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 June 30, 1998

OR

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

Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey	13-5267260
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
16825 Northchase Drive, Suite 1200, Houston, Texas	77060-2544
(Address of principal executive offices)	(Zip Code)

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

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

Number of shares of common stock outstanding on August 6, 1998: 51,370,314

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 1997	June 30, 1998
Current assets:		
Cash and cash equivalents, including restricted cash of $9,751 and $5,858	$ 106,145	$ 355,320
Accounts and notes receivable	148,676	165,210
Refundable income taxes	1,941	6,370
Inventories	192,780	169,377
Prepaid expenses	3,348	5,402
Deferred income taxes	1,642	1,561
Total current assets	454,532	703,240
Other assets:		
Marketable securities	17,270	18,652
Investment in joint ventures	172,721	171,202
Prepaid pension cost	23,848	23,787
Other	18,592	13,202
Total other assets	232,431	226,843
Property and equipment:		
Land	19,479	18,589
Buildings	150,090	137,293
Machinery and equipment	616,309	556,267

Mining properties	88,617	81,528
Construction in progress	2,577	5,231
	877,072	798,908
Less accumulated depreciation and depletion	465,843	430,110
Net property and equipment	411,229	368,798
	$1,098,192	$1,298,881

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 1997	June 30, 1998
Current liabilities:		
Notes payable	$ 13,968	$ 33,680
Current maturities of long-term debt	77,374	191,610
Accounts payable and accrued liabilities	161,730	167,097
Payable to affiliates	11,512	11,128
Income taxes	10,910	25,662
Deferred income taxes	891	607
Total current liabilities	276,385	429,784
Noncurrent liabilities:		
Long-term debt	666,779	338,868
Deferred income taxes	132,797	184,275
Accrued pension cost	44,389	41,206
Accrued postretirement benefits cost	50,951	44,757
Other	148,903	148,631
Total noncurrent liabilities	1,043,819	757,737
Minority interest	257	589
Shareholders' equity:		
Common stock	8,355	8,355
Additional paid-in capital	759,281	770,492
Accumulated deficit	(495,421)	(172,218)
Accumulated other comprehensive loss	(129,513)	(131,686)
Treasury stock	(364,971)	(364,172)
Total shareholders' equity (deficit)	(222,269)	110,771

	$ 1,098,192	$ 1,298,881

Commitments and contingencies (Note 14)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	1997	1998	1997	1998
Revenues and other income:				
Net sales	$214,354	$241,645	$418,743	$464,274
Other, net	6,339	7,288	8,762	13,269
	220,693	248,933	427,505	477,543
Costs and expenses:				
Cost of sales	172,679	167,329	339,854	324,244
Selling, general and administrative	35,568	33,629	99,601	66,268
Interest	16,540	15,452	32,715	31,851
	224,787	216,410	472,170	422,363
Income (loss) from continuing operations before income taxes and minority interest	(4,094)	32,523	(44,665)	55,180
Income tax expense (benefit)	(702)	9,105	(1,106)	15,447
Income (loss) from continuing operations before minority interest	(3,392)	23,418	(43,559)	39,733
Minority interest	36	4	49	19
Income (loss) from continuing operations	(3,428)	23,414	(43,608)	39,714
Discontinued operations	5,683	336	10,142	287,396
Extraordinary item - early extinguishment of debt, net of tax benefit of $12 and $1,275, respectively	-	(21)	-	(2,366)

Net income (loss)	$ 2,255	$ 23,729	$(33,466)	$324,744

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	1997	1998	1997	1998
Basic earnings per share:				
Continuing operations	$ (.07)	$ .46	$ (.85)	$ .77
Discontinued operations	.11	--	.20	5.61
Extraordinary item	--	--	--	(.05)
Net income (loss)	$ .04	$ .46	$ (.65)	$ 6.33
Diluted earnings per share:				
Continuing operations	$ (.07)	$ .45	$ (.85)	$ .77
Discontinued operations	.11	.01	.20	5.53
Extraordinary item	--	--	--	(.05)
Net income (loss)	$ .04	$ .46	$ (.65)	$ 6.25
Shares used in the calculation of earnings per share:				
Basic	51,144	51,341	51,142	51,311
Dilutive impact of stock options	--	689	--	636
Diluted	51,144	52,030	51,142	51,947

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	1997	1998	1997	1998
Net income (loss)	$ 2,255	$ 23,729	$ (33,466)	$ 324,744
Other comprehensive income (loss), net of tax:				
Marketable securities adjustment	941	407	1,967	899
Currency translation adjustment	(8,255)	(3,472)	(7,505)	(3,072)
Total other comprehensive income (loss)	(7,314)	(3,065)	(5,538)	(2,173)
Comprehensive income (loss)	$ (5,059)	$ 20,664	$ (39,004)	$ 322,571

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Six months ended June 30, 1998

(In thousands)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss): Currency translation	Accumulated other comprehensive income (loss): Marketable securities	Treasury stock	Total
Balance at December 31, 1997	$ 8,355	$ 759,281	$(495,421)	$(133,810)	$ 4,297	$(364,971)	$(222,269)
Net income	--	--	324,744	--	--	--	324,744
Other comprehensive income (loss), net	--	--	--	(3,072)	899	--	(2,173)
Dividends	--	--	(1,541)	--	--	--	(1,541)
Cash received upon settlement of shareholder derivative lawsuit, net of $3,198 in legal fees and expenses	--	11,211	--	--	--	--	11,211
Treasury stock reissued	--	--	--	--	--	799	799
Balance at June 30, 1998	$ 8,355	$ 770,492	$(172,218)	$(136,882)	$ 5,196	$(364,172)	$ 110,771

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 1997 and 1998

(In thousands)

	1997	1998
Cash flows from operating activities:		
Net income (loss)	$ (33,466)	$ 324,744
Depreciation, depletion and amortization	17,496	16,989
Noncash interest expense	11,210	11,919
Deferred income taxes	(803)	1,496
Change in accounting for environmental remediation costs	30,000	--
Discontinued operations:		
Net gain from sale of Rheox	--	(286,071)
Income from operations of Rheox	(10,142)	(1,325)
Other, net	(7,287)	(5,948)
	7,008	61,804
Change in assets and liabilities:		
Accounts and notes receivable	(34,137)	(39,273)
Inventories	30,284	2,019
Prepaid expenses	(1,899)	(2,563)
Accounts payable and accrued liabilities	(4,142)	2,807
Income taxes	7,230	(7,186)
Other, net	(4,867)	20,547
Rheox, net	14,843	(20,791)
Net cash provided by operating activities	14,320	17,364
Cash flows from investing activities:		
Proceeds from sale of Rheox	--	435,080
Capital expenditures	(15,589)	(8,210)
Collection of note receivable	--	6,875
Investment in joint venture, net	3,507	(371)
Proceeds from disposition of property and equipment	2,906	179
Rheox, net	(733)	(26)
Net cash provided (used) by investing activities	(9,909)	433,527

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Six months ended June 30, 1997 and 1998

(In thousands)

	1997	1998
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ --	$ 30,491
Principal payments	(163,599)	(116,672)
Deferred financing costs	(2,343)	--
Settlement of shareholder derivative lawsuit, net ..	--	11,211
Dividends	--	(1,541)
Rheox, net	123,678	(117,500)
Other, net	240	797
Net cash used by financing activities	(42,024)	(193,214)
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(37,613)	257,677
Currency translation	(1,923)	(872)
Sale of Rheox	--	(7,630)
Balance at beginning of period	114,115	106,145
Balance at end of period	$ 74,579	$ 355,320
Supplemental disclosures - cash paid (received) for:		
Interest, net of amounts capitalized	$ 27,049	$ 20,850
Income taxes, net	(2,739)	39,019

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

NL Industries, Inc. conducts its titanium dioxide pigments ("TiO2") operations through its wholly-owned subsidiary, Kronos, Inc. In January 1998 the specialty chemicals business of Rheox, Inc., a wholly-owned subsidiary of NL, was sold. At June 30, 1998 Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, held approximately 58% and 18%, respectively, of NL's outstanding common stock, and together may be deemed to control NL. At June 30, 1998 Contran and its subsidiaries held approximately 92% of Valhi's outstanding common stock, and Valhi and other entities related to Harold C. Simmons held approximately 53% of Tremont's outstanding common stock.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 1997 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 1998 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the interim periods ended June 30, 1997 and 1998 have been prepared by the Company, without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Certain prior-year amounts have been reclassified to conform to the current year presentation, including reporting the Company's specialty chemicals business as a discontinued operation. 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, 1997 (the "1997 Annual Report").

The Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, no later than the first quarter of 2000. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, all derivatives will be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives will depend upon the intended use of the derivative. The Company is currently studying this newly-issued accounting rule, and the impact of adopting SFAS No. 133, if any, has not yet been determined but will be dependent upon the extent to which the Company is a party to derivative contracts or hedging activities at the time of adoption. At June 30, 1998 the Company is not a party to any derivative contracts.

Note 2 - Earnings per share:

Basic earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average common shares outstanding and the dilutive impact of outstanding stock options.

Note 3 - Business segment information:

The Company's continuing operations are conducted by Kronos in one business segment - TiO2.

	Three months ended June 30,		Six months ended June 30,	
	1997	1998	1997	1998
	(In thousands)			
Net sales	$ 214,354	$ 241,645	$ 418,743	$ 464,274
Other income, excluding corporate	5,519	1,335	7,170	2,683
	219,873	242,980	425,913	466,957
Cost of sales	172,679	167,329	339,854	324,244
Selling, general and				

administrative, excluding corporate	30,379	28,926	60,555	56,589
Operating income	16,815	46,725	25,504	86,124
General corporate income (expense):				
Securities earnings, net	528	4,554	1,227	8,402
Expenses, net	(4,897)	(3,304)	(38,681)	(7,495)
Interest expense	(16,540)	(15,452)	(32,715)	(31,851)
	$ (4,094)	$ 32,523	$ (44,665)	$ 55,180

Corporate expenses, net decreased in the first half of 1998 due to the $30 million noncash charge taken in the first quarter of 1997 related to the adoption of a new method of accounting for certain environmental remediation costs.

Note 4 - Inventories:

	December 31, 1997	June 30, 1998
	(In thousands)	
Raw materials	$ 45,844	$ 38,919
Work in process	8,018	7,233
Finished products	107,427	90,433
Supplies	31,491	32,792
	$192,780	$169,377

Note 5 - Marketable securities:

	December 31, 1997	June 30, 1998
	(In thousands)	
Available-for-sale securities - noncurrent marketable equity securities:		
Unrealized gains	$ 6,939	$ 8,362
Unrealized losses	(328)	(369)
Cost	10,659	10,659
Aggregate market	$ 17,270	$ 18,652

Note 6 - Investment in joint ventures:

	December 31, 1997	June 30, 1998
	(In thousands)	
TiO2 manufacturing joint venture	$170,830	$171,202

Other	1,891	--
	$172,721	$171,202

Note 7 - Other noncurrent assets:

	December 31, 1997	June 30, 1998
	(In thousands)	
Deferred financing costs, net	$ 9,973	$ 6,913
Intangible assets, net	4,228	2,960
Other	4,391	3,329
	$18,592	$13,202

Note 8 - Accounts payable and accrued liabilities:

	December 31, 1997	June 30, 1998
	(In thousands)	
Accounts payable	$ 64,698	$ 52,171
Accrued liabilities:		
Employee benefits	40,110	32,380
Environmental costs	9,000	23,000
Interest	6,966	6,733
Other	40,956	52,813
	97,032	114,926
	$161,730	$167,097

Note 9 - Other noncurrent liabilities:

	December 31, 1997	June 30, 1998
	(In thousands)	
Environmental costs	$125,502	$110,440
Insurance claims and expenses	11,436	11,364
Employee benefits	10,835	9,563
Deferred income	--	14,333
Other	1,130	2,931

	$148,903	$148,631

Note 10 - Notes payable and long-term debt:

	December 31, 1997	June 30, 1998
	(In thousands)	
Notes payable - Kronos (DM 25,000 and DM 60,500, respectively)	$ 13,968	$ 33,680
Long-term debt:		
NL Industries:		
11.75% Senior Secured Notes	$250,000	$244,000
13% Senior Secured Discount Notes	169,857	168,995
	419,857	412,995
Kronos:		
DM bank credit facility (DM 288,322 and DM 207,322, respectively)	161,085	115,416
Joint venture term loan	42,429	--
Other	3,282	2,067
	206,796	117,483
Rheox - bank term loan	117,500	--
	744,153	530,478
Less current maturities	77,374	191,610
	$666,779	$338,868

The Company currently intends to redeem the 13% Senior Secured Discount Notes on October 15, 1998 at the redemption price of 106% of the principal amount, in accordance with the terms of the Discount Notes indenture. As a result, the Discount Notes have been classified as a current liability at June 30, 1998.

Note 11 - Income taxes:

The difference between the provision for income tax expense attributable to income from continuing operations 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.

	Six months ended June 30,	
	1997	1998
	(In thousands)	

Expected tax expense (benefit)	$(15,633)	$ 19,313
Non-U.S. tax rates	(440)	(70)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return	1,440	1,519
Change in valuation allowance	12,775	(5,256)
U.S. state income taxes	75	200
Other, net	677	(259)
Income tax expense (benefit)	$ (1,106)	$ 15,447

Note 12 - Other income, net:

	Three months ended June 30,		Six months ended June 30,	
	1997	1998	1997	1998
	(In thousands)			
Corporate interest and dividend income	$ 351	$ 4,554	$ 948	$ 8,402
Noncompete agreement income	--	1,000	--	1,667
Currency transaction gains, net	2,302	1,134	3,065	1,717
Trade interest income	646	456	1,288	1,037
Gain (loss) from disposition of property and equipment	2,794	(278)	2,763	(302)
Other, net	246	422	698	748
	$ 6,339	$ 7,288	$ 8,762	$ 13,269

Note 13 - Discontinued operations:

The Company sold the net assets of its Rheox specialty chemicals business for $465 million cash (before fees and expenses) in the first quarter of 1998, including $20 million attributable to a five-year agreement by the Company not to compete in the rheological products business. The Company recognized an after-tax gain of approximately $286 million on the sale of this business segment. A portion of the after-tax proceeds of about $380 million have been used to reduce outstanding indebtedness by approximately $177 million.

Condensed income statement data related to discontinued operations for the interim periods ended June 30, 1997 and 1998 are as follows. Interest expense has been allocated to discontinued operations based on the amount of debt specifically attributed to Rheox's operations.

	Six months ended June 30,	
	1997	1998
	(In thousands)	
Operations:		
Net sales	$ 73,527	$ 12,630

Operating income	$ 22,098	$ 2,900
Interest and other expenses	5,822	797
Income before income taxes and minority interest	16,276	2,103
Income tax expense	6,155	778
Minority interest	(21)	--
	10,142	1,325
Gain from sale of Rheox, net of tax expense of $86,222	-	286,071
	$10,142	$287,396

Condensed cash flow data for Rheox (excluding dividends paid to, contributions received from and intercompany loans with NL) is presented below:

	Six months ended June 30,	
	1997	1998
	(In thousands)	
Cash flows from:		
Operating activities	$ 14,843	$ (20,791)
Investing activities - capital expenditures and other	(733)	(26)
Financing activities - indebtedness, net	123,678	(117,500)
	$ 137,788	$(138,317)

Note 14 - Commitments and contingencies:

For descriptions of certain legal proceedings, income tax and other commitments and contingencies related to the Company, reference is made to (i) Note 15, (ii) Management's Discussion and Analysis of Financial Condition and Results of Operations, (iii) Part II, Item 1 -"Legal Proceedings," (iv) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, and (v) the 1997 Annual Report.

Note 15 - Subsequent event:

In July 1998 the Company reached an agreement (the "Tioxide Purchase") to (i) acquire the North American TiO2 operations of Imperial Chemical Industries plc's ("ICI") subsidiary, Tioxide Group Limited, and a Tioxide TiO2 plant in England, and (ii) cancel certain rights to chloride-process technology licensed to Tioxide by the Company in connection with the formation of Louisiana Pigment Company ("LPC") in 1993. The aggregate amount to be paid to ICI is approximately $365 million, including a $30 million fee for the cancellation of technology rights and approximately $50 million in working capital. The purchase is subject to regulatory clearances, completion of the purchase by E.I. du Pont de Nemours & Co. of ICI's non-North American TiO2 business (the "DuPont Purchase"), and other conditions customary to transactions of this type.

The operations to be acquired include Tioxide's 50%-interest in LPC, a manufacturing joint venture of the Company and Tioxide that operates a chloride-process TiO2 plant in Louisiana with capacity of approximately 120,000 metric tons per annum ("mtpa"); Tioxide's 75,000 mtpa sulfate-process TiO2 plant in Grimsby, England; Tioxide's 52,000 mtpa finishing plant in Tracy, Quebec; and Tioxide's North American marketing and distribution business.

Upon completion of the DuPont Purchase and the Tioxide Purchase, the Company expects to become the world's third largest manufacturer of TiO2, increasing its productive capacity by approximately 135,000 mtpa.

The Company expects the Tioxide Purchase to close by the end of 1998.

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

RESULTS OF OPERATIONS

	Three months ended June 30, 1997	Three months ended June 30, 1998	% Change	Six months ended June 30, 1997	Six months ended June 30, 1998	% Change
	(In millions)			(In millions)		
Net sales	$ 214.4	$ 241.6	+13%	$ 418.8	$ 464.3	+11%
Operating income	$ 16.8	$ 46.7	+178%	$ 25.5	$ 86.1	+238%
Percent changes in TiO2:						
Sales volume			N/C			+1%
Average selling prices (in billing currencies) .			+18%			+18%

Kronos' operating income in the second quarter and first half of 1998 increased from the comparable periods in 1997 due to higher average selling prices and improved production volume. Kronos expects its second-half 1998 operating income will continue to outpace 1997 operating income, primarily because of higher average TiO2 selling prices for 1998 compared to 1997.

Average TiO2 selling prices for the second quarter of 1998 were 18% higher than the second quarter of 1997 and 3% higher than the first quarter of 1998. Selling prices at the end of the second quarter were 1% higher than the average for the quarter.

Kronos' second quarter sales volume approximated the record second quarter of 1997 with higher sales volume in Europe offsetting lower sales volume in Asia. Sales volume in the first six months of 1998 was 1% higher than the year-earlier period. Kronos anticipates its TiO2 sales volume for full-year 1998 will approximate volumes for calendar year 1997.

Kronos' cost of sales as a percentage of net sales decreased in the second quarter and first half of 1998 primarily due to higher average selling prices. Kronos' selling, general and administrative expenses decreased in the second quarter and first half of 1998 due to favorable effects of foreign currency translation.

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 second quarter and first half of 1998 by $7 million and $22 million, respectively, compared to the comparable 1997 periods.

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

	Three months ended June 30, 1997	Three months ended June 30, 1998	Difference	Six months ended June 30, 1997	Six months ended June 30, 1998	Difference
	(In millions)					
Securities earnings ...	$ .5	$ 4.6	$ 4.1	$ 1.2	$ 8.4	$ 7.2
Corporate expenses, net	(4.9)	(3.3)	1.6	(38.7)	(7.5)	31.2
Interest expense	(16.5)	(15.5)	1.0	(32.7)	(31.9)	.8
	$ (20.9)	$ (14.2)	$ 6.7	$ (70.2)	$ (31.0)	$ 39.2

Securities earnings increased due to higher average balances available for investment. Corporate expenses, net in the first half of 1998 was lower than the comparable period in 1997 due to the $30 million noncash charge taken in the first quarter of 1997 related to the Company's adoption of SOP No. 96-1, "Environmental Remediation Liabilities." This charge is included in selling, general and administrative expense in the Company's consolidated statements of income. Upon completion of the Tioxide Purchase, the Company expects to charge to corporate expenses a $30 million fee for the cancellation of certain chloride-process technology rights licensed to Tioxide by the Company in 1993.

The Company sold the net assets of its Rheox specialty chemicals business in the first quarter of 1998 and, as a result of the sale, Rheox's results are reported as discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the six months ended June 30, 1997 and 1998 are presented below.

	Six months ended June 30, 1997	Six months ended June 30, 1998
	(In millions)	
Net cash provided (used) by:		
Operating activities	$ 14.3	$ 17.4
Investing activities	(9.9)	433.5
Financing activities	(42.0)	(193.2)
Net cash provided (used) by operating, investing and financing activities	$ (37.6)	$ 257.7

The TiO_2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of the Company. Cash flow from operations, before changes in assets and liabilities, in the 1998 period improved from the comparable period in 1997 due to higher operating income. Changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) used cash in both the first half of 1997 and 1998; however, the cash used in the first half of 1997 was significantly less than the first half of 1998 due to cash provided from reductions in inventory levels in the 1997 period.

The sale of the Company's specialty chemicals business in the first quarter of 1998 resulted in net proceeds of $380 million after current income taxes and other expenses. The Company used a portion of the net proceeds to repay certain indebtedness, as described below, and plans to use a portion of the net proceeds to redeem the 13% Senior Secured Discount Notes on October 15, 1998 at the redemption price of 106% of the principal amount, in accordance with the terms of the Discount Notes indenture.

With a portion of the net proceeds, the Company (i) prepaid $118 million of the Rheox credit facility, (ii) prepaid $42 million of Kronos' share of the LPC joint venture term loan, (iii) made $15 million of open-market purchases of the Company's 13% Senior Secured Discount Notes at prices ranging from $101.25 to $104.56 per $100 of their principal amounts, including $4 million purchased in July 1998, and (iv) purchased $6 million of the Senior Secured Notes and $61 thousand of the Senior Secured Discount Notes at a price of $100 and $96.03 per $100 of their principal amounts, respectively, pursuant to a pro rata tender offer to Note holders in June 1998.

The Company prepaid DM 81 million ($44 million when paid) of its DM term loan in the first quarter of 1998. A portion of the funds for such prepayment of the DM term loan was provided by a first-quarter DM 35 million ($19 million when borrowed) increase in outstanding borrowings under the Company's short-term non-U.S. credit facilities. In the second quarter of 1998, the Company repaid DM 20 million ($11 million when paid) of the DM revolving credit facility.

In order to complete the Tioxide Purchase, the Company expects to arrange approximately $250 million in bank financing.

At June 30, 1998 the Company had cash and cash equivalents aggregating $355 million (10% held by non-U.S. subsidiaries), including restricted cash equivalents of $6 million. The Company's subsidiaries had $75 million available for borrowing at June 30, 1998 under existing non-U.S. credit facilities.

In the second quarter of 1998 the Company paid a regular quarterly dividend of $.03 per share to shareholders aggregating $1.5 million. In July 1998 the Company's Board of Directors declared a regular quarterly dividend of $.03 per share to shareholders of record as of September 16, 1998 to be paid on September 30, 1998. In June 1998, as a result of the settlement of a shareholder derivative lawsuit on behalf of the Company, Valhi transferred $14.4 million in cash to the Company, and the Company agreed to pay plaintiffs' attorneys' fees and expenses of $3.2 million.

Certain of the Company's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies. The Company 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. During 1997 the Company reached a tentative agreement with the German tax authorities regarding the years 1991 through 1994, and expects to pay DM 9 million ($5 million at June 30, 1998) during the second half of 1998 in settlement of certain tax issues. Certain

other significant German tax contingencies remain outstanding for the years 1990 through 1996 and will continue to be litigated. With respect to these contingencies, the Company has received certain revised tax assessments aggregating DM 119 million ($66 million at June 30, 1998), including non-income tax related items and interest, for years through 1996. The Company expects to receive tax assessments for an additional DM 20 million ($11 million at June 30, 1998), including non-income tax related items and interest, for the years 1991 through 1994. No payments of tax or interest deficiencies related to these assessments are expected until the litigation is resolved.

During 1997 a German tax court proceeding involving a tax issue substantially the same as that involved in the Company's primary remaining tax contingency was decided in favor of the taxpayer. The German tax authorities have appealed that decision to the German Supreme Court; the Company believes that the decision by the German Supreme Court will be rendered within two years and will become a legal precedent which will likely determine the outcome of the Company's primary dispute with the German tax authorities, which assessments, including non-income tax related items and interest, aggregate DM 121 million. Although the Company believes that it will ultimately prevail, the Company has granted a DM 94 million ($52 million at June 30, 1998) lien on its Nordenham, Germany TiO2 plant in favor of the City of Leverkusen, and a DM 5 million ($3 million at June 30, 1998) lien in favor of the German federal tax authorities.

During 1997 the Company received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($7 million at June 30, 1998) relating to 1994. The Company has appealed this assessment and expects to litigate this issue. Although the Company believes that it will ultimately prevail, the Company has granted a lien for the full amount of the tax assessment on its Fredrikstad, Norway TiO2 plant in favor of the Norwegian tax authorities.

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

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 ($133 million at June 30, 1998) 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 $165 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. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage. 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 acquisition or joint venture transaction, the Company may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt.

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 1997 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 1997 Annual Report and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 for descriptions of certain previously-reported legal proceedings.

Brenner, et al. v. American Cyanamid, et al. (No. 12596-93). In June 1998 defendants moved for partial summary judgment dismissing plaintiffs' market share and alternative liability claims.

Parker v. NL Industries, et al. (No. 97085060 CC915). In July 1998 the Court granted the Company's motion for summary judgment on all remaining claims. Plaintiffs have appealed.

Granite City Site. The Company has been informed that the U.S. EPA has reached an agreement in principle with the other PRPs settling their liabilities with respect to the site for approximately 50% of the site costs. The Company is negotiating with the U.S. EPA to settle its liability.

Pedricktown Site. In June 1998 the Company entered into a consent decree with the U.S. EPA and other PRPs to perform the remedial action phase at operable unit one. In addition, the Company reached an agreement in principle with certain PRPs with respect to the Company's liability at the site to settle this matter within previously-accrued amounts.

State of Illinois v. NL Industries, et al. (No. 88-CH-11618). In June 1998 the Illinois appellate court affirmed the ruling of the trial court dismissing the case. The State has petitioned the Supreme Court of Illinois to review the case.

United States v. Peter Gull and NL Industries, Inc. (No. 91-4098). In June 1998 the Company concluded the previously-reported agreement settling this matter within previously-accrued amounts.

Seinfeld v. Simmons, et al. (No. C-336-96). In May 1998 the previously-reported settlement was approved by the Court. In June 1998, pursuant to the settlement, Valhi transferred $14.4 million to the Company and the Company has agreed to reimburse plaintiffs' attorneys $3.2 million for fees and expenses.

DeLeon v. Exide Corp. and NL Industries, Inc. (No. DV98-02669-B). In May 1998 the Company answered the complaint, denying liability.

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

The Company held its Annual Meeting of Shareholders on May 8, 1998. All the nominees for director were elected with the voting results for each as follows:

Director	Shares For	Shares Withheld
Joseph S. Compofelice	49,246,697	368,524
J. Landis Martin	49,242,703	372,518
Kenneth R. Peak	49,248,164	367,057
Glenn R. Simmons	49,238,257	367,964
Harold C. Simmons	49,238,740	376,481
Lawrence A. Wigdor	49,249,362	365,859
Admiral Elmo R. Zumwalt, Jr.	49,236,213	379,008

The Company's shareholders also approved the Company's proposed 1998 Long-Term Incentive Plan with the voting results as follows:

Shares For	Shares Against	Shares Abstained
44,032,247	2,812,268	191,584

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 - Financial Data Schedule for the six-month period ended June 30, 1998.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended June 30, 1998 and through the date of this report:

May 20, 1998 - reported Items 5 and 7.
June 18, 1998 - reported Items 5 and 7.
July 2, 1998 - reported Items 5 and 7.
July 17, 1998 - reported Items 5 and 7.
July 24, 1998 - 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: August 6, 1998

By /s/ Susan E. Alderton

Susan E. Alderton
Vice President and
Chief Financial Officer

Date: August 6, 1998

By /s/ Dennis G. Newkirk

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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NL INDUSTRIES, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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