

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 - For the quarter ended March 31, 1997

OR

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

Commission file number 1-640

NL INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

13-5267260
(IRS Employer
Identification No.)

16825 Northchase Drive, Suite 1200, Houston, Texas
(Address of principal executive offices)

77060-2544
(Zip Code)

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

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

Number of shares of common stock outstanding on May 14, 1997: 51,144,014

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 1996	March 31, 1997
	-----	-----
Current assets:		
Cash and cash equivalents, including restricted cash of \$10,895 and \$9,343	\$ 114,115	\$ 77,662
Accounts and notes receivable	138,538	162,547
Refundable income taxes	9,267	3,761
Inventories	232,510	194,033
Prepaid expenses	4,219	5,485
Deferred income taxes	1,597	1,234
	-----	-----
Total current assets	500,246	444,722
	-----	-----
Other assets:		
Marketable securities	23,718	25,297
Investment in joint ventures	181,479	179,347
Prepaid pension cost	24,821	24,898
Deferred income taxes	223	223
Other	24,825	25,634
	-----	-----
Total other assets	255,066	255,399
	-----	-----
Property and equipment:		
Land	21,963	20,589
Buildings	165,479	157,246
Machinery and equipment	660,333	628,269
Mining properties	95,891	94,062
Construction in progress	13,231	13,360
	-----	-----
	956,897	913,526
Less accumulated depreciation and depletion	490,851	472,279
	-----	-----
Net property and equipment	466,046	441,247
	-----	-----
	\$1,221,358	\$1,141,368
	=====	=====

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

LIABILITIES AND SHAREHOLDERS' DEFICIT	December 31, 1996	March 31, 1997
	-----	-----
Current liabilities:		
Notes payable	\$ 25,732	\$ 23,776
Current maturities of long-term debt	91,946	31,626
Accounts payable and accrued liabilities	153,904	150,733
Payable to affiliates	10,204	9,619
Income taxes	5,664	5,860
Deferred income taxes	2,895	2,892
	-----	-----
Total current liabilities	290,345	224,506
	-----	-----
Noncurrent liabilities:		
Long-term debt	737,100	746,605
Deferred income taxes	151,221	143,239
Accrued pension cost	57,941	54,093
Accrued postretirement benefits cost	55,935	54,822
Other	132,048	155,061
	-----	-----
Total noncurrent liabilities	1,134,245	1,153,820
	-----	-----
Minority interest	249	237
Shareholders' deficit:		
Common stock	8,355	8,355
Additional paid-in capital	759,281	759,281
Adjustments:		
Currency translation	(118,629)	(117,879)
Pension liabilities	(1,822)	(1,822)
Marketable securities	1,278	2,304
Accumulated deficit	(485,948)	(521,669)
Treasury stock	(365,996)	(365,765)
	-----	-----
Total shareholders' deficit	(203,481)	(237,195)
	-----	-----
	\$ 1,221,358	\$ 1,141,368
	=====	=====

Commitments and contingencies (Note 13)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three months ended March 31, 1996 and 1997
(In thousands, except per share data)

	1996 -----	1997 -----
Revenues and other income:		
Net sales	\$ 240,440	\$ 239,476
Other, net	10,548	2,242
	-----	-----
	250,988	241,718
	-----	-----
Costs and expenses:		
Cost of sales	169,816	185,035
Selling, general and administrative	42,891	71,146
Interest	19,139	18,958
	-----	-----
	231,846	275,139
	-----	-----
Income (loss) before income taxes and minority interest	19,142	(33,421)
Income tax expense	5,740	2,292
	-----	-----
Income (loss) before minority interest	13,402	(35,713)
Minority interest	(42)	8
	-----	-----
Net income (loss)	\$ 13,444	\$ (35,721)
	=====	=====
Net income (loss) per share of common stock	\$.26	\$ (.70)
	=====	=====
Weighted average common and common equivalent shares outstanding	51,510	51,144
	=====	=====

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT

Three months ended March 31, 1997

(In thousands)

	Common stock	Additional paid-in capital	Adjustments			Accumulated deficit	Treasury stock	Total
			Currency translation	Pension liabilities	Marketable securities			
Balance at December 31, 1996	\$ 8,355	\$ 759,281	\$(118,629)	\$ (1,822)	\$ 1,278	\$(485,948)	\$(365,996)	\$(203,481)
Net loss	-	-	-	-	-	(35,721)	-	(35,721)
Adjustments	-	-	750	-	1,026	-	-	1,776
Treasury stock reissued	-	-	-	-	-	-	231	231
Balance at March 31, 1997 ..	<u>\$ 8,355</u>	<u>\$ 759,281</u>	<u>\$(117,879)</u>	<u>\$ (1,822)</u>	<u>\$ 2,304</u>	<u>\$(521,669)</u>	<u>\$(365,765)</u>	<u>\$(237,195)</u>

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, 1996 and 1997

(In thousands)

	1996	1997
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 13,444	\$(35,721)
Depreciation, depletion and amortization	10,125	9,786
Noncash interest expense	5,026	5,483
Deferred income taxes	(4,065)	(198)
Change in accounting for environmental remediation liabilities	-	30,000
Other, net	(4,155)	(1,990)
	-----	-----
	20,375	7,360
Change in assets and liabilities:		
Accounts and notes receivable	(24,052)	(30,706)
Inventories	(10,213)	28,377
Prepaid expenses	(3,433)	(1,478)
Accounts payable and accrued liabilities	(14,573)	57
Income taxes	3,153	6,335
Other, net	(2,514)	(2,633)
	-----	-----
Net cash provided (used) by operating activities	(31,257)	7,312
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(12,250)	(8,868)
Purchase of minority interest	(5,168)	-
Investment in joint ventures, net	1,379	2,379
Other, net	82	64
	-----	-----
Net cash used by investing activities	(15,957)	(6,425)
	-----	-----

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Three months ended March 31, 1996 and 1997

(In thousands)

	1996	1997
	-----	-----
Cash flows from financing activities:		
Indebtedness:		
Borrowings	\$ 35,079	\$ 140,000
Principal payments	(10,002)	(172,577)
Deferred financing costs	-	(3,434)
Dividends	(5,109)	-
Other, net	(406)	231
	-----	-----
Net cash provided (used) by financing activities	19,562	(35,780)
	-----	-----
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(27,652)	(34,893)
Currency translation	(623)	(1,560)
Balance at beginning of period	141,333	114,115
	-----	-----
Balance at end of period	\$ 113,058	\$ 77,662
	=====	=====
Supplemental disclosures - cash paid (received) for:		
Interest, net of amounts capitalized	\$ 6,557	\$ 7,153
Income taxes, net	6,637	(4,385)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

NL Industries, Inc. conducts its operations primarily through its wholly-owned subsidiaries, Kronos, Inc. (titanium dioxide pigments, or "TiO₂") and Rheox, Inc. (specialty chemicals). Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, hold approximately 56% and 18%, respectively, of NL's outstanding common stock, and together may be deemed to control NL. Contran and its subsidiaries and other entities related to Harold C. Simmons hold approximately 91% of Valhi's and 45% of Tremont's outstanding common stock.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 1996 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at March 31, 1997 and the consolidated statements of operations, shareholders' deficit and cash flows for the interim periods ended March 31, 1996 and 1997 have been prepared by the Company, without audit. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Annual Report").

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

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

Net income (loss) per share of common stock is based on the weighted average number of common shares and equivalents outstanding. Common stock equivalents, consisting of nonqualified stock options, are excluded from the computation when their effect is antidilutive. The Company will retroactively adopt Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," effective December 31, 1997. Basic earnings per share pursuant to SFAS No. 128 will not be materially different from earnings per share presented herein and diluted earnings per share pursuant to SFAS No. 128 is not expected to be materially different from basic earnings per share.

Note 3 - Business segment information:

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

	Three months ended March 31,	
	----- 1996 -----	1997 -----
	(In thousands)	
Net sales:		
Kronos	\$ 206,368	\$ 204,389
Rheox	34,072	35,087
	-----	-----
	\$ 240,440	\$ 239,476
	=====	=====
Operating income:		
Kronos	\$ 29,472	\$ 8,689
Rheox	12,466	10,136
	-----	-----
	41,938	18,825
General corporate income (expense):		
Securities earnings, net	1,307	699
Expenses, net	(4,964)	(33,987)
Interest expense	(19,139)	(18,958)
	-----	-----
	\$ 19,142	\$ (33,421)
	=====	=====

Corporate expenses, net increased in the first quarter of 1997 due to the \$30 million noncash charge related to the adoption of a new method of accounting for certain environmental remediation costs, as described in Note 1.

Note 4 - Inventories:

	December 31, 1996 -----	March 31, 1997 -----
	(In thousands)	
Raw materials	\$ 43,284	\$ 28,529
Work in process	10,356	10,088
Finished products	142,091	121,149
Supplies	36,779	34,267
	-----	-----
	\$232,510	\$194,033
	=====	=====

Note 5 - Marketable securities:

	December 31, 1996	March 31, 1997
	-----	-----
	(In thousands)	
Available-for-sale securities - noncurrent marketable equity securities:		
Unrealized gains	\$ 3,516	\$ 4,933
Unrealized losses	(1,550)	(1,388)
Cost	21,752	21,752
	-----	-----
Aggregate market	\$23,718	\$25,297
	=====	=====

Note 6 - Investment in joint ventures:

	December 31, 1996	March 31, 1997
	-----	-----
	(In thousands)	
Ti02 manufacturing joint venture	\$179,195	\$176,816
Other	2,284	2,531
	-----	-----
	\$181,479	\$179,347
	=====	=====

Note 7 - Other noncurrent assets:

	December 31, 1996	March 31, 1997
	-----	-----
	(In thousands)	
Intangible assets, net	\$ 7,939	\$ 6,683
Deferred financing costs, net	9,791	12,144
Other	7,095	6,807
	-----	-----
	\$24,825	\$25,634
	=====	=====

Note 8 - Accounts payable and accrued liabilities:

	December 31, 1996	March 31, 1997
	-----	-----
	(In thousands)	
Accounts payable	\$ 60,648	\$ 52,390
	-----	-----
Accrued liabilities:		
Employee benefits	34,618	31,437
Environmental costs	6,000	9,000
Interest	9,429	14,890
Miscellaneous taxes	4,073	3,736
Other	39,136	39,280
	-----	-----
	93,256	98,343
	-----	-----
	\$153,904	\$150,733
	=====	=====

Note 9 - Other noncurrent liabilities:

	December 31, 1996	March 31, 1997
	-----	-----
	(In thousands)	
Environmental costs	\$106,849	\$130,918
Employee benefits	11,960	11,087
Insurance claims and expenses	11,673	11,603
Other	1,566	1,453
	-----	-----
	\$132,048	\$155,061
	=====	=====

Note 10 - Notes payable and long-term debt:

	December 31, 1996	March 31, 1997
	-----	-----
	(In thousands)	
Notes payable - Kronos (DM 40,000)	\$ 25,732	\$ 23,776
	=====	=====
Long-term debt:		
NL Industries:		
11.75% Senior Secured Notes	\$250,000	\$250,000
13% Senior Secured Discount Notes	149,756	154,493
	-----	-----
	399,756	404,493
	-----	-----
Kronos:		
DM bank credit facility (DM 539,971 and DM 288,322, respectively)	347,362	171,379
Joint venture term loan	57,858	54,000
Other	9,125	8,111
	-----	-----
	414,345	233,490
	-----	-----
Rheox:		
Bank term loan	14,659	140,000
Other	286	248
	-----	-----
	14,945	140,248
	-----	-----
	829,046	778,231
Less current maturities	91,946	31,626
	-----	-----
	\$737,100	\$746,605
	=====	=====

Note 11 - Income taxes:

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

	Three months ended March 31,	
	1996	1997
	(In thousands)	
Expected tax expense (benefit)	\$ 6,700	\$(11,697)
Non-U.S. tax rates	(1,462)	(207)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return ...	114	500
Valuation allowance	(709)	12,942
U.S. state income taxes	364	450
Other, net	733	304
	-----	-----
Income tax expense	\$ 5,740	\$ 2,292
	=====	=====

Note 12 - Other income, net:

	Three months ended March 31,	
	1996	1997
	(In thousands)	
Interest and dividends	\$ 1,307	\$ 699
Pension curtailment gain	4,554	-
Technology fee income	3,081	-
Currency transaction gains, net	1,046	517
Other, net	560	1,026
	-----	-----
	\$10,548	\$ 2,242
	=====	=====

Note 13 - Commitments and contingencies:

For descriptions of certain legal proceedings, income tax and other commitments and contingencies related to the Company, reference is made to (i) Management's Discussion and Analysis of Financial Condition and Results of Operations, (ii) Part II, Item 1 - "Legal Proceedings" and (iii) the 1996 Annual Report.

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

RESULTS OF OPERATIONS

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

	Three months ended March 31,		% Change
	1996	1997	
----- (In millions) -----			
Net sales:			
Kronos	\$206.3	\$204.4	-1%
Rheox	34.1	35.1	+3%
	-----	-----	
	\$240.4	\$239.5	N/C
	=====	=====	
Operating income:			
Kronos	\$ 29.5	\$ 8.7	-70%
Rheox	12.4	10.1	-19%
	-----	-----	
	\$ 41.9	\$ 18.8	-55%
	=====	=====	
Percent changes in TiO2:			
Sales volume			+22%
Average selling prices (in billing currencies).....			-16%

Kronos' TiO2 operating income in the first quarter of 1997 decreased from the first quarter of 1996 as lower average selling prices were only slightly offset by higher production and sales volumes. Kronos' record first quarter sales volumes improved 22% from the first quarter of 1996, reflecting improved demand for TiO2 in each of Kronos' major markets. Average TiO2 selling prices for the first quarter of 1997 were 16% lower than the first quarter of 1996, and average prices for the quarter were 2% lower than the fourth quarter of 1996. The Company expects TiO2 prices will begin to increase during the second quarter of 1997 as the impact of previously-announced price increases begin to take effect. Kronos anticipates its TiO2 sales volume will exceed year-earlier levels through the second quarter of 1997 and Kronos expects sales volumes for full-year 1997 to be slightly higher than full-year 1996.

Kronos expects its full-year 1997 operating income will be below that of 1996, primarily because of lower anticipated average TiO2 prices for 1997 compared to 1996. Kronos' selling, general and administrative expenses decreased in the first quarter of 1997 due to favorable effects of foreign currency translation, partially offset by higher distribution expenses associated with higher first-quarter 1997 sales volume. Kronos' cost of sales as a percentage of net sales increased in the first quarter of 1997 due to lower average prices in the first quarter of 1997.

Rheox's operating results for the first quarter of 1997 improved slightly compared to the first quarter of 1996 on slightly higher sales volumes, excluding

a first-quarter 1996 \$2.7 million gain related to the curtailment of certain U.S. employee pension benefits. Rheox's cost of sales increased in the first quarter of 1997 over the prior-year period primarily due to slightly higher sales volume, and cost of sales as a percentage of net sales was comparable to the 1996 period. Selling, general and administrative expenses increased in the first quarter of 1997 compared to the first quarter of 1996 primarily due to higher variable compensation expense.

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 decreased the dollar value of sales for the first quarter of 1997 by \$8 million compared to the first quarter of 1996.

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

	Three months ended March 31,		Difference
	1996	1997	
	-----		-----
	1996	1997	
	-----		-----
	(In millions)		
Securities earnings	\$ 1.3	\$.7	\$ (.6)
Corporate expenses, net	(5.0)	(34.0)	(29.0)
Interest expense	(19.1)	(19.0)	.1
	-----		-----
	\$(22.8)	\$(52.3)	\$(29.5)
	=====	=====	=====

Securities earnings declined due to lower average balances available for investment. Corporate expense, net in the first quarter of 1997 was higher than the comparable period in 1996 due to the \$30 million noncash charge related to the Company's adoption of SOP No. 96-1, "Environmental Remediation Liabilities." See Note 1 to the Consolidated Financial Statements. This charge is included in selling, general and administrative expense in the Company's consolidated statements of operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the three months ended March 31, 1996 and 1997 are presented below.

	Three months ended March 31,	
	1996	1997

	1996	1997

	(In millions)	
Net cash provided (used) by:		
Operating activities	\$ (31.3)	\$ 7.3
Investing activities	(16.0)	(6.4)
Financing activities	19.6	(35.8)

Net cash used by operating, investing and financing activities	\$ (27.7)	\$ (34.9)
	=====	=====

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

Certain of the Company's income tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies. The Company has previously reached an agreement with the German tax authorities, and paid certain tax deficiencies of approximately DM 44 million (\$28 million when paid), including interest, which resolved significant tax contingencies for years through 1990. Certain other significant German tax contingencies remain outstanding and will continue to be litigated. The Company has received certain tax assessments aggregating DM 130 million (\$77 million), including interest, for years through 1996 and expects to receive tax assessments for an additional DM 20 million (\$12 million) related to these remaining tax contingencies. No payments of tax or interest deficiencies related to these assessments will be required until the litigation is resolved, which the Company anticipates may take approximately two to five years. Although the Company believes that it will ultimately prevail, the Company has granted a DM 100 million (\$59 million at March 31, 1997) lien on its Nordenham, Germany TiO2 plant in favor of the German tax authorities until the litigation is resolved. No assurance can be given that this litigation will be resolved in the Company's favor in view of the inherent uncertainties involved in court proceedings. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

In order to improve its near-term liquidity, the Company refinanced its Rheox subsidiary during January 1997, obtaining a net \$125 million of new long-term financing. The net proceeds, along with other available funds, were used to prepay DM 207 million (\$127 million when paid) of the Company's DM term loan and to repay DM 43 million (\$26 million when paid) of the Company's DM revolving credit facility. As a result of the refinancing and prepayment, the Company's aggregate scheduled debt payments for 1997 and 1998 decreased by \$103 million (\$64 million in 1997 and \$39 million in 1998). In connection with the prepayment, the Company and its lenders modified certain financial covenants of the DM credit agreement and NL guaranteed the facility. At March 31, 1997, the Company was in compliance with all financial covenants governing its debt agreements.

In addition to the above refinancing and prepayment, the Company repaid \$3.9 million of the joint venture term loan in the first quarter of 1997.

At March 31, 1997, the Company had cash and cash equivalents aggregating \$78 million (51% held by non-U.S. subsidiaries), including restricted cash and

cash equivalents of \$9 million. The Company's subsidiaries had \$9 million and \$94 million available for borrowing at March 31, 1997 under existing U.S. and non-U.S. credit facilities, respectively.

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, certain of which are on the U.S. Environmental Protection Agency's (the "U.S. EPA") Superfund National Priorities List or similar state lists. On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant. The Company believes it has adequate accruals (\$140 million at March 31, 1997) for reasonably estimable costs of such matters, but the Company's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocations of such costs among PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites for which it is possible to estimate costs is approximately \$185 million. The Company's estimates of such liabilities have not been discounted to present value, and the Company has not recognized any potential insurance recoveries. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising from the sale of lead pigments and lead-based paints. There is no assurance that the Company will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment and paint litigation is without merit. The Company has not accrued any amounts for such pending litigation. Liability that may result, if any, cannot be reasonably estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and to effectively overturn court decisions in which the Company and other pigment manufacturers have been successful. The Company currently believes the disposition of all claims and disputes, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future.

The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company in the past has sought, and in the future may seek, to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, issue additional securities,

modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, the Company may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals industry. In the event of any such transactions, the Company may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt.

The statements contained in this Report on Form 10-Q ("Quarterly Report") which are not historical facts, including, but not limited to, statements found under the captions "Results of Operations" and "Liquidity and Capital Resources" above, are forward-looking statements that involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements in this Quarterly Report could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Quarterly Report and in the 1996 Annual Report, including, without limitation, the portions of such reports under the captions referenced above, and the uncertainties set forth from time to time in the Company's other public reports and filings and public statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the 1996 Annual Report for descriptions of certain previously-reported legal proceedings.

In April 1997 the Quebec Court of Appeals dismissed the Canadian Fisheries Act case (previously reported at page 9 of the 1996 Annual Report) against one of the individual defendants. In May 1997 the Crown's counsel filed an order of nolle prosequi effectively terminating the matter as against Kronos Canada, Inc. and the remaining individual defendant. In May 1998 the matter will be expunged from the records as if it had never been brought. Kronos Canada and the individual defendant have agreed not to seek damages for malicious or improper prosecution.

Ritchie v. NL Industries, et al. (No. 5:96-CV-166). The case was remanded to state court in April 1997.

In April 1997 the Company was served with a complaint in Parker v. NL Industries, et al. (Circuit Court, Baltimore City, Maryland, No. 97085060 CC915). Plaintiff, now an adult, and his wife, seek compensatory and punitive damages from the Company, another former manufacturer of lead paint and a local paint retailer, based on claims of negligence, strict liability and fraud, for plaintiff's alleged ingestion of lead paint as a child. In May 1997 the Company removed the case to federal court.

In March 1997 the Company was served with a complaint 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. (Ernest Hughes, et al. v. Owens-Corning Fiberglass, Corporation, et al., No. 97-C-051).

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 - Executive severance agreement effective as of July 24, 1996 by and between the Registrant and J. Landis Martin.

10.2 - Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 1997.

10.3 - Intercorporate Services Agreement by and between Valhi, Inc. and the Registrant effective as of January 1, 1997.

10.4 - Intercorporate Services Agreement by and between Tremont Corporation and the Registrant effective as of January 1, 1997.

10.5 - Intercorporate Services Agreement by and between Titanium Metals Corporation and the Registrant effective as of January 1, 1997.

27.1 - Financial Data Schedule for the three-month period ended March 31, 1997.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended March 31, 1997 and through the date of this report:

January 30, 1997 - reported Items 5 and 7.

April 22, 1997 - reported Items 5 and 7.

SIGNATURES

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

NL INDUSTRIES, INC.
(Registrant)

Date: May 14, 1997

By /s/ Joseph S. Compofelice

Joseph S. Compofelice
Vice President and
Chief Financial Officer

Date: May 14, 1997

By /s/ Dennis G. Newkirk

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

AMENDED AND RESTATED
EXECUTIVE SEVERANCE AGREEMENT

This Amended and Restated Executive Severance Agreement is made effective as of the 24th day of July, 1996, by and between NL INDUSTRIES, INC., a New Jersey corporation (hereinafter called the "Company"), and J. Landis Martin (hereinafter called the "Executive") and supersedes the Executive Severance Agreement dated December 31, 1991, between the Company and Executive.

To assure the Company that it will have the continued services of Executive and the availability of Executive's advice and counsel and to induce Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and Executive agree as follows:

1. Termination.
 - a. General. This Agreement is not an employment contract nor does it in any way alter the status of Executive as an at-will employee of the Company serving at the pleasure of the Company's Board of Directors. Executive's employment with the Company may be terminated without notice (except as required by Section 2 hereof) at any time, for any reason (i) by resolution approved by Directors constituting a majority of all of the Directors then holding office or (ii) by Executive.
 - b. Termination by the Company. Executive shall be entitled to the severance benefits set forth in Sections 3 and 4 upon termination of Executive's employment by the Company unless such termination is for cause (as defined below). Executive's termination of employment with the Company by virtue of death, disability (as defined below), or retirement (as defined below) shall not be considered as a termination of Executive by the Company. For purposes of this Agreement, "cause" shall mean (i) Executive's conviction of any criminal violation involving dishonesty, fraud or breach of trust or any felony or (ii) Executive's willful engagement in gross misconduct in the performance of his duties that materially and adversely affects the financial condition of the Company. The Executive shall be deemed to have a "disability" if, by reason of physical or mental incapacity, Executive becomes unable to perform his normal duties for more than 180 days in the aggregate (excluding infrequent and temporary absence due to ordinary transitory illness) during any 12-month period. Executive shall be deemed to have "retired" upon Executive reaching the age of 65; provided that Executive is no longer employed by the Company.
 - c. Termination by the Employee. Executive shall not be entitled to the severance benefits set forth in Sections 3 and 4 of this Agreement upon termination of Executive's employment with the Company by Executive unless such termination is for good reason. For purposes of this Agreement, "good reason" shall mean the occurrence of any one of the following events without Executive's consent:
 - (i) the assignment of Executive to any duties substantially inconsistent with his position, duties, responsibilities or status with the Company immediately prior to such assignment, or a substantial reduction of the duties or responsibilities, as compared with the duties or responsibilities immediately prior to such reduction, it being expressly understood that a promotion of another executive to a position senior to Executive shall not in and of itself be deemed to constitute "good reason" under this Section 1.c(i);
 - (ii) a reduction by the Company in the amount of Executive's annual base salary as in effect as of the date of this agreement or as the same may be increased from time to time, except for across-the-board salary reductions similarly affecting all executives of the Company; or
 - (iii) the Company repudiates this Agreement or fails to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated by Section 9.a. hereof.
2. Notice of Certain Terminations. In the event that either (i) the Company shall terminate Executive for cause or (ii) Executive shall resign for good reason, then any such termination shall be communicated by written notice to the other party hereto. Any such

notice shall specify (a) the effective date of termination, which shall not be more than 30 days after the date the notice is delivered (the "Termination Date"); and (b) in reasonable detail the facts and circumstances underlying a determination that the termination is for cause or for good reason, as the case may be. If within 15 days after any notice is given, the party receiving such notice notifies the other party that a good faith dispute exists concerning the characterization of the termination, the Termination Date shall be the date on which such dispute is finally resolved either by written agreement of the parties or by a final judicial determination. Notwithstanding the pendency of any such dispute, the Company shall continue Executive and his dependents as participants in all medical, dental and any other health insurance and similar benefit plans of the Company in which he and they were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved. Benefits provided under this Section 2 are in addition to all other amounts due under this Agreement and shall not be offset against, or reduce any other amounts due under, this Agreement.

3. Termination Benefits. Subject to the conditions set forth in Section 1 and Section 6.b. hereof, the Company shall make the following payments (subject to any applicable payroll or other taxes required to be withheld) to Executive within 15 days of the Termination Date:
 - a. Base Salary and Bonus. Two times Executive's effective annual base salary at the Termination Date plus two times Executive's level "B" target bonus under the Company's Employee Incentive Bonus Plan as in effect at the Termination Date, it being understood that such level shall in any event be a minimum of 100% of Executive's effective annual base salary.

- b. Accrued Amounts. (i) Accrued but unpaid salary and bonus through the Termination Date and (ii) unpaid salary with respect to any vacation days accrued but not taken as of the Termination Date.
4. Other Benefits. Subject to the conditions set forth in Sections 1 and 6.b. hereof, the following benefits (subject to any applicable payroll or other taxes required to be withheld) shall be paid or provided to Executive within 15 days of the Termination Date:
- a. Insurance Benefits. Medical, dental and any other health insurance, life insurance, accidental death and dismemberment insurance and disability protection no less favorable to Executive and his dependents covered thereby (including with respect to any costs borne by Executive) than the greater of the coverage provided on the date of execution of this Agreement or the coverage provided by Company immediately prior to the Termination Date for the period beginning on the Termination Date and ending on the first to occur of (i) the date of Executive's re-employment or (ii) the second anniversary of the Termination Date.
5. Retirement Plan. Following retirement and attainment of ages specified in the Retirement Plan of NL Industries, Inc. (the "NL Pension Plan"), Executive shall be entitled to all pension benefits which are available to him under the NL Pension Plan in effect on the Termination Date.
6. Benefits Valuation and Limitation.
- a. Promptly following any Termination Date, and as of that date, the Company will notify Executive of the itemized and aggregate cash value of the payments and benefits, as determined under Section 280G of the Code, received or to be received by Executive in connection with the termination of his employment (whether payable pursuant to the terms of this Agreement or otherwise). At the same time, the Company shall advise Executive of the portion of such payments or benefits which constitute parachute payments within the meaning of the Code and which may subject Executive to the payment of excise taxes pursuant to Section 4999 and the expected amount of such taxes (such payments or benefits being hereinafter referred to as "Parachute Payments").
 - b. Notwithstanding the provisions of Sections 3 and 4 hereof, if all or any portion of the payments or benefits provided under Sections 3 or 4 either alone or together with other payments or benefits which Executive has received or is then entitled to receive from the Company and any of its subsidiaries would constitute Parachute Payments, such payments or benefits provided to Executive under Sections 3 and 4 shall be reduced to the extent necessary so that no portion thereof shall be subject to the excise tax imposed by Section 4999 of the Code; but only if, by reason of such reduction, Executive's net after tax benefit shall exceed the net after tax benefit if such reduction were not made.

"Net after tax benefit" for purposes of this Section 6.b. shall mean the sum of (i) the total amount payable to Executive under Sections 3 and 4 hereof, plus (ii) all other payments and benefits which Executive has received or is then entitled to receive from the Company and any of its subsidiaries that would constitute a Parachute Payment, less (iii) the amount of federal income taxes payable with respect to the payment and benefits described in (i) and (ii) above calculated at the maximum marginal income tax rate for each year in which such payments and benefits shall be paid to Executive (based upon the rate in effect for such year as set forth in the Code at the Termination Date), less (iv) the amount of excise taxes imposed with respect to the payments and benefits described in (i) and (ii) above by Section 4999 of the Code.

For purposes of this Section 6.b., Executive's base amount, the present value of the Parachute Payments, the amount of the excise tax and all other appropriate matters shall be determined by the Company's independent auditors in accordance with the principles of Section 280G of the Code and based upon the advice of tax counsel selected by the Company, which tax counsel shall be reasonably satisfactory to Executive.

7. Mitigation. Executive is not required to seek other employment or otherwise mitigate the amount of any payments to be made by the Company pursuant to this Agreement. Except as otherwise provided in Section 4.a. of this Agreement, the amount of any payments or other benefits provided for in this Agreement shall not be reduced by any compensation earned by Executive as the result of employment by another employer after the Termination Date, or otherwise.
8. Continuing Obligations. Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come and will come into his possession from time to time during his employment by the Company shall be deemed to be confidential and proprietary to the Company, and Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed.
9. Successors.
 - a. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by Agreement in form and substance reasonably satisfactory to Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. For purposes of this Agreement, any determination as to whether the Company has engaged in a transaction involving all or substantially all of the business and/or assets of the Company shall be made by the Board of Directors in its sole discretion, which determination shall be final and binding on the parties. For purposes of this Agreement, "Company" shall mean NL Industries, Inc. and any successor to its business and/or assets as aforesaid which assumes and agrees

to perform this Agreement or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law or otherwise.

b. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive should die while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there be no such designee, to Executive's estate.

10. Notices. For the purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when actually delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive:

Mr. J. Landis Martin
150 Vine Street
Denver, Colorado 80206

If to the Company:

NL Industries, Inc.
16825 Northchase Drive, Suite 1200
Houston, Texas 77060
ATTENTION: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

11. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the internal laws, and not the conflicts laws, of the State of Texas.

12. Miscellaneous. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Executive and a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

13. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.
14. Non-assignability. This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or trust or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this paragraph the Company shall have no liability to pay any amount so attempted to be assigned or transferred.
15. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through December 31 of 2000.
16. Enforcement Costs. In the event that either party files an action against the other in any court to collect, enforce, protect or preserve its rights under this Agreement, the prevailing party in such action shall be entitled to receive reimbursement from such other party of all reasonable costs and expenses, including attorneys' fees, which such prevailing party incurred in prosecuting or defending such action, as the case may be.
17. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed to be an original but all of which taken together will constitute one and the same instrument.
18. Unsecured Obligation. All rights of Executive and Executive's spouse or other beneficiary under this Agreement shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating assets of the Company or payment of any amounts due hereunder. Neither Executive nor his spouse or other beneficiary shall have any interest in or rights against any specific assets of the Company, and Executive and his spouse or other beneficiary shall have only the rights of a general unsecured creditor of the Company.

* * * *

IN WITNESS WHEREOF, the parties have caused this Amended and Restated Executive Severance Agreement to be executed and delivered effective as of the date first written above.

The Company:

NL INDUSTRIES, INC.

By _____
Harold C. Simmons,
Chairman of the Board

Executive:

J. Landis Martin

INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement"), effective as of January 1, 1997, amends and supersedes that certain Intercorporate Services Agreement effective as of January 1, 1996 by and between CONTRAN CORPORATION, a Delaware corporation ("Contran"), and NL INDUSTRIES, INC., a New Jersey corporation. ("Recipient"),

Recitals

A. Harold C. Simmons, an employee of Contran and a director and the Chairman of the Board of Recipient, performs certain advisory functions for Recipient, which functions are unrelated to his function as a director and the Chairman of the Board of Recipient, without direct compensation from Recipient.

B. Recipient does not separately maintain the full internal capability to perform all necessary advisory functions that Recipient requires.

C. The costs of engaging the advisory services of someone possessing Mr. Simmons' expertise and the costs of maintaining the personnel necessary to perform the functions provided for by this Agreement would exceed the fee set forth in Section 3 of this Agreement and the terms of this Agreement are no less favorable to Recipient than could otherwise be obtained from a third party for comparable services.

D. Recipient desires to continue receiving the advisory services of Harold C. Simmons and Contran is willing to continue to provide such services under the terms of this Agreement.

Agreement

For and in consideration of the mutual premises, representations and covenants herein contained, the parties hereto mutually agree as follows:

Section 1. Services to be Provided. Contran agrees to make available to Recipient, upon request, the following services (the "Services") to be rendered by Harold C. Simmons:

(a) Consultation and assistance in the development and implementation of Recipient's corporate business strategies, plans and objectives; and

(b) Such other services as may be requested by Recipient from time to time.

This Agreement does not apply to and the Services provided for herein do not include any services that Harold C. Simmons may provide to Recipient in his role as a director on Recipient's Board of Directors, as Chairman of such Board of Directors or any other activity related to such Board of Directors.

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Section 2. Miscellaneous Services. It is the intent of the parties hereto that Contran provide only the Services requested by Recipient in connection with routine functions related to the ongoing operations of Recipient and not with respect to special projects, including corporate investments, acquisitions and divestitures. The parties hereto contemplate that the Services rendered in connection with the conduct of Recipient's business will be on a scale compared to that existing on the effective date of this Agreement, adjusted for internal corporate growth or contraction, but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects. Recipient will continue to bear all other costs required for outside services including, but not limited to, the outside services of attorneys, auditors, trustees, consultants, transfer agents and registrars, and it is expressly understood that Contran assumes no liability for any expenses or services other than those stated in Section 1. In addition to the fee paid to Contran by Recipient for the Services provided pursuant to this Agreement, Recipient will pay to Contran the amount of out-of-pocket costs incurred by Contran in rendering such Services.

Section 3. Fee for Services. Recipient agrees to pay to Contran \$125,000 quarterly, commencing as of January 1, 1997, pursuant to this Agreement.

Section 4. Original Term. Subject to the provisions of Section 5 hereof, the original term of this Agreement shall be from January 1, 1997 to December 31, 1997.

Section 5. Extensions. This Agreement shall be extended on a quarter-to-quarter basis after the expiration of its original term unless written notification is given by Contran or Recipient thirty (30) days in advance of the first day of each successive quarter or unless it is superseded by a subsequent written agreement of the parties hereto.

Section 6. Limitation of Liability. In providing its Services hereunder, Contran shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither Contran nor any officer, director, employee or agent of Contran or its affiliates shall be liable to Recipient for

any error of judgment or mistake of law or for any loss incurred by Recipient in connection with the matter to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of Contran.

Section 7. Indemnification of Contran by Recipient. Recipient shall indemnify and hold harmless Contran, its affiliates and their respective officers, directors and employees from and against any and all losses, liabilities, claims, damages, costs and expenses (including attorneys' fees and other expenses of litigation) to which such party may become subject arising out of the Services provided by Contran to Recipient hereunder, provided that such indemnity shall not protect any person against any liability to which such person would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on the part of such person.

Section 8. Further Assurances. Each of the parties will make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

Section 9. Notices. All communications hereunder shall be in writing and shall be addressed, if intended for Contran, to Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240, Attention: President, or such other address as it shall have furnished to Recipient in writing, and if intended for Recipient, to Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas 77060, Attention: President or such other address as it shall have furnished to Contran in writing.

Section 10. Amendment and Modification. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

Section 11. Successor and Assigns. This Agreement shall be binding upon and inure to the benefit of Contran and Recipient and their respective successors and assigns, except that neither party may assign its rights under this Agreement without the prior written consent of the other party.

Section 12. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

CONTRAN CORPORATION

By: _____
Steven L. Watson
Vice President

NL INDUSTRIES, INC.

By: _____
J. Landis Martin
President and Chief Executive Officer

INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement"), effective as of January 1, 1997, amends and supersedes that certain Intercorporate Services Agreement effective as of January 1, 1996 by and between VALHI, INC., a Delaware corporation ("Valhi"), and NL INDUSTRIES, INC., a New Jersey corporation ("NL").

Recitals

A. NL desires to have the services of certain Valhi personnel and Valhi is willing to provide such services under the terms of this Agreement.

B. Valhi desires to have the services of certain NL personnel and NL is willing to provide such services under the terms of this Agreement.

C. The costs of maintaining the additional personnel necessary to perform the functions provided for by this Agreement would exceed the amount charged to such party that is contained in the net fee set forth in Section 4 of this Agreement and that the terms of this Agreement are no less favorable to each party than could otherwise be obtained from a third party for comparable services.

D. Each party desires to continue receiving the services presently provided by the other party and its affiliates and each party is willing to continue to provide such services under the terms of this Agreement.

Agreement

For and in consideration of the mutual premises, representations and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto mutually agree as follows:

Section 1. Valhi Services to be Provided. Valhi agrees to make available to NL, upon request, the following services (the "Valhi Services") to be rendered by the internal staff of Valhi and affiliates of Valhi:

(a) Consultation and assistance in the development and implementation of NL's corporate business strategies, plans and objectives;

(b) Consultation and assistance in management and conduct of corporate affairs and corporate governance consistent with the charter and bylaws of NL;

(c) Consultation and assistance in maintenance of financial records and controls, including preparation and review of periodic financial statements and reports to be filed with public and regulatory entities and those required to be prepared for financial institutions or pursuant to indentures and credit agreements;

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(d) Consultation and assistance in cash management and in arranging financing necessary to implement the business plans of NL;

(e) Consultation and assistance in tax management and administration, including, without limitation, preparation and filing of tax returns, tax reporting, examinations by government authorities and tax planning; and

(f) Such other services as may be requested by NL from time to time.

Section 2. NL Services to be Provided. NL agrees to make available to Valhi, upon request, the following services (the "NL Services," and collectively with the Valhi Services, the "Services") to be rendered by the internal staff of NL:

(a) The services of Joseph S. Compofelice to act as Executive Vice President of Valhi, which Valhi and NL agree shall involve substantially such time as has been allocated in the past and is currently being devoted;

(b) The services of NL's internal audit personnel in providing consultation and assistance in performing internal audit projects as requested from time to time; and

(c) certain administration and management services with respect to Valhi's insurance and risk management needs, including, without limitations, administration of Valhi's:

- (i) property and casualty insurance program,
- (ii) claims management program,
- (iii) property loss control program, and

(d) Such other services as may be requested by Valhi from time to time.

Section 3. Miscellaneous Services. It is the intent of the parties hereto that each party to this Agreement provide (a "Providing Party") only such Services as are requested by the other party (a "Receiving Party") in connection with routine management, financial and administrative functions related to the ongoing operations of the Receiving Party and not with respect to special projects, including corporate investments, acquisitions and divestitures. The parties hereto contemplate that the Services rendered by a Providing Party in connection with the conduct of each Receiving Party's business will be on a scale compared to that existing on the effective date of this Agreement, adjusted for internal corporate growth or contraction, but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects. Each Receiving Party will continue to bear all other costs required for outside services including, but not limited to, the outside services of attorneys, auditors, trustees, consultants, transfer agents and registrars, and it is expressly understood that each Providing Party assumes no liability for any expenses or services other than those stated in this Agreement to be provided by such party. In addition to the amounts charged to a Receiving Party for Services provided pursuant to this Agreement, such Receiving Party will pay the Providing Party the amount of out-of-pocket costs incurred by the Providing Party in rendering such Services.

Section 4. Net Fee for Services. Valhi agrees to pay to NL a net annual fee of \$138,000 payable in quarterly installments of \$34,500 each, commencing as of January 1, 1997, pursuant to this Agreement, which net annual fee includes reimbursements of \$20,000 for certain insurance and risk management services provided by NL to Valhi in 1996. In addition to the net annual fee:

(a) Valhi shall pay to NL an additional amount equal to the sum of:

(i) the product of (x) \$600, (y) the number of days devoted by NL's internal auditors to providing NL Services described in Subsection 2(b) and (z) the number of internal auditors providing such NL Services; and

(ii) all related out-of-pocket expenses;

(b) Valhi shall pay to NL additional amounts plus all related out-of-pocket costs, all as agreed to by the parties, for all NL Services provided under Subsection 2(d); and

(c) NL shall credit or pay to Valhi additional amounts plus all related out-of-pocket costs, all as agreed to by the parties, for all Valhi Services provided under Subsection 1(f).

Section 5. Original Term. Subject to the provisions of Section 6 hereof, the original term of this Agreement shall be from January 1, 1997 to December 31, 1997.

Section 6. Extensions. This Agreement shall be extended on a quarter-to-quarter basis after the expiration of its original term unless written notification is given by Valhi or NL thirty (30) days in advance of the first day of each successive quarter or unless it is superseded by a subsequent written agreement of the parties hereto.

Section 7. Limitation of Liability. In providing Services hereunder, each Providing Party shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but no Providing Party nor any officer, director, employee or agent of such party nor or its affiliates shall be liable to a Receiving Party for any error of judgment or mistake of law or for any loss incurred by the Receiving Party in connection with the matter to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Providing Party.

Section 8. Indemnification. Each Receiving Party shall indemnify and hold harmless the Providing Party, its affiliates and their respective officers, directors and employees from and against any and all losses, liabilities, claims, damages, costs and expenses (including attorneys' fees and other expenses of litigation) to which such Providing Party may become subject arising out of the Services provided by such Providing Party to the Receiving Party hereunder, provided that such indemnity shall not protect any person against any liability to which such person would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on the part of such person.

Section 9. Further Assurances. Each of the parties will make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

Section 10. Notices. All communications hereunder shall be in writing and shall be addressed, if intended for Valhi, to Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240, Attention: President, or such other address as it shall have furnished to NL in writing, and if intended for NL, to Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas 77060, Attention: President, or such other address as it shall have furnished to Valhi in writing.

Section 11. Amendment and Modification. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

Section 12. Successor and Assigns. This Agreement shall be binding upon and inure to the benefit of Valhi and NL and their respective successors and assigns, except that neither party may assign its rights under this Agreement without the prior written consent of the other party.

Section 13. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

VALHI, INC.

By: _____
Steven L. Watson
Vice President

NL INDUSTRIES, INC.

By: _____
J. Landis Martin
President and Chief Executive Officer

INTERCORPORATE SERVICES AGREEMENT

INTERCORPORATE SERVICES AGREEMENT effective as of January 1, 1997, by and between Tremont Corporation ("Tremont"), a Delaware corporation, and NL Industries, Inc. ("NL"), a New Jersey corporation.

WHEREAS, Tremont desires that NL provide certain services to Tremont, and NL is willing to provide such services to Tremont pursuant to the terms of this Agreement.

NOW, THEREFORE, in consideration of the premises and promises set forth herein, the parties to this Agreement agree as follows:

1. Services Provided. NL will make available to Tremont the following services (the "Services"):

- a. certain administration and management services with respect to Tremont's insurance and risk management needs, including:
 - (i) management of claims (including insured and self-insured workers compensation and liability claims);
 - (ii) budgeting and related activities;
 - (iii) administration of Tremont's captive insurance company;
 - (iv) coordination of property loss control program; and
 - (v) administration of Tremont's insurance program, excluding all employee benefit and welfare related programs.
- b. certain administration and management services with respect to Tremont's real properties and interests.
- c. consultation and assistance in performing internal audit projects, as requested.
- d. certain executive secretarial and administrative services.
- e. consultation and assistance in tax management and administration, including, without limitation, preparation and filing of tax returns, tax reporting, examinations by government authorities and tax planning.

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2. Fees for Services and Reimbursement of Expenses. During the Term of this Agreement, Tremont shall pay to NL an annual fee of \$183,900 (the "Annual Fee") for the Services described in paragraphs 1.a, 1.b, 1.d and 1.e above payable in quarterly installments as described below, plus all out-of-pocket expenses incurred in connection with the performance of such Services. The first quarterly installment of the Annual Fee shall be \$120,975 which includes reimbursements of \$100,000 for tax services provided by NL to Tremont and its subsidiaries in 1996. Thereafter, each quarterly installment due hereunder shall be \$20,975. In addition, Tremont will, within thirty (30) days after receipt of an invoice (such invoices to occur no more frequently than once per month), (A) pay to NL an amount equal to the product of \$600 multiplied by the number of days devoted by NL's internal auditors to providing Services described in paragraph 1.c above times the number of internal auditors providing such Services, and (B) reimburse NL for all out-of-pocket expenses incurred by NL in the performance of Services under this Agreement. Notwithstanding the foregoing, in the event that Tremont determines, in its sole discretion, that it no longer desires certain of the Services or NL determines, in its sole discretion, that it no longer desires to provide certain of the Services, then Tremont or NL, as appropriate, shall provide the other party with a ninety (90) day prior written notice of cancellation describing the Services to be terminated or discontinued and Tremont and NL during such ninety-day period shall agree to a pro-rata reduction of the fees due hereunder for such terminated or discontinued Services.

3. Limitation of Liability. In providing Services hereunder, NL shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither NL nor any officer, director, employee or agent of NL shall be liable to Tremont or its subsidiaries for any error of judgment or mistake of law or for any loss incurred by Tremont or its subsidiaries in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of NL or from NL's reckless disregard of obligations and duties under this Agreement.

4. Indemnification of NL by Tremont. Tremont shall indemnify and hold harmless NL, its subsidiaries and their respective officers, directors and employees from and against any and all losses, liabilities, claims, damages, costs and expenses (including reasonable attorneys' fees and other expenses of litigation) to which such party may become subject arising out of the provision by NL to Tremont and its subsidiaries of any of the Services, provided that such indemnity shall not protect any such party against any liability to which such person would otherwise be subject by reason of willful misfeasance, bad faith,

gross negligence or reckless disregard of obligations and duties hereunder.

5. Further Assurance. Each of the parties will make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

6. Notices. All communications hereunder shall be in writing and shall be addressed to:

If to NL: NL Industries, Inc.
 16825 Northchase Drive, Suite 1200
 Houston, Texas 77060
 Attention: General Counsel

If to Tremont: Tremont Corporation
 1999 Broadway, Suite 4300
 Denver, Colorado 80202
 Attention: General Counsel

or such other address as the parties shall have specified in writing.

7. Amendment and Modification. Neither this Agreement nor any item hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

8. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto, provided that this Agreement may not be assigned by either of the parties hereto without the prior written consent of the other party.

9. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. This Agreement shall be governed in all respects, including validity, interpretation and affect, by the laws of the State of Texas.

10. Term of Agreement. This Agreement shall be effective as of January 1, 1997, and shall remain in effect for a term of one year until December 31, 1997 (the "Term"); provided, however, the Agreement shall be extended on a quarter-to-quarter basis after the expiration of the Term unless written notification is given by either party thirty (30) days in advance of the first day of each successive quarter or unless it is terminated or succeeded by a subsequent written agreement of the parties hereto. Upon such termination or upon the expiration of this Agreement, the parties' rights and obligations hereunder shall cease and terminate except with respect to rights and obligations arising on or prior to the date of expiration or termination and the rights and obligations arising under paragraph 4 above.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the ____ day of _____, 1997, which Agreement will be deemed to be effective as of January 1, 1997.

NL INDUSTRIES, INC.

By: _____
Dennis G. Newkirk
Vice President

TREMONT CORPORATION

By: _____
J. Thomas Montgomery
Vice President and Controller

INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement") is made effective as of January 1, 1997, by and between Titanium Metals Corporation ("TIMET"), a Delaware corporation, and NL Industries, Inc. ("NL"), a New Jersey corporation.

WHEREAS, TIMET desires that NL provide certain insurance, risk management, loss control, internal audit, tax, and executive secretarial and administrative services to TIMET, as set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and promises set forth herein and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement agree as follows:

1. Services Provided. NL will make available to TIMET and its subsidiaries the following services (the "Services"):

- (a) certain administration and management services with respect to TIMET's insurance and risk management needs, including:
 - (i) management of claims (including insured and self-insured workers compensation and liability claims);
 - (ii) budgeting and related activities;
 - (iii) coordination of property loss control program; and
 - (iv) administration of TIMET's insurance program, excluding all employee benefit and welfare related programs.
- (b) consultation and assistance in performing internal audit projects, as requested.
- (c) consultation and assistance in tax management and administration, including, without limitation, preparation and filing of tax returns, tax reporting, examinations by government authorities and tax planning.
- (d) certain executive secretarial and administrative services.

2. Fees for Services and Reimbursement of Expenses. During the Term (as defined below) of the Agreement, TIMET shall pay to NL an annual fee of \$305,100 for the Services described in paragraphs 1(a), 1(c), and 1(d) above payable in quarterly installments of \$76,275 plus all out-of-pocket expenses incurred in connection with the performance of such Services. In addition, during the Initial Term and each Subsequent Term, TIMET will pay to NL within thirty (30) days after receipt of an invoice (such invoices to occur no more frequently than once per month) an amount equal to the product of \$600 multiplied by the number of days devoted by NL's internal auditors to providing Services described in paragraph 1(b) above times the number of internal auditors providing such Services plus all out-of-pocket expenses incurred in the performance of such Services; provided, however, in the event that TIMET determines, in its sole discretion, that it no longer desires certain of the Services or NL determines, in its sole discretion, that it no longer desires to provide certain of the

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Services, then TIMET or NL, as appropriate, shall provide the other party with a ninety (90) day prior written notice of cancellation describing the Services to be terminated or discontinued and TIMET and NL during such ninety-day period shall agree to a pro-rata reduction of the fees due hereunder for such terminated or discontinued Services.

3. Limitation of Liability. In providing Services hereunder, NL shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither NL nor any officer, director, employee or agent of NL shall be liable to TIMET or its subsidiaries for any error of judgment or mistake of law or for any loss incurred by TIMET or its subsidiaries in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of NL or from NL's reckless disregard of obligations and duties under this Agreement.

4. Indemnification of NL by TIMET. TIMET shall indemnify and hold harmless NL, its subsidiaries and their respective officers, directors and employees from and against any and all losses, liabilities, claims, damages, costs and expenses (including reasonable attorneys' fees and other expenses of litigation) to which such party may become subject arising out of the provision by NL to TIMET and its subsidiaries of any of the Services, provided that such indemnity shall not protect any such party against any liability to which such person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of obligations and duties hereunder.

5. Further Assurance. Each of the parties will make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

6. Notices. All communications hereunder shall be in writing and shall be addressed to:

If to NL: NL Industries, Inc.
16825 Northchase Drive, Suite 1200
Houston, Texas 77060
Attention: General Counsel

If to TIMET: Titanium Metals Corporation
1999 Broadway, Suite 4300
Denver, Colorado 80202
Attention: General Counsel

or such other address as the parties shall have specified in writing.

7. Amendment and Modification. Neither this Agreement nor any item hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

8. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto, provided that this Agreement may not be assigned by either of the parties hereto without the prior written consent of the other party.

9. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. This

Agreement shall be governed in all respects, including validity, interpretation and affect, by the laws of the State of Texas.

10. Term of Agreement. This Agreement shall be effective as of January 1, 1997, and shall remain in effect for one year until December 31, 1997 (the "Term"); provided, however, the Agreement shall be extended on a quarter-to-quarter basis after the expiration of the Term unless written notification is given by either party thirty (30) days in advance of the first day of each successive quarter or unless it is terminated or superseded by a subsequent written agreement of the parties hereto. Upon such termination or upon the expiration of this Agreement, the parties' rights and obligations hereunder shall cease and terminate except with respect to rights and obligations arising on or prior to the date of expiration or termination and the rights and obligations arising under paragraph 4 above.

IN WITNESS WHEREOF, the parties have duly executed this Agreement effective as of the ____ day of _____, 1997, which Agreement will be deemed to be effective as of January 1, 1997.

NL INDUSTRIES, INC.

By: _____
Dennis G. Newkirk
Vice President

TITANIUM METALS CORPORATION

By: _____
J. Thomas Montgomery
Vice President - Finance and Treasurer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NL INDUSTRIES INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.

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3-MOS	
	DEC-31-1997
	JAN-01-1997
	MAR-31-1997
	77,662
	0
	151,844
	2,699
	194,033
	444,722
	913,526
	472,279
	1,141,368
224,506	
	746,605
0	
	0
	8,355
1,141,368	(245,550)
	239,476
241,718	
	185,035
	185,035
	0
	0
18,958	
	(33,421)
	2,292
(35,721)	
	0
	0
	0
	(35,721)
	(0.70)
	(0.70)