

NL INDUSTRIES, INC.

Form 10-Q

For the quarter ended September 30, 1994
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 - For the quarter ended September 30, 1994

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
(State or other jurisdiction of
incorporation or organization)

13-5267260
(IRS Employer
Identification No.)

Two Greenspoint Plaza, 16825 Northchase Dr., Suite 1200, Houston, TX 77060-2544
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (713) 423-3300

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

Number of shares of common stock outstanding on November 7, 1994: 51,042,443

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 1993	September 30, 1994
Current assets:		
Cash and cash equivalents	\$ 106,593	\$ 194,086
Marketable securities	41,045	25,474
Accounts and notes receivable	116,355	150,767
Refundable income taxes	386	9,797
Inventories	194,167	167,812
Prepaid expenses	5,637	9,461
Deferred income taxes	3,315	3,704
Total current assets	467,498	561,101
Other assets:		
Marketable securities	18,428	20,549
Refundable income taxes	91,994	-
Investment in joint ventures	190,787	188,383
Prepaid pension cost	16,307	19,066
Other	42,932	39,349
Total other assets	360,448	267,347
Property and equipment:		
Land	18,237	20,345
Buildings	129,582	142,306
Machinery and equipment	515,090	570,952
Mining properties	72,711	77,313
Construction in progress	30,050	39,369
	765,670	850,285
Less accumulated depreciation and depletion	387,067	441,169
Net property and equipment	378,603	409,116
	\$1,206,549	\$1,237,564

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND SHAREHOLDERS' DEFICIT	December 31,	September 30,
---------------------------------------	--------------	---------------

	1993	1994
Current liabilities:		
Current maturities of long-term debt	\$ 35,716	\$ 43,316
Accounts payable and accrued liabilities	177,265	192,467
Payable to affiliates	9,566	10,605
Income taxes	6,353	7,204
Deferred income taxes	3,623	2,392
Total current liabilities	232,523	255,984
Noncurrent liabilities:		
Long-term debt	835,169	790,990
Deferred income taxes	138,977	204,576
Accrued pension cost	72,606	79,503
Accrued postretirement benefits cost	68,322	65,946
Other	121,309	132,891
Total noncurrent liabilities	1,236,383	1,273,906
Minority interest	2,438	2,892
Shareholders' deficit:		
Common stock	8,355	8,355
Additional paid-in capital	759,281	759,281
Adjustments:		
Currency translation	(115,803)	(122,699)
Pension liabilities	(3,442)	(3,442)
Marketable securities	(2,164)	(519)
Accumulated deficit	(543,059)	(569,538)
Treasury stock	(367,963)	(366,656)
Total shareholders' deficit	(264,795)	(295,218)
	\$1,206,549	\$1,237,564

[FN]

Commitments and contingencies (Note 13)

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

	Three months ended September 30,		Nine months ended September 30,	
	1993	1994	1993	1994
Revenues and other income:				
Net sales	\$202,096	\$225,200	\$621,992	\$664,162
Other, net	4,474	8,365	14,851	36,579
	206,570	233,565	636,843	700,741
Costs and expenses:				
Cost of sales	156,894	168,033	471,071	493,914
Selling, general and administrative	42,527	47,162	138,166	157,423
Interest	23,211	20,923	75,963	63,059
	222,632	236,118	685,200	714,396
Loss before income taxes and minority interest	(16,062)	(2,553)	(48,357)	(13,655)
Income tax expense	(2,502)	(1,901)	(11,357)	(12,204)
Loss before minority interest	(18,564)	(4,454)	(59,714)	(25,859)
Minority interest	(158)	(124)	(500)	(620)
Net loss	\$ (18,722)	\$ (4,578)	\$ (60,214)	\$ (26,479)

Net loss per share of common stock	\$ (.37)	\$ (.09)	\$ (1.18)	\$ (.52)
Weighted average common shares outstanding	50,890	51,040	50,890	51,014

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT
Nine months ended September 30, 1994

(In thousands)

	Common stock	Additional paid-in capital	Currency translation	Adjustments Pension liabilities	Marketable securities
Balance at December 31, 1993	\$8,355	\$759,281	\$(115,803)	\$(3,442)	\$(2,164)
Net loss	-	-	-	-	-
Adjustments	-	-	(6,896)	-	1,645
Other, net	-	-	-	-	-
Balance at September 30, 1994	\$8,355	\$759,281	\$(122,699)	\$(3,442)	\$(519)

	Accumulated deficit	Treasury stock	Total
Balance at December 31, 1993	\$(543,059)	\$(367,963)	\$(264,795)
Net loss	(26,479)	-	(26,479)
Adjustments	-	-	(5,251)
Other, net	-	1,307	1,307
Balance at September 30, 1994	\$(569,538)	\$(366,656)	\$(295,218)

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine months ended September 30, 1993 and 1994

(In thousands)

	1993	1994
Cash flows from operating activities:		
Net loss	\$(60,214)	\$(26,479)
Adjustments:		
Depreciation, depletion and amortization	38,123	26,752
Deferred income taxes	(1,045)	35,479
Other, net	(1,528)	(2,458)
	(24,664)	33,294
Change in assets and liabilities:		
Accounts and notes receivable	(21,097)	(24,721)
Inventories	4,811	37,605
Prepaid expenses	(2,422)	(2,384)
Accounts payable and accrued liabilities	1,629	14,610
Income taxes	2,715	89,285

Other, net	12,024	24,911
Marketable trading securities, net	-	14,262
Net cash provided (used) by operating activities	(27,004)	186,862
Cash flows from investing activities:		
Capital expenditures	(33,518)	(25,061)
Marketable securities:		
Purchases	(1,949)	-
Dispositions	70,335	-
Proceeds from disposition of property and equipment	275	182
Investment in joint ventures, net	-	2,600
Other, net	623	381
Net cash provided (used) by investing activities	35,766	(21,898)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Nine months ended September 30, 1993 and 1994

(In thousands)

	1993	1994
Cash flows from financing activities:		
Notes payable and long-term debt:		
Additions	\$ 7,493	\$ 45,192
Principal payments	(30,108)	(129,553)
Deferred financing costs	(745)	(687)
Distributions to minority interest	(33)	(202)
Net cash used by financing activities	(23,393)	(85,250)
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(14,631)	79,714
Currency translation	(1,523)	7,779
Balance at beginning of period	87,333	106,593
Balance at end of period	\$ 71,179	\$ 194,086
Supplemental disclosures - cash paid (received) for:		
Interest, net of amounts capitalized	\$ 75,213	\$ 43,251
Income taxes	10,040	(112,066)

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

NL Industries, Inc. is primarily a holding company and conducts its operations through its wholly-owned subsidiaries, Kronos, Inc. (titanium dioxide pigments, or "TiO2") and Rheox, Inc. (specialty chemicals). At September 30, 1994, Valhi, Inc. held approximately 49% of NL's outstanding common stock and Tremont Corporation, a 48%-owned affiliate of Valhi, held an additional 18% of NL's outstanding common stock. Together, Tremont and Valhi may be deemed to control NL. Contran Corporation holds, directly or through subsidiaries, approximately 90% of Valhi's outstanding common stock.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 1993 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at September 30, 1994 and the consolidated statements of operations, shareholders' deficit and cash flows for the interim periods ended September 30, 1993 and 1994, have been prepared by the Company, without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Certain prior-year amounts have been reclassified to conform to the 1994 presentation. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (the "1993 Annual Report").

NOTE 2 - LOSS PER SHARE OF COMMON STOCK:

Loss per share of common stock is based on the weighted average number of common shares outstanding. Common stock equivalents are excluded from the computation because they are antidilutive.

NOTE 3 - BUSINESS SEGMENT INFORMATION:

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

	Three months ended September 30,		Nine months ended September 30,	
	1993	1994	1993	1994
	(In thousands)			
Net sales:				
Kronos	\$174,008	\$194,146	\$539,286	\$574,813
Rheox	28,088	31,054	82,706	89,349
	\$202,096	\$225,200	\$621,992	\$664,162
Operating income:				
Kronos	\$ 5,728	\$ 18,746	\$ 30,414	\$ 51,769
Rheox	7,045	8,347	20,630	23,879
	12,773	27,093	51,044	75,648
General corporate income (expense):				
Securities earnings, net	1,514	1,254	5,682	2,097
Corporate expenses, net	(7,138)	(9,977)	(29,120)	(28,341)
Interest expense	(23,211)	(20,923)	(75,963)	(63,059)
	\$ (16,062)	\$ (2,553)	\$ (48,357)	\$ (13,655)

NOTE 4 - INVENTORIES:

	December 31, 1993	September 30, 1994
	(In thousands)	
Raw materials	\$ 19,785	\$ 25,887
Work in process	7,173	6,655
Finished products	135,102	99,475
Supplies	32,107	35,795
	\$194,167	\$167,812

NOTE 5 - MARKETABLE SECURITIES AND SECURITIES TRANSACTIONS:

	December 31, 1993	September 30, 1994
	(In thousands)	
Current - U.S. Treasury securities:		
Unrealized gains (losses)	\$ 52	\$ (819)
Cost	40,993	26,293
Aggregate market	\$41,045	\$25,474
Noncurrent - marketable equity securities:		
Unrealized gains	\$ 33	\$ 2,296
Unrealized losses	(2,951)	(3,093)
Cost	21,346	21,346
Aggregate market	\$18,428	\$20,549

The Company has classified its U.S. Treasury securities as trading securities and its marketable equity securities as available-for-sale.

Net gains and losses from securities transactions are composed of:

	Three months ended September 30,		Nine months ended September 30,	
	1993	1994	1993	1994
	(In thousands)			
Unrealized gains (losses):				
Marketable equity securities	\$ 323	\$ -	\$ 387	\$ -
Other securities	128	-	414	(871)
Realized gains (losses) - other securities	104	(96)	1,736	(438)
	\$ 555	\$ (96)	\$2,537	\$ (1,309)

NOTE 6 - INVESTMENT IN JOINT VENTURES:

	December 31, 1993	September 30, 1994
	(In thousands)	
TiO2 manufacturing joint venture	\$188,031	\$185,546
Other	2,756	2,837
	\$190,787	\$188,383

NOTE 7 - OTHER NONCURRENT ASSETS:

	December 31, 1993	September 30, 1994
	(In thousands)	
Intangible assets, net	\$15,317	\$14,786
Deferred financing costs, net	18,954	16,847
Other	8,661	7,716
	\$42,932	\$39,349

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	December 31, 1993	September 30, 1994
	(In thousands)	

Accounts payable	\$ 89,010	\$ 72,114
Accrued liabilities:		
Employee benefits	32,350	38,461
Environmental costs	14,517	24,548
Interest	6,933	13,877
Miscellaneous taxes	2,240	1,018
Other	32,215	42,449
	88,255	120,353
	\$177,265	\$192,467

NOTE 9 - OTHER NONCURRENT LIABILITIES:

	December 31, 1993 (In thousands)	September 30, 1994
Environmental costs	\$ 70,789	\$ 83,449
Deferred technology fee income	26,881	20,905
Insurance claims and expenses	10,299	15,601
Employee benefits	10,084	11,809
Other	3,256	1,127
	\$121,309	\$132,891

NOTE 10 - LONG-TERM DEBT:

	December 31, 1993 (In thousands)	September 30, 1994
NL Industries:		
11.75% Senior Secured Notes	\$250,000	\$250,000
13% Senior Secured Discount Notes	102,627	112,762
	352,627	362,762
Kronos:		
DM bank credit facility (DM 548,000 and DM 455,206)	316,032	294,609
Joint venture term loan	104,143	92,572
5% to 8% bank loans payable through 2000	12,338	10,606
Other	2,175	1,656
	434,688	399,443
Rheox:		
Bank term loan	82,500	71,250
Other	1,070	851
	83,570	72,101
	870,885	834,306
Less current maturities	35,716	43,316
	\$835,169	\$790,990

NOTE 11 - INCOME TAXES:

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

Nine months ended
September 30,
1993 1994

(In thousands)

Expected tax benefit	\$ 16,925	\$ 4,779
Non-U.S. tax rates	10,886	3,838
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return	(2,071)	(982)
Rate change adjustment of deferred taxes	(6,811)	-
Valuation allowance	(29,888)	(18,987)
U.S. state income taxes	(417)	(410)
Other, net	19	(442)
Income tax expense	\$ (11,357)	\$ (12,204)

NOTE 12 - OTHER INCOME, NET:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	1993	1994	1993	1994
	(In thousands)			
Securities earnings:				
Interest and dividends	\$ 959	\$1,350	\$ 3,145	\$ 3,406
Securities transactions	555	(96)	2,537	(1,309)
	1,514	1,254	5,682	2,097
Litigation settlement gains	-	1,200	-	21,240
Technology fee income	-	2,519	-	7,781
Royalty income	377	413	1,438	1,433
Currency transaction gains, net	1,417	379	3,093	745
Disposition of property and equipment	(283)	(244)	(876)	(1,523)
Other, net	1,449	2,844	5,514	4,806
	\$4,474	\$8,365	\$14,851	\$36,579

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

For descriptions of certain legal proceedings, income tax and other commitments and contingencies related to the Company, reference is made to (i) Part II, Item 1 - "Legal Proceedings," (ii) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1994 and June 30, 1994 and (iii) the 1993 Annual Report.

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

RESULTS OF OPERATIONS

The Company's chemical operations are conducted in two business segments - TiO2 conducted by Kronos and specialty chemicals conducted by Rheox. The Company's return to profitability, and the timing thereof, are dependent in large part upon improved pricing for TiO2. The Company's results improved significantly during the first nine months of 1994, as discussed below, and the Company anticipates that TiO2 prices will further improve in 1995. The Company continues to expect to report a net loss for calendar 1994.

	Three months ended			Nine months ended		
	September 30,		% Change	September 30,		% Change
	1993	1994		1993	1994	
	(In millions)					
Net sales:						
Kronos	\$174.0	\$194.1	+12%	\$539.3	\$574.9	+7%
Rheox	28.1	31.1	+11%	82.7	89.3	+8%
	\$202.1	\$225.2	+11%	\$622.0	\$664.2	+7%
Operating income:						
Kronos	\$ 5.8	\$ 18.8	+227%	\$ 30.4	\$ 51.7	+70%
Rheox	7.0	8.3	+18%	20.6	23.9	+16%
	\$ 12.8	\$ 27.1	+112%	\$ 51.0	\$ 75.6	+48%

Percent changes in TiO2:		
Sales volume	+4%	+7%
Average selling prices (in billing currencies)	+6%	+1%

Kronos' TiO2 operating income in the third quarter and first nine months of 1994 increased from the comparable 1993 periods due to higher average selling prices, higher sales volumes, slightly lower per unit operating costs and higher technology fee income. As a result of improved pricing in all major markets, Kronos' average TiO2 selling prices in the third quarter of 1994 were 6% higher than the comparable period of 1993 and were 3% higher than the second quarter of 1994. A significant amount of sales are denominated in currencies other than the U.S. dollar, and fluctuations in the value of the U.S. dollar relative to other currencies increased the dollar value of sales for the third quarter of 1994 by \$4 million and decreased the dollar value of sales in the first nine months of 1994 by \$10 million compared to the 1993 periods. Rheox's operating results for both the third quarter and first nine months of 1994 improved compared to the 1993 periods primarily as a result of higher sales volumes and lower operating costs.

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

	Three months ended			Nine months ended		
	September 30, 1993	September 30, 1994	Difference	September 30, 1993	September 30, 1994	Difference
	(In millions)			(In millions)		
Securities earnings	\$ 1.5	\$ 1.3	\$ (.2)	\$ 5.7	\$ 2.1	\$ (3.6)
Corporate expenses, net	(7.1)	(10.0)	(2.9)	(29.1)	(28.3)	.8
Interest expense	(23.2)	(21.0)	2.2	(76.0)	(63.1)	12.9
	\$ (28.8)	\$ (29.7)	\$ (.9)	\$ (99.4)	\$ (89.3)	\$ 10.1

Year-to-date corporate expenses, net were lower as a \$20 million gain related to the first-quarter 1994 settlement of the Company's lawsuit against Lockheed Corporation was partially offset by increased provisions for environmental remediation and other costs. Interest expense declined due to lower debt outstanding and lower average interest rates on Deutsche mark-denominated debt, partially offset by the higher interest rates on the Company's Senior Notes.

The Company's operations are conducted on a worldwide basis. In both 1993 and 1994, the Company's income tax expense was impacted by losses in certain countries for which no current benefit is available and for which the Company believes recognition of a deferred tax asset is not currently appropriate.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the nine months ended September 30, 1993 and 1994 are presented below.

	Nine months ended	
	September 30, 1993	September 30, 1994
	(In millions)	
Net cash provided (used) by:		
Operating activities	\$ (27.0)	\$ 186.8
Investing activities	35.8	(21.9)
Financing activities	(23.4)	(85.2)
Net cash provided (used) by operating, investing and financing activities	\$ (14.6)	\$ 79.7

The TiO2 industry is cyclical, with the previous peak in selling prices in early 1990 and the latest trough in the third quarter of 1993. During the recent TiO2 down cycle, the Company's operations have used significant amounts

of cash. Receipt of the German tentative tax refund, discussed below, significantly increased the Company's cash flow from operating activities during the 1994 period and was a major factor in the Company's improved liquidity. The relative changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) also contributed to the cash provided by operations. Excluding the impact of the German tentative tax refund, the Company expects cash provided by operations for calendar 1994 will be lower than that provided for the nine-month period due to, among other things, certain seasonal working capital fluctuations and the timing of interest payments on the Senior Notes. The Company has taken and continues to take measures to manage its near-term and long-term liquidity requirements, including cost reduction efforts, tightening of controls over working capital, the formation of a TiO2 manufacturing joint venture and the refinancing of certain debt in 1993. The Company currently expects to have sufficient liquidity to meet its obligations including operations, capital expenditures and debt service.

Certain of the Company's income tax returns in various U.S. and non-U.S. jurisdictions, including Germany, are being examined and tax authorities have proposed or may propose tax deficiencies. During the first nine months of 1994, the German tax authorities withdrew certain tax assessment reports and remitted tax refunds aggregating DM 211 million (\$127 million), including interest, on a tentative basis. The Company applied DM 168 million (\$103 million) of the German tentative tax refunds to reduce outstanding borrowings under its DM revolving credit facility. In October, the German tax authorities remitted additional tentative tax refunds aggregating DM 14 million (\$9 million) and the Company applied DM 8 million (\$5 million) to reduce further the outstanding borrowings under its DM bank credit facility. The examination of the Company's German income tax returns continues and the Company has received certain assessment reports proposing tax deficiencies and understands the German tax authorities intend to issue additional assessment reports. Although the Company believes that it will ultimately prevail, the Company has granted a DM 100 million (\$65 million at September 30, 1994) lien on its Nordenham, Germany TiO2 plant in favor of the German tax authorities until the assessments proposing tax deficiencies are resolved. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from all such examinations.

Repayments of indebtedness in the first nine months of 1994 include payments of DM 168 million of the DM credit facility (\$103 million), \$11 million on the Rheox bank term loan and \$12 million on the joint venture term loan. In addition, the Company borrowed DM 75 million (\$45 million) under the DM credit facility. During October 1994, the Company repaid an aggregate of DM 58 million (\$37 million) of the DM credit facility. The Company has reduced its "net debt" (notes payable and long-term debt less cash, cash equivalents and securities) by \$271 million during the last 12 months.

At September 30, 1994, the Company had cash, cash equivalents and current marketable securities aggregating \$220 million (42% held by non-U.S. subsidiaries) including restricted cash, cash equivalents and current marketable securities of \$15 million. In addition, the Company's subsidiaries had \$192 million available for borrowing under existing non-U.S. credit facilities, of which \$109 million is available only for (i) permanently reducing the DM term loan or (ii) paying future German income tax assessments, as described above.

The Company has been named as a defendant, potentially responsible party, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites or facilities currently or formerly owned, operated or used by the Company, many of which disposal sites or facilities are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. The Company believes it has adequate accruals (\$84 million at September 30, 1994) for reasonably estimable costs of such matters. 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 \$142 million. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future. The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale of lead pigments and lead-based paints. Based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment litigation is without merit and has not accrued any amounts

for such pending lead pigment litigation. 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. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed at the state, local and federal levels that seek to impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and effectively overturn court decisions in which the Company and other pigment manufacturers have been successful.

The Company periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its debt service requirements, capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company has in the past and may in the future seek to refinance or restructure indebtedness, raise additional capital, restructure ownership interests, sell interests in subsidiaries, marketable securities or other assets, or take a combination of such steps or other steps to increase its liquidity and capital resources.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the 1993 Annual Report and the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1994 and June 30, 1994 for descriptions of certain previously-reported legal proceedings.

HANO. In October 1994, the Company moved for summary judgment in one of the eight remaining third-party complaints filed by HANO.

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. In May 1994, the trial court granted the defendants' motion to dismiss the plaintiffs' restitution and indemnification claims. The plaintiffs filed a notice of appeal. Defendants have moved for summary judgment on the remaining fraud claim.

NL Industries, Inc. v. Commercial Union Insurance Cos., et al. The defendant, Commercial Union, has appealed the previously-reported order requiring it to pay certain previously-incurred Company defense costs.

Wagner, et al. v. Anzon and NL Industries, Inc. Defendants' motion for summary judgment was denied; jury trial in this class action began in September 1994 and a jury verdict is expected in November 1994.

Granite City. In August 1994, the U.S. Environmental Protection Agency ("U.S. EPA") recommenced a limited cleanup of the residential yard soils in Granite City. In October 1994, the U.S. EPA released a proposed plan for residential soil cleanup and reopened the administrative record for public comment. The period for public comment has not yet expired. In the proposed plan, the U.S. EPA also indicated that it is developing remedial plans for the remaining industrial area and for groundwater.

Batavia, New York. In August 1994, the U.S. EPA issued a proposed plan for remediation of the landfill. The estimated cost of the proposed remedy is \$12 million. No allocation of the remedial costs among the Company and the other potentially responsible parties ("PRP"s) has been determined.

Cherokee County. In August 1994, the U.S. EPA issued a proposed remedial plan for the Baxter Springs and Treece subsites. The estimated cost of the proposed remedies is \$6 million. The allocation among PRPs, including the Company, has not yet been determined. Remedial plans have not been proposed for the remaining subsites in Cherokee County.

Flacke v. NL Industries, Inc. In August 1994, the court denied the State's and the Company's motions for summary judgment.

Portland. In September 1994, the PRPs submitted to the U.S. EPA a focused feasibility study proposing changes in the remedy at this site. The estimated cost of the remedies analyzed ranges from approximately \$15 million to \$57 million.

Exxon Chemical Company v. NL Industries, Inc. The Company has agreed in principle to settle this matter, within previously accrued amounts, and the Court has dismissed the case. The parties are negotiating a settlement agreement, execution of which is a condition of the settlement, and the plaintiff has sought to reinstate the case pending completion of those negotiations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

27.1 - Financial Data Schedules for the nine-month period ended September 30, 1994.

(b) REPORTS ON FORM 8-K

Reports on Form 8-K for the quarter ended September 30, 1994 and for the month of October 1994:

July 25, 1994 - reported Items 5 and 7.

October 24, 1994 - reported Items 5 and 7.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NL INDUSTRIES, INC.
(Registrant)

Date: November 9, 1994 By /s/ Joseph S. Compofelice
Joseph S. Compofelice
Vice President and
Chief Financial Officer

Date: November 9, 1994 By /s/ Dennis G. Newkirk
Dennis G. Newkirk
Vice President and Controller
(Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NL INDUSTRIES, INC.
(Registrant)

Date: November 9, 1994 By
Joseph S. Compofelice
Vice President and
Chief Financial Officer

Date: November 9, 1994 By
Dennis G. Newkirk
Vice President and Controller

(Principal Accounting Officer)

<ARTICLE> 5

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NL INDUSTRIES, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1994, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.

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