officers, the Committee may delegate its day-to-day administrative authority regarding the Plan to the CEO. The CEO may in turn re-delegate from time to time said administrative authority to such officers and employees of the Company as he deems appropriate. The Company's management shall assist and provide such recommendations to the Committee as the Committee may request from time to time in connection with the administration of the Plan.

(b) Subject to the limitations of the Plan, the Committee shall: (i) designate the Executive Officers who shall be Participants and the Award Groups in which they shall be included, (ii) designate and approve Performance Percentages applicable in determining Variable Compensation Awards for payment to Participants in such forms and amounts as it shall determine from time to time, (iii) impose such limitations, restrictions, and conditions upon such Variable Compensation Awards as it shall deem appropriate, (iv) interpret the Plan and adopt, amend, and rescind administrative guidelines relating to the Plan, (v) correct any defects or omissions or reconcile any inconsistencies in the Plan, the Performance Percentages or in any Variable Compensation Award granted hereunder, and (vi) make all other necessary determinations and take all other actions necessary or advisable for the implementation and administration of the Plan. The Committee's determinations on matters within its authority shall be conclusive and binding.

(c) All expenses associated with the Plan shall be borne by the Company subject to such allocation to its subsidiaries and business segments as it deems appropriate.

ARTICLE III
ELIGIBILITY AND PARTICIPATION

3.1 Eligibility and Participation:

The Company's management shall determine the Employees to be selected as Participants under the Plan and the Award Group in which each such Participant may be included, except that participation by Executive Officers shall be determined by the Committee. Any Employee, except Certain Executive Officers, may be designated and selected as a Participant in the Plan at any time during a Plan Year, including after the ninetieth (90th) day of such Plan Year.

ARTICLE IV
VARIABLE COMPENSATION AWARDS

4.1 Designation of Variable Compensation Awards:

The Company's management shall approve, or in case of Executive Officers recommend to the Committee, the Performance Percentage and the corresponding Variable Compensation Award to be paid to each Participant in accordance with the terms of the Plan for the immediately preceding Plan Year. Within the first ninety (90) days after the end of each Plan Year, the Committee shall review such recommendations, make any adjustment it deems appropriate in accordance with the terms of the Plan, and approve the grant and payment of the corresponding Variable Compensation Awards in the aggregate and to the Executive Officers.

4.2 Establishment of Performance Percentages:

Management of the Company shall assist and provide to the Committee management's recommendations regarding the Performance Percentages applicable to each combination of Individual Performance Level and Company Performance Level for Award Groups I, II and III. No later than the ninetieth (90th) day of each Plan Year, the Committee shall review such recommendations, make any adjustments it deems appropriate in accordance with the terms of the Plan, and approve the Performance Percentages for Award Groups I, II and III for such Plan Year. At that same time, the Committee also shall set the Performance Percentages for Group IV Participants. As described in Section 1.2(o), Performance Percentages with respect to Award Group III and Award Group IV Participants who qualify as Certain Executive Officers shall be based solely on the achievement of Company Performance Levels. In the event the Committee takes no action prior to the ninetieth (90th) day of such Plan Year to change, amend or rescind the Performance Percentages in effect for the immediately preceding Plan Year, the Performance Percentages for such Plan Year shall be deemed to be the Performance Percentages for said immediately preceding Plan Year.

4.3 Company Performance Levels:

Prior to the ninetieth (90th) day of a Plan Year, the Company's management shall make recommendations to the Board regarding the annual operating plan for the Company and each of the Company's business segments for such Plan Year (the "Annual Operating Plan"). The Board shall approve the Annual Operating Plan with any modifications it deems appropriate. Based on the approved Annual Operating Plan for such Plan Year, the Committee shall establish the financial performance goals for the Company and its applicable business segments at the following three levels which shall be designed to help focus the Participants' attention on achieving superior annual financial performance results in light of existing conditions: a threshold level, which is the minimum financial performance income level for any award to be made under the Plan (the "Minimum Company Performance Level"), a target financial performance income level (the "Target Company Performance Level"), and a maximum financial performance level (the "Maximum Company Performance Level"). The Committee shall in its discretion establish the applicable objective Company financial performance criteria for determining Company Performance Levels.

4.4 Determination of Performance Percentages:

Performance Percentages for Award Group I, Award Group II and Award Group III Participants (excluding Qualifying Group III Participants) shall be based upon the Performance Percentage assigned by the Committee for such Participant's Award Group with respect to each combination of achieved Company Performance Level for such Plan Year and the Individual Performance Level achieved by such Participant for such Plan Year. Performance Percentages for Award Group I Participants will range from 2% to 32%; Award Group II Participants initially will range from 9% to 65%; and Group III Participants initially will range from 14% to 120%. Variable Compensation Awards for Group IV Participants and Qualifying Group III Participants shall be based solely upon the Performance Percentage assigned by the Committee with respect to the achieved Company Performance Level. Performance Percentages will range from 50% to 150% for Award Group IV Participants and from 60% to 120% for Qualifying Group III Participants, depending on the Company Performance Level achieved. In the event that the Company Performance Level achieved is below the Minimum Company Performance Level, the Variable Compensation Award for Group IV and for Qualifying Group III Participants shall be 0%. The Performance Percentages with respect to each Award Group for any Plan Year may be set or changed by the Committee during the first ninety (90) days of such Plan Year.

4.5 Adjustment of Company Performance Levels:

Except with respect to Certain Executive Officers as provided in Article VI, if during any Plan Year external or internal changes or other unanticipated business conditions have materially affected the appropriateness of the Company Performance Levels, the Committee may, in its sole discretion, determine appropriate increases or decreases to the Company Performance Levels for such Plan Year.

Participants shall not be entitled to any Variable Compensation Award under the Plan unless the Company achieves at the corresponding Company Performance Level; provided, however, except as provided in Article VI, the CEO in the case of Participants other than Executive Officers, and the Committee in the case of Executive Officers other than Certain Executive Officers, in their discretion, may approve payment of special awards to designated Participants.

4.6 Determination of Company Performance Level Achieved and Payment of Variable Compensation Awards:

Within ninety (90) days after the end of each Plan Year, the Company's management shall report to the Committee the Company Performance Level achieved by the Company and each applicable business segment for such Plan Year. The Committee shall review such report and certify in writing or set forth in a resolution of the Committee the Company Performance Level achieved by the Company and each applicable Company business segment for such Plan Year. Such achieved Company Performance Level shall be used in determining the corresponding Performance Percentage and Variable Compensation Award for such Plan Year as provided in Sections 4.1 and 4.4 above. The Committee shall approve the grant and payment of the corresponding Variable Compensation Awards to Participants pursuant to terms of the Plan. Payment of Variable Compensation Awards shall be made following certification by the Committee of the Company Performance Level achieved for such Plan Year and shall be paid in cash in a lump sum or shares of NL Common Stock. Except as provided in Article 5, Participants must be employed by the Company on the date the Committee approves the Variable Compensation Awards to receive the approved award for such Plan Year.

4.7 Limitation on Payments:

The amount payable to a Participant pursuant to this Plan with respect to any Plan Year shall not exceed $3 million.

ARTICLE V
TERMINATION OF EMPLOYMENT

5.1 Termination of Employment Due to Death, Disability, Retirement, Or Transfer To Affiliate Not Included In Plan:

In the event a Participant's employment with the Company is terminated by reason of death, total and permanent disability, retirement, or a Participant is transferred to an affiliate which does not participate in the Plan, the Participant's Variable Compensation Award shall be based on (i) Participant's actual Base Salary paid through the date of termination or transfer, and (ii) the applicable Performance Percentage. The Variable Compensation Award shall be paid in accordance with Article IV.

"Total and permanent disability" and "retirement" shall have the meaning as defined in the Retirement Programs of NL Industries, Inc.

5.2 Termination For Any Other Reason:

Except for terminations listed in Section 5.1, in the event a Participant's employment is terminated for any other reason including voluntary and involuntary termination prior to certification by the Committee of the Company Performance Level achieved for such Plan Year, the Participant shall not be entitled to a Variable Compensation Award with respect to such Plan Year. However, the CEO, in his sole discretion, may approve the payment to such Participant of a Variable Compensation Award under the Plan with respect to such Plan Year, except that in the case of Executive Officers the CEO may make such recommendation to the Committee, which shall have sole discretion to approve such award.

ARTICLE VI
CERTAIN EXECUTIVE OFFICERS

6.1 Applicability Of Article VI:

The provisions of this Article VI shall apply only to Certain Executive Officers. In the event of any inconsistencies between this Article VI and the other Plan provisions, the provisions of this Article VI shall control.

6.2 Definition Applicable To Article VI Only:

The following term shall have the meaning set forth below:

(a) "Base Salary" shall mean as to any Plan Year a Participant's actual regular salary at the rate in effect prior to the ninetieth (90th) day of the Plan Year and not after the date the Company Performance Levels are established. Regular salary shall include any salary reduction contributions made to the Company's 401(k) Plan or other deferred compensation plans, but exclusive of any Variable Compensation Awards under this Plan and of any other bonuses, incentive pay, or special awards.

6.3 No Partial Plan Year Participation:

A Certain Executive Officer who becomes eligible after the ninetieth (90th) day of a Plan Year may not participate in the Plan for such Plan Year, but may participate in the Plan for the succeeding Plan Year.

6.4 Components Of Individual Awards:

Each Variable Compensation Award shall be based strictly on the Company's achievement of predetermined Company Performance Levels. Prior to ninety (90) days after the beginning of the Plan Year, the Committee shall determine the Company Performance Levels for such Plan Year.

6.5 No Mid-Year Change In Award Percentages:

Variable Compensation Awards for Certain Executive Officers shall be based solely on the Performance Percentage for the applicable Award Group as set by the Committee during the first ninety (90) days of the Plan Year.

6.6 No Adjustments Of Performance Goals:

Once established, Company Performance Levels shall not be changed after the first ninety (90) days of the Plan Year with respect to Certain Executive Officers. Certain Executive Officers shall not receive any Variable Compensation Award under this Plan when the Company or the applicable Company business segment fails to achieve at least the applicable Minimum Company Performance Level.

6.7 Individual Performance and Discretionary Adjustments:

Individual performance shall not be reflected in the Variable Compensation Awards to Certain Executive Officers. However, the Committee retains the discretion to eliminate or decrease the amount of the Variable Compensation Award otherwise payable to a Certain Executive Officer.

6.8 Possible Modification:

If, on advice of the Company's tax counsel, the Committee determines that Code Section 162(m) and the regulations thereunder will not adversely affect the deductibility for federal income tax purposes of any amount paid to a Certain Executive Officer under the Plan (i) by applying one or more of Sections 1.2(b), 1.2(m), 1.2(o), 3.1, 4.2, 4.4, or 4.5 to such Certain Executive Officer without regard to the limitations regarding Certain Executive Officers in such Section(s) or (ii) by not applying one or more Sections of this Article VI, then the Committee may, in its sole discretion, disregard such limitations.

6.9 No Discretionary Awards or Bonuses:

No discretionary awards or bonuses shall be paid to Certain Executive Officers pursuant to this Plan. However, nothing in this Plan shall be construed as limiting the right of the Committee or the Board to make any other award or bonus under their general authority or under any other plan.

ARTICLE VII
MISCELLANEOUS PROVISION

7.1 Nontransferability:

No right or interest of any Participant in the Plan shall be assignable or transferable, or subject to any lien, directly, by operation of law or otherwise, including execution, levy, garnishment, attachment, pledge, and bankruptcy.

7.2 Tax Withholding:

The Company shall have the right to deduct from all awards or payments under this Plan, whether paid in cash or stock, any foreign, Federal, state, or local taxes required by law to be withheld with respect to such payments.

7.3 Amendments:

The Committee, in its sole discretion, without notice, at any time and from time to time, may modify or amend, in whole or in part, any or all of the provisions of this Plan, or suspend or terminate it entirely.

7.4 Indemnification:

Each person who is or shall have been a member of the Committee or the Board or who is or shall have been an Employee of the Company acting on behalf of the Committee shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense, including without limitation, fees and expenses of legal counsel, that may have been imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify him or hold him harmless.

7.5 Beneficiary Designation:

Each Participant under the Plan may name, from time to time, any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his death before he received any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during his lifetime. In the absence of any such designation, or if the designated beneficiary is no longer living, benefits shall be paid to the surviving member(s) of the following classes of beneficiaries, with preference for classes in the order listed below:

(a) Participant's spouse (unless the parties were divorced or legally separated by court decree);

(b) Participant's children (including children by adoption);

(c) Participant's parents (including parents by adoption);

(d) Participant's executor or administrator.

Payment of benefits, in accordance with Section 5.1, shall be made exclusively to the member(s) of the first class, in the order listed above, which has surviving member(s). If that class has more than one member, benefit payments shall be made in equal shares among members of the class.

7.6 Rights of Participants:

Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate or change a Participant's employment at any time, nor confer upon any Participant, any right to continue in the employ of the Company for any period of time or to continue his present or any other rate of compensation. No Participant in a previous Plan Year, or other employee at any time, shall have a right to be selected for participation in a current or future Plan Year.

7.7 Governing Law:

The Plan shall be construed in accordance with and governed by the laws of the State of Texas.

7.8 Effective Date:

The Plan shall be deemed effective as of January 1, 2001.

EXHIBIT 10.30

AMENDED AND RESTATED

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

FOR EXECUTIVES AND OFFICERS OF

NL INDUSTRIES, INC.

as effective May 1, 2001

TABLE OF CONTENTS

ARTICLE ONE
PURPOSES OF PLAN....1

ARTICLE TWO
DEFINITIONS....2
2.1 Administrative Committee....2
2.2 Beneficiary....2
2.3 Board....2
2.4 Code....2
2.5 Company....2
2.6 Compensation....2
2.7 Determination Date....4
2.8 Employee....4
2.9 Employment....4
2.10 Interest Credit Rate....5
2.11 Interest Equivalents....5
2.12 Participant....5
2.13 Plan....5
2.14 Plan Year....5
2.15 Principal....6
2.16 Profitability Target Percentage....6
2.17 Qualified Plan....6
2.18 Retirement Date.... 6
2.19 Subsidiary....6
2.20 Supplemental Compensation Ledger....7
2.21 Top Hat Earnings....7
2.22 Total and Permanent Disability.... 7

ARTICLE THREE
ADMINISTRATION....8
3.1 Composition of Administrative Committee....8
3.2 Administration of Plan....9
3.3 Action by Committee....9
3.4 Delegation....9
3.5 Reliance Upon Information....9
3.6 Responsibility and Indemnity....10

ARTICLE FOUR
PARTICIPATION....11
4.1 Eligibility of Employees....11
4.2 Designation of Participants....11
4.3 Notification of Participants and Former Participants....12
4.4 Contributions....12
4.5 Special Provisions for any Employee's Initial Plan Year of Participation....13
4.6 Vesting....13
4.7 Withholding....15

ARTICLE FIVE
CREDITING OF CONTRIBUTIONS AND AWARD
OF INTEREST EQUIVALENTS....16
5.1 Crediting of Contributions....16
5.2 Interest Equivalents....16
5.3 Determination of Account....18

ARTICLE SIX
DISTRIBUTIONS....18
6.1 "Parachute" Effect on Amount Distributed....18
6.2 Determination Date....19
6.3 Form and Date of Distributions....19
6.4 Payor of Benefits....19
6.5 Claims and Appeals Procedures....20
6.6 Facility of Payments....22
6.7 Beneficiary Designations....22

ARTICLE SEVEN
RIGHTS OF PARTICIPANTS....23
7.1 Periodic Statement to Participants....23
7.2 Limitation of Rights....24
7.3 Nonalienation of Benefits....25
7.4 Prerequisites to Benefits....26

ARTICLE EIGHT
MISCELLANEOUS....26
8.1 Amendment or Termination of the Plan....26
8.2 Powers of the Company....27
8.3 Waiver....27
8.4 Separability....28
8.5 Gender, Tense and Headings....28
8.6 Governing Law....28
8.7 Notice....28

8.8 Incorporation of Certain Provisions of Participants' Contracts
with the Company.. 28
8.9 Effective Date...29

AMENDED AND RESTATED
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR EXECUTIVES AND OFFICERS OF
NL INDUSTRIES, INC.

ARTICLE ONE

PURPOSES OF PLAN

This Amended and Restated Supplemental Executive Retirement Plan of NL Industries, Inc. and each designated Subsidiary is intended to provide greater incentives for selected executives and officers to attain and maintain the highest standards of performance by enabling such persons to make up for benefits lost due to limits on benefits which are permissible under the Qualified Plan.

The Plan was initially effective January 1, 1991.

The plan was amended and restated effective February 9, 2000, as to anyone who became or remained a Participant on or after February 9, 2000. Former Participants remained entitled to benefits under the terms and provisions of the Plan as in effect before that amendment and restatement.

The Plan is amended and restated effective May 1, 2001, to provide for immediate payment of all fully vested benefits under the plan.

ARTICLE TWO

DEFINITIONS

In addition to the terms defined in the text hereof, each term below shall have the meanings assigned thereto for all purposes of the Plan unless the context reasonably requires a broader, narrower or different meaning.

2.1 Administrative Committee. "Administrative Committee" means the Pension and Employee Benefits Committee (PEBCO) of NL Industries, Inc. which shall administer the Plan pursuant to Article Three hereof. The Board may remove an Administrative Committee member pursuant to the applicable procedures established by the Board.

2.2 Beneficiary. "Beneficiary" means a person designated by the Participant, as provided in Section 6.7, to receive any amounts distributable under the Plan on account of the death of the Participant.

2.3 Board. "Board" means the board of directors of the Company, or equivalent governing authority, or the duly appointed delegate of such board of directors.

2.4 Code. "Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

2.5 Company. "Company" means NL Industries, Inc. or any successor that assumes the Plan.

2.6 Compensation. "Compensation" means for any Plan Year the total earnings reportable on the Employee's Form W-2 from the Company, including:

(a) base salary or wages, and overtime;

(b) incentive awards or bonuses;

(c) foreign service allowances which the Company or a Subsidiary pays. In addition, Compensation includes the following whether or not reportable on Form W-2:

(d) amounts contributed by the Company or a Subsidiary as an elective deferral on behalf of such Employee to a cafeteria plan described in Section 125 of the Code or under a plan described in Section 401(k) or Section 408(k) of the Code, or to any other health, retirement, transportation, or other employee benefit plan;

(e) amounts paid through the Company for the Employee's services to any other employer, or that would have been paid through the Company if such payment had not been deferred to a qualified plan of such other employer or to a non-qualified plan for officers, directors, or highly compensated employees of such other employer;

(f) incentive awards or bonuses paid by foreign subsidiaries of the Company.Compensation does not include relocation allowances or relocation bonuses, hiring or "sign on" bonuses, imputed value of group life insurance, tuition refunds, foreign service premiums, any income from stock options, stock appreciation rights, restricted stock, performance award rights, similar fringe benefits or perquisites, any "stay bonuses" or "supplemental bonuses" paid in 1989 or 1990 in connection with the restructuring of the Company.

If the Company and any Participant enter into any bonus deferral agreement or arrangement, such deferred bonus shall be considered to be part of Compensation in the year in which such bonus would have been received by such Participant if said bonus deferral agreement or arrangement had not been entered into by the Company and the Participant.

2.7 Determination Date. "Determination Date" means, with respect to a Participant, (i) the date the Participant terminates Employment, whether by retirement on his Retirement Date, death, Disability, or any other voluntary or involuntary reason for departing from active service as a common law Employee of the Company or of a designated Subsidiary, and (ii) effective May 1, 2001, for fully vested Participants, "Determination Date" means May 15, 2001, and then means the last day of each calendar month.

2.8 Employee. "Employee" means any individual who is a U. S. citizen or U.S. resident, who is an executive or officer of the Company or of any designated Subsidiary, and who is limited as to the benefits which might otherwise be accrued on his behalf under the Qualified Plan because of (i) the limit on projected annual benefits described in Section 415(b) of the Code (and, for years prior to January 1, 2000, Section 415(e) of the Code), and/or (ii) the limit on compensation that may be taken into account under Section 401(a)(17) of the Code; or (in the event the Qualified Plan is frozen), who would be limited as to the benefits theoretically accruable under the Qualified Plan as limited by Section 401(a)(17) of the Code, if the Qualified Plan were an active defined benefit pension plan.

2.9 Employment. "Employment" means employment by the Company or a Subsidiary. In this regard, neither the transfer of a Participant from employment by the Company to employment by a Subsidiary nor the transfer of a Participant from Employment by a Subsidiary to employment by the Company shall be deemed to be a termination of Employment of the Participant. Moreover, the Employment of a Participant shall not be deemed to have been terminated because of his absence from active employment on account of temporary illness or during authorized vacation or during temporary leaves of absence from active employment

granted by the Company or a Subsidiary for reasons of professional advancement, education, health, or government service, or during military leave for any period if the Participant returns to active employment within 90 days after the termination of his military leave, or during any period required to be treated as a leave of absence by virtue of any valid law or agreement.

2.10 Interest Credit Rate. "Interest Credit Rate" means, (i) for unvested Participants for all periods, and for both vested and unvested Participants for periods prior to May 1, 2001, the assumed rate of return on assets used for calculations required by Statement of Financial Accounting Standards No. 87, unless the Board establishes a higher or lower rate with respect to a given Plan Year; and (ii) for vested Participants for periods after April 30, 2001, zero, except that for amounts payable on the May 15, 2001 Determination Date, interest shall continue to be calculated under clause (i) in the preceding sentence until May 15, 2001.

2.11 Interest Equivalents. "Interest Equivalents" means the amounts credited as interest to a Participant's account in the Supplemental Compensation Ledger, determined and credited as provided in Section 5.2.

2.12 Participant. "Participant" means an eligible Employee who has been appointed to participate in the Plan pursuant to Section 4.2.

2.13 Plan. "Plan" means the Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. set forth herein, and as the same may hereafter be amended from time to time.

2.14 Plan Year. "Plan Year" means the twelve consecutive month period commencing on January 1 of a particular calendar year and ending on December 31 of such calendar year.

2.15 Principal. "Principal" means the total amount of all contributions which have been made to the Plan as reflected in the Participant's account maintained in the Supplemental Compensation Ledger, less any distribution of contributions from the Participant's accounts.

2.16 Profitability Target Percentage. "Profitability Target Percentage" means 6%, 8%, or 10% depending on whether the A, B, or C profitability target, respectively, under the Company's Variable Compensation Plan, is determined to have been achieved by the Company for the prior calendar year. If the Company determines that a below-A year occurred, the Profitability Target Percentage is zero.

2.17 Qualified Plan. "Qualified Plan" means the Retirement Programs of NL Industries, Inc. or any successor defined benefit plan maintained by the Company which is intended to qualify under Section 401(a) of the Code. For the purposes of the Plan, the Qualified Plan will be assumed to be a plan that is qualified under Section 401(a) of the Code whether or not the Qualified Plan is covered by a favorable determination letter issued by the Internal Revenue Service.

If the Retirement Programs of NL Industries, Inc. are frozen or terminated without being replaced by another defined benefit plan, this Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. shall nevertheless continue to be operated as if an active defined benefit plan still existed.

2.18 Retirement Date. "Retirement Date" means the date the Participant retires under the terms of the Qualified Plan.

2.19 Subsidiary. "Subsidiary" means any wholly-owned subsidiary of the Company or of any wholly-owned subsidiary thereof, or any other corporation or business venture in which

the Company owns, directly or indirectly, a significant financial interest, if the Board designates such corporation or business venture to be a Subsidiary for the purposes of this Plan for any period of time, and if the board of directors (or equivalent governing authority) of such corporation or business venture consents to being designated as a Subsidiary.

2.20 Supplemental Compensation Ledger. "Supplemental Compensation Ledger" means an appropriate record maintained by the Administrative Committee for each Participant pursuant to Section 5.1 hereof which sets forth the name of the Participant and contains separate accounts reflecting (i) the amount of any contributions made to the Plan under the terms of applicable provisions of Article Four of the Plan and (ii) the amount of Interest Equivalents credited thereon pursuant to Section 5.2 hereof. The Supplemental Compensation Ledger shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participant under the Plan. A Participant's Supplemental Compensation Ledger shall not constitute or be treated as an escrow or trust fund of any kind.

2.21 Top Hat Earnings. "Top Hat Earnings" means, for each Participant, his cumulative earnings for the calendar year that exceed the Code Section 401(a)(17) limit for qualified pension benefit plans for the year. For any single month, Top Hat Earnings are: the calendar year's cumulative earnings at the end of the month, less the Code Section 401(a)(17) limit for the year, less the cumulative Top Hat Earnings for all prior months of the calendar year. In months in which the Code Section 401(a)(17) limit for the year has not yet been reached, there are no Top Hat Earnings.

2.22 Total and Permanent Disability. "Total and Permanent Disability" or "Disability" means a physical or mental condition which renders the Participant incapable of

performing the work for which he was employed or is qualified by training and experience and which entitles the Participant to participate in the NL Industries, Inc. Long Term Disability Plan and/or qualifies the Participant to receive Social Security disability payments.

ARTICLE THREE

ADMINISTRATION

3.1 Composition of Administrative Committee. The Administrative Committee shall be the Pension and Employee Benefits Committee (PEBCO) of NL Industries, Inc., which is a committee appointed by the Management Development & Compensation (MD&C) Committee of the Board. The charter and bylaws of PEBCO shall govern wherever such instruments are in direct conflict with the provisions of this Article III. If, however, PEBCO should cease to exist, then the MD&C Committee shall function as the Administrative Committee until the Board appoints a new Administrative Committee of at least two persons.

Each member of the Administrative Committee shall serve at the pleasure of the Board, and the Board may remove or replace a member of the Administrative Committee pursuant to procedures which shall be established by the Board. A member of the Administrative Committee may also be a Participant. A member of the Administrative Committee who is also a Participant shall not vote or otherwise act on any matter relating solely to himself.

3.2 Administration of Plan. The Administrative Committee shall operate, administer, interpret and construe the Plan. The Administrative Committee shall have all powers necessary or appropriate to implement the terms and provisions of the Plan, including the power to determine, subject to the provisions of the Plan, the Employees who shall be eligible to participate in the Plan. The determination of the Administrative Committee as to the proper construction, interpretation or application of any terms or provisions of the Plan shall be final, binding, and conclusive with respect to all interested persons.

3.3 Action by Committee. A majority of the members of the Administrative Committee shall constitute a quorum for the transaction of business, and the vote of a majority of those members present at any meeting at which a quorum is present shall decide any question brought before the meeting and shall be the act of the Administrative Committee. In addition, the Administrative Committee may take any other action otherwise proper under the Plan by an affirmative vote, taken without a meeting, of a majority of its members.

3.4 Delegation. The Administrative Committee may, in its discretion, delegate one or more of its duties to an officer or Employee of the Company or a committee composed of officers and Employees of the Company, but may not delegate its authority to construe the Plan or to make the determinations specified in Section 3.2.

3.5 Reliance Upon Information. The Administrative Committee shall not be liable for any decision made or action taken in good faith in connection with the administration of the Plan. Without limiting the generality of the foregoing, any such decision made or action taken by the Administrative Committee in reliance upon any information supplied to it by any officer of the Company or any Subsidiary, the Company's or any Subsidiary's legal counsel or the

Company's or any Subsidiary's independent accountants in connection with the administration of the Plan shall be deemed to have been taken in good faith.

3.6 Responsibility and Indemnity. No member of the Administrative Committee shall be liable for any act done or any determination made hereunder in good faith. The Company and each Subsidiary hereby agrees to indemnify and hold harmless each member of the Administrative Committee from and against any and all losses, claims, damages, liabilities, costs and expenses, including but not limited to, liability for any judgments or settlements consented to in writing by any such member of the Administrative Committee, which consent will not be unreasonably withheld, and reasonable attorneys' fees arising out of or in connection with or as a direct or indirect result of such member's serving on the Administrative Committee, except only those losses, claims, damages, liabilities, costs and expenses, if any, arising out of, or in connection with, or as a direct or indirect result of, the Administrative Committee member's bad faith, gross negligence or willful neglect of his duties hereunder. Each affected member of the Administrative Committee shall promptly notify the Company and each Subsidiary of any claim, action or proceeding for which such member may seek indemnity. Such indemnity is a continuing obligation and shall be binding on the Company and each Subsidiary and their successors, whether by merger or otherwise, and assigns. In addition, such indemnity shall survive the resignation or removal of the Administrative Committee member and/or the termination of the Plan.

ARTICLE FOUR

PARTICIPATION

4.1 Eligibility of Employees. Each Employee shall be eligible to be designated a participant in the Plan pursuant to Section 4.2. The Administrative Committee may from time to time establish additional eligibility requirements for participation in the Plan.

4.2 Designation of Participants.

(a) Discretionary Appointment of Participants. The chief executive officer of the Company, in his sole discretion and subject only to the approval of the Board, shall designate those Employees who shall be considered to be active or inactive Participants in the Plan.

(b) Retroactive Participation. Designation of active participation for any Employee may be made retroactively effective to include years preceding the initial Plan Year in which the Employee is designated a Participant, in which event the account of such active Participant shall be credited with contributions required under the Plan and his account shall be credited with Interest Equivalents required to be credited and shall otherwise be subject to all other terms and provisions of the Plan.

(c) Discretionary Termination of Participation. The chief executive officer of the Company shall likewise designate any Participant who shall cease active participation in the Plan for reasons other than retirement, death, Disability, or termination of employment, in which event such Participant shall cease to be credited with contributions required under the Plan, but the account of such Participant shall continue to be credited

with Interest Equivalents required to be credited and shall otherwise be subject to all other terms and provisions of the Plan.

For unvested Participants, any such discretionary termination of participation shall not be retroactively effective earlier than the last day of the preceding Plan Year. For vested Participants, effective April 30, 2001, discretionary termination of participation shall not be retroactively effective earlier than the last day of the preceding month.

(d) CEO Participation. The chief executive officer of the Company shall be a Participant (whether active or inactive) in the sole discretion of the Board, subject only to the preceding provisions hereof regarding the effective date of his active or inactive participation.

4.3 Notification of Participants and Former Participants. As soon as administratively practicable after any Employee is initially designated to be an active Participant, the Administrative Committee shall notify such Employee that he has been designated to be a Participant in the Plan. Any Employee who is a Participant, but whose active participation in the Plan has been designated to cease (for reasons other than retirement, death, Disability, or termination of employment), shall be notified as soon as administratively practicable after the date on which such active participation is to cease, but in no event later than ninety (90) days after such date of his inactive participation, unless a later notification date is reasonably necessary under the circumstances.

4.4 Contributions. An account shall be established in each Participant's Supplemental Compensation Ledger. For each calendar month of the Plan Year, the amount to be credited for the month shall be calculated by multiplying the Participant's Top Hat Earnings

for the month by the Profitability Target Percentage that applies for the month. For the month in which a Participant terminates employment or otherwise ceases to be eligible to continue being a Participant in the Plan, the amount to be credited for such final month shall be based on the Participant's actual Top Hat Earnings for that last month, whether a full or partial month.

4.5 Special Provisions for any Employee's Initial Plan Year of Participation. In the case of any Participant who the Administrative Committee determines was disadvantaged as a result of the Plan's not being adopted as of an earlier date or the Plan's not being effective as to that Participant as of an earlier date, solely with respect to such Participant's initial designation of participation in the Plan, any designation pursuant to Section 4.2 shall set forth the amount of any contribution credited under the Plan with respect to such Participant's initial Plan Year that is to be credited for a previous year or for previous months within the then current year, both for the purpose of determining vesting in accordance with Section 4.6, and for the purpose of determining Interest Equivalents in accordance with Section 5.2. Any such amounts credited with respect to a previous year or previous months need not be uniformly or consistently determined and may be totally withheld with respect to any such Participant described in the immediately preceding sentence.

4.6 Vesting. For a Determination Date that is the date of the Participant's death, Total and Permanent Disability, Retirement Date or date of involuntary termination of employment with the Company and all Subsidiaries other than for just cause, amounts credited under the Plan to the Supplemental Compensation Ledger shall be fully vested with respect to such Participant. "Just cause" shall mean any of the following:

(a) Any act of dishonesty, including, but not limited to, any intentional misapplication of the Company's (or Subsidiary's) funds or other property;

(b) The Participant's gross neglect of his duties; the Participant's gross negligence in the performance of his duties; the Participant's refusal to perform his duties; or willful disobedience of a lawful order or directive given to the Participant by any superior officer of the Company (or Subsidiary) or the Board and within the scope of the Participant's duties;

(c) The Participant's unsatisfactory performance of his duties that is not cured within fifteen (15) working days after written notice is given to the Participant by the Board specifically identifying the reason(s) why the Board, in its judgment, believes that the Participant's performance is unsatisfactory and what the Participant can do to cure such unsatisfactory performance to the full satisfaction of the Board;

(d) The Participant's participation in any criminal activity or an activity involving moral turpitude;

(e) The Participant's immoderate use of alcohol and/or narcotics which adversely affects the performance of his duties; and

(f) The Participant's violation of the Company's (or Subsidiary's) rules concerning conflicts of interest. The existence of "just cause" shall be determined by the Board in the exercise of its discretion after consultation with legal counsel of the Board's choosing.

For any other Determination Date, amounts attributable to contributions which are credited to each account maintained in the Supplemental Compensation Ledger for a Participant shall be vested as follows:

Completed Years of Service with the Company or Subsidiary	Vested Percentage (%)
Less than 5	0%
5 or more	100%

For vesting purposes, years of service shall be determined and credited under the Plan using the same concepts as are used to determine years of service under the Qualified Plan. Any unvested contributions credited to the Participant's account or accounts in the Supplemental Compensation Ledger Account shall be forfeited upon his voluntary termination of Employment. Except as otherwise provided in Section 8.2, notwithstanding any other provision of the Plan to the contrary, should the Company or any Subsidiary dissolve, enter into a sale of substantially all of its assets, or enter into any reorganization incident to which it is not the surviving entity, all amounts which are attributable to contributions which are not already fully vested and are credited to the Supplemental Compensation Ledger account or accounts maintained for the benefit of each Participant who is employed by the Company or the affected Subsidiary, whichever is applicable, may become fully vested as of the earlier of the date of closing or the effective date, whichever may be applicable, of such transaction, provided that the Board consents.

4.7 Withholding. Required tax withholding for amounts credited to each vested Participant's account will be deducted from such Participant's second payroll of each month, so that vesting and tax withholding are properly coordinated. Withholding taxes shall not affect the

amount credited under the Plan. If withholding laws change as to the withholding taxability of amounts credited under the Plan, this section will automatically be read as if the withholding tax changes were incorporated herein.

ARTICLE FIVE

CREDITING OF CONTRIBUTIONS AND AWARD OF INTEREST EQUIVALENTS

5.1 Crediting of Contributions. The amount of contributions to the Plan on behalf of a Participant for any calendar month shall be credited to the account maintained for the Participant in the Supplemental Compensation Ledger, as of the second payroll date of the month.

For the month during which a Participant terminates employment or otherwise ceases to be eligible to be a Participant in the Plan, the amount of contributions to the Plan on behalf of such Participant for that final calendar month or partial calendar month shall be credited to the account maintained for the Participant as of the last day of his or her participation in the Plan.

5.2 Interest Equivalents. For Participants with monthly determination dates, contributions are not credited with interest. The remainder of this Section 5.2 applies to unvested Participants only.

Contributions are credited with interest monthly. Each monthly contribution is assumed, for the purpose of interest calculations, to have been made on the first day of the month for which the contribution is credited; that is, contributions start earning interest retroactively to the first of the month for which the contribution is credited to the Plan, even though that credit does not take place until the end of the month.

The interest credited each month is one-twelfth of the Interest Credit Rate in effect for that Plan Year, times the amount of principle contributed to the Plan during the current month, resulting in simple interest for months during any current Plan Year. No interest is credited for any month on amounts previously credited to the account as interest during the Plan Year.

In addition, for undistributed amounts from prior years, interest is credited each month, at a rate of one-twelfth of the Interest Credit Rate in effect for that Plan Year, times the total amount credited to the account (interest plus principal) as of the last day of the Plan Year preceding the current Plan Year, resulting in annually compounded interest for periods prior to any current Plan Year.

For the month during which a Participant terminates employment or experiences any other Determination Date on other than the last day of the month, Interest Equivalents for that last month will be calculated on a pro rata basis, so that the account continues to be credited with interest for as long as the individual remains a Participant.

Interest Equivalents for unvested Participants continue accruing until the account is distributed; however, interest will not be compounded for any payment for which the period between the Determination Date and the payment date crosses over a year end.

5.3 Determination of Account. The total amount credited to a Participant's account maintained in the Supplemental Compensation Ledger with respect to a given calendar month shall consist of (i) the aggregate amount of contributions credited to the Participant's account pursuant to Sections 4.4 and 4.5, plus (ii) the aggregate amount of Interest Equivalents credited to such account pursuant to Section 5.2 hereof, minus (iii) the aggregate amount of distributions, if any, made from such accounts pursuant to Article Six.

ARTICLE SIX

DISTRIBUTIONS

6.1 "Parachute" Effect on Amount Distributed. Any amount that is to be distributed to a Participant or Beneficiary pursuant to this Article Six shall be fixed and determined as of each Determination Date. In addition, if any portion of the Participant's benefit is an "excess parachute payment" subject to additional tax under Section 4999 of the Code, such Participant shall receive an additional benefit (the "Parachute Gross-up") which shall be equal to the amount of the additional tax under Section 4999 of the Code divided by the Gross-up Percentage. The Gross-up Percentage is the difference between the number one (1) and the rate imposed by Section 4999 of the Code. (In the year 2001, that rate is 20%)

If the tax imposed by Section 4999 of the Code changes, (by a change in the required formula or rate or in the applicability of the tax), the formula described in the preceding

paragraph will automatically change to reflect the revised calculation of a Parachute Gross-up.

The Parachute Gross-up payment shall be made at the same time as any payment that constitutes an "excess parachute payment" is made to Participant.

6.2 Determination Date. The undistributed amount credited to a vested Participant's account maintained in the Supplemental Compensation Ledger shall, upon each Determination Date, become distributable in accordance with the provisions of Section 6.3 hereof.

6.3 Form and Date of Distributions. Whenever an amount credited to a Participant's account maintained in the Supplemental Compensation Ledger becomes distributable, such amount shall be distributed to such Participant in the form of a single lump sum payment. The distribution shall be paid by the Company or Subsidiary, whichever is applicable. The distribution shall be paid on the Determination Date, unless later payment is reasonably necessary under the circumstances. For vested Participants, payments may be made on the date of the Participant's second payroll of each month, if that second payroll is not more than seven days prior to the Determination Date. The first distribution to newly vested Participant shall be made on the second payroll of the month during which such Participant became vested, if the vesting occurs before that second payroll date, otherwise on the second payroll of the following month.

6.4 Payor of Benefits. Subject to the following provisions hereof, benefits payable under the Plan with respect to a Participant's account maintained under the Supplemental Compensation Ledger with respect to contributions credited under the Plan, plus Interest Equivalents credited pursuant to Section 5.2, shall be the obligation of and paid by the Company or any Subsidiary, whichever may be applicable, or any successor pursuant to Section 8.2, which

employed the Participant at the time of the effective date the contributions were credited. Adoption and maintenance of the Plan by the Company and any Subsidiary shall not create a joint venture or partnership relationship among or between such persons for purposes of payment of benefits under the Plan or for any other purpose.

6.5 Claims and Appeals Procedures. When a benefit is due and payable under the Plan, the Administrative Committee may direct payment. If the Administrative Committee does not so direct, the Participant or beneficiary may submit a claim to the human resources department of the Company or Subsidiary. Under normal circumstances, a final decision on a claimant's request for benefits shall be made within ninety (90) days after receipt of the claim. However, if special circumstances require an extension of time to process a claim, a final decision may be deferred up to one hundred eighty (180) days after receipt of the claim if prior to the end of the initial ninety (90) day period, the claimant is furnished written notice of the special circumstances requiring the extension and the anticipated date of a final decision. If the claim is denied, within the applicable period of time set out above, the claimant shall receive written notification of the denial, which notice shall set forth the specific reasons for the denial, the relevant Plan provisions on which the denial is based, and the claim review procedure under the Plan. In the event that a claim is denied or in the event that no action is taken on the claim within the above-described period(s) of time, the following procedure shall be used:

(a) First, in the event that the claimant does not timely receive the above-described written notification, the claimant's request for benefits shall be deemed to be denied as of the last day of the relevant period and the claimant shall

be entitled to a full review of his claim in accordance with the following provisions of this Section.

(b) Second, a claimant is entitled to a full review of his claim after actual or constructive notification of a denial. A claimant desiring a review must make a written request to the Administrative Committee requesting such a review, which may include whatever comments or arguments that the claimant wishes to submit. Incident to the review, the claimant may represent himself or appoint a representative to do so, and shall have the right to inspect all documents pertaining to the issue. The Administrative Committee, in its sole discretion, may schedule any meeting(s) with the claimant and/or the claimant's representative that it deems necessary or appropriate to facilitate or expedite its review of a denied claim.

A request for a review must be filed with the Administrative Committee within ninety (90) days after the denial of the claim for benefits was actually or constructively received by the claimant. If no request is received within the 90-day time limit, the denial of benefits will be final. However, if a request for review of a denied claim is timely filed, the Administrative Committee must render its decision under normal circumstances within sixty (60) days of its receipt of the request for review. In special circumstances the decision may be delayed if, prior to expiration of the initial 60-day period, the claimant is notified of the extension, but must in any event be rendered no later than one hundred twenty (120) days after receipt of the request. If the decision on review is not furnished to the claimant within the applicable time period(s) set above, the claim shall be deemed denied on the last day of the relevant period. All decisions of the

Administrative Committee shall be in writing and shall include specific reasons for whatever action has been taken, and the Plan provisions on which the decision is based.

Any changes to the law governing timing requirements for the claims and appeal process of this Plan, will automatically change the timings stated in this Section 6.5.

6.6 Facility of Payments. If the Administrative Committee determines that any person entitled to payments under the Plan is physically or mentally incompetent to handle his or her own financial affairs, the Company or any Subsidiary, whichever may be applicable, shall make such payment to the legal guardian or other personal representative of such person for the use and benefit of such person. If the Administrative Committee for any reason is unable to determine with reasonable certainty the proper person to pay as legal guardian or personal representative, the Company or Subsidiary shall pay the amount due hereunder into a court of competent jurisdiction in an interpleader proceeding for the purpose of being directed by such court as to the proper disposition of the amount due hereunder. Any such payment to a legal guardian or personal representative shall fully discharge the Company's and/or Subsidiary's obligations hereunder.

6.7 Beneficiary Designations. Each person becoming a Participant shall file with the Administrative Committee a designation of one or more Beneficiaries to whom distribution otherwise due the Participant shall be made in the event of his death while in the Employment of the Company or a Subsidiary or after termination of Employment but prior to the complete distribution of the amount in his accounts in the Supplemental Compensation Ledger. Such designation shall be effective when received in writing by the Administrative Committee. The

Participant may from time to time revoke or change any such designation of the Beneficiary by written document delivered to the Administrative Committee.

If there is no valid designation of Beneficiary on file with the Administrative Committee at the time of the Participant's death, or if all of the Beneficiaries designated therein shall have all predeceased the Participant or otherwise ceased to exist, the Beneficiary shall be, and any payment hereunder shall be made to, the Participant's spouse, if he or she survives the Participant, otherwise to the Participant's estate.

If the Beneficiary, whether under a valid beneficiary designation or under the preceding sentence, shall survive the Participant but die before receiving payment hereunder, the benefits which would have been paid to the Beneficiary had he or she lived shall, unless the Participant's designation provided otherwise, be distributed to the Beneficiary's estate.

ARTICLE SEVEN

RIGHTS OF PARTICIPANTS

7.1 Periodic Statement to Participants. As soon as practicable after the end of each calendar quarter, or at such other time determined to be suitable (but not less often than yearly), the Administrative Committee shall cause to be prepared and delivered to each Participant a written statement showing as of the end of such calendar quarter the following information:

(a) The balance, if any, credited to his account in the Supplemental Compensation Ledger as of the end of the preceding calendar quarter;

(b) The amount of contributions credited to his account in the Supplemental Compensation Ledger for the calendar quarter;

(c) The adjustments to his account to reflect the crediting of Interest Equivalents and any distributions made to the Participant for such calendar quarter; and

(d) The new balance credited to his account as of the end of such calendar quarter.

Notwithstanding the above provisions of this Section 7.1, effective May 1, 2001, no periodic statements shall be required for any vested Participant for any month that includes a Determination Date after the Participant's first Determination Date, unless the Participant makes a written request for a statement, in which case the statement shall be issued within 30 days of PEBCO receiving the written request, unless a longer time is needed to issue the statement due to circumstances not in PEBCO's control.

7.2 Limitation of Rights. Nothing in this Plan shall be construed to:

(a) Give any individual who is employed by the Company or any Subsidiary any right to be a Participant in the Plan unless or until such person shall become an Employee and be properly appointed a Participant;

(b) Give a Participant any rights whatsoever with respect to the contributions, or Interest Equivalents credited in the Supplemental Compensation Ledger until such contributions and Interest Equivalents become distributable in accordance with the terms of the Plan;

(c) Limit in any way the right of the Company or any Subsidiary to terminate a Participant's Employment with the Company or any Subsidiary at any time;

(d) Except as otherwise provided under the Plan, give a Participant or any other person any interest in any fund or in any specific asset or assets of the Company or any Subsidiary;

(e) Give a Participant or any other person any interests or rights other than those of any unsecured general creditor of the Company or any Subsidiary; or

(f) Be evidence of any agreement or understanding, express or implied, that the Company or any Subsidiary will employ a Participant in any particular position or at any particular rate of remuneration.

7.3 Nonalienation of Benefits. No right or benefit under this Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance, or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same will be void. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of the person entitled to such benefits. If any Participant or Beneficiary hereunder shall become bankrupt or attempt to anticipate, alienate, assign, sell, pledge, encumber, or charge any right or benefit hereunder, or if any creditor shall attempt to subject the same to a writ of garnishment, attachment, execution, sequestration, or any other form of process or involuntary lien or seizure, then such right or benefit shall, in the discretion of the Administrative Committee, either cease and terminate absolutely or be held by the Company or any Subsidiary for the sole benefit of the Participant or the Beneficiary, his spouse, children, or other dependents, or any of them in

such manner and in such proportion as the Administrative Committee shall deem proper, free and clear of the claims of any other part whatsoever.

7.4 Prerequisites to Benefits. No Participant, nor any person claiming through a Participant, shall have any right or interest in the Plan, or any benefits hereunder, unless and until all the terms, conditions, and provisions of the Plan which affect such Participant or such other person shall have been complied with as specified herein.

ARTICLE EIGHT

MISCELLANEOUS

8.1 Amendment or Termination of the Plan. The Board may amend or terminate the Plan at any time. Provided, however, the provisions of Section 8.2 which provides for payment of fully vested benefits upon termination of the Plan may not be amended without the consent of at least two-thirds of all Participants. For the purpose of the immediately preceding sentence, each Participant shall have one vote. Any such amendment or termination shall not, however, adversely affect the rights of any Participant or Beneficiary to any amounts then standing to his credit in his account in the Supplemental Compensation Ledger. For purposes of this Section 8.1, the primary Beneficiary of a deceased Participant has the rights of a Participant to be counted in determining the two-thirds number and to vote.

8.2 Powers of the Company. The existence of outstanding and unpaid benefits under the Plan shall not affect in any way the right or power of the Company or any Subsidiary to make or authorize any adjustments, recapitalization, reorganization or other changes in the Company's or Subsidiary's capital structure or in its business, or any merger or consolidation of the Company or any Subsidiary, or any issue of bonds, debentures, common or preferred stock, if applicable, or the dissolution or liquidation of the Company or any Subsidiary, or any sale or transfer of all or any part of its assets or business, or any other act or proceeding, whether of a similar character or otherwise.

Should the Company or any Subsidiary (or any successor thereto) elect to dissolve, enter into a sale of its assets, or enter into any reorganization incident to which it is not the surviving entity, unless the surviving or successor entity shall formally agree to assume the Plan, the Plan shall terminate with respect to the Company or any Subsidiary (or any successor thereto) on the earlier of the date of closing or the effective date, whichever may be applicable, of such transaction and the full amount of any remaining unpaid benefits credited to the Supplemental Compensation Ledger of each Participant, whether or not vested, shall become fully vested and nonforfeitable if the Board approves in accordance with Section 4.6, and then all fully vested amounts shall be immediately paid to each such Participant (or Beneficiary) in a single lump sum payment of cash.

8.3 Waiver. A waiver by the Company, any Subsidiary or any Participant of any of the terms or conditions contained in the Plan shall not be construed as a general waiver by such party of any other terms or conditions contained in the Plan, and, except to the extent prohibited

by applicable law, the waiving party shall be free to reinstate any such term or condition previously waived by giving written notice to the other party.

8.4 Separability. If any provision or provisions of the Plan shall be found to be invalid, illegal, or unenforceable in any respect, such invalid, illegal, or unenforceable provision shall be severed from the Plan and shall not affect the validity, legality and enforceability of the remainder of the Plan.

8.5 Gender, Tense and Headings. Whenever the context requires, words of the masculine gender used herein shall include the feminine and neuter, and words used in the singular shall include the plural. Headings of Articles and Sections, as used herein, are inserted solely for convenience and reference and constitute no part of the Plan.

8.6 Governing Law. The Plan shall be subject to and governed by the laws of the State of Texas and, to the extent applicable, the Employee Retirement Income Security Act of 1974, as amended, and any other applicable laws of the United States.

8.7 Notice. Any notice required or permitted to be given under this Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the Administrative Committee, Participant or Beneficiary at the address last furnished by such person. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the dates shown on the postmark on the receipts for registration or certification.

8.8 Incorporation of Certain Provisions of Participants' Contracts with the Company. If any contract between a Participant and the Company includes a specific definition of just cause for termination of employment, of disability, or of involuntary termination of

employment, such definition is hereby incorporated into the Plan by reference and shall override any conflicting definitions in the Plan as to that Participant.

8.9 Effective Date. The Plan was initially effective January 1, 1991. This amendment and restatement of the Plan is effective May 1, 2001.

IN WITNESS WHEREOF, the Company has caused this amended and restated Agreement to be executed this 8th day of March, 2002, to be effective the 1st day of May, 2001.

NL INDUSTRIES, INC.

ATTEST:

By /s/Robert D. Hardy

(Title:PEBCO CHAIRMAN)

David B. Garten
- ------------------------------
(Title:PEBCO SECRETARY)

EXHIBIT 10.32

AGREEMENT TO DEFER BONUS PAYMENT

This AGREEMENT TO DEFER BONUS PAYMENT (this "Agreement") is made effective as of the 10th day of January 2002 between NL Industries, Inc., a New Jersey corporation (the "Corporation") and Dr. Lawrence A. Wigdor ("Executive").

WHEREAS, Executive was awarded a Special Bonus in recognition of his performance which substantially contributed to the success of the Corporation;

WHEREAS, The Corporation desires that payment of three hundred forty thousand four hundred thirty-three dollars ($340,433) of such Special Bonus (the "Deferred Special Bonus") be deferred until Executive ceases to be an employee or executive officer of the Corporation or such earlier date as the Corporation, acting through the Management Development & Compensation Committee of the Board of Directors ("the Committee"), acting in its sole discretion, may determine, subject to the conditions specified in Section 1 of this Agreement; and

WHEREAS, the Corporation and Darryl S. Kitay as trustee, will enter into an agreement (the "Trust Agreement") which establishes an irrevocable trust (the "Trust") which is intended to hold and invest an amount of funds equal to the Deferred Special Bonus until such bonus is paid to Executive pursuant to this Agreement;

NOW, THEREFORE, in consideration of the agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. The Deferred Special Bonus shall be paid to Executive, or his designated beneficiaries, upon the earliest to occur of (a) the termination of Executive's employment (including Executive's resignation) for any reason, (b) Executive's death, or (c) such date as shall be determined by the Committee in its sole discretion.

2. The Deferred Special Bonus shall accrue interest beginning on January __, 2002 up to and including the date such amount is paid to Executive pursuant to Paragraph 1 hereof (the "Deferred Payment Date") and the entire amount of such accrued interest shall be paid to Executive, or his designated beneficiaries, on the Deferred Payment Date. Such interest shall accrue at the rate of six and 15/32 percent (6.47%) per annum. Interest accrued pursuant to this Paragraph 2 shall compound on a semi-annual basis and shall be computed for the actual number of days elapsed on the basis of a year consisting of 365 or 366 days.

3. The Corporation shall immediately enter into the Trust Agreement and thereby establish the Trust. The Corporation shall contribute an amount equal to the Deferred Special Bonus to the Trust.

4. Subject to the terms of the Trust Agreement, the Corporation may satisfy its payment obligations to Executive, or to his designated beneficiaries, under this Agreement by (a) directing the Trustee to make such payments from the principal and /or earnings of the Trust, (b) making such payments directly from the Corporation's internal funds, or (c) by any combination of (a) and (b), provided that all payments to Executive, or to his designated beneficiaries, pursuant to this Agreement shall be made in immediately available funds.

5. The Corporation shall withhold, either from the Deferred Special Bonus in the year such amount is paid to Executive pursuant to Paragraph 1 hereof, or from any salary, bonus or other compensatory payment made to Executive as the Corporation in its sole discretion may determine, such amounts as is required by law to be withheld in 2002 or after, as the case may be, pursuant to Code Sections 3101 and 3121(v)(2) or successor provisions thereof.

6. Title to and beneficial ownership of any assets, whether cash or investments and whether held by the Corporation or the Trust, which the Corporation may earmark to meet its payment obligations to Executive under this Agreement, shall at all times remain in the Corporation or the Trust, as applicable, and Executive and his designated beneficiaries shall not have any property interest whatsoever in any specific assets of the Corporation or the Trust. Any right of the Executive or any of his designated beneficiaries to receive payments from the Corporation or the Trust under this Agreement shall be no greater than the right of any unsecured general creditor of the Corporation.

7. The right of Executive or any other person to any payment under this Agreement shall not be assigned, transferred, pledged or encumbered except by will or by the laws of descent and distribution.

8. If the Committee shall find that any person to whom any payment is payable under this Agreement is unable to care for his or her affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefore shall have been made by a duly appointed guardian or other legal representative) may be paid to the spouse, a child, a parent, a brother or sister, or the person or persons designated by the Executive in writing, or, in the absence of any of the foregoing, to any one or more persons deemed by the Committee to be appropriate. Any such payment shall be a complete discharge of the liabilities of the Corporation under this Agreement.

9. Nothing contained herein shall be construed as conferring upon Executive the right to continue in the employ of the Corporation as an executive or in any other capacity.

10 This Agreement shall be binding upon and inure to the benefit of the Corporation, it successors and assigns, and the Executive and his heirs, executors, administrators and legal representatives.

11. This Agreement contains the entire agreement of and between the parties with respect to the subject matter hereof, and supersedes any prior understandings, agreements, or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way. In the event of any conflict between the terms and provisions of this Agreement and the terms and provisions of any employment or severance agreement entered into by the parties hereto, the terms and provisions of this Agreement shall govern.

12. The Agreement shall be governed by the 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.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

NL INDUSTRIES, INC.

By: /s/ Robert D. Hardy

Its: Vice President & Controller

EXECUTIVE

/s/ Dr. Lawrence A. Wigdor

Dr. Lawrence A. Wigdor

TRUST AGREEMENT

This Agreement is made effective as of the 10th day of January, 2002 by and between NL Industries, Inc. (the "Corporation") and Darryl S. Kitay (the "Trustee");

WHEREAS, the Corporation and Lawrence A. Wigdor (the "Executive") have entered into the Agreement to Defer Bonus Payment (the "Deferral Agreement") attached hereto as Exhibit A;

WHEREAS, the Corporation has incurred or expects to incur liability under the terms of such Deferral Agreement with respect to the Executive;

WHEREAS, the Corporation wishes to establish a trust (hereinafter called the "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of the Corporation's creditors in the event of the Corporation's Insolvency, as herein defined, until paid to the Executive and his beneficiaries in such manner and at such times as specified in the Deferral Agreement;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Deferral Agreement as an unfunded plan maintained for the purpose of providing deferred compensation for a member of the select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974; and

WHEREAS, it is the intention of the Corporation to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Deferral Agreement;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust

(a) The Corporation hereby deposits with the Trustee in trust $100 or such other amount as determined by the Corporation, which shall become the principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which the Corporation is the grantor, within the meaning of Subpart E, Part I, Subchapter J, Chapter 1, Subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of the Corporation and shall be used exclusively for the uses and purposes as specified in the Deferral Agreement, subject to the claims of the Corporation's general creditors as herein set forth. The Executive and his beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Deferral Agreement and this Trust Agreement shall be mere unsecured contractual rights of the Executive and his beneficiaries against the Corporation. Any assets held by the Trust will be subject to the claims of the Corporation's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) The Corporation shall make additional deposits of cash or other property in trust with the Trustee in accordance with the terms of the Deferral Agreement to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. Neither the Trustee nor the Executive or any of his beneficiaries shall have any right to compel additional deposits, except as may be required by the terms of the Deferral Agreement.

Section 2. Payments to Executive and His Beneficiaries.

(a) Except as otherwise provided herein, the Trustee shall make payments to the Executive and his beneficiaries in accordance with the Deferral Agreement. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Deferral Agreement and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Corporation.

(b) The entitlement of the Executive or his beneficiaries to benefits hereunder or under the Deferral Agreement shall be determined by the Corporation in accordance with the terms of the Deferral Agreement, and any claim for such benefits shall be considered and reviewed under the terms of the Deferral Agreement.

(c) The Corporation may make payment of benefits directly to the Executive or his beneficiaries as they become due under the terms of the Deferral Agreement. The Corporation shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to the Executive or his beneficiaries.

Section 3. Trustee Responsibility Regarding Payments to Trust Beneficiary When the Corporation Is Insolvent.

(a) The Trustee shall not make any payments to the Executive or his beneficiaries if the Corporation is Insolvent. Notwithstanding any other provision of this Trust Agreement, all determinations by the Trustee under this Trust Agreement regarding whether the Corporation is solvent or Insolvent should be based solely on the written representation to the Trustee from the Corporation's Controller or Chief Financial Officer without any requirement of independent investigation by the Trustee. The Corporation shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Corporation is unable to pay its debts as they become due, or (ii) the Corporation is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Corporation under federal and state law as set forth below.

(1) The Chief Financial Officer ("CFO") and the Controller of the Corporation shall, jointly and severally, have the duty to inform the Trustee in writing of the Corporation's Insolvency. If a person claiming to be a creditor of the Corporation alleges in writing to the Trustee that the Corporation has become Insolvent, the Trustee shall determine whether the Corporation is Insolvent; such determination shall be made based solely on written representation from the Corporation's Controller or Chief Financial Officer. The Trustee shall in all events be entitled and required to rely on such representation from the Corporation's Controller or Chief Financial Officer in making a determination concerning the Corporation's solvency. Pending such determination, the Trustee shall not make any payments to Executive or his beneficiaries or any creditors of the Corporation.

(2) Unless the Trustee has received notice from the Corporation that the Corporation is Insolvent, the Trustee shall have no duty at any time to inquire whether the Corporation is Insolvent. The Trustee shall in all events rely on such representation from the Corporation in making a determination concerning the Corporation's solvency.

(3) In the event that the Corporation's Controller or Chief Financial Officer has notified the Trustee in writing of the Corporation's Insolvency, the Trustee shall not make any payments to the Executive or his beneficiaries and shall hold the assets of the Trust for the benefit of the Corporation's general creditors. Nothing in this Trust Agreement shall in any way diminish or impair any rights of the Executive or his beneficiaries to pursue their rights as general creditors of the Corporation with respect to payments due under the Deferral Agreement or otherwise.

(4) The Trustee shall resume making payments to the Executive or his beneficiaries in accordance with Section 2 of this Trust Agreement only after the Trustee has determined that the Corporation is not Insolvent (or is no longer Insolvent); such determination shall be made as described in Section 3(b)(1) above.

(c) Provided that there are sufficient Trust assets, if the Trustee discontinues making payments from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to the Executive or his beneficiaries under the terms of the Deferral Agreement for the period of such discontinuance, less the aggregate amount of any payments made to the Executive or his beneficiaries by the Corporation in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. Payments to the Corporation.

Except as provided in Section 3 hereof, the Corporation shall have no right or power to direct the Trustee to return to the Corporation or to divert to others any of the Trust assets before all payments have been made to the Executive or his beneficiaries pursuant to the terms of the Deferral Agreement.

Section 5. Investment Authority.

In no event may the Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by the Corporation, other than a de minimis amount held in common investment vehicles in which the Trustee invests. All rights associated with assets of the Trust shall be exercised, solely in accordance with the directions of the Corporation, by the Trustee or the person designated by the Trustee, and shall in no event be exercisable by or rest with the Executive.

Section 6. Disposition of Income.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7. Accounting by the Trustee.

The Trustee shall keep records of such investments, receipts, disbursements, and all other transactions required to be made, as shall be agreed upon in writing between the Corporation and the Trustee. Within 60 days following the close of each calendar year and within 60 days after the removal or resignation of the Trustee, the Trustee shall deliver to the Corporation a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions pertaining to Trust Assets effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be. In the event the Trustee delegates the obligatons of this section to an employee of the Corporation, such obligations shall be deemed to be fulfilled by the Trustee. Trustee shall timely file, or cause to be filed, any and all federal and state tax returns required to be filed on behalf of the Trust.

Section 8. Responsibility of the Trustee.

(a) The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; provided, however, that the Trustee shall incur no liability to any person for any action taken (or not taken) pursuant to a direction, request or approval given by the Corporation in connection, directly or indirectly, with the terms of the Deferral Agreement or this Trust. In the event of a dispute between the Corporation and any party in interest, the Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) The Corporation agrees to indemnify and hold the Trustee harmless from any and all costs, fees, expenses (including without limitation attorney's fees and expenses), claims or lawsuits by any person or entity, liabilities or obligations of any type or nature arising or related, directly or indirectly, to the Deferral Agreement, this Trust or any action or failure to act by the Trustee in connection in any way with any of the foregoing. Futhermore, if the Trustee undertakes or defends any litigation arising in connection with this Trust, the Corporation agrees to indemnify the Trustee against the Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be solely liable for such payments. If the Corporation does not pay such costs, expenses and liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust. The Corporation shall, if requested by the Trustee, assume the defense of any litigation brought against the Trustee or the Trust, in which event the Corporation shall have no liability to the Trustee for any costs or expenses of litigation (absent a conflict of interest which reasonably necessitates the Trustee's hiring separate counsel).

(c) The Trustee may consult with legal counsel (who may also be counsel for the Corporation generally) with respect to any of its duties or obligations hereunder.

(d) The Trustee may hire and the Corporation may make available to the Trustee agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder. In addition, the Trustee may delegate any of its duties under this Trust to employees and management of the Corporation (other than Executive) and the Trustee may conclusively rely on the reports of such employees and management without further investigation.

(e) The Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or to applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

Section 9. Compensation and Expenses of Trustee.

The Corporation shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

Section 10. Resignation and Removal of Trustee.

(a) The Trustee may resign at any time by written notice to the Corporation, which shall be effective 15 days after receipt of such notice unless the Corporation and the Trustee agree otherwise.

(b) The Trustee may be removed by the Corporation on 15 days notice to the Trustee or upon shorter notice accepted by the Trustee.

(c) Upon a Change of Control, as defined in Section 13(d) below, the Trustee may not be removed by the Corporation for 18 months.

(d) Upon resignation or removal of the Trustee and appointment of a successor Trustee, all Trust assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 30 days after receipt of notice of resignation, removal or transfer, unless the Corporation extends the time limit.

(e) If the Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. Appointment of Successor.

(a) If the Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, the Corporation may appoint any person or any other party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace the Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee with respect to the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the Corporation or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and shall act in regard to the Trust assets, in accordance with all the terms of this Trust Agreement. The successor Trustee shall not be responsible for and the Corporation shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by the Trustee and the Corporation. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Deferral Agreement or shall make the Trust revocable.

(b) The Trust shall not terminate until the date on which the Executive or his beneficiaries are no longer entitled to any payments pursuant to the terms of the Deferral Agreement. Upon termination of the Trust any assets remaining in the Trust shall be returned to the Corporation.

Section 13. Miscellaneous.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) No amount payable to the Executive or any of his beneficiaries under this Trust Agreement may be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of Texas.

(d) For purposes of this Trust, Change of Control shall mean the purchase or other acquisition by any person, entity or group of persons, within the meaning of section 13(d) or 14(d) of the Securities Exchange Act of 1934 ("Act"), or any comparable successor provisions, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of thirty percent (30%) or more of either the outstanding shares of common stock or the combined voting power of the Corporation's then outstanding voting securities entitled to vote generally in the election of directors, or the approval by the stockholders of the Corporation of a reorganization, merger, or consolidation, in each case, with respect to which persons who were stockholders of the Corporation immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Corporation's then outstanding securities, or a liquidation or dissolution of the Corporation or of the sale of all or substantially all of the Corporation's assets.

Section 14. Effective Date.

The effective date of this Trust Agreement shall be January ,
2002.

* * * * *

EXECUTED on the dates of the respective acknowledgments hereto, to be effective as of the 10th day of January, 2002.

NL Industries, Inc.

/s/ Robert D. Hardy

Vice President & Controller
- TRUSTOR -

/s/ Darryl S. Kitay

- TRUSTEE -

THE STATE OF TEXAS '
'
COUNTY OF Harris '

This instrument was acknowledged before me on the 10th day of January, 2002, by Vonna E. Newsom.

/s/ Vonna E. Newsom

Notary Public in and for
the State of T E X A S

My Commission Expires:

December 18, 2002

EXHIBIT 10.39

PURCHASE AGREEMENT

by and among

Kronos, Inc.,
as the Purchaser,

and

Big Bend Holdings LLC
and
Contran Insurance Holdings, Inc.,
as Sellers

January 4, 2002

TABLE OF CONTENTS

Section 1. Defined Terms..1

Section 2. Agreement to Sell and Purchase..................................4

Section 3. Purchase Price...4

Section 4. The Closing...4
- (a) Time and Place...4
- (b) Obligations of Sellers at the Closing................................5
- (c) Obligation of the Purchaser at the Closing...........................5

Section 5. Representations and Warranties of the Sellers...................5
- (a) Status...5
- (b) Authorization..6
- (c) No Violation...6
- (d) Ownership..6
- (e) Brokers' Fees..6

Section 6. Representations and Warranties of the Purchaser.................6
- (a) Status...6
- (b) Authorization..6
- (c) No Violation...7
- (d) Brokers' Fees..7
- (e) Company Review...7

Section 7. Representations and Warranties Concerning the Companies.........8
- (a) Status...8
- (b) No Violation...8
- (c) Brokers' Fees..8
- (d) Capitalization...8
- (e) Records..9
- (f) Company Subsidiaries...9
- (g) Financial Statements...9
- (h) Subsequent Events..9
- (i) Legal Compliance..10
- (j) Tax Matters...11

(k) Title to and Condition of Assets..11
(l) Real Property...12
(m) Contracts...12
(n) Insurance...13
(o) Litigation..13
(p) Labor; Employees..14
(q) Employee Benefits...14
(r) Environmental, Health, and Safety Matters.................................14
(s) Customers...14

(t) Permits....14
(u) Foreign Corrupt Practices Act Compliance....15

Section 8. Indemnification....15
(a) Indemnification Provisions for the Purchaser's Benefit....15
(b) Indemnification Provisions for the Sellers' Benefit....16
(c) Indemnification Claim Procedures....16
(d) Notice of Claim....16
(e) Limitations on Indemnification Liability....17
(f) Other Indemnification Provisions....17

Section 9. Miscellaneous....17
(a) Transfer Taxes....17
(b) Binding Effect, Benefits....17
(c) Notices....18
(d) Entire Agreement; Amendment....18
(e) Headings....18
(f) Attorneys' Fees....18
(g) Governing Law....18
(h) Severability....18
(i) Further Assurances....18
(j) Counterparts....18
(k) Assignments....18
(l) Expenses....19
(m) Construction....19
(n) Remedies....19

PURCHASE AGREEMENT

This Purchase Agreement (this "Agreement") is entered into as of January 4, 2002, among Big Bend Holdings LLC, a Delaware limited liability company ("Big Bend"), Contran Insurance Holdings, Inc., a Delaware corporation ("Contran Insurance," and collectively with Big Bend, the "Sellers"), and Kronos, Inc., a Delaware corporation ("Purchaser").

Recitals

A. EWI RE, Inc., a New York corporation ("EWI Inc."), has issued and outstanding 900 shares of common stock, par value $1.00 per share (the "Common Stock").

B. Big Bend is the record owner of 520 shares of Common Stock and a 57.8% membership interest (a "Membership Interest") in EWI RE, Ltd., a Nevada limited liability company ("EWI Ltd." and collectively with EWI Inc., the "Companies").

C. Contran Insurance is the record owner of 380 shares of Common Stock and a 42.2% Membership Interest.

D. The Purchaser desires to purchase from the Sellers, and the Sellers desire to sell to the Purchaser, all of the outstanding shares of Common Stock and Membership Interests.

E. This Agreement is intended to further define the terms and conditions of such purchases and sales of all of the outstanding shares of Common Stock and the Membership Interests.

Agreement

NOW THEREFORE, in consideration of the premises and the mutual promises and covenants below, the parties agree as follows:

Section 1. Defined Terms. The following terms will have the definitions set forth below:

"Action" means any action, appeal, petition, plea, charge, complaint, claim, suit, demand, litigation, arbitration, mediation, hearing, inquiry, or proceeding.

"Affiliate" or "Affiliated" with respect to any specified Person, means a Person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, such specified Person. For this definition, "control" (and its derivatives) means the possession, directly or indirectly, or as trustee or executor, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting Equity Interests, as trustee or executor, by contract or credit arrangements or otherwise.

"Agreement" is defined in the preamble to this Agreement.

"Balance Sheet Date" is defined in Section 7(g)(ii).

"Big Bend" is defined in the preamble to this Agreement.

"Big Bend Equity Interests" is defined in Section 2.

"Claim Notice" is defined in Section 8(e).

"Closing" is defined in Section 4(a).

"Closing Date" is defined in Section 4(a).

"Code" means the Internal Revenue Code of 1986, as amended.

"Commitments" means (a) options, warrants, convertible securities, exchangeable securities, subscription rights, conversion rights, exchange rights, or other contracts that could require a Person to issue any of its Equity Interests or to sell any Equity Interests it owns in another Person; (b) any other securities convertible into, exchangeable or exercisable for, or representing the right to subscribe for any Equity Interest of a Person or owned by a Person; (c) statutory pre-emptive rights or pre-emptive rights granted under a Person's Organizational Documents; and (d) stock appreciation rights, phantom stock, profit participation, or other similar rights with respect to a Person.

"Common Stock" is defined in the recitals to this Agreement.

"Companies" is defined in the recitals to this Agreement.

"Companies' Financial Statements" is defined in Section 7(g).

"Contran Insurance" is defined in the preamble to this Agreement.

"Contran Insurance Equity Interests" is defined in Section 2.

"Damages" is defined in Section 8(a).

"Environmental, Health, and Safety Requirements" means all orders and laws enacted by any Governmental Body concerning or relating to public health and safety, worker/occupational health and safety, and pollution or protection of the environment, including those relating to the presence, use, production, generation, handling, transportation, treatment, recycling, transfer, storage, disposal, processing, discharge, release, control, or other action or failure to act involving cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise, or radiation, each as amended and as now in effect.

"Equity Interest" means (a) with respect to a corporation, any and all shares of capital stock, (b) with respect to a partnership, limited liability company, trust or similar Person, any and all units, interests or other partnership/limited liability company interests, and (c) any other direct equity ownership or participation in a Person.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means each business or entity which is a member of a "controlled group of corporations," under "common control" or an "affiliated service group" with either Company within the meaning of Sections 414(b), (c) or (m) of the Code, or required to be aggregated with either Company under Section 414(o) of the Code, or is under "common control" with either Company, within the meaning of Section 4001(a)(14) of ERISA.

"EWI Inc." is defined in the recitals to this Agreement.

"EWI Ltd." is defined in the recitals to this Agreement.

"GAAP" means United States generally accepted accounting principles as in effect from time to time.

"Governmental Body" means any legislature, agency, bureau, branch, department, division, commission, court, tribunal, magistrate, justice, multi-national organization, quasi-governmental body, or other similar recognized organization or body of any federal, state, county, municipal, local, or foreign government or other similar recognized organization or body exercising similar powers or authority.

"Indemnification Claim" is defined in Section 8(d)(i).

"Indemnified Parties" means, individually and as a group, the Purchaser Indemnified Parties and the Seller Indemnified Parties.

"Indemnitor" means any party having any liability to any Indemnified Party under this Agreement.

"Interim Financial Statements" is defined in Section 7(g)(ii).

"Knowledge" means with respect to (a) the Sellers, the actual conscious knowledge of the following individuals with no investigation other than performing their duties in the Ordinary Course of Business: Lisa S. Epstein and officers of Contran Insurance and (b) the Purchaser, the actual conscious knowledge of its executive officers.

"Material Adverse Change (or Effect)" means a change (or effect) in the condition (financial or otherwise), in the properties, assets, liabilities, rights, obligations, operations, business, or prospects of the Companies on a combined basis which change (or effect), individually or in the aggregate, could reasonably be expected to be materially adverse to such condition, properties, assets, liabilities, rights, obligations, operations, or business of the Companies on a combined basis.

"Membership Interest" is defined in the recitals to this Agreement.

"Most Recent Year End" is defined in Section 7(g)(i).

"Operating Agreement" means the First Amended and Restated Operating Agreement effective April 6, 1998 among EWI Ltd.'s members and EWI Ltd.

"Ordinary Course of Business" means the ordinary course of business consistent with past custom and practice (including with respect to quantity, quality and frequency) of the relevant Person and its subsidiaries.

"Organizational Documents" means, as applicable, the articles of incorporation, certificate of incorporation, charter, bylaws, articles of formation, regulations, operating agreement, certificate of limited partnership, partnership agreement, and all other similar documents, instruments or certificates executed, adopted, or filed in connection with the creation, formation, or organization of a Person, including any amendments thereto.

"Purchase Price" is defined in Section 3.

"Purchaser" is defined in the preamble to this Agreement.

"Purchaser Indemnified Parties" is defined in Section 8(c).

"Securities Act" means the Securities Act of 1933, as amended.

"Sellers" is defined in the preamble to this Agreement.

"Shareholders' Agreement" means the Second Amended and Restated Shareholders' Agreement effective April 6, 1998 among EWI Inc.'s shareholders and EWI Inc.

"Seller Indemnified Parties" is defined in Section 8(b).

"Threshold Amount" is defined in Section 8(f)(ii).

Section 2. Agreement to Sell and Purchase. Subject to the terms and conditions of this Agreement, the Purchaser agrees to purchase concurrently 520 shares of Common Stock and a 57.8% Membership Interest from Big Bend (collectively, the "Big Bend Equity Interests") and 380 shares of Common Stock and a 42.2% Membership Interest from Contran Insurance (collectively, the "Contran Insurance Equity Interests").

Section 3. Purchase Price. The Purchaser shall purchase the Big Bend Equity Interests for an aggregate cash purchase price of $5,202,000.00 and the Contran Insurance Equity Interests for an aggregate cash purchase price of $3,798,000.00, respectively (collectively, the "Purchase Price"). In each instance the Purchaser shall pay the Purchase Price by wire transfer to an account designated in writing by the respective Seller.

Section 4. The Closing.

(a) Time and Place. The closing for the sale and purchase of the Big Bend Equity Interests and the Contran Insurance Equity Interests (the "Closing") shall take place on January 4, 2002, at Three Lincoln Centre, 5430 LBJ Freeway Suite 1700, Dallas, Texas 75240-2697 or such other date or place as the parties may mutually determine (the "Closing Date").

(b) Obligations of Sellers at the Closing. At the Closing, each of the Sellers shall deliver or cause to be delivered the following:

(i) a validly issued stock certificate registered in the name of the Seller and representing the shares of Common Stock to be sold by the Seller pursuant to this Agreement accompanied by an assignment separate from certificate duly endorsing such shares over to the Purchaser;

(ii) a validly issued membership certificate registered in the name of the Seller and representing the Membership Interest to be sold by the Seller pursuant to this Agreement accompanied by an assignment separate from certificate duly endorsing the such Membership Interests over to the Purchaser; and

(iii) certified resolutions of the shareholders or members, as applicable, authorizing such Seller to enter into this Agreement, to consummate the transactions contemplated by this Agreement, and to perform its obligations at the Closing.

(c) Obligation of the Purchaser at the Closing. At the Closing, the Purchaser shall deliver or cause to be delivered the following:

(i) by wire transfer on behalf of Big Bend as follows:

(A) $466,906.06 to EWI Ltd. representing payment in full of principal and interest on outstanding loans by EWI Ltd. to Big Bend, plus interest at a rate of $51.64 per day subsequent to January 4, 2002;

(B) An amount equal to $5,202,000 less the amount required to repay the loan by EWI Ltd. to Big Bend as set forth above, to be wired to the account of Big Bend;

(ii) by wire transfer, $3,798,000.00 to Contran Insurance's designated account; and

(iii) certified resolutions of the board of directors, authorizing the Purchaser to enter into this Agreement, to consummate the transactions contemplated by this Agreement, and to perform its obligations at the Closing.

Section 5. Representations and Warranties of the Sellers. Each Seller represents and warrants as of the Closing Date as follows:

(a) Status. Such Seller is an entity duly created, formed or organized, validly existing and in good standing under the laws of the state of its incorporation or formation. There is no pending or threatened Action (or basis therefor) for the dissolution, liquidation or rehabilitation of such Seller.

(b) Authorization. Such Seller has all necessary power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. All actions required to be taken by or on behalf of it to authorize the execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and properly taken. This Agreement, when duly executed and delivered by such Seller, constitutes such Seller's lawful, valid and binding obligation, enforceable against such Seller in accordance with their terms.

(c) No Violation. The execution and delivery of this Agreement and the consummation by such Seller of the transactions contemplated hereby, are not prohibited by, do not violate or conflict with any provision of, and do not result in a default under (i) such Seller's Organizational Documents, (ii) any material contract, agreement or other instrument to which it is a party or by which it is bound, (iii) any order, writ, injunction, decree or judgment of any court or Governmental Body applicable to it, or (iv) any law, rule or regulation applicable to it; except in each case for such prohibitions, violations, conflicts or defaults of or with respect to any item described in clauses (ii), (iii) or (iv) that would not have a Material Adverse Effect.

(d) Ownership. Such Seller holds of record and owns the number of shares of Common Stock and the Membership Interests set forth in the recitals to this Agreement, free and clear of any encumbrances (other than restrictions under the Securities Act and state securities laws). Such Seller is not a party to any contract that could require it to sell, transfer, or otherwise dispose of any of its Common Stock or its Membership Interests (other than this Agreement, the Shareholders' Agreement and the Operating Agreement), or any other contract with respect to any capital stock of or other interest in either Company. Such Seller's delivery of its shares of Common Stock and its Membership Interests at the Closing will transfer to the Purchaser good and marketable title to such shares and Membership Interest free and clear of all liens, claims and encumbrances whatsoever.

(e) Brokers' Fees. Such Seller has no liability to pay any compensation to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which the Purchaser could become liable.

Section 6. Representations and Warranties of the Purchaser. The Purchaser represents and warrants to each of the Sellers as of the Closing Date as follows.

(a) Status. The Purchaser is an entity duly created, formed or organized, validly existing and in good standing under the laws of the state of its incorporation or formation. There is no pending or threatened Action (or basis therefor) for the dissolution, liquidation or rehabilitation of the Purchaser.

(b) Authorization. The Purchaser has all necessary power and authority to execute and deliver this Agreement and to consummate the transactions

contemplated hereby. All actions required to be taken by or on behalf of it to authorize the execution, delivery and performance of this Agreement and the transactions contemplated thereby have been duly and properly taken. This Agreement, when duly executed and delivered by the Purchaser, constitutes the Purchaser's lawful, valid and binding obligations, enforceable against the Purchaser in accordance with their terms.

(c) No Violation. The execution and delivery of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby, are not prohibited by, do not violate or conflict with any provision of, and do not result in a default under (i) the Purchaser's Organizational Documents, (ii) any material contract, agreement or other instrument to which the Purchaser is a party or by which the Purchaser is bound, (iii) any order, writ, injunction, decree or judgment of any court or Governmental Body applicable to the Purchaser, or (iv) any law, rule or regulation applicable to the Purchaser; except in each case for such prohibitions, violations, conflicts or defaults of or with respect to any item described in clauses (ii), (iii) or (iv) that would not have a material adverse effect on the Purchaser's ability to perform its obligations under this Agreement.

(d) Brokers' Fees. The Purchaser has no liability to pay any compensation to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which either Seller could become liable.

(e) Company Review. The Purchaser:

(i) has such experience in financial and business matters that it is capable of evaluating the merits and risks of its investment in the Big Bend Equity Interests and Contran Insurance Equity Interests contemplated hereby, and that the Purchaser is able to bear the economic risk of such investment indefinitely.

(ii) has (A) had the opportunity to meet with representative officers and other representatives of each Company to discuss its business, assets, liabilities, financial condition, cash flow, and operations, and (B) received all materials, documents and other information that it deems necessary or advisable to evaluate the Big Bend Equity Interests and Contran Insurance Equity Interests and the transactions contemplated hereby.

(iii) has made its own independent examination, investigation, analysis and evaluation of the Big Bend Equity Interests and Contran Insurance Equity Interests, including its own estimate of their value.

(iv) has undertaken such due diligence (including a review of the Companies' assets, properties, liabilities, books, records and contracts) as it deems adequate, including that described above.

Nothing in this Section 6(e) will preclude the Purchaser from relying on the representations, warranties, covenants, and agreements of the Sellers herein or from pursuing their remedies with respect to a breach thereof.

Section 7. Representations and Warranties Concerning the Companies. Each Seller represents and warrants as of the Closing Date as follows:

(a) Status. Each Company is an entity duly created, formed or organized, validly existing and in good standing under the laws of the state of its incorporation or formation. There is no pending or threatened Action (or basis therefor) for the dissolution, liquidation or rehabilitation of such Company.

(b) No Violation. The execution and delivery of this Agreement are not prohibited by, do not violate or conflict with any provision of, and do not result in a default under (i) the Company's Organizational Documents, (ii) any material contract, agreement or other instrument to which such Company is a party or by which it is bound, (iii) any order, writ, injunction, decree or judgment of any court or Governmental Body applicable to such Company, or (iv) any law, rule or regulation applicable to it; except in each case for such prohibitions, violations, conflicts or defaults of or with respect to any item described in clauses (ii), (iii) or (iv) that would not have a Material Adverse Effect.

(c) Brokers' Fees. Neither Company has any liability to pay any compensation to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which such Company could become liable.

(d) Capitalization.

(i) EWI Inc.'s authorized Equity Interests consist of 20,000 shares of Common Stock, of which 900 shares are issued and outstanding and 100 shares are held in treasury. All of the EWI Inc.'s issued and outstanding shares: (A) have been duly authorized and are validly issued, fully paid, and nonassessable, (B) were issued in compliance with all applicable New York and federal securities laws, (C) were not issued in breach of any Commitments, and (D) are held of record and owned beneficially by the Sellers. EWI Inc. has no Commitments outstanding and has no obligation to issue any Commitments. No additional Commitments will arise in connection with the transactions contemplated by this Agreement. Other than as provided in the Shareholders' Agreement, there are no contracts with respect to the voting or transfer of the EWI Inc.'s Equity Interests. EWI Inc. is not obligated to redeem or otherwise acquire any of its outstanding Equity Interests.

(ii) All of the EWI Ltd.'s issued and outstanding Membership Interests: (A) have been duly authorized and are validly issued, fully paid, and nonassessable, (B) were issued in compliance with all applicable Nevada and federal securities laws, (C) were not issued in breach of any Commitments, and (D) are held of record and owned beneficially by the Sellers. EWI Ltd. has no Commitments outstanding and has no obligation to issue any Commitments. No additional Commitments will arise in connection with the transactions contemplated by this Agreement. Other than as provided in the Operating Agreement, there are no contracts with respect to the voting or transfer of the EWI Ltd.'s Membership Interests. EWI Ltd. is not obligated to redeem or otherwise acquire any of its outstanding Membership Interests.

(e) Records. The copies of the Companies' Organizational Documents that were made available to the Purchaser are accurate and complete and reflect all amendments made through the date hereof. The Companies' minute books and other records made available to the Purchaser for review were correct and complete as of the date of such review, no further entries have been made through the date of this Agreement, such minute books and records contain the true signatures of the persons purporting to have signed them, and such minute books and records contain an accurate record of all actions of the stockholders, directors, members, managers, or other such representatives of the Companies taken by written consent, at a meeting, or otherwise since formation.

(f) Company Subsidiaries. Neither Company owns or has ever owned any Equity Interests in any Person.

(g) Financial Statements. Set forth on Schedule 7(g) are the following financial statements (collectively the "Companies' Financial Statements"):

(i) audited combined balance sheets and statements of income, changes in stockholders' equity, and cash flow as of and for the fiscal year ended December 31, 2000 (the "Most Recent Year End") for the Companies; and

(ii) unaudited combined statements of income for the ten months ended October 31, 2001 (the "Interim Financial Statements") and the respective balance sheets of EWI Inc. and EWI Ltd. as of and for the ten months ended October 31, 2001 (the "Balance Sheet Date") for the Companies.

The Financial Statements have been prepared on the income tax basis of accounting applied on a consistent basis throughout the periods covered thereby, present fairly the financial condition of the Companies as of such dates and the results of operations of the Companies for such periods on the income tax basis of accounting, are correct and complete, and are consistent with the books and records of the Companies; provided, however, that the Interim Financial Statements are subject to normal year-end adjustments (which will not be material individually or in the aggregate) and lack footnotes and other presentation items. Since the Balance Sheet Date neither Company has effected any change in any method of accounting or accounting practice.

(h) Subsequent Events. Since the Balance Sheet Date the Companies have operated in the Ordinary Course of Business and, as of the date hereof, there have been no events, series of events or the lack of occurrence thereof, which singularly or in the aggregate, could reasonably be expected to have a Material Adverse Effect. Without limiting the foregoing, since that date, none of the following has occurred:

(i) Neither Company has sold, leased, transferred, or assigned any assets other than for a fair consideration in the the Ordinary Course of Business and sales of assets have not exceeded $25,000 singularly or $50,000 in the aggregate.

(ii) Neither Company has entered into any contract (or series of related contracts) either involving more than $50,000 or outside the Ordinary Course of Business.

(iii) Neither Company has made any capital expenditure (or series of related capital expenditures) involving more than $25,000 individually, $50,000 in the aggregate or outside the Ordinary Course of Business.

(iv) Neither Company has made any capital investment in, any loan to, or any acquisition of the securities or assets of, any other Person involving more than $25,000 singularly, $50,000 in the aggregate or outside the Ordinary Course of Business.

(v) Neither Company has issued any note, bond, or other debt security or created, incurred, assumed, or guaranteed any liability for borrowed money or capitalized lease contract either involving more than $25,000 individually or $50,000 in the aggregate.

(vi) Neither Company has canceled, compromised, waived, or released any Action (or series of related Actions) either involving more than $50,000 or outside the Ordinary Course of Business.

(vii) There has been no change made or authorized to be made to the Organizational Documents of either Company.

(viii) Neither Company has issued, sold, or otherwise disposed of any of its Equity Interests.

(ix) Neither Company has made any loan to, or entered into any other transaction with, any of its directors, officers, employees, shareholders, managers or members, as applicable.

(x) Neither Company has paid any dividend or made any distribution, whether in cash, evidence of indebtedness, Equity Interests or other securities or property.

(xi) There has not been any other occurrence, event, incident, action, failure to act, or transaction with respect to the Companies outside the Ordinary Course of Business.

(i) Legal Compliance. The Companies and their respective predecessors and Affiliates have complied with all applicable laws and no Action is pending or, to the Knowledge of the Sellers, threatened (and there is no basis therefor) against it alleging any failure to so comply, in each case that would have a Material Adverse Effect. No material expenditures are, or based on applicable law, will be required of either Company for it and its business and operations to remain in compliance with applicable law.

(j) Tax Matters.

(i) Each Company has filed all tax returns that it was required to file. All such tax returns were accurate, correct and complete in all respects and accurately reflect the facts regarding the income, business, assets, operations, activities, status, or other matters of each Company or any other information required to be shown thereon. All taxes each Company owes (whether or not shown on any tax return) have been paid or are being legally contested and any such contest has been expressly disclosed in writing to the Purchaser. Neither Company currently is the beneficiary of any extension of time within which to file any tax return. No Action has ever been initiated or, to the Knowledge of the Sellers, threatened by a Governmental Body in a jurisdiction where a Company does not file tax returns that it is or may be subject to taxation by that jurisdiction. There are no encumbrances on any of the assets of either Company that arose in connection with any failure (or alleged failure) to pay any tax.

(ii) Each Company has withheld and paid all taxes required to have been withheld and paid in connection with amounts paid or owed to any employee, independent contractor, creditor, holder of its Equity Interests, or other third party.

(iii) To the Knowledge of the Sellers, there is no threatened assessment of, or any basis for, any additional taxes for any period for which tax returns have been filed. There is no Action concerning any tax liability of a Company either (A) claimed or raised in writing or (B) as to which either Seller has Knowledge.

(iv) Neither Company has waived any statute of limitations in respect of taxes or agreed to any extension of time with respect to a tax assessment or deficiency.

(v) Each Company has disclosed on its tax returns all positions taken therein that could give rise to a substantial understatement of federal income tax within the meaning of Code Section 6662.

(vi) Neither Company is a party to any tax allocation or sharing contract.

(k) Title to and Condition of Assets. The Companies have good and indefeasible title to, or a valid leasehold interest in, all buildings, machinery, equipment, and other tangible assets (i) located on their premises, shown on the Interim Financial Statements, or acquired after the Balance Sheet Date and (ii) necessary for the conduct of their business as currently conducted, in each case free and clear of all encumbrances, except for properties and assets disposed of in the Ordinary Course of Business since the Balance Sheet Date. Each such tangible asset is free from material defects (patent and latent), has been maintained in accordance with normal industry practice, is in good operating condition (subject to normal wear and tear), and is suitable for the purposes for which it is currently used.

(l) Real Property.

(i) Neither Company owns or has ever owned any real property.

(ii) With respect to each lease and sublease contract for all real property leased or subleased to each Company:

(A) the contract is enforceable;

(B) the contract will continue to be enforceable on identical terms following the consummation of the transactions contemplated by this Agreement;

(C) neither Company is in material breach of such contract, and no event has occurred which, with notice or lapse of time, would constitute a material breach thereunder;

(D) no party to the contract has repudiated any provision thereof;

(E) there are no actions, orders, or forbearances in effect as to the contract;

(F) neither Company has granted or suffered to exist any encumbrance in the leasehold or subleasehold contract that is filed of record;

(G) to the Knowledge of the Sellers, all facilities leased or subleased under the contract have received all permits required in connection with the operation thereof and have been operated and maintained in accordance with applicable laws in all material respects; and

(H) all facilities leased or subleased under the contract are supplied with utilities and other services necessary for the operation of such facilities.

(m) Contracts. Neither Company is a party to :

(i) Any contract (or group of related contracts) for the lease of personal property to or from any Person providing for lease payments in excess of $50,000 per annum other than as specifically disclosed in the Companies' Financial Statements.

(ii) Any contract (or group of related contracts) for the purchase or sale of raw materials, commodities, supplies, products, or other personal property, or for the furnishing or receipt of services (other than pursuant to reinsurance contracts and brokerage sharing agreements), the performance of which will extend over a period of more than one year, result in a Material Adverse Effect, or involve consideration in excess of $100,000.

(iii) Any contract concerning a limited liability company, partnership, joint venture or similar arrangement, other than Organizational Documents of such Company.

(iv) Any contract (or group of related contracts) under which it has created, incurred, assumed, or guaranteed any liability for borrowed money or any capitalized lease in excess of $150,000, or under which it has imposed or suffered to exist an encumbrance on any of its assets other than purchase money liens, unrecorded inchoate liens, or as specifically disclosed in the Companies' Financial Statements.

(v) Any contract concerning confidentiality or noncompetition other than with respect to present or past employees of the Companies.

(vi) Except as specifically disclosed in the Companies' Financial Statements, any profit sharing, stock option, stock purchase, stock appreciation, deferred compensation, severance, or other similar contract for the benefit of its current or former directors, officers, and employees.

(vii) Any contract for the employment of any individual on a full-time, part-time, consulting, or other basis providing annual compensation (excluding any health and welfare benefits and discretionary performance bonuses) in excess of $170,000 per annum or any contract(s), plan(s) or commitment(s) providing severance benefits in the aggregate for any employee of $150,000 or $250,000 in the aggregate for all employees.

(viii) Any contract under which it has advanced or loaned any amount to any of its directors or officers or either Seller or Affiliate of either Seller or, outside the Ordinary Course of Business, to its employees that are not Sellers or Affiliates of either Seller, other than as specifically disclosed in the Companies' Financial Statements.

(ix) Any other contract the performance of which involves receipt or payment of consideration in excess of $250,000 per annum.

(n) Insurance. Each Company has been covered during the past five years by insurance in scope and amount customary and reasonable for the businesses in which it has engaged during the aforementioned period.

(o) Litigation. Neither of the Companies (i) is subject to any outstanding order or (ii) is a party, the subject of, or to the Knowledge of the Sellers is threatened to be made a party to or the subject of any Action. No Action questions the enforceability of this Agreement or the transactions contemplated hereby, or could result in any Material Adverse Effect, and the Sellers have no Knowledge that any such Action may be brought or threatened against either Company.

(p) Labor; Employees. To each Seller's Knowledge, no executive, key employee, or group of employees has any plans to terminate employment with either Company. Neither Company is a party to or bound by any collective bargaining contract, nor has either of them experienced any strikes, grievances, claims of unfair labor practices, or other collective bargaining disputes. Neither Company has committed any unfair labor practice (as determined under any law). Neither Seller has any Knowledge of any organizational effort currently being made or threatened by or on behalf of any labor union with respect to either Company's employees.

(q) Employee Benefits. With respect to any employee benefit plan, within the meaning of Section 3(3) of ERISA, which is subject to ERISA and which is sponsored, maintained or contributed to, or has been sponsored, maintained or contributed to, within six years prior to the Closing Date, by either Company or any ERISA Affiliate, (i) no withdrawal liability, within the meaning of Section 4201 of ERISA, has been incurred, which withdrawal liability has not been satisfied, (ii) no liability to the PBGC has been incurred by either Company or any ERISA Affiliate, which liability has not been satisfied, (iii) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the Code has been incurred, and (iv) all contributions (including installments) to such plan required by Section 302 of ERISA and Section 412 of the Code have been timely made. With respect to any kind of employee benefit plan, such plan has been funded and maintained in material compliance with all laws applicable thereto and the requirements of such plan's governing documents.

(r) Environmental, Health, and Safety Matters. To the Knowledge of the Sellers, (i) each Company is in material compliance with all Environmental, Health and Safety Requirements in connection with owning, using, maintaining, or operating its business or assets; (ii) each location at which either Company operates, or has operated, its business is in compliance with all Environmental, Health and Safety Requirements; and (iii) there are no pending, or any threatened allegations by any Person that either Company's properties or assets is not, or that its business has not been conducted, in compliance with all Environmental, Health and Safety Requirements.

(s) Customers. The Companies have not received any notice of termination of the broker of record designation or brokerage sharing arrangements or an intention to terminate such relationships with the Companies from any customer, the effect of which would be to cause the Companies to achieve combined revenues below $3.4 million for the calendar year 2001 as reflected in the Companies' combined budget previously provided to Purchaser.

(t) Permits. The Companies possess all material permits required for their businesses and operations. With respect to each such permit:

(i) it is valid, subsisting and in full force and effect;

(ii) there are no material violations of such permit that would result in a termination of such permit;

(iii) neither Company has received written notice that such permit will not be renewed; and

(iv) the transactions contemplated by this Agreement will not adversely affect the validity of such permit or cause a cancellation of or otherwise adversely affect such permit.

(u) Foreign Corrupt Practices Act Compliance. Neither Seller nor either Company has, directly or indirectly, in connection with the Companies' businesses, made or agreed to make any payment to any Person connected with or related to any Governmental Body, except payments or contributions required or allowed by applicable law. The internal accounting controls and procedures of the Companies are sufficient to cause the Companies to comply with the Foreign Corrupt Practices Act.

Section 8. Indemnification.

(a) Survival of Representations and Warranties. Each representation and warranty contained in this Agreement and any certificate related to such representations and warranties will survive the Closing and continue in full force and effect for a period of one year thereafter, except with respect to representations and warranties contained in Section 7 (j), which Section 7(j) representations and warranties shall survive the closing and continue in full force and effect for the applicable statute of limitations. The Purchaser on the one hand, and the Sellers jointly and severally on the other, will be liable for all damages, losses, liabilities, payments, amounts paid in settlement, obligations, fines, penalties, and other costs (including reasonable and necessary fees and expenses of outside attorneys, accountants and other professional advisors and of expert witnesses) and other costs of litigation in connection with any Action (collectively "Damages") resulting from any breaches thereof.

(b) Indemnification Provisions for the Purchaser's Benefit. The Sellers will, on a joint and several basis, indemnify and hold the Purchaser and its officers, directors, managers, employees, agents, representatives, controlling Persons, and stockholders (collectively, the "Seller Indemnified Parties"), harmless from and pay any and all Damages, directly or indirectly, resulting from, relating to, arising out of, or attributable to any one of the following:

(i) Any breach of any representation or warranty either Seller has made in this Agreement as if such representation or warranty were made on and as of the Closing Date.

(ii) Any breach by either Seller of any obligation of either Seller in this Agreement.

(iii) Any and all taxes that may be imposed on or assessed on either of the Companies or the assets thereof with respect to all taxable periods ending on or prior to the closing date.

(c) Indemnification Provisions for the Sellers' Benefit. The Purchaser will indemnify and hold the Sellers and their officers, directors, managers, employees, agents, representatives, controlling Persons, stockholders, members and Affiliates (other than Purchaser and its subsidiaries), as applicable (collectively, the "Purchaser Indemnified Parties"), harmless from and pay any and all Damages, directly or indirectly, resulting from, relating to, arising out of, or attributable to any of the following:

(i) Any breach of any representation or warranty the Purchaser has made in this Agreement as if such representation or warranty were made on and as of the Closing Date without giving effect to any supplement to the Schedules.

(ii) Any breach by the Purchaser of any covenant or obligation of the Purchaser in this Agreement.

(d) Indemnification Claim Procedures.

(i) If any third party notifies any Indemnified Party with respect to the commencement of any Action that may give rise to a claim for indemnification against any Indemnitor under this Section 8 (an "Indemnification Claim"), then the Indemnified Party will promptly give notice to the Indemnitor pursuant to Section 8(e).

(ii) An Indemnitor will have the right at any time to assume and thereafter conduct the defense of the Indemnification Claim with counsel of the Indemnitor's choice reasonably satisfactory to the Indemnified Party; provided, however, the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Indemnification Claim without the prior written consent of the Indemnitor (not to be withheld unreasonably).

(iii) Unless and until an Indemnitor assumes the defense of the Indemnification Claim as provided in Section 8(d)(ii), the Indemnitor may defend against the Indemnification Claim in any manner the Indemnitor reasonably may deem appropriate.

(iv) In no event will the Indemnified Party consent to the entry of any judgment or enter into any settlement with respect to the Indemnification Claim without the prior written consent of the Indemnitor (not to be withheld unreasonably).

(e) Notice of Claim. A party having Knowledge of an event or condition that may cause such party to be Damaged, which event or condition gives or could give rise to a claim for indemnification under this Section 8, shall promptly notify each other party thereof in writing (a "Claim Notice"). The Claim Notice shall contain a brief description of the nature of the Damages suffered and, if practicable, an aggregate dollar value estimate of the Damages suffered. Failure to provide a Claim Notice with respect to such an event or condition within the applicable survival period in Section 8(a) will constitute a waiver of any such claim.

(f) Limitations on Indemnification Liability. Any claims made by any Indemnified Party under this Section 8 will be limited as follows:

(i) Sellers' aggregate liability for Damages under this Agreement related to breaches of the representations, warranties, and covenants herein will not exceed an amount equal to $1,000,000, except with respect to breaches of representations and warranties contained in Section 7(j) and except with respect to Section 8(b)(iii) herein where Seller's aggregate liability for Damages under this Agreement shall be without limit.

(ii) No party will have any liability for Damages related to breaches of the representations, warranties, and covenants in this Agreement unless and until the aggregate Damages claimed under Section 8(e) exceeds $50,000 (the "Threshold Amount"); provided, however, once such amount exceeds the Threshold Amount, the Indemnified Party will be entitled to recover all amounts to which it is entitled relating back to the first dollar of Damages, without regard to the Threshold Amount.

(iii) The amount required to be paid for Damages will be reduced to the extent of (A) any amounts an Indemnified Party actually receives pursuant to the terms of the insurance policies (if any) covering such Indemnification Claim (and the Indemnified Party shall use all reasonable efforts to effect any such recovery) and (B) any income tax benefit actually realized by the Indemnified Party related to such Indemnification Claim.

(iv) All indemnification obligations under this Section 8 will be limited to actual Damages and will exclude incidental, consequential, lost profits, indirect, punitive, or exemplary Damages.

(g) Other Indemnification Provisions.

(i) This Section 8 contains the sole and exclusive remedy for any claim against the Purchaser or either Seller with respect to claims under this Agreement after the Closing.

(ii) A claim for any matter not involving a third party may be asserted by notice to the party from whom indemnification is sought.

Section 9. Miscellaneous.

(a) Transfer Taxes. Each Seller and Purchaser agrees to each pay one-third of any transfer tax applicable to the transfer of its respective shares of Common Stock and Membership Interests hereunder.

(b) Binding Effect, Benefits. This Agreement shall inure to the benefit of the parties and shall be binding upon the parties and their respective heirs, successors and permitted assigns.

(c) Notices. All notices and other communications that are required to be or may be given under this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person or transmitted by confirmed telecopy or upon receipt after dispatch by overnight courier or by certified or registered mail, postage prepaid, to the party to whom the notice is given. Notices shall be given to the addresses appearing below such party's signature to this Agreement or to such other address as such party may designate by giving notice to the other parties to this Agreement.

(d) Entire Agreement; Amendment. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, oral and written, among the parties with respect to its subject matter and may not be amended, modified or terminated unless done so in a written instrument executed by the party or parties sought to be bound.

(e) Headings. The captions used in this Agreement are for the convenience of the parties and shall not affect the interpretation of this Agreement.

(f) Attorneys' Fees. If any suit or action is instituted relating to this Agreement, the prevailing party (the finality of which is not reasonably contested) shall be awarded all reasonable attorney fees incurred at trial and on any appeal.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the 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.

(h) Severability. The invalidity of all or any part of any section if this Agreement shall not render invalid the remainder of this Agreement or the remainder of such section. If any provision of this Agreement is so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

(i) Further Assurances. In addition to the acts and deeds recited herein and contemplated to be performed, executed and delivered by the parties hereto, the parties hereto shall perform, execute and deliver or cause to be performed, executed and delivered at the Closing or thereafter any and all further acts, deeds and assurances as may reasonably be required to consummate or evidence the consummation of the transactions contemplated herein.

(j) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(k) Assignments. No party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of each other party; provided, however, that the Purchaser may (i) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (ii) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases the Purchaser nonetheless will remain responsible for the performance of all of its obligations hereunder).

(l) Expenses. Except as otherwise expressly provided in this Agreement, each party will bear its own costs and expenses incurred in connection with the preparation, execution and performance of this Agreement and the transactions contemplated hereby, including all fees and expenses of agents, representatives, financial advisors, legal counsel and accountants. The Sellers agree that neither Company has borne or will bear any costs and expenses (including any legal fees and expenses of either Seller) in connection with this Agreement or any of the transactions contemplated hereby.

(m) Construction. The parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties and no presumption or burden of proof will arise favoring or disfavoring any party because of the authorship of any provision of this Agreement. Any reference to any federal, state, local, or foreign law will be deemed also to refer to law as amended and all rules and regulations promulgated thereunder, unless the context requires otherwise, words "include," "includes," and "including" will be deemed to be followed by "without limitation." Pronouns in masculine, feminine, and neuter genders will be construed to include any other gender, and words in the singular form will be construed to include the plural and vice versa, unless the context otherwise requires. The words "this Agreement," "herein," "hereof," "hereby," "hereunder," and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The parties intend that each representation, warranty, and covenant contained herein will have independent significance. If any party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the party has not breached will not detract from or mitigate the fact that the party is in breach of the first representation, warranty, or covenant.

(n) Remedies. Except as expressly provided herein, the rights, obligations and remedies created by this Agreement are cumulative and in addition to any other rights, obligations, or remedies otherwise available at law or in equity. Except as expressly provided herein, nothing herein will be considered an election of remedies.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

PURCHASER: KRONOS, INC.

By:/s/ Robert D. Hardy

Name: Robert D. Hardy

Title: Vice President & Assistant Treasurer

By: THE SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS OF NL INDUSTRIES, INC. ESTABLISHED BY UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS AS OF AUGUST 2, 2001 TO APPROVE, IF APPROPRIATE, THE ACQUISITION OF THE EQUITY INTERESTS OF EWI RE, INC. AND EWI RE, LTD.

By:/s/ Kenneth R. Peak

Kenneth R. Peak, Chairman

Address: Two Greenspoint Plaza
Suite 1200
16825 Northchase Drive
Houston, Texas 77060
FAX: 281.423.3216

BIG BEND HOLDINGS LLC

By:/s/ Lisa A. Epstein
Lisa Simmons Epstein, Sole Member

Address: Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240
FAX: 972.448.1445

CONTRAN INSURANCE HOLDINGS, INC.

By:/s/ Bobby D. O'Brien

Bobby D. O'Brien, Vice President

Address: Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240
FAX: 972.448.1445

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME OF CORPORATION	Jurisdiction of incorporation or organization	% of Voting Securities Held
Kronos, Inc.	Delaware	100
Kronos (US) Inc.	Delaware	100
Kronos International, Inc.	Delaware	100
Kronos Titan GmbH & Co. OHG	Germany	100(b)
Unterstutzungskasse Kronos Titan-GmbH	Germany	100
Kronos Chemie-GmbH	Germany	100
Kronos World Services S.A./N.V.	Belgium	100
Kronos Canada, Inc.	Canada	100
Societe Industrielle du Titane, S.A.	France	94
Kronos Limited	United Kingdom	100
Kronos Denmark ApS	Denmark	100
Kronos Europe S.A./N.V.	Belgium	100
Kronos B.V.	Holland	100
Kronos Norge A/S	Norway	100
Kronos Titan A/S	Norway	100
The Jossingfjord Manufacturing Company A/S	Norway	100
Titania A/S	Norway	100
Kronos Invest A/S	Norway	100
Titania Invest A/S	Norway	100
Kronos Louisiana, Inc.	Delaware	100
Louisiana Pigment Company, L.P.	Delaware	50(a)
Other:		
NL Industries (USA), Inc.	Texas	100
NLO, Inc.	Ohio	100
Salem Lead Company	Massachusetts	100
Sayre & Fisher Land Company	New Jersey	100
153506 Canada Inc.	Canada	100
NL Industries Chemie, GmbH	Germany	100
Tremont Holdings, LLC	Delaware	100
NL Environmental Management Services, Inc.	New Jersey	78(c)
EMS Financial, Inc.	Delaware	78(c)
The 1230 Corporation	California	100
United Lead Company	New Jersey	100

(a) Unconsolidated joint venture accounted for by the equity method.

(b) On October 1, 2001, Kronos Titan GmbH & Co. OHG merged into NL Industries GmbH & Co. OHG. NL Industries GmbH & Co. OHG changed its name to Kronos Titan GmbH & Co. OHG.

(c) Registrant directly owns 56% and indirectly owns 22% via 153506 Canada, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the:

(i) Registration Statement No. 33-29287 on Form S-8 and related Prospectus with respect to the 1989 Long Term Performance Incentive Plan of NL Industries, Inc.; and

(ii) Registration Statement No. 33-25913 on Form S-8 and related Prospectus with respect to the NL Industries, Inc. Retirement Savings Plan; and

(iii) Registration Statement No. 333-65817 on Form S-8 and related Prospectus with respect to the NL Industries, Inc. 1998 Long-Term Incentive Plan; and

(iv) Registration Statement No. 33-48145 on Form S-8 and related Prospectus with respect to the NL Industries, Inc. 1992 Non-Employee Directors Stock Option Plan.

of our report dated March 1, 2002 on our audits of the consolidated financial statements and financial statement schedules of NL Industries, Inc. as of December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Houston, Texas
March 14, 2002