

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 (Fee Required) - For the fiscal year ended December 31, 1994
OR
— TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
Commission file number 1-640

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

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

13-5267260
(IRS Employer
Identification No.)

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

77060
(Zip Code)

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

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

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

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

None.

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

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

As of February 28, 1995, 51,052,443 shares of common stock were outstanding.
The aggregate market value of the 15,091,253 shares of voting stock held by
nonaffiliates as of such date approximated \$179 million.

Documents incorporated by reference:

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

PART I

ITEM 1. BUSINESS

GENERAL

NL Industries, Inc., organized as a New Jersey corporation in 1891, conducts its operations through its principal wholly-owned subsidiaries, Kronos, Inc. and Rheox, Inc. Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, hold 52% and 18%, respectively, of NL's outstanding common stock. Contran holds, directly or through subsidiaries, approximately 90% of Valhi's and 44% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board, President and Chief Executive Officer of each of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies. NL and its consolidated subsidiaries are sometimes referred to herein collectively as the "Company".

Kronos is the world's fourth largest producer of titanium dioxide pigments ("TiO2") with an estimated 11% share of the worldwide market. Approximately one-half of Kronos' 1994 sales volume was in Europe, where Kronos is the second largest producer of TiO2. Kronos accounted for 87% of the Company's sales and 72% of its operating income in 1994. Rheox is the world's largest producer of rheological additives for solvent-based systems, supplying an estimated 40% of the worldwide market.

The Company's objectives are to (i) focus on continued cost control, (ii) deleverage during the current up cycle and (iii) invest in certain cost effective debottlenecking projects to increase TiO2 production capacity.

KRONOS

INDUSTRY

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

Demand, supply and pricing of TiO2 have historically been cyclical. The last cyclical peak for TiO2 prices occurred in early 1990 with a cyclical low point reached in the third quarter of 1993. The Company's average selling prices for TiO2 began an upward trend during 1994 and prices at the end of 1994 were about 10% higher than the 1993 low point, but were still approximately 26% below those of the last cyclical peak in 1990.

The Company believes that the TiO2 industry has significant long-term potential. During the early 1990s, the TiO2 industry operated at lower capacity utilization levels relative to the high utilization levels prevalent during the late 1980s, in part because of the slow recovery from the worldwide recession but primarily due to the impact of capacity additions since the late 1980s. The Company expects that the TiO2 industry will recover more slowly compared with the previous recovery in the late 1980s, primarily because of the more gradual nature of recent growth of the worldwide economy and the impact of capacity additions since the late 1980s. Recent improvements in economic growth rates have resulted in increased demand for TiO2. Industry capacity utilization, which the Company believes was less than 90% during 1990 through 1993, was about 92% in 1994 and is continuing to rise due to improved demand.

Kronos has an estimated 18% share of European TiO2 sales and an estimated 9% share of U.S. TiO2 sales. Consumption per capita in the United States and Western Europe far exceeds that in other areas of the world and these regions are expected to continue to be the largest geographic markets for TiO2 consumption. If the economies in Eastern Europe, the Far East and China continue to develop, a significant market for TiO2 could emerge in those countries and Kronos believes that it is well positioned to participate in growth in the Eastern European market. Geographic segment information is contained in Note 3 to the Consolidated Financial Statements.

PRODUCTS AND OPERATIONS

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

TiO₂. The Company believes that the use of extenders will not materially alter the growth of the TiO₂ business in the foreseeable future.

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

Kronos is one of the world's leading producers and marketers of TiO₂. Kronos and its distributors and agents sell and provide technical services for its products to over 5,000 customers with the majority of sales in Europe, the United States and Canada.

Kronos' international operations are conducted through Kronos International, Inc. ("KII"), a German-based holding company formed in 1989 to manage and coordinate the Company's manufacturing operations in Germany, Canada, Belgium and Norway, and its sales and marketing activities in over 100 countries worldwide. The Company believes that KII's structure allows it to capitalize on expertise and technology developed in Germany over a 60-year period.

Kronos and its predecessors have produced and marketed TiO₂ in North America and Europe for over 70 years. As a result, Kronos believes that it has developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products in domestic and international markets. By volume, one-half of Kronos' 1994 TiO₂ sales were to Europe, with 36% to North America and the balance to export markets.

Kronos is also engaged in the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the pigment production processes). Water treatment chemicals are used as treatment and conditioning agents for industrial effluents and municipal wastewater and in the manufacture of iron pigments.

MANUFACTURING PROCESS AND RAW MATERIALS

TiO₂ is manufactured by Kronos using either the chloride or sulfate pigment production process. Although most end-use applications can use pigments produced by either process, chloride process pigments are generally preferred in certain segments of the coatings and plastics applications, and sulfate process pigments are generally preferred for paper, fibers and ceramics applications. Due to environmental factors and customer considerations, the proportion of TiO₂ industry sales represented by chloride process pigments has increased relative to sulfate process pigments in the past few years. Approximately two-thirds of Kronos' current production capacity is based on an efficient chloride process technology.

Kronos produced 357,000 metric tons of TiO₂ in 1994, compared to 352,000 metric tons in 1993 and 358,000 metric tons in 1992. Kronos believes its annual attainable production capacity is approximately 380,000 metric tons, including its one-half interest in the joint venture-owned Louisiana plant (see "TiO₂ manufacturing joint venture"). The Company plans to spend \$25 million in

capital expenditures over the next three years for a debottlenecking project at its Leverkusen, Germany chloride process plant that is expected to increase the Company's annual attainable production capacity by 20,000 metric tons to approximately 400,000 tons in 1997.

The primary raw materials used in the TiO₂ chloride production process are chlorine, coke and titanium-containing feedstock derived from beach sand ilmenite and rutile. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited number of suppliers around the world, principally in Australia, Africa, India and the United States. Kronos purchases slag refined from beach sand ilmenite from Richards Bay Iron and Titanium (Proprietary) Ltd. (South Africa), approximately 50% of which is owned by Q.I.T. Fer et Titane Inc. ("QIT"), an indirect subsidiary of RTZ Corp. Natural rutile ore is purchased primarily from suppliers located in Australia and Africa.

The primary raw materials used in the TiO₂ sulfate production process are sulfuric acid and titanium-containing feedstock derived primarily from rock and beach sand ilmenite. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and

South Africa. As one of the few vertically-integrated producers of sulfate process pigments, Kronos operates a rock ilmenite mine near Hauge i Dalane, Norway, which provided all of Kronos' feedstock for its European sulfate process pigment plants in 1994. Kronos' mine is also a commercial source of rock ilmenite for other sulfate process producers in Europe. The Company believes it supplies nearly 40% of the Western European demand, including the Company, for sulfate feedstock. Kronos also purchases sulfate grade slag under contracts negotiated annually with QIT and Tinfos Titanium and Iron K/S.

Kronos believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate in the near term; however, tightening supplies for the chloride process may be encountered in the late 1990s. Kronos does not anticipate experiencing any interruptions of its raw material supplies.

TiO2 MANUFACTURING JOINT VENTURE

In October 1993, Kronos formed a manufacturing joint venture with Tioxide Group, Ltd., a wholly-owned subsidiary of Imperial Chemicals Industries PLC ("Tioxide"). The joint venture, which is equally owned by subsidiaries of Kronos and Tioxide (the "Partners"), owns and operates the Louisiana chloride process TiO2 plant formerly owned by Kronos. Production from the plant is shared equally by Kronos and Tioxide pursuant to separate offtake agreements.

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

The manufacturing joint venture is intended to be operated on a break-even basis and, accordingly, Kronos' transfer price for its share of the TiO2 produced is equal to its share of the joint venture's production costs and interest expense. Kronos' share of the production costs are reported as cost of sales as the related TiO2 acquired from the joint venture is sold, and its share of the joint venture's interest expense is reported as a component of interest expense.

COMPETITION

The TiO2 industry is highly competitive. During the late 1980s worldwide demand approximated available supply and the major producers, including Kronos, were operating at or near available capacity and customers generally were served on an allocation basis. During the early 1990s, supply exceeded demand, primarily due to new chloride process capacity coming on-stream. Relative supply/demand relationships, which had a favorable impact on industry-wide prices during the

late 1980s, had a negative impact during the recent downward cycle. During 1994, demand growth resulting from improved economic conditions, coupled with limited capacity increases, improved industry capacity utilization to about 92% and resulted in increases in worldwide prices. During the last upturn cycle, which ended in early 1990, peak average TiO2 prices were about 70% higher than the previous trough.

New plant capacity additions in the worldwide TiO2 market are slow to develop because of the significant capital expenditures and substantial lead time (typically three to five years in the Company's experience) for, among other things, planning, obtaining environmental approvals and construction.

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

Kronos' principal competitors are E.I. du Pont de Nemours & Co. ("DuPont"); Imperial Chemical Industries PLC (Tioxide); Hanson PLC (SCM Chemicals); Kemira Oy; Ishihara Sangyo Kaisha, Ltd.; Bayer AG; Thann et Mulhouse; and Kerr-McGee Corporation. These eight competitors have estimated individual worldwide market shares ranging from 4% to 21%, and an estimated aggregate 74% share. DuPont has over one-half of total U.S. TiO2 production capacity and is Kronos' principal North American competitor.

Kronos has completed a major environmental protection and improvement program that commenced in the early 1980s to replace or modify its TiO2 production

facilities for compliance with various environmental laws by their respective effective dates. All of Kronos' plants now use either the low waste-yielding chloride process, or the sulfate process with reprocessing or neutralization of waste acid. Although these upgrades increased operating costs, they are expected to reduce future capital expenditures that Kronos would otherwise need to incur as environmental standards are increased. See "Regulatory and Environmental Matters".

RHEOX

PRODUCTS AND OPERATIONS

Rheological additives control the flow and leveling characteristics for a variety of products, including paints, inks, lubricants, sealants, adhesives and cosmetics. Organoclay rheological additives are clays which have been chemically reacted with organic chemicals and compounds. Rheox produces rheological additives for both solvent-based and water-based systems. Rheox believes it is the world's largest producer of rheological additives for solvent-based systems, supplying approximately 40% of the worldwide market, and is also a supplier of rheological additives used in water-based systems. Rheological additives for solvent-based systems accounted for 84% of Rheox's sales in 1994, with the remainder being principally rheological additives for water-based systems. Rheox introduced a number of new products during the past three years, many of which are for water-based systems, which currently represent a larger portion of the market than solvent-based systems. As a result, the portion of Rheox's sales representing additives for water-based systems has increased from 10% to 16% during the past few years. The Company believes water-based additives will account for an increasing portion of the market in the long term. Rheox also focused on product development for environmental applications with new products introduced for non-volatile additives in both water-based and solvent-based coatings.

Sales of rheological additives generally follow overall economic growth in Rheox's principal markets and are influenced by the volume of shipments of the worldwide coatings industry. Since Rheox's rheological additives are used in

industrial coatings, plant and equipment spending has an influence on demand for this product line.

MANUFACTURING PROCESS AND RAW MATERIALS

The primary raw materials utilized in the production of rheological additives are bentonite clays, hectorite clays, quaternary amines, polyethylene waxes and castor oil derivatives. Bentonite clays are currently purchased under a three-year contract, renewable through 2004, with a subsidiary of Dresser Industries, Inc. ("Dresser"), which has significant bentonite reserves in Wyoming. This contract assures Rheox the right to purchase its anticipated requirements of bentonite clays for the foreseeable future, and Dresser's reserves are believed to be sufficient for such purpose. Hectorite clays are mined from Company-owned reserves in Newberry Springs, California, which the Company believes are adequate to supply its needs for the foreseeable future. The Newberry Springs ore body contains the largest known commercial deposit of hectorite clays in the world. Quaternary amines are purchased primarily from a joint venture company 50%-owned by Rheox and are also generally available on the open market from a number of suppliers. Castor oil-based rheological additives are purchased from sources in the United States and abroad. Rheox has a supply contract with a manufacturer of these products which may not be terminated without 180 days notice by either party.

COMPETITION

Competition in the specialty chemicals industry is generally concentrated in the areas of product uniqueness, quality and availability, technical service, knowledge of end-use applications and price. Rheox's principal competitors for rheological additives for solvent-based systems are Laporte PLC and Sud-Chemie AG. Rheox's principal competitors for water-based systems are Rohm and Haas Company, Hercules Incorporated, The Dow Chemical Company and Union Carbide Corporation.

RESEARCH AND DEVELOPMENT

The Company's annual expenditures for research and development and technical support programs have averaged approximately \$10 million annually during the past three years with Kronos accounting for approximately three-quarters of the annual spending. Research and development activities related to TiO₂ are

conducted principally at the Leverkusen, Germany facility. Such activities are directed primarily toward improving both the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications. Activities relating to rheological additives are conducted primarily in the United States and are directed towards the development of new products for water-based systems, environmental applications and new end-use applications for existing product lines.

PATENTS AND TRADEMARKS

Patents held for products and production processes are believed to be important to the Company and contribute to the continuing business activities of Kronos and Rheox. The Company continually seeks patent protection for its technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties. In connection with the formation of the manufacturing joint venture with Tioxide, Kronos and certain of its subsidiaries exchanged proprietary chloride process and product technologies with Tioxide and certain of its affiliates. Use by each recipient of the other's technology in Europe is restricted until October 1996. See "Kronos - TiO₂ manufacturing joint venture".

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

FOREIGN OPERATIONS

The Company's chemical businesses have operated in international markets since the 1920s. Most of Kronos' current production capacity is located in Europe and Canada, and approximately one-third of Rheox's sales in the past three years have been attributable to European production. Approximately three-quarters of the Company's 1994 consolidated sales were attributable to non-U.S. customers, including 13% attributable to customers in areas other than Europe and Canada. Foreign operations are subject to, among other things, currency exchange rate fluctuations and the Company's results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. Effects of fluctuations in currency exchange rates on the Company's results of operations are discussed in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

CUSTOMER BASE AND SEASONALITY

The Company believes that neither its aggregate sales nor those of any of its principal product groups are concentrated in or materially dependent upon any single customer or small group of customers. Neither the Company's business as a whole nor that of any of its principal product groups is seasonal to any significant extent. Due in part to the increase in paint production in the spring to meet the spring and summer painting season demand, TiO₂ sales are generally higher in the second and third calendar quarters than in the first and fourth calendar quarters. Sales of rheological additives are influenced by the worldwide industrial protective coatings industry, where second calendar quarter sales are generally the strongest.

EMPLOYEES

As of December 31, 1994, the Company employed approximately 3,100 persons (down from approximately 3,200 at December 31, 1993), excluding the joint venture employees, with approximately 400 employees in the United States and approximately 2,700 at sites outside the United States. Hourly employees in production facilities worldwide are represented by a variety of labor unions, with labor agreements having various expiration dates. The Company believes its labor relations are good.

REGULATORY AND ENVIRONMENTAL MATTERS

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

The Company's U.S. manufacturing operations are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic

Substances Control Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), as well as the state counterparts of these statutes. The Company believes that all of its U.S. plants and the Louisiana plant owned and operated by the joint venture are in substantial compliance with applicable requirements of these laws. From time to time, the Company's facilities may be subject to environmental regulatory enforcement under such statutes. Resolution of such matters typically involves the establishment of compliance programs. Occasionally, resolution may result in the payment of penalties, but to date such penalties have not involved amounts having a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory denominator is provided by the European Union (the "EU"). Germany, Belgium and the United Kingdom, members of the EU, follow the initiatives of the EU. Norway, although not a member, generally patterns its environmental regulatory actions after the EU. The Company believes that Kronos is in substantial compliance with agreements reached with European environmental authorities and with an EU directive to control the effluents produced by TiO₂ production facilities. The Company believes that Rheox is in substantial compliance with the environmental regulations in Germany and the United Kingdom.

In order to reduce sulfur dioxide emissions into the atmosphere, Kronos is currently installing off-gas desulfurization systems at its German and Norwegian plants at an estimated cost of \$32 million and expects to complete the systems in 1996. Kronos intends to install a \$10 million off-gas desulfurization system at its Belgian plant by 1998. The manufacturing joint venture has installed a \$17 million off-gas desulfurization system at the Louisiana plant which commenced operation in early 1995. In addition, Kronos expects to complete an \$11 million water treatment chemical purification project at its Leverkusen, Germany facility in 1996.

Kronos' ilmenite mine near Hauge i Dalane had a permit for the offshore disposal of tailings through February 1994. In February 1994, Kronos completed an onshore disposal system to replace the offshore disposal of tailings.

The Quebec provincial government has environmental regulatory authority over Kronos' Canadian chloride and sulfate process TiO₂ production facilities in Varennes, Quebec. The provincial government regulates discharges into the St. Lawrence River. In May 1992, the Quebec provincial government extended Kronos' right to discharge effluents from its Canadian sulfate process TiO₂ plant into the St. Lawrence River until June 1994. Kronos completed a new \$25 million waste acid neutralization facility and discontinued discharging waste acid effluents into the St. Lawrence River in June 1994. Notwithstanding the above-described agreement, in March 1993 Kronos' Canadian subsidiary and two of its directors were charged by the Canadian federal government with five violations of the Canadian Fisheries Act relating to discharges into the St. Lawrence River

from the Varennes sulfate process TiO₂ production facility. The penalty for these violations, if proven, could be up to Canadian \$15 million. Additional charges, if brought, could involve additional penalties. The Company has moved to dismiss the case. The Company believes that this charge is inconsistent with the extension granted by provincial authorities, referred to above.

The Company's future capital expenditures related to its ongoing environmental protection and improvement program are currently expected to be approximately \$57 million, including \$33 million in 1995.

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, pursuant to CERCLA and similar state laws, in approximately 80 governmental enforcement and private actions associated with waste disposal sites and facilities currently or previously owned, operated or used by the Company, many of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. See Item 3 - "Legal Proceedings".

ITEM 2. PROPERTIES

Kronos currently operates four TiO₂ facilities in Europe (Leverkusen and Nordenham, Germany; Langerbrugge, Belgium; and Fredrikstad, Norway). In North America, Kronos has a facility in Varennes, Quebec, Canada and, through the manufacturing joint venture described above, a one-half interest in a plant in Lake Charles, Louisiana which commenced production in 1992. Certain of the Company's properties collateralize long-term debt agreements. See Note 10 to the Consolidated Financial Statements.

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO₂ production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO₂ production capacity, is located within the lessor's extensive manufacturing complex, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement, which expired in 1991 and to which an extension through 2011 has been agreed in principle, the lessor provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Kronos and the lessor are continuing discussions regarding a definitive agreement for the extension of the supplies and services agreement. Both the lease and the supplies and services agreement restrict Kronos' ability to transfer ownership or use of the Leverkusen facility.

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

Specialty chemicals are produced by Rheox at facilities in Charleston, West Virginia; Newberry Springs, California; St. Louis, Missouri; Livingston, Scotland and Nordenham, Germany. All of such production facilities are owned.

ITEM 3. LEGAL PROCEEDINGS

LEAD PIGMENT LITIGATION

The Company was formerly involved in the manufacture of lead pigments for use in paint and lead-based paint. The Company has been named as a defendant or third party defendant in various legal proceedings alleging that the Company and other manufacturers are responsible for personal injury and property damage allegedly associated with the use of lead pigments. The Company is vigorously defending such litigation. Considering the Company's previous involvement in the lead pigment and lead-based paint businesses, there can be no assurance that additional litigation, similar to that described below, will not be filed. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn court decisions in which the Company and other pigment manufacturers have been successful. One such bill that would subject lead pigment manufacturers to civil liability for damages caused by lead-based paint on the basis of market share, and that extends certain statutes of limitations, passed the Massachusetts House of Representatives in 1993. The same bill, reintroduced in the Massachusetts legislature in 1994 and defeated in the House of Representatives, was again reintroduced in 1995. No legislation or regulations have been enacted to date which are expected to have a material adverse effect on the Company's consolidated financial position, results of

operations or liquidity. The Company has not accrued any amounts for the

pending lead pigment litigation. Although no assurance can be given that the Company will not incur future liability in respect of this litigation, based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment litigation is without merit. Liability, if any, that may result is not reasonably capable of estimation.

In 1989 and 1990, the Housing Authority of New Orleans ("HANO") filed third-party complaints for indemnity and/or contribution against the Company, other alleged manufacturers of lead pigment (together with the Company, the "pigment manufacturers") and the Lead Industries Association (the "LIA") in 14 actions commenced by residents of HANO units seeking compensatory and punitive damages for injuries allegedly caused by lead pigment. The actions in the Civil District Court for the Parish of Orleans, State of Louisiana were dismissed by the district court in 1990. Subsequently, HANO agreed to consolidate all the cases and appealed eleven of them. In March 1992, the Louisiana Court of Appeals, Fourth Circuit, dismissed HANO's appeal as untimely with respect to three of these cases. With respect to the other eight cases included in the appeal, the court of appeals reversed the lower court decision dismissing the cases due to inadequate pleading of facts. These eight cases have been remanded to the district court for further proceedings. In November 1994, the district court granted defendants' motion for summary judgment in one of the eight remaining cases.

In December 1991, the Company received a copy of a complaint filed in the Civil District Court for the Parish of Orleans seeking indemnification and/or contribution against the Company and eight other defendants for approximately \$4.5 million in settlements paid to HANO residents (Housing Authority of New Orleans v. Hoechst Celanese Corp., et al., No. 91-28067). These claims appear to be based upon the same theories which HANO had previously filed. The Company has not been served.

In June 1989, a complaint was filed in the Supreme Court of the State of New York, County of New York, against the pigment manufacturers and the LIA. Plaintiffs seek damages, contribution and/or indemnity in an amount in excess of \$50 million for monitoring and abating alleged lead paint hazards in public and private residential buildings, diagnosing and treating children allegedly exposed to lead paint in city buildings, the costs of educating city residents to the hazards of lead paint, and liability in personal injury actions against the City and the Housing Authority based on alleged lead poisoning of city residents (The City of New York, the New York City Housing Authority and the New York City Health and Hospitals Corp. v. Lead Industries Association, Inc., et al., No. 89-4617). In December 1991, the court granted the defendants' motion to dismiss claims alleging negligence and strict liability and denied the remainder of the motion. In January 1992, defendants appealed the denial. The Company has answered the remaining portions of the complaint denying all allegations of wrongdoing, and the case is in discovery. In December 1992, plaintiffs filed a motion to stay the claims of the City of New York and the New York City Health and Hospitals Corporation pending resolution of the Housing Authority's claim. In May 1993, the Appellate Division of the Supreme Court affirmed the denial of the motion to dismiss plaintiffs' fraud, restitution, conspiracy and concert of action claims. In August 1993, the defendants' motion for leave to appeal was denied. In May 1994, the trial court granted the defendants' motion to dismiss the plaintiffs' restitution and indemnification claims, and plaintiffs have appealed. Defendants have moved for summary judgment on the remaining fraud claim.

In March 1992, the Company was served with a complaint in Skipworth v. Sherwin-Williams Co., et al. (No. 92-3069), Court of Common Pleas, Philadelphia County. Plaintiffs are a minor and her legal guardians seeking damages from lead paint and pigment producers, the LIA, the Philadelphia Housing Authority and the owners of the plaintiffs' premises for bodily injuries allegedly suffered by the minor from lead-based paint. Plaintiffs' counsel has asserted that approximately 200 similar complaints would be served shortly, but no such complaints have yet been served. In April 1994, the court granted defendants' motion for summary judgment and plaintiffs appealed that decision in June 1994.

In August 1992, the Company was named as a defendant and served with an amended complaint in Jackson, et al. v. The Glidden Co., et al., Court of Common Pleas, Cuyahoga County, Cleveland, Ohio (Case No. 236835). Plaintiffs seek compensatory and punitive damages for personal injury caused by the ingestion of lead, and an order directing defendants to abate lead-based paint in buildings. Plaintiffs purport to represent a class of similarly situated persons throughout the State of Ohio. The amended complaint identifies 18 other defendants who

allegedly manufactured lead products or lead-based paint, and asserts causes of action under theories of strict liability, negligence per se, negligence, breach of express and implied warranty, fraud, nuisance, restitution, and negligent infliction of emotional distress. The complaint asserts several theories of liability including joint and several, market share, enterprise and alternative liability. In October 1992, the Company and the other defendants moved to dismiss the complaint with prejudice. In July 1993, the court dismissed the complaint. In December 1994, the Ohio Court of Appeals reversed the trial court dismissal and remanded the case to the trial court.

In November 1993, the Company was served with a complaint in Brenner, et al. v. American Cyanamid, et al., Supreme Court, State of New York, Erie County alleging injuries to two children purportedly caused by lead pigment. The complaint seeks \$24 million in compensatory and \$10 million in punitive damages for alleged negligent failure to warn, strict products liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, and alternative liability. In January 1994, the Company answered the complaint, denying liability. Discovery is proceeding.

In January 1995, the Company was served with complaints in Wright (Alvin) and Wright (Allen) v. Lead Industries, et. al., (Nos. 94-363042 and 363043), Circuit Court, Baltimore City, Maryland. Plaintiffs are two brothers (one deceased) who allege injuries due to exposure to lead pigment. Each complaint seeks more than \$100 million in compensatory and punitive damages for alleged strict liability, breach of warranty, negligence, conspiracy and fraud claims.

The Company believes that the foregoing lead pigment actions are without merit and intends to continue to deny all allegations of wrongdoing and liability and to defend such actions vigorously.

The Company has filed declaratory judgment actions against various insurance carriers seeking costs of defense and indemnity coverage for certain of its environmental and lead pigment litigation. NL Industries, Inc. v. Commercial Union Insurance Cos., et al., Nos. 90-2124, -2125 (HLS). In May 1990, the Company filed an action in the United States District Court for the District of New Jersey against Commercial Union Insurance Company ("Commercial Union") seeking to recover defense costs incurred in the City of New York lead pigment case and two other cases which have since been resolved in the Company's favor. In July 1991, the court granted the Company's motion for summary judgment and ordered Commercial Union to pay the Company's reasonable defense costs for such cases. In June 1992, the Company filed an amended complaint in the United States District Court for the District of New Jersey against Commercial Union seeking to recover costs incurred in defending four additional lead pigment cases which have since been resolved in the Company's favor. In August 1993, the court granted the Company's motion for summary judgment and ordered Commercial Union to pay the reasonable costs of defending those cases. In July 1994, the court entered judgment on the order requiring Commercial Union to pay previously-incurred Company costs in defending those cases. Commercial Union has appealed. Other than a magistrate's recommendation to grant motions for summary judgment brought by two excess insurance carriers, which contended that their policies contained unique pollution exclusion language, and a grant by the court of certain motions regarding policy periods, the court has not made any rulings on defense costs or indemnity coverage with respect to the Company's pending environmental litigation or on indemnity coverage in the lead pigment litigation. No trial dates have been set. Other than rulings to date, the issue of whether insurance coverage for defense costs or indemnity or both will be found to exist depends upon a variety of factors, and there can be no assurance that such insurance coverage will exist in other cases. The Company

has not considered any insurance recoveries for lead pigment or environmental litigation in determining related accruals.

ENVIRONMENTAL MATTERS AND LITIGATION

The Company has been named as a defendant, PRP, or both, pursuant to CERCLA and similar state laws in approximately 80 governmental and private actions associated with waste disposal sites and facilities currently or previously owned, operated or used by the Company, or its subsidiaries, or their predecessors, many of which are on the U.S. Environmental Protection Agency's ("U.S. EPA") Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, or both. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who are also jointly and severally liable. In addition to the matters noted above, certain current and former

facilities of the Company, including several divested secondary lead smelter and former mining locations, are the subject of environmental investigations or litigation arising out of industrial waste disposal practices and mining activities.

The extent of CERCLA liability cannot be determined until the Remedial Investigation and Feasibility Study ("RIFS") is complete, the U.S. EPA issues a record of decision and costs are allocated among PRPs. The extent of liability under analogous state cleanup statutes and for common law equivalents are subject to similar uncertainties. The Company believes it has provided adequate accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 1994, the Company had accrued \$87 million in respect of those environmental matters which are reasonably estimable. The Company determines the amount of accrual on a quarterly basis by analyzing and estimating the range of possible costs to the Company. Such costs include, among other things, remedial investigations, monitoring, studies, clean-up, removal and remediation. It is not possible to estimate the range of costs for certain sites. The Company has estimated that the upper end of the range of reasonably possible costs to the Company for sites for which it is possible to estimate costs is approximately \$160 million. 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. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. Further, there can be no assurance that additional environmental matters will not arise in the future. More detailed descriptions of certain legal proceedings relating to environmental matters are set forth below.

The Company has been identified as a PRP by the U.S. EPA because of its former ownership of three secondary lead smelters (battery recycling plants) in Pedricktown, New Jersey; Granite City, Illinois; and Portland, Oregon. In all three matters, the Company voluntarily entered into administrative consent orders with the U.S. EPA requiring the performance of a RIFS, a study with the objective of identifying the nature and extent of the hazards, if any, posed by the sites, and selecting a remedial action, if necessary.

At Pedricktown, the U.S. EPA divided the site into two operable units. Operable unit one covers contaminated ground water, surface water, soils and stream sediments. The Company submitted the final RIFS for operable unit one to the U.S. EPA in May 1993. In July 1994, the U.S. EPA issued the Record of Decision for operable unit one. The U.S. EPA estimates the cost to complete operable unit one is \$18.7 million. The U.S. EPA has not yet issued a notice or an order requiring implementation of operable unit one. In addition, the U.S. EPA has completed the fifth phase of a removal action on the soils and sediments of a stream at the site, at an estimated total cost of \$2 million. The U.S. EPA

issued a Unilateral Administrative Order (Index No. II-CERCLA 20205) with respect to operable unit two in March 1992 to the Company and 30 other PRPs directing immediate removal activities including the cleanup of waste, surface water and building surfaces. The Company has complied with the order, and the work with respect to operable unit two is nearing completion. The Company has paid approximately 50% of operable unit two costs, or \$2.5 million.

At Granite City, the RIFS is complete, and in 1990 the U.S. EPA selected a remedy estimated to cost approximately \$28 million. In July 1991, the United States filed an action in the U.S. District Court for the Southern District of Illinois against the Company and others (United States of America v. NL Industries, Inc., et al., Civ. No. 91-CV 00578) with respect to the Granite City smelter. The complaint seeks injunctive relief to compel the defendants to comply with an administrative order issued pursuant to CERCLA, and fines and treble damages for the alleged failure to comply with the order. The Company and the other parties did not comply with the order believing that the remedy selected by the U.S. EPA was invalid, arbitrary, capricious and not in accordance with law. The complaint also seeks recovery of past costs of \$.3 million and a declaration that the defendants are liable for future costs. Although the action was filed against the Company and ten other defendants, there are 330 other PRPs who have been notified by the U.S. EPA. Some of those notified were also respondents to the administrative order. In February 1992, the court entered a case management order directing that the remedy issues be tried before the liability aspects are presented. In August 1994, when the U.S.

EPA reinitiated the residential yard soils remediation in Granite City after an agreed-upon stay of the cleanup pending completion of a health study and reopening of the administrative record, the PRPs and the City of Granite City sought an injunction against the U.S. EPA to prevent further cleanup until after the record was reopened for submittal of additional comments on the selected remedy. In October 1994, the U.S. EPA issued its proposed plan for addressing residential yard soils in Granite City. The U.S. EPA presented no estimate of costs for this work. The administrative record was reopened for public comment, and the Company, along with other PRPs, submitted extensive comments on the proposed residential soils cleanup plan. In February 1995, the U.S. EPA issued its proposed plan for the Main Industrial Area, the remaining remote fill areas and ground water at the site, which is estimated by the U. S. EPA to cost approximately \$9.2 million. The administrative record has been reopened for public comments on this phase of the cleanup.

Having completed the RIFS at Portland, the Company conducted predesign studies to explore the viability of the U.S. EPA's selected remedy pursuant to a June 1989 consent decree captioned U.S. v. NL Industries, Inc., Civ. No. 89-408, United States District Court for the District of Oregon. Subsequent to the completion of the predesign studies, the U.S. EPA issued notices of potential liability to approximately 20 PRPs, including the Company, directing them to perform the remedy, which was initially estimated to cost approximately \$17 million, exclusive of administrative and overhead costs and any additional costs, for the disposition of recycled materials from the site. In January 1992, the U.S. EPA issued unilateral administrative orders Docket No. 1091-01-10-106 to the Company and six other PRPs directing the performance of the remedy. The Company and the other PRPs commenced performance of the remedy and, through December 31, 1994, the Company and the other PRPs had spent approximately \$18 million. Based upon site operations to date, the remedy is not proceeding in accordance with engineering expectations or cost projections; therefore, the Company and the other PRPs have met with the U.S. EPA to discuss alternative remedies for the site. The U.S. EPA authorized the Company and the other PRPs to cease performing most aspects of the selected remedy. In September 1994, the Company and the other PRPs submitted a focused feasibility study ("FFS") to the U.S. EPA, which proposes alternative remedies for the site. The U.S. EPA is considering the alternatives proposed in the FFS. Pursuant to an interim allocation, the Company's share of remedial costs is approximately 50%. In November 1991, Gould, Inc., the current owner of the site, filed an action, Gould Inc. v. NL Industries, Inc., No. 91-1091, United States District Court for the District of Oregon, against the Company for damages for alleged fraud in the sale of the smelter, rescission of the sale, past CERCLA response costs and a declaratory judgment allocating future response costs and \$5 million

in punitive damages. The court granted Gould's motion to amend the complaint to add additional defendants (adjoining current and former landowners) and third party defendants (generators). The amended complaint deletes the fraud and punitive damages claims asserted against NL; thus, the pending action is essentially one for reallocation of past and future cleanup costs. In March 1993, the parties agreed to a case management order limiting discovery until 1995. In December 1994, Gould amended its complaint adding approximately 15 additional generator defendants and two additional owner/operator defendants. Discovery is proceeding. A trial date has been tentatively set for September 1996.

There are several actions pending relating to alleged contamination at other properties formerly owned or operated by the Company or its subsidiaries or their predecessors. In one of those cases, suit was filed in November 1992 against the Company asserting claims arising out of the sale of a former business of the Company to Exxon Chemical Company (Exxon Chemical Company v. NL Industries, Inc., United States District Court for the Southern District of Texas, No. H-92-3360). The action sought contractual indemnification, contribution under CERCLA for costs associated with the environmental assessment and cleanup at nine properties included in the sale, a declaration of liability for future environmental cleanup costs, and punitive damages for fraud. Plaintiff asserted that past and future cleanup costs, business interruption, and asset value losses and legal and site assessment costs were approximately \$25 million. In December 1994, this matter was settled within previously accrued amounts.

The Company and other PRPs entered into an administrative consent order with the U.S. EPA requiring the performance of a RIFS at two sites in Cherokee County, Kansas, where the Company and others formerly mined lead and zinc. A predecessor of the Company mined at the Baxter Springs subsite, where it is the largest viable PRP. The final RIFS was submitted to the U.S. EPA in May 1993. In August 1994, the U.S. EPA issued its proposed plan for the cleanup of the

Baxter Springs and Treece sites in Cherokee County. The proposed remedy is estimated by U.S. EPA to cost \$6 million.

In January 1989, the State of Illinois brought an action against the Company and several other subsequent owners and operators of the former lead oxide plant in Chicago, Illinois (People of the State of Illinois v. NL Industries, et al., No. 88-CH-11618, Circuit Court, Cook County). The complaint seeks recovery of \$2.3 million of cleanup costs expended by the Illinois Environmental Protection Agency, plus penalties and treble damages. In October 1992, the Supreme Court of Illinois reversed the Appellate Division, which had affirmed the trial court's earlier dismissal of the complaint, and remanded the case for further proceedings. In December 1993, the trial court denied the State's petition to reinstate the complaint, and dismissed the case with prejudice. The State's appeal of this ruling is pending.

In 1980, the State of New York commenced litigation against the Company in connection with the operation of a plant in Colonie, New York formerly owned by the Company. Flacke v. NL Industries, Inc., No. 1842-80 ("Flacke I") and Flacke v. Federal Insurance Company and NL Industries, Inc., No. 3131-92 ("Flacke II"), New York Supreme Court, Albany County. The plant manufactured military and civilian products from depleted uranium and was acquired from the Company by the U.S. Department of Energy ("DOE") in 1984. Flacke I seeks penalties for alleged violations of New York's Environmental Conservation Law, and of a consent order entered into to resolve these alleged violations. Flacke II seeks forfeiture of a \$200,000 surety bond posted in connection with the consent order, plus interest from February 1980. The Company denied liability in both actions. The litigation had been inactive from 1984 until July 1993 when the State moved for partial summary judgment for approximately \$1.5 million on certain of its claims in Flacke I and for summary judgment in Flacke II. In January 1994, the Company cross-moved for summary judgment in Flacke I and Flacke II. All summary judgment motions have been denied and both parties have appealed.

Residents in the vicinity of the Company's former Philadelphia lead chemicals plant commenced a class action allegedly comprised of over 7,500 individuals

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

In July 1991, a complaint was filed in the United States District Court for the Central District of California, United States of America v. Peter Gull and NL Industries, Inc., Civ. No. 91-4098, seeking recovery of \$2 million in costs incurred by the United States in response to the alleged release of hazardous substances into the environment from a facility located in Norco, California, treble damages and \$1.75 million in penalties for the Company's alleged failure to comply with the U.S. EPA's administrative order No. 88-13. The order, which alleged that the Company arranged for the treatment or disposal of materials at the Norco site, directed the immediate removal of hazardous substances from the site. The Company carried out a portion of the remedy at the Norco site, but did not complete the ordered activities because it believed they were in conflict with California law. The Company answered the complaint denying liability. The government claims it expended in excess of \$2.7 million for this matter. Trial was held in March and April 1993. In April 1994, the court entered final judgment in this matter directing the Company to pay \$6.3 million plus interest. The court ruled that the Company was liable for approximately \$2.7 million in response costs plus approximately \$3.6 million in penalties for failure to comply with the administrative order. Both the Company and the

government have appealed. In August 1994, this matter was referred to mediation, which is pending.

At a municipal and industrial waste disposal site in Batavia, New York, the Company and six others have been identified as PRPs. The U.S. EPA has divided the site into two operable units. Pursuant to an administrative consent order entered into with the U.S. EPA, the Company is conducting a RIFS for operable unit one, the closure of the industrial waste disposal section of the landfill. The Company's RIFS costs to date are approximately \$2 million. In August 1994, the U.S. EPA issued the proposed plan for operable unit one, which is estimated by the U.S. EPA to cost approximately \$12.3 million. The Company, along with other PRPs, submitted extensive comments on the proposed plan. With respect to the second operable unit, the extension of the municipal water supply, the U.S. EPA estimated the costs at \$1 million plus annual operation and maintenance costs. The Company and the other PRPs are performing the work comprising operable unit two. The U.S. EPA has also demanded approximately \$.9 million in past costs from the PRPs.

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

OTHER LITIGATION

In January 1990, an action was filed in the United States District Court for the Southern District of Ohio against NLO, Inc., a subsidiary of the Company, and the Company on behalf of a putative class of former NLO employees and their families and former frequenters and invitees of the Feed Materials Production

Center ("FMPC") in Ohio (Day, et al. v. NLO, Inc., et al, No. C-1-90-067). The FMPC is owned by the DOE and was formerly managed under contract by NLO. The complaint seeks damages for, among other things, emotional distress and damage to personal property allegedly caused by exposure to radioactive and/or hazardous materials at the FMPC and punitive damages. This action was certified as a class action by the court. In July 1994, the parties reached a settlement agreement pursuant to which the DOE would pay all costs of the settlement and the Company and NLO were released.

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

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 1994.

PART II

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

NL's common stock is listed and traded on the New York and Pacific Stock Exchanges under the symbol "NL". As of February 28, 1995, there were approximately 10,000 holders of record of NL common stock. The following table sets forth the high and low sales prices for NL common stock on the New York Stock Exchange ("NYSE") Composite Tape. On February 28, 1995, the closing price of NL common stock according to the NYSE Composite Tape was \$11-7/8.

	High	Low
Year ended December 31, 1993:		
First quarter	\$ 6-1/8	\$ 4-1/4
Second quarter	5-5/8	3-3/8
Third quarter	6-1/8	3-7/8
Fourth quarter	6	4-1/2
Year ended December 31, 1994:		
First quarter	\$ 9-5/8	\$ 4-3/8
Second quarter	9-1/2	6-1/8
Third quarter	11-7/8	8-3/8
Fourth quarter	13-1/4	9

The Company's Senior Notes generally limit the ability of the Company to pay dividends to 50% of consolidated net income, as defined, subsequent to October 1993. At December 31, 1994, no amounts were available for dividends.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	1990	Years ended December 31,			1994
		1991	1992	1993	
(In millions, except per share amounts)					
INCOME STATEMENT DATA:					
Net sales	\$ 906.6	\$ 840.3	\$ 893.5	\$ 805.3	\$ 888.0
Operating income	251.1	139.0	110.7	62.4	111.4
Income (loss) from continuing operations	93.5	(24.0)	(44.6)	(83.2)	(24.0)
Net income (loss)	92.4	(16.5)	(76.4)	(109.8)	(24.0)
Per common share:					
Income (loss) from continuing operations	\$ 1.42	\$ (.40)	\$ (.88)	\$ (1.63)	\$ (.47)
Net income (loss)	1.40	(.27)	(1.50)	(2.16)	(.47)
Cash dividends	\$.60	\$.60	\$.35	\$ -	\$ -
BALANCE SHEET DATA (AT YEAR-END):					
Cash, cash equivalents and current marketable securities	\$ 443.1	\$ 353.3	\$ 187.9	\$ 147.6	\$ 156.3
Current assets	884.4	795.5	635.8	467.5	486.4
Total assets	1,966.7	1,831.0	1,472.1	1,206.5	1,162.4
Current liabilities	400.4	360.2	248.8	232.5	244.9
Long-term debt including current maturities	1,269.7	1,288.9	1,035.3	870.9	789.6
Shareholders' equity (deficit)	38.6	(58.3)	(146.3)	(264.8)	(293.1)
OTHER DATA:					
Net debt (1)	\$ 867.4	\$ 936.0	\$ 847.7	\$ 723.2	\$ 633.4
EBITDA (2)	242.3	126.6	115.1	67.2	101.3
Interest expense, net (3)	60.7	59.9	104.3	95.1	78.9
Cash interest expense, net (4)	53.0	53.9	98.0	86.8	60.8
Capital expenditures	195.3	195.1	85.2	48.0	36.9
TiO2 sales volumes (in thousands metric tons)	274	303	336	346	376
Average TiO2 selling price index (1983=100)	175	147	139	127	131

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

(2) EBITDA, as presented, represents operating income less corporate expense, net, plus depreciation, depletion and amortization. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to incur and service debt. However, EBITDA should not be considered as an alternative to (i) operating income or net income as an indicator of a company's operating performance or (ii) cash flows from operating activities as a measure of a company's liquidity.

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

(4) Cash interest expense, net represents interest expense, net less non-cash interest expense (deferred interest expense on the Senior Secured Discount Notes and amortization of deferred financing costs).

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

RESULTS OF OPERATIONS

GENERAL

The Company's operations are conducted in two business segments - TiO2 conducted by Kronos and specialty chemicals conducted by Rheox. As discussed below, TiO2 selling prices increased during 1994 after four consecutive years of a declining

price trend. Kronos' operating income and margins improved significantly during 1994. Based on, among other things, the Company's near-term outlook for its

TiO2 business, the Company expects 1995 will be profitable with anticipated continuing improvements in TiO2 prices and demand.

NET SALES AND OPERATING INCOME

	Years ended December 31,			% Change	
	1992	1993	1994	1993-92	1994-93
	(In millions)				
Net sales:					
Kronos	\$784.6	\$697.0	\$770.1	-11%	+10%
Rheox	108.9	108.3	117.9	-1%	+9%
	\$893.5	\$805.3	\$888.0	-10%	+10%
Operating income:					
Kronos	\$ 81.9	\$ 36.1	\$ 80.5	-56%	+123%
Rheox	28.8	26.3	30.8	-9%	+17%
	\$110.7	\$ 62.4	\$111.3	-44%	+78%
Percent change in TiO2:					
Sales volume				+3%	+9%
Average selling prices (in billing currencies)				-8%	+3%

The improvement in Kronos' 1994 results was primarily due to higher average selling prices, higher production and sales volumes for TiO2 and higher technology fee income. In billing currency terms, Kronos' 1994 average TiO2 selling prices were approximately 3% higher than in 1993 and were 8% lower in 1993 compared to 1992. Average TiO2 selling prices at year-end 1994 were 6% higher than year-earlier levels and were 10% above the low point reached in 1993.

Record sales volume of 376,000 metric tons of TiO2 in 1994 represents an increase of 9% over 1993, with increases in Europe, North America and other regions. Due to increasing demand for TiO2 and higher sales volumes, Kronos increased its capacity utilization to 94% after having reduced its TiO2 production rates in response to weakened demand in late 1992 and 1993. TiO2 sales volumes increased 3% in 1993 over 1992, as increases in North American sales volumes were partially offset by declining sales volumes in European markets. Approximately one-half of Kronos' 1994 TiO2 sales, by volume, were attributable to markets in Europe with approximately 36% attributable to North America and the balance to other regions.

As a result of Kronos' continued emphasis on cost reduction and containment efforts, Kronos' unit production costs decreased slightly in 1994 and were only slightly higher in 1993 compared to year-earlier levels.

Demand, supply and pricing of TiO2 have historically been cyclical and the last cyclical peak for TiO2 prices occurred in early 1990. Kronos believes that its operating income and margins for 1995 will be higher than in 1994 due principally to the net effect of higher average TiO2 selling prices and slightly higher sales and production volumes, offset in part by increased raw material costs.

Rheox's operating income improved in 1994 compared to 1993 due to higher sales volumes and lower operating costs. Operating costs increased during 1993 over 1992, contributing to the decline in Rheox's 1993 operating income. Changes in currency exchange rates had a slightly positive effect on sales and operating income in 1994 and a negative effect in 1993 compared to the respective prior year.

The Company has substantial operations and assets located outside the United States (principally Germany, Norway, Belgium and Canada). The U.S. dollar value of the Company's foreign sales and operating costs are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and effect the comparability of period to period operating results. A

significant amount of the Company's sales are denominated in currencies other than the U.S. dollar (67% in 1994), principally major European currencies and the Canadian dollar. Certain raw materials, primarily titanium-containing

Operating activities	\$ (44.7)	\$ (7.3)	\$ 181.7
Investing activities	234.9	181.9	(32.8)
Financing activities	(223.1)	(155.3)	(132.1)
Net cash provided (used) by operating, investing and financing activities	\$ (32.9)	\$ 19.3	\$ 16.8

The TiO2 industry is cyclical, with the previous peak in selling prices in early 1990 and the latest trough in the third quarter of 1993. During the recent TiO2 down cycle, the Company's operations used significant amounts of cash. Receipt of the German tentative tax refund, discussed below, significantly increased the Company's cash flow from operating activities during 1994 and was a major factor in the Company's improved liquidity. The relative changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) also contributed to the cash provided by operations. A \$30 million technology exchange fee received from Tioxide in October 1993, which is being recognized as a component of operating income over three years, also favorably impacted cash flow from operating activities in 1993.

Cash provided (used) by investing activities includes capital expenditures in each period, and in 1993 included \$161 million net cash generated from the formation of the manufacturing joint venture with Tioxide. Cash provided by investing activities also included net sales of marketable securities of \$317 million in 1992 and \$68 million in 1993, primarily used to fund debt repayments. In 1994, proceeds of \$15 million from the sale of trading securities are a component of the cash provided from operations as a result of the adoption of SFAS 115.

The Company's capital expenditures during the past three years include an aggregate of \$36 million related to the completion of the Louisiana chloride process TiO2 plant and an aggregate of \$63 million (\$17 million in 1994) for the Company's ongoing environmental protection and compliance programs, including a Canadian waste acid neutralization facility, a Norwegian onshore tailings disposal system and off-gas desulfurization systems. The Company's estimated 1995 capital expenditures are \$66 million and include \$33 million in the area of environmental protection and compliance primarily related to the off-gas desulfurization systems and water treatment chemical purification systems. The Company plans to spend \$25 million in capital expenditures (\$7 million in 1995) related to a debottlenecking project at its Leverkusen, Germany chloride process TiO2 facility that is expected to increase the Company's annual attainable production capacity by 20,000 metric tons. The capital expenditures of the manufacturing joint venture are not included in the Company's capital expenditures.

Net repayments of indebtedness in 1994 included a DM 225 million (\$140 million when paid) reduction in the DM credit facility, \$15 million paid on the Rheox bank term loan and \$15 million paid on the joint venture term loan. In addition, the Company borrowed DM 75 million (\$45 million) under the DM credit facility. Net repayments of indebtedness in 1993 included payments on the DM credit facility of DM 552 million (\$342 million when paid), a \$110 million net reduction in indebtedness related to the Louisiana plant and \$350 million proceeds from the Company's public offering of debt. Net repayments of indebtedness in 1992 included payments on the DM term loan aggregating DM 350 million (\$225 million when paid) and \$61 million drawn under Kronos' Louisiana plant credit facilities. NL and Kronos have agreed, under certain conditions, to provide KII with up to an additional DM 125 million through January 1, 2001.

Financing activities also include dividends paid of \$18 million in 1992. The Company suspended dividend payments in October 1992.

At December 31, 1994, the Company had cash, cash equivalents and current marketable securities aggregating \$156 million (30% held by non-U.S. subsidiaries) including restricted cash and cash equivalents of \$16 million. In addition, the Company's subsidiaries had \$14 million and \$195 million available for borrowing at December 31, 1994 under existing U.S. and non-U.S. credit facilities, respectively, of which \$80 million of the non-U.S. amount is available only for (i) permanently reducing the DM term loan or (ii) paying future German income tax assessments, as described below.

The Company reduced its "net debt" (notes payable and long-term debt less cash, cash equivalents and current marketable securities) by \$90 million during 1994. The Company currently expects to have sufficient liquidity to meet its obligations including operations, capital expenditures and debt service.

Certain of the Company's income tax returns in various U.S. and non-U.S.

jurisdictions, including Germany, are being examined and tax authorities have proposed or may propose tax deficiencies. During 1994, the German tax authorities withdrew certain assessment reports which had proposed tax deficiencies of DM 100 million and remitted tax refunds aggregating DM 225 million (\$136 million), including interest, on a tentative basis. The Company applied DM 174 million (\$108 million) of the German tentative tax refunds to reduce outstanding borrowings under its DM credit facility. The examination of the Company's German income tax returns is continuing and additional substantial proposed tax deficiency assessments are expected. Although the Company believes that it will ultimately prevail, the Company has granted a DM 100 million (\$64 million at December 31, 1994) lien on its Nordenham, Germany TiO2 plant, and may be required to provide additional security in favor of the German tax authorities until the assessments proposing tax deficiencies are resolved. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from all such examinations 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 operation or liquidity. Cash received for settlement of prior years' tax examinations aggregated \$6 million in 1994 and the Company expects to make settlement payments of approximately \$20 million in 1995.

At December 31, 1994, the Company had recorded net deferred tax liabilities of \$175 million. The Company operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). The Company has provided a deferred tax valuation allowance of \$165 million, principally related to the U.S. and Germany, offsetting deferred tax assets which the Company believes may not currently meet the "more likely than not" realization criteria for asset recognition.

In addition to the chemicals businesses conducted through Kronos and Rheox, the Company also has certain interests and associated liabilities relating to certain discontinued or divested businesses and other holdings of marketable equity securities including securities issued by Valhi and other Contran subsidiaries.

The Company has been named as a defendant, PRP, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites or facilities currently or formerly owned, operated or used by the Company, many of which disposal sites or facilities are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant. The Company believes it has provided adequate accruals for reasonably estimable costs of such matters, but the Company's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocation of such costs among PRPs. The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale

of lead pigments and lead-based paints. The Company has not accrued any amounts for the pending lead pigment litigation. Although no assurance can be given that the Company will not incur future liability in respect of this litigation, based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment litigation is without merit. Liability, if any, that may result is not reasonably capable of estimation. The Company currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future. See Item 3 - "Legal Proceedings" and Note 18 to the Consolidated Financial Statements.

As discussed above, the Company has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amount of the Company's assets and liabilities related to its non-U.S. operations, and therefore the Company's consolidated net assets, will fluctuate based upon changes in currency exchange rates. The carrying value of the Company's net investment in its German operations is a net liability due principally to its DM credit facility, while its net investment in its other non-U.S. operations are net assets.

The Company periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its debt service requirements and estimated future operating cash flows. As a result of this process, the Company has in the past and may in the future seek to refinance or

restructure indebtedness, raise additional capital, restructure ownership interests, sell interests in subsidiaries, marketable securities or other assets, or take a combination of such steps or other steps to increase or manage its liquidity and capital resources.

ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

PART III

ITEM 10.DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11.EXECUTIVE COMPENSATION

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

ITEM 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the NL Proxy Statement. See also Note 17 to the Consolidated Financial Statements.

PART IV

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

(a) and (d)Financial Statements and Schedules

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

(b)Reports on Form 8-K

Reports on Form 8-K for the quarter ended December 31, 1994 and the months of January and February 1995.

October 24, 1994 - reported items 5 and 7.
December 1, 1994 - reported items 5 and 7.
January 30, 1995 - reported items 5 and 7.

(c)Exhibits

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

Item No. Exhibit Index

- 3.1 By-Laws, as amended on June 28, 1990 - incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990.
- 3.2 Certificate of Amended and Restated Certificate of Incorporation dated June 28, 1990 - incorporated by reference to Exhibit 1 to the Registrant's

Proxy Statement on Schedule 14A for the annual meeting held on June 28, 1990.

- 4.1 Registration Rights Agreement dated October 30, 1991, by and between the Registrant and Tremont Corporation - incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
- 4.2 Indenture dated October 20, 1993 governing the Registrant's 11.75% Senior Secured Notes due 2003, including form of Senior Note - incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.3 Senior Mirror Notes dated October 20, 1993 - incorporated by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.4 Senior Note Subsidiary Pledge Agreement dated October 20, 1993 between Registrant and Kronos, Inc. - incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.5 Third Party Pledge and Intercreditor Agreement dated October 20, 1993 between Registrant, Chase Manhattan Bank (National Association) and Chemical Bank - incorporated by reference to Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.6 Indenture dated October 20, 1993 governing the Registrant's 13% Senior Secured Discount Notes due 2005, including form of Discount Note - incorporated by reference to Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.7 Discount Mirror Notes dated October 20, 1993 - incorporated by reference to Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.8 Discount Note Subsidiary Pledge Agreement dated October 20, 1993 between Registrant and Kronos, Inc. - incorporated by reference to Exhibit 4.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.1 Amended and Restated Loan Agreement dated as of October 15, 1993 among Kronos International, Inc., the Banks set forth therein, Hypobank International S.A., as Agent and Banque Paribas, as Co-agent - incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.2 Amended and Restated Liquidity Undertaking dated October 15, 1993 by the Registrant, Kronos, Inc. and Kronos International, Inc. to Hypobank International S.A., as agent, and the Banks set forth therein - incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.3 Credit Agreement dated as of March 20, 1991 between Rheox, Inc. and Subsidiary Guarantors and The Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd., as Co-agents -incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.4 Amendments 1 and 2 dated May 1, 1991 and February 15, 1992, respectively, to the Credit Agreement between Rheox, Inc. and Subsidiary Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd. as Co-Agents-incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on form 10-Q for the quarter ended June 30, 1992.
- 10.5 Third amendment to the Credit Agreement, dated March 5, 1993 between Rheox, Inc. and Subsidiary Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd as Co-Agents - incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.
- 10.6 Fourth and Fifth Amendments to the Credit Agreement, dated September 23, 1994 and December 15, 1994, respectively, between Rheox, Inc. and

Subsidiary Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd. as Co-Agents.

- 10.7 Credit Agreement dated as of October 18, 1993 among Louisiana Pigment Company, L.P., as Borrower, the Banks listed therein and Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.8 Security Agreement dated October 18, 1993 from Louisiana Pigment Company, L.P., as Borrower, to Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.9 Security Agreement dated October 18, 1993 from Kronos Louisiana, Inc. as Grantor, to Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.10 KLA Consent and Agreement dated as of October 18, 1993 between Kronos Louisiana, Inc. and Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.11 Guaranty dated October 18, 1993, from Kronos, Inc., as guarantor, in favor of Lenders named therein, as Lenders, and Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.12 Mortgage by Louisiana Pigment Company, L.P. dated October 18, 1993 in favor of Citibank, N.A. - incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.13 Lease Contract dated June 21, 1952, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschränkter Haftung (German language version and English translation thereof) - incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1985.
- 10.14 Contract dated September 9, 1971, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschränkter Haftung concerning supplies and services (German language version and English translation thereof) - incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1985.
- 10.15 Agreement dated February 8, 1984, between Bayer AG and Kronos Titan GmbH (German language version and English translation thereof) - incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1985.
- 10.16 Formation Agreement dated as of October 18, 1993 among Tioxide Americas Inc., Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.17 Joint Venture Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.18 Kronos Offtake Agreement dated as of October 18, 1993 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.19 Tioxide Americas Offtake Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.20 TCI/KCI Output Purchase Agreement dated as of October 18, 1993 between Tioxide Canada Inc. and Kronos Canada, Inc. - incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the

quarter ended September 30, 1993.

- 10.21 TAI/KLA Output Purchase Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.22 Master Technology Exchange Agreement dated as of October 18, 1993 among Kronos, Inc., Kronos Louisiana, Inc., Kronos International, Inc., Tioxide Group Limited and Tioxide Group Services Limited - incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.23 Parents' Undertaking dated as of October 18, 1993 between ICI American Holdings Inc. and Kronos, Inc. - incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.24 Allocation Agreement dated as of October 18, 1993 between Tioxide Americas Inc., ICI American Holdings, Inc., Kronos, Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.25*1985 Long Term Performance Incentive Plan of NL Industries, Inc., as adopted by the Board of Directors on February 27, 1985 - incorporated by reference to Exhibit A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting held on April 24, 1985.
- 10.26 Form of Director's Indemnity Agreement between NL and the independent members of the Board of Directors of NL - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987.
- 10.27*1989 Long Term Performance Incentive Plan of NL Industries, Inc. as adopted by the Board of Directors on February 14, 1989 - incorporated by reference to Exhibit A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting held on May 2, 1989.
- 10.28 Savings Plan for Employees of NL Industries, Inc. as adopted by the Board of Directors on February 14, 1989 - incorporated by reference to Exhibit B to the Registrant's Proxy Statement on Schedule 14A for the annual meeting held May 2, 1989.
- 10.29*NL Industries, Inc. 1992 Non-Employee Director Stock Option Plan, as adopted by the Board of Directors on February 13, 1992 - incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting held April 30, 1992.
- 10.30 Intercorporate Services Agreement by and between Valhi, Inc. and the Registrant effective as of January 1, 1994 - incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
- 10.31 Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 1994 - incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
- 10.32 Insurance Sharing Agreement, effective January 1, 1990, by and between the Registrant, NL Insurance, Ltd. (an indirect subsidiary of Tremont Corporation) and Baroid Corporation - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
- 10.33*Description of terms of an executive severance agreement between the Registrant and Joseph S. Compofelice - incorporated by reference to the last paragraph of page 16 entitled "Employment Agreements" of the Registrant's definitive proxy statement dated March 30, 1994.
- 10.34*Executive Severance Agreement effective as of December 31, 1991 by and between the Registrant and J. Landis Martin - incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.

10.35*Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. effective as of January 1, 1991 - incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.

21.1 Subsidiaries of the Registrant.

23.1 Consent of Independent Accountants.

27.1 Financial Data Schedules for the year ended December 31, 1994.

99.1 Annual Report of Savings Plan for Employees of NL Industries, Inc. (Form 11-K) to be filed under Form 10-K/A to the Registrant's Annual Report on Form 10-K within 180 days after December 31, 1994.

* Management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NL Industries, Inc.
(Registrant)

By /s/ J. Landis Martin
J. Landis Martin, March __, 1995
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

/s/ J. Landis Martin
J. Landis Martin, March 6, 1995
Director, President and
Chief Executive Officer

/s/ Harold C. Simmons
Harold C. Simmons, March 6, 1995
Chairman of the Board

/s/ Glenn R. Simmons
Glenn R. Simmons, March 6, 1995

/s/ Michael A. Snetzer
Michael A. Snetzer, March 6, 1995

/s/ Kenneth R. Peak
Kenneth R. Peak, March 6, 1995
Director

/s/ Dr. Lawrence A. Wigdor
Dr. Lawrence A. Wigdor, March 6, 1994
Director, President and Chief Executive
Officer of Kronos and Rheox

/s/ Elmo R. Zumwalt, Jr.
Elmo R. Zumwalt, Jr., March 6, 1995
Director

/s/ Joseph S. Compofelice
Joseph S. Compofelice, March 6, 1995
Vice President and
Chief Financial Officer

/s/ Dennis G. Newkirk
Dennis G. Newkirk, March 6, 1995
Vice President and Controller
(Principal Accounting Officer)

SIGNATURES

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

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

NL Industries, Inc.
(Registrant)

By
J. Landis Martin, March 6, 1995
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

J. Landis Martin, March 6, 1995
Director, President and
Chief Executive Officer

Harold C. Simmons, March 6, 1995
Chairman of the Board

Glenn R. Simmons, March 6, 1995
Director

Michael A. Snetzer, March 6, 1995
Director

Kenneth R. Peak, March 6, 1995
Director

Lawrence A. Wigdor, March 6, 1995
Director, President and Chief Executive
Officer of Kronos and Rheox

Elmo R. Zumwalt, Jr., March 6, 1995
Director

Joseph S. Compofelice, March 6, 1995
Vice President and
Chief Financial Officer

Dennis G. Newkirk, March 6, 1995
Vice President and Controller
(Principal Accounting Officer)

NL INDUSTRIES, INC.

ANNUAL REPORT ON FORM 10-K

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

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of NL Industries, Inc. as of December 31, 1993 and 1994, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NL Industries, Inc. as of December 31, 1993 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Notes 2 and 19 to the consolidated financial statements, in 1993 the Company changed its method of accounting for certain investments in debt and equity securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, and in 1992 the Company changed its method of accounting for postretirement benefits other than pensions and income taxes in accordance with SFAS Nos. 106 and 109, respectively.

COOPERS & LYBRAND L.L.P.

Houston, Texas
February 3, 1995

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1993 and 1994

(In thousands, except per share data)

ASSETS	1993	1994
Current assets:		
Cash and cash equivalents	\$ 106,593	\$ 131,124
Marketable securities	41,045	25,165
Accounts and notes receivable, less allowance of \$3,008 and \$3,749	116,355	137,753
Refundable income taxes	386	1,162
Inventories	194,167	185,173
Prepaid expenses	5,637	3,878
Deferred income taxes	3,315	2,177
Total current assets	467,498	486,432
Other assets:		
Marketable securities	18,428	21,329
Refundable income taxes	91,994	-
Investment in joint ventures	190,787	187,480
Prepaid pension cost	16,307	19,329
Deferred income taxes	577	2,746
Other	42,355	37,267
Total other assets	360,448	268,151
Property and equipment:		
Land	18,237	20,665
Buildings	129,582	147,370
Machinery and equipment	515,090	582,138
Mining properties	72,711	87,035
Construction in progress	30,050	9,579
	765,670	846,787
Less accumulated depreciation and depletion	387,067	438,960
Net property and equipment	378,603	407,827
	\$1,206,549	\$1,162,410

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

December 31, 1993 and 1994

(In thousands, except per share data)

LIABILITIES AND SHAREHOLDERS' DEFICIT	1993	1994
Current liabilities:		
Current maturities of long-term debt	\$ 35,716	\$ 42,887
Accounts payable and accrued liabilities	177,265	168,327
Payable to affiliates	9,566	11,348
Income taxes	6,353	20,762
Deferred income taxes	3,623	1,590
Total current liabilities	232,523	244,914

Noncurrent liabilities:		
Long-term debt	835,169	746,762
Deferred income taxes	138,977	178,332
Accrued pension cost	72,606	76,242
Accrued postretirement benefits cost	68,322	65,299
Other	121,309	141,518
Total noncurrent liabilities	1,236,383	1,208,153
Minority interest	2,438	2,425
Shareholders' deficit:		
Preferred stock - 5,000 shares authorized, no shares issued or outstanding	-	-
Common stock - \$.125 par value; 150,000 shares authorized; 66,839 shares issued	8,355	8,355
Additional paid-in capital	759,281	759,281
Adjustments:		
Currency translation	(115,803)	(125,494)
Pension liabilities	(3,442)	(1,635)
Marketable securities	(2,164)	(12)
Accumulated deficit	(543,059)	(567,041)
Treasury stock, at cost (15,949 and 15,787 shares)	(367,963)	(366,536)
Total shareholders' deficit	(264,795)	(293,082)
	\$1,206,549	\$1,162,410

Commitments and contingencies (Notes 13 and 18)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 1992, 1993 and 1994

(In thousands, except per share data)

	1992	1993	1994
Revenues and other income:			
Net sales	\$893,465	\$ 805,323	\$887,954
Other, net	14,797	22,084	44,828
	908,262	827,407	932,782
Costs and expenses:			
Cost of sales	629,029	612,367	649,745
Selling, general and administrative	203,736	185,689	212,516
Interest	118,511	99,119	83,926
	951,276	897,175	946,187
Loss before income taxes, minority interest, extraordinary item and cumulative effect of changes in accounting principles	(43,014)	(69,768)	(13,405)
Income tax expense	459	12,713	9,734
Loss before minority interest, extraordinary item and cumulative effect of changes in accounting principles	(43,473)	(82,481)	(23,139)
Minority interest	1,123	730	843
Loss before extraordinary item and cumulative effect of changes in accounting principles	(44,596)	(83,211)	(23,982)
Extraordinary item	-	(27,815)	-
Cumulative effect of changes in accounting principles	(31,804)	1,217	-

Net loss	\$ (76,400)	\$ (109,809)	\$ (23,982)
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NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

Years ended December 31, 1992, 1993 and 1994

(In thousands, except per share data)

	1992	1993	1994
Loss per share of common stock:			
Before extraordinary item and cumulative effect of changes in accounting principles	\$ (.88)	\$ (1.63)	\$ (.47)
Extraordinary item	-	(.55)	-
Cumulative effect of changes in accounting principles	(.62)	.02	-
Net loss	\$ (1.50)	\$ (2.16)	\$ (.47)
Weighted average common shares outstanding	50,907	50,890	51,022

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

Years ended December 31, 1992, 1993 and 1994

(In thousands, except per share data)

	Common stock	Additional paid-in capital	Currency translation	Adjustments Pension liabilities	Marketable securities
Balance at December 31, 1991	\$8,355	\$759,300	\$ (116,640)	\$ -	\$ (5,925)
Net loss	-	-	-	-	-
Common dividends declared - \$.35 per share	-	-	-	-	-
Adjustments	-	-	4,820	-	5,029
Purchases of treasury stock	-	-	-	-	-
Other, net	-	(19)	-	-	-
Balance at December 31, 1992	8,355	759,281	(111,820)	-	(896)
Net loss	-	-	-	-	-
Adjustments	-	-	(3,983)	(3,442)	(51)
Cumulative effect of change in accounting principle	-	-	-	-	(1,217)
Balance at December 31, 1993	8,355	759,281	(115,803)	(3,442)	(2,164)
Net loss	-	-	-	-	-
Treasury stock reissued	-	-	-	-	-
Adjustments	-	-	(9,691)	1,807	2,152
Balance at December 31, 1994	\$8,355	\$759,281	\$ (125,494)	\$ (1,635)	\$ (12)

	Accumulated deficit	Treasury stock	Total
Balance at December 31, 1991	\$ (339,043)	\$ (364,322)	\$ (58,275)
Net loss	(76,400)	-	(76,400)
Common dividends declared - \$.35 per share	(17,807)	-	(17,807)
Adjustments	-	-	9,849
Purchases of treasury stock	-	(3,641)	(3,641)
Other, net	-	-	(19)

Balance at December 31, 1992	(433,250)	(367,963)	(146,293)
Net loss	(109,809)	-	(109,809)
Adjustments	-	-	(7,476)
Cumulative effect of change in accounting principle	-	-	(1,217)
Balance at December 31, 1993	(543,059)	(367,963)	(264,795)
Net loss	(23,982)	-	(23,982)
Treasury stock reissued	-	1,427	1,427
Adjustments	-	-	(5,732)
Balance at December 31, 1994	\$ (567,041)	\$ (366,536)	\$ (293,082)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1992, 1993 and 1994

(In thousands)

	1992	1993	1994
Cash flows from operating activities:			
Net loss	\$ (76,400)	\$ (109,809)	\$ (23,982)
Depreciation, depletion and amortization	47,829	46,340	34,592
Non-cash interest expense	6,270	8,309	18,071
Deferred income taxes	(18,949)	(670)	11,907
Cumulative effect of changes in accounting principles	31,804	(1,217)	-
Minority interest	1,123	730	843
Net (gains) losses from:			
Securities transactions	6,018	(4,363)	1,220
Disposition of property and equipment	1,419	199	1,981
Pension cost, net	(2,024)	(2,134)	(2,753)
Other postretirement benefits, net	1,830	(2,422)	(3,437)
Other, net	3,442	(1,349)	68
	2,362	(66,386)	38,510
Change in assets and liabilities:			
Accounts and notes receivable	(1,776)	(1,291)	(13,152)
Inventories	(33,814)	12,166	17,778
Prepaid expenses	207	(472)	3,221
Accounts payable and accrued liabilities	(6,111)	(4,132)	(17,343)
Income taxes	(13,501)	1,507	109,243
Accounts with affiliates	(4,106)	5,426	(2,024)
Other noncurrent assets	(1,006)	8,844	2,219
Other noncurrent liabilities	13,072	37,069	28,706
Marketable trading securities:			
Purchases	-	-	(870)
Dispositions	-	-	15,530
Net cash provided (used) by operating activities	(44,673)	(7,269)	181,818

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1992, 1993 and 1994

(In thousands)

	1992	1993	1994
Cash flows from investing activities:			
Capital expenditures	\$ (85,150)	\$ (47,986)	\$ (36,931)
Marketable securities:			
Purchases	(156,573)	(11,053)	-
Dispositions	473,935	79,398	-
Proceeds from disposition of property and equipment	1,484	175,537	598
Investment in joint ventures, net	-	(14,405)	3,133
Loans to affiliates	-	(210)	-
Other, net	1,168	670	362
Net cash provided (used) by investing activities	234,864	181,951	(32,838)
Cash flows from financing activities:			
Indebtedness:			
Borrowings	61,722	452,694	44,490
Principal payments	(263,093)	(607,417)	(175,886)
Dividends paid	(17,807)	-	-
Other, net	(3,937)	(613)	(742)
Net cash used by financing activities	(223,115)	(155,336)	(132,138)
Net change during the year from operating, investing and financing activities	\$ (32,924)	\$ 19,346	\$ 16,842

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1992, 1993 and 1994

(In thousands)

	1992	1993	1994
Cash and cash equivalents:			
Net change during the year from:			
Operating, investing and financing activities	\$ (32,924)	\$ 19,346	\$ 16,842
Currency translation	(5,013)	(86)	7,689
Balance at beginning of year	(37,937)	19,260	24,531
	125,270	87,333	106,593
Balance at end of year	\$ 87,333	\$106,593	\$ 131,124
Supplemental disclosures - cash paid (received) for:			
Interest, net of amounts capitalized	\$137,996	\$ 91,576	\$ 66,801
Income taxes, net	31,369	11,897	(111,418)

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 ("TiO2")) and Rheox, Inc. (specialty chemicals).

Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, hold 52% and 18%, respectively, of NL's outstanding common stock. Contran holds, directly or through subsidiaries, approximately 90% of Valhi's and 44% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons, of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board, President, and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation

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

Translation of foreign currencies

Assets and liabilities of subsidiaries whose functional currency is deemed to be other than the U.S. dollar are translated at year-end rates of exchange and revenues and expenses are translated at weighted average exchange rates prevailing during the year. Resulting translation adjustments and the related income tax effects are accumulated in the currency translation adjustments component of shareholders' deficit. Currency transaction gains and losses are recognized in income currently.

Cash and cash equivalents

Cash equivalents include U.S. Treasury securities purchased under short-term agreements to resell, bank deposits, and government and commercial notes and bills with original maturities of three months or less. Cash and cash equivalents includes \$18 million and \$16 million at December 31, 1993 and 1994, respectively, which are restricted for letters of credit and certain indebtedness agreements.

Marketable securities and securities transactions

Marketable securities are classified as either "available-for-sale" or "trading" and are carried at market based on quoted market prices. Unrealized gains and losses on trading securities are recognized in income currently. Unrealized gains and losses on available-for-sale securities, and the related deferred income tax effects, are accumulated in the marketable securities adjustment component of shareholders' deficit. See Note 4. Realized gains or losses are computed based on specific identification of the securities sold.

Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as of December 31, 1993, marketable securities were generally carried at the lower of aggregate market or amortized cost and unrealized net gains were not recognized.

Inventories

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

Investment in joint ventures

Investments in 20% to 50%-owned entities are accounted for by the equity method.

Intangible assets

Intangible assets, included in other noncurrent assets, are amortized by

the straight-line method over the periods expected to be benefitted, not exceeding ten years.

Property, equipment, depreciation and depletion

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

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

Long-term debt

Long-term debt is stated net of unamortized original issue discount ("OID"). OID and deferred financing costs are amortized over the life of the applicable issue by the interest method.

Employee benefit plans

Accounting and funding policies for retirement plans and postretirement benefits other than pensions ("OPEB") are described in Note 11.

Net sales

Sales are recognized as products are shipped.

Income taxes

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including investments in subsidiaries and unconsolidated affiliates not included in the Company's U.S. tax group (the "NL Tax Group").

Loss per share of common stock

Loss per share of common stock is based upon the weighted average number of common shares outstanding. Common stock equivalents are excluded from the computation because they are antidilutive or the dilutive effect is not material.

NOTE 3 - BUSINESS AND GEOGRAPHIC SEGMENTS:

The Company's operations are conducted in two business segments - TiO2 conducted by Kronos and specialty chemicals conducted by Rheox. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. Specialty chemicals include rheological additives which control the flow and leveling characteristics of a variety of products, including paints, inks, lubricants, sealants, adhesives and cosmetics. General corporate assets consist principally of cash, cash equivalents and marketable securities. At December 31, 1994, the net amounts of non-U.S. subsidiaries included in consolidated net assets approximated \$72 million.

	Years ended December 31,		
	1992	1993	1994
	(In thousands)		
Business segments			
Net sales:			
Kronos	\$ 784,568	\$ 697,048	\$770,077
Rheox	108,897	108,275	117,877
	\$ 893,465	\$ 805,323	\$887,954
Operating income:			
Kronos	\$ 81,941	\$ 36,146	\$ 80,515
Rheox	28,792	26,254	30,837

	110,733	62,400	111,352
General corporate income (expense):			
Securities earnings	8,216	8,467	3,855
Expenses, net	(43,452)	(41,516)	(44,686)
Interest expense	(118,511)	(99,119)	(83,926)
	\$ (43,014)	\$ (69,768)	\$ (13,405)
Capital expenditures:			
Kronos	\$ 81,872	\$ 46,913	\$ 34,522
Rheox	3,064	1,069	2,283
General corporate	214	4	126
	\$ 85,150	\$ 47,986	\$ 36,931
Depreciation, depletion and amortization:			
Kronos	\$ 44,360	\$ 42,877	\$ 31,156
Rheox	3,184	3,176	3,153
General corporate	285	287	283
	\$ 47,829	\$ 46,340	\$ 34,592
Geographic areas			
Net sales - point of origin:			
United States	\$ 238,170	\$ 270,288	\$ 303,475
Europe	643,670	519,064	587,291
Canada	138,656	132,930	122,957
Eliminations	(127,031)	(116,959)	(125,769)
	\$ 893,465	\$ 805,323	\$ 887,954
Net sales - point of destination:			
United States	\$ 204,270	\$ 217,892	\$ 238,568
Europe	518,711	418,072	468,915
Canada	72,692	76,078	64,374
Other	97,792	93,281	116,097
	\$ 893,465	\$ 805,323	\$ 887,954
Operating income:			
United States	\$ 629	\$ 20,981	\$ 49,358
Europe	81,805	19,658	50,273
Canada	28,299	21,761	11,721
	\$ 110,733	\$ 62,400	\$ 111,352

December 31,
1992 1993 1994
(In thousands)

Identifiable assets			
Business segments:			
Kronos	\$1,246,186	\$1,008,453	\$ 950,200
Rheox	76,248	75,362	83,176
General corporate	149,673	122,734	129,034
	\$1,472,107	\$1,206,549	\$1,162,410
Geographic segments:			
United States	\$ 498,029	\$ 326,831	\$ 308,017
Europe	671,349	622,826	594,921
Canada	153,056	134,158	130,438
General corporate	149,673	122,734	129,034
	\$1,472,107	\$1,206,549	\$1,162,410

NOTE 4 - MARKETABLE SECURITIES AND SECURITIES TRANSACTIONS:

December 31,
1993 1994

(In thousands)

Trading securities - current U.S. Treasury securities:		
Unrealized gains (losses)	\$ 52	\$ (1,124)
Cost	40,993	26,289
Aggregate market	\$41,045	\$25,165
Available-for-sale securities - noncurrent marketable equity securities:		
Unrealized gains	\$ 33	\$ 3,357
Unrealized losses	(2,951)	(3,374)
Cost	21,346	21,346
Aggregate market	\$18,428	\$21,329

Net gains and losses from securities transactions are composed of:

	1992	Years ended December 31, 1993	1994
		(In thousands)	
Unrealized gains (losses)	\$ (565)	\$3,520	\$ (1,177)
Realized gains (losses)	478	843	(43)
Writedown of noncurrent marketable equity securities	(5,931)	-	-
	\$ (6,018)	\$4,363	\$ (1,220)

NOTE 5 - INVENTORIES:

	December 31, 1993	1994
	(In thousands)	
Raw materials	\$ 19,785	\$ 30,118
Work in process	7,173	7,655
Finished products	135,102	112,410
Supplies	32,107	34,990
	\$194,167	\$185,173

NOTE 6 - INVESTMENT IN JOINT VENTURES:

	December 31, 1993	1994
	(In thousands)	
TiO2 manufacturing joint venture	\$188,031	\$185,122
Other	2,756	2,358
	\$190,787	\$187,480

In October 1993, Kronos Louisiana, Inc. ("KLA"), a wholly-owned subsidiary of Kronos, formed a manufacturing joint venture, Louisiana Pigment Company, L.P. ("LPC"), with Tioxide Group, Ltd., a wholly-owned subsidiary of Imperial Chemicals Industries PLC ("Tioxide"). LPC, which is equally owned by KLA and a subsidiary of Tioxide, owns and operates the Louisiana chloride process TiO2 plant formerly owned by KLA. LPC has long-term debt that is collateralized by the partnership interests of the partners and substantially all of the assets of LPC. The long-term debt consists of two tranches, one attributable to each partner, and each tranche is serviced through (i) the purchase of the plant's TiO2 output in equal quantities by the partners and (ii) cash capital contributions. KLA is required to purchase one-half of the TiO2 produced by LPC. KLA's tranche of LPC's debt is reflected as outstanding indebtedness of the Company because Kronos has guaranteed the purchase obligation relative to

the debt service of its tranche. See Note 10.

LPC is intended to be operated on a break-even basis and, accordingly, Kronos' transfer price for its share of the TiO2 produced is equal to its share of LPC's production costs and interest expense. Kronos' share of the production costs are reported as cost of sales as the related TiO2 acquired from LPC is sold, and its share of the interest expense is reported as a component of interest expense.

Summary balance sheets of LPC are shown below.

ASSETS	December 31,	
	1993	1994
	(In thousands)	
Current assets	\$ 44,477	\$ 38,052
Other assets	2,376	1,969
Property and equipment, net	347,344	344,806
	\$394,197	\$384,827
LIABILITIES AND PARTNERS' EQUITY		
Long-term debt, including current portion:		
Kronos tranche	\$104,143	\$ 88,715
Tioxide tranche	102,600	81,000
Other liabilities, primarily current	16,197	12,355
	222,940	182,070
Partners' equity	171,257	202,757
	\$394,197	\$384,827

Summary income statements of LPC are shown below.

	Period from	Year ended
	October 18, 1993 to December 31, 1993	December 31, 1994
Revenues and other income:		
Kronos	\$12,713	\$ 70,492
Tioxide	12,617	67,218
Interest income	72	462
	25,402	138,172
Cost and expenses:		
Cost of sales	22,803	126,972
General and administrative	443	572
Interest	2,156	10,628
	25,402	138,172
Net income	\$ -	\$ -

NOTE 7 - OTHER NONCURRENT ASSETS:

	December 31,	
	1993	1994
	(In thousands)	
Intangible assets, net of accumulated amortization of \$11,941 and \$16,149	\$15,317	\$13,957
Deferred financing costs, net	18,954	16,079
Other	8,084	7,231
	\$42,355	\$37,267

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	1993	December 31, 1994
	(In thousands)	
Accounts payable	\$ 89,010	\$ 74,903
Accrued liabilities:		
Employee benefits	32,350	34,209
Environmental costs	14,517	10,433
Interest	6,933	6,485
Miscellaneous taxes	2,240	7,336
Other	32,215	34,961
	88,255	93,424
	\$177,265	\$168,327

NOTE 9 - OTHER NONCURRENT LIABILITIES:

	1993	December 31, 1994
	(In thousands)	
Environmental costs	\$ 70,789	\$ 93,655
Insurance claims expenses	10,299	14,716
Deferred technology fee income	26,881	18,305
Employee benefits	10,084	12,322
Other	3,256	2,520
	\$121,309	\$141,518

NOTE 10 - LONG-TERM DEBT:

	1993	December 31, 1994
	(In thousands)	
NL Industries:		
11.75% Senior Secured Notes	\$250,000	\$250,000
13% Senior Secured Discount Notes	102,627	116,409
	352,627	366,409
Kronos:		
DM bank credit facility (DM 548,000 and DM 397,610, respectively)	316,032	255,703
LPC term loan	104,143	88,715
Other	14,513	10,507
	434,688	354,925
Rheox:		
Bank term loan	82,500	67,500
Other	1,070	815
	83,570	68,315
	870,885	789,649
Less current maturities	35,716	42,887
	\$835,169	\$746,762

The Company's \$250 million principal amount of 11.75% Senior Secured Notes due 2003 and \$188 million principal amount at maturity (\$100 million proceeds at issuance) of 13% Senior Secured Discount Notes due 2005 (collectively, the "Notes") are collateralized by a series of intercompany notes from Kronos International, Inc. ("KII"), a wholly-owned subsidiary of Kronos, to NL, the terms of which mirror those of the respective Notes (the "Mirror Notes"). The Senior Secured Notes are also collateralized by a first priority lien on the stock of Kronos and a second priority lien on the stock of Rheox. The Senior Secured Notes and the Senior Secured Discount Notes are redeemable, at the Company's option, after October 2000 and October 1998, respectively, except that up to one-third of the aggregate principal amount of the Senior Secured Discount Notes are redeemable (at 113% of the accreted value) upon any Common Stock Offering, as defined, prior to October 1996. For redemptions, other than redemptions pursuant to any Common Stock Offering, the redemption prices range from 101.5% (starting October 2000) declining to 100% (after October 2001) of

the principal amount for the Senior Secured Notes and range from 106% (starting October 1998) declining to 100% (after October 2001) of the accreted value of the Senior Secured Discount Notes. In the event of a Change of Control, as defined, the Company would be required to make an offer to purchase the Notes at 101% of the principal amount of the Senior Secured Notes and 101% of the accreted value of the Senior Secured Discount Notes. The Notes are issued pursuant to indentures which contain a number of covenants and restrictions which, among other things, restrict the ability of the Company and its subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of its assets to, another entity. At December 31, 1994, there were no amounts available for payment for dividends pursuant to the terms of the indentures. The Senior Secured Discount Notes do not require cash interest payments for the first five years. The net carrying value of the Senior Secured Discount Notes per \$100 principal amount at maturity was \$54.73 and \$62.08 at December 31, 1993 and 1994, respectively.

The DM credit facility, as amended, consists of a DM 398 million term loan due from March 1997 to September 1999 and a DM 250 million revolving credit facility due no later than September 2000. At December 31, 1994, all of the revolving credit facility was available for future borrowings by KII; however, DM 125 million is available only for (i) permanently reducing the DM term loan or (ii) paying future German tax assessments. Borrowings bear interest at DM LIBOR plus 1.625% (8.19% and 6.938% at December 31, 1993 and 1994, respectively). NL and Kronos have agreed, under certain circumstances, to provide KII with up to DM 125 million through January 1, 2001. The DM credit facility is collateralized by pledges of the stock of certain KII subsidiaries. The credit agreement restricts KII's ability to incur additional indebtedness, restricts its dividends and other payments to affiliates, requires it to maintain specified debt service coverage and other ratios, and contains other provisions and restrictive covenants customary in lending transactions of this type.

Borrowings under KLA's tranche of LPC's term loan bear interest at U.S. LIBOR plus 1.625% (5.01% and 8.125% at December 31, 1993 and 1994, respectively) and are repayable in quarterly installments through September 2000. See Note 6.

Rheox has a credit agreement providing for a seven-year term loan due in quarterly installments through December 1997 and a \$15 million revolving credit/letter of credit facility due September 1995. Borrowings bear interest, at Rheox's option, at prime rate plus 1.5% or U.S. LIBOR plus 2.5% (5.83% and 9.01% at December 31, 1993 and 1994, respectively), and are collateralized by the stock of Rheox and its domestic subsidiary and by Rheox's U.S. assets. The credit agreement restricts Rheox's ability to incur additional indebtedness, restricts its dividend payments and contains other provisions and restrictive covenants customary in lending transactions of this type. In connection with the credit agreement, Rheox had entered into interest rate swap agreements to mitigate the impact of changes in interest rates on the term loan. These swap agreements, which matured in December 1994, effectively converted the interest rate on \$60 million of the loan from a variable rate to a fixed rate of 8.1%. At December 31, 1993, the effective interest rate on the term loan, including the impact of the swap agreements, was 7.3%.

Unused lines of credit available for borrowings under the Rheox U.S. facility and non-U.S. credit facilities totalled \$14 million and \$195 million, respectively, at December 31, 1994. Of the non-U.S. credit facilities available, \$80 million is available only for (i) permanently reducing the DM term loan or (ii) paying future German tax assessments.

The aggregate maturities of long-term debt at December 31, 1994 are shown in the table below.

Years ending December 31,	Amount (In thousands)
1995	\$ 42,887
1996	41,308
1997	97,612
1998	101,354
1999	128,457
2000 and thereafter	449,122
	860,740

NOTE 11 - EMPLOYEE BENEFIT PLANS:

Company-sponsored pension plans

The Company maintains various defined benefit and defined contribution pension plans covering substantially all employees. Personnel employed by non-U.S. subsidiaries are covered by separate plans in their respective countries and U.S. employees are covered by various plans including the Retirement Programs of NL Industries, Inc. (the "NL Pension Plan").

A majority of U.S. employees are eligible to participate in a contributory savings plan with partial matching contributions by the Company. The Company's expense related to matching contributions was \$1.0 million, nil and \$.3 million in 1992, 1993 and 1994, respectively.

Defined pension benefits are generally based upon years of service and compensation under fixed-dollar, final pay or career average formulas, and the related expenses are based upon independent actuarial valuations. The funding policy for U.S. defined benefit plans is to contribute amounts which satisfy funding requirements of the Employee Retirement Income Security Act of 1974, as amended. Non-U.S. defined benefit pension plans are funded in accordance with applicable statutory requirements.

The funded status of the Company's defined benefit pension plans is set forth below. The rates used in determining the actuarial present value of benefit obligations were (i) discount rates - 8.5% (1993 - 7% to 8.5%) and (ii) rates of increase in future compensation levels - nil to 6%. The expected long-term rates of return on assets used ranged from 8.5% to 9.0% (1993 - 8% to 10%). Plan assets are comprised primarily of investments in U.S. and non-U.S. corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

SFAS No. 87, "Employers' Accounting for Pension Costs" requires that an additional pension liability be recognized when the unfunded accumulated pension benefit obligation exceeds the unfunded accrued pension liability. Variances from actuarially-assumed rates, including the rate of return on pension plan assets, will result in additional increases or decreases in accrued pension liabilities, pension expense and funding requirements in future periods. At December 31, 1994, approximately 60% of the projected benefit obligations in excess of plan assets relate to non-U.S. plans.

	Assets exceed accumulated benefits		Accumulated benefits exceed assets	
	December 31,		December 31,	
	1993	1994	1993	1994
	(In thousands)			
Actuarial present value of benefit obligations:				
Vested benefits	\$40,612	\$43,248	\$137,156	\$132,317
Nonvested benefits	3,160	3,390	2,893	2,155
Accumulated benefit obligations	43,772	46,638	140,049	134,472
Effect of projected salary increases	6,235	5,938	17,664	19,620
Projected benefit obligations ("PBO")	50,007	52,576	157,713	154,092
Plan assets at fair value	63,565	66,293	88,881	108,377
Plan assets over (under) PBO	13,558	13,717	(68,832)	(45,715)
Unrecognized net loss (gain) from experience different from actuarial assumptions	774	2,876	(4,958)	(32,808)
Unrecognized prior service cost (credit)	3,121	3,195	(3,879)	(3,255)
Unrecognized transition obligations (assets) being amortized over 15				

to 18 years	(1,146)	(459)	2,586	2,606
Adjustment required to recognize minimum liability	-	-	(3,442)	(1,635)
Total prepaid (accrued) pension cost	16,307	19,329	(78,525)	(80,807)
Less current portion	-	-	(5,919)	(4,565)
Noncurrent prepaid (accrued) pension cost	\$16,307	\$19,329	\$ (72,606)	\$ (76,242)

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

	Years ended December 31,		
	1992	1993	1994
	(In thousands)		
Service cost benefits	\$ 4,272	\$ 4,082	\$ 4,905
Interest cost on PBO	13,804	14,430	15,371
Actual return on plan assets	(12,248)	(15,647)	(8,039)
Net amortization and deferrals	(1,346)	2,413	(5,940)
	\$ 4,482	\$ 5,278	\$ 6,297

Incentive bonus programs

The Company has incentive bonus programs for certain employees providing for annual payments, which may be in the form of NL common stock, based on formulas involving the profitability of Kronos and Rheox in relation to the annual operating plan of the employee's business unit and individual performance.

Postretirement benefits other than pensions

In addition to providing pension benefits, the Company currently provides certain health care and life insurance benefits for eligible retired employees. Certain of the Company's U.S. and Canadian employees may become eligible for such postretirement health care and life insurance benefits if they reach retirement age while working for the Company. In 1989, the Company began phasing out such benefits for currently active U.S. employees over a ten-year period. The majority of all retirees are required to contribute a portion of the cost of their benefits and certain current and future retirees are eligible for reduced health care benefits at age 65. The Company's policy is to fund medical claims as they are incurred, net of any contributions by the retirees. Effective January 1, 1993, the Company's postretirement medical plans were revised to, among other things, increase the deductible and maximum out-of-pocket amounts, increase the retiree copayment percentage and pass on future cost increases to the participants through increased contributions or decreased reimbursements.

The rates used in determining the actuarial present value of the accumulated benefit obligations were (i) discount rate - 8.5% (1993 - 7%), (ii) rate of increase in future compensation levels - 6% (1993 - 4%), (iii) rate of increase in future health care costs - 10% in 1995, gradually declining to 5% in 2000 and thereafter and (iv) expected return on plan assets - 9%. If the health care cost trend rate was increased by one percentage point for each year, postretirement benefit expense would have increased approximately \$.2 million in 1994, and the actuarial present value of accumulated benefit obligations at December 31, 1994 would have increased by approximately \$2.0 million.

	December 31,	
	1993	1994
	(In thousands)	
Actuarial present value of accumulated benefit obligations:		
Retiree benefits	\$61,686	\$51,895
Other fully eligible active plan participants	1,106	1,229
Other active plan participants	1,962	1,797
	64,754	54,921
Plan assets at fair value	8,095	7,217
Accumulated postretirement benefit obligations in excess of plan assets	56,659	47,704
Unrecognized net gain from experience different from actuarial assumptions	2,390	9,251
Unrecognized prior service credit	15,145	13,672

Total accrued postretirement benefits cost	74,194	70,627
Less current portion	5,872	5,328
Noncurrent accrued postretirement benefits cost	\$68,322	\$65,299

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

	Years ended December 31,		
	1992	1993	1994
	(In thousands)		
Interest cost on accumulated benefit obligations	\$6,189	\$ 4,911	\$ 4,338
Service cost benefits earned during the year	130	127	99
Expected return on plan assets	(650)	(647)	(688)
Net amortization and deferrals	-	(1,473)	(1,495)
	\$5,669	\$ 2,918	\$ 2,254

NOTE 12 - SHAREHOLDERS' DEFICIT:

Common stock

	Shares of common stock		Outstanding
	Issued	Treasury stock	
	(In thousands)		
Balance at December 31, 1991	66,839	15,638	51,201
Purchase of treasury shares	-	311	(311)
Balance at December 31, 1992 and 1993	66,839	15,949	50,890
Treasury shares reissued	-	(162)	162
Balance at December 31, 1994	66,839	15,787	51,052

Common stock options

The 1989 Long Term Performance Incentive Plan of NL Industries, Inc. (the "NL Option Plan") provides for the discretionary grant of restricted common stock, stock options, stock appreciation rights ("SARs") and other incentive compensation to officers and other key employees of the Company. Although certain stock options and SARs granted pursuant to similar plans which preceded the NL Option Plan ("the Predecessor Option Plans") remain outstanding at December 31, 1994, no additional options may be granted under the Predecessor Option Plans.

Up to five million shares of NL common stock may be issued pursuant to the NL Option Plan. The NL Option Plan provides for the grant of options that qualify as incentive options and for options which are not so qualified. Generally, stock options and SARs (collectively, "options") are granted at a price equal to or greater than 100% of the market price at the date of grant, vest over a five year period and expire ten years from the date of grant. Restricted stock, forfeitable unless certain periods of employment are completed, is held in escrow in the name of the grantee until the restriction period expires. No SARs have been granted under the NL Option Plan. At December 31, 1994, 100,000 shares of common stock, restricted for periods up to 14 months, are included in common shares outstanding.

Changes in outstanding options granted pursuant to the NL Option Plan and the Predecessor Option Plans are summarized in the table below. At December 31, 1994, options to purchase 850,582 shares were exercisable and options to purchase 388,200 shares become exercisable in 1995. Of the exercisable options at December 31, 1994, options to purchase 468,912 shares had exercise prices less than the Company's December 31, 1994 quoted market price of \$12.625 per share. At December 31, 1994, an aggregate of 2.7 million shares were available for future grants under the NL Option Plan.

Exercise price per	Amount payable upon
--------------------	---------------------

	Shares	share	exercise
	(In thousands, except per share amounts)		
Outstanding at December 31, 1991	1,051	\$8.65 - 26.17	\$15,992
Granted	237	9.31	2,207
Canceled or expired	(10)	9.31 - 26.17	(126)
Outstanding at December 31, 1992	1,278	8.65 - 24.19	18,073
Granted	451	5.00 - 7.00	2,645
Canceled or expired	(3)	8.65 - 10.78	(27)
Outstanding at December 31, 1993	1,726	5.00 - 24.19	20,691
Granted	673	8.69 - 10.69	6,297
Exercised	(13)	9.31 - 10.50	(119)
Canceled or expired	(13)	5.00 - 10.13	(114)
Outstanding at December 31, 1994	2,373	\$5.00 - 24.19	\$26,755

Preferred stock

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

NOTE 13 - INCOME TAXES:

The components of (i) loss before income taxes, minority interest, extraordinary item and cumulative effect of changes in accounting principles ("pretax income (loss)"), (ii) the difference between the provision for income taxes attributable to pretax income (loss) and the amounts that would be expected using the U.S. federal statutory income tax rate of 35% (34% in 1992), (iii) the provision for income taxes and (iv) the comprehensive tax provision (benefit) are presented below.

	Years ended December 31,		
	1992	1993	1994
	(In thousands)		
Pretax income (loss):			
U.S.	\$ (52,724)	\$ (41,579)	\$ (6,241)
Non-U.S.	9,710	(28,189)	(7,164)
	\$ (43,014)	\$ (69,768)	\$ (13,405)
Expected tax benefit	\$ (14,625)	\$ (24,419)	\$ (4,692)
Non-U.S. tax rates	(11,224)	(15,620)	(7,108)
Rate change adjustment of deferred taxes	-	6,823	-
Valuation allowance	20,237	40,827	24,309
Settlement of U.S. tax audits	-	-	(5,437)
Incremental tax on income of companies not included in the NL Tax Group	5,385	2,553	790
Other, net	686	2,549	1,872
	\$ 459	\$ 12,713	\$ 9,734
Provision for income taxes:			
Current income tax expense (benefit):			
U.S.	\$ (2,395)	\$ (45)	\$ (4,747)
Non-U.S.	21,803	14,083	2,574
	19,408	14,038	(2,173)
Deferred income tax expense (benefit):			
U.S.	33	(140)	4,405
Non-U.S.	(18,982)	(1,185)	7,502
	(18,949)	(1,325)	11,907
	\$ 459	\$ 12,713	\$ 9,734
Comprehensive tax provision (benefit) allocable to:			
Pretax income (loss)	\$ 459	\$12,713	\$9,734
Shareholders' deficit, principally deferred income taxes allocable to currency translation and marketable securities adjustments	(1,196)	(1,243)	7
	\$ (737)	\$11,470	\$9,741

Changes in deferred income taxes related to the adoption of new accounting standards are disclosed in Note 19. The Company's valuation allowance increased in the aggregate (including the effect of foreign currency translation) by \$47

million in 1993 and \$31 million in 1994. The components of the net deferred tax liability are summarized below:

	December 31,			
	1993		1994	
	Deferred tax Assets	Liabilities	Deferred tax Assets	Liabilities
	(In thousands)			
Tax effect of temporary differences relating to:				
Inventories	\$ 3,965	\$ (2,532)	\$ 4,275	\$ (2,885)
Property and equipment	2,694	(90,356)	423	(102,817)
Accrued postretirement benefits cost	25,955	-	24,968	-
Accrued pension cost	9,712	(9,224)	9,363	(11,529)
Accrued environmental costs	26,784	-	34,108	-
Other accrued liabilities and deductible differences	22,070	-	32,031	-
Other taxable differences	-	(104,940)	-	(139,378)
Tax on unremitted earnings of non-U.S. subsidiaries	577	(27,742)	452	(22,416)
Tax loss and tax credit carryforwards	137,706	-	162,906	-
Valuation allowance	(133,377)	-	(164,500)	-
Gross deferred tax assets (liabilities)	96,086	(234,794)	104,026	(279,025)
Reclassification, principally netting by tax jurisdiction	(92,194)	92,194	(99,103)	99,103
Net total deferred tax assets (liabilities)	3,892	(142,600)	4,923	(179,922)
Net current deferred tax assets (liabilities)	3,315	(3,623)	2,177	(1,590)
Net noncurrent deferred tax assets (liabilities)	\$ 577	\$ (138,977)	\$ 2,746	\$ (178,332)

Certain of the Company's income tax returns in various U.S. and non-U.S. jurisdictions, including Germany, are being examined and tax authorities have proposed or may propose tax deficiencies. During 1994, the German tax authorities withdrew certain assessment reports which had proposed tax deficiencies of DM 100 million and remitted tax refunds aggregating DM 225 million (\$136 million), including interest, on a tentative basis. The Company applied DM 174 million (\$108 million) of the German tentative tax refunds to reduce outstanding borrowings under its DM credit facility. The examination of the Company's 1989 and 1990 income tax returns is continuing and additional substantial proposed tax deficiency assessments are expected. Although the Company believes that it will ultimately prevail, the Company has granted a DM 100 million (\$64 million at December 31, 1994) lien on its Nordenham, Germany TiO2 plant, and may be required to provide additional security in favor of the German tax authorities until the assessments proposing tax deficiencies are resolved. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from all such examinations 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 November 1994, the Joint Committee on Taxation (Congressional Review) approved the Company's settlement with the Internal Revenue Service regarding examinations of the Company's 1985 and 1986 U.S. federal income tax returns which resulted in a \$5 million tax benefit. In 1995, the Company expects to make examination settlement payments of \$20 million in final settlement of certain German tax examinations relating to tax years prior to 1989.

At December 31, 1994, the Company had approximately \$300 million of income tax loss carryforwards with no expiration dates, primarily in Germany. As a result of the German tentative tax refunds and redetermination of prior year's U.S. tax liabilities, at December 31, 1994, the Company does not anticipate having any U.S. tax attributes, including net operating loss and alternative minimum tax credits, available for carryforward for U.S. federal income tax purposes.

NOTE 14 - OTHER INCOME, NET:

	Years ended December 31,		
	1992	1993	1994
	(In thousands)		
Securities earnings:			
Interest and dividends	\$14,234	\$ 4,104	\$ 5,075
Securities transactions	(6,018)	4,363	(1,220)

Litigation settlement gains	8,216	8,467	3,855
Technology fee income	-	-	22,978
Currency transaction gains, net	1,735	3,299	1,735
Royalty income	1,014	2,016	1,508
Disposition of property and equipment	(1,419)	(199)	(1,981)
Other, net	5,251	6,453	6,389
	\$14,797	\$22,084	\$44,828

Litigation settlement gains includes \$20 million related to the Company's 1994 settlement of its lawsuit against Lockheed Corporation. Technology fee income is being amortized by the straight-line method over a three-year period beginning October 1993.

NOTE 15 - OTHER ITEMS:

Advertising costs, expensed as incurred, were \$2.6 million in 1992, \$2.1 million in 1993 and \$1.9 million in 1994.

Research, development and sales technical support costs, expensed as incurred, approximated \$11 million in 1992 and \$10 million in both 1993 and 1994.

Interest capitalized in connection with long-term capital projects was \$9 million in 1992 and \$1 million in both 1993 and 1994.

NOTE 16 - EXTRAORDINARY ITEM:

The extraordinary loss in 1993 relates to the settlement of certain interest rate swap agreements for \$20 million in cash in conjunction with prepaying the Louisiana plant indebtedness and from the write-off of deferred financing costs related to such prepayment and the paydown of a portion of the DM bank credit facility. The Louisiana plant indebtedness loan agreement required the Company to enter into the interest rate swap agreements and both the debt and related swaps were collateralized by the Louisiana plant. The Company was required to prepay the Louisiana plant indebtedness and settle the swaps prior to the formation of LPC (thus making the swaps inseparable from the debt).

NOTE 17 - RELATED PARTY TRANSACTIONS:

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

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

The Company is a party to an intercorporate services agreements with Valhi and Contran (the "Valhi and Contran ISAs") whereby Valhi and Contran provide certain management, financial and administrative services to the Company on a fee basis. Management services fee expense related to the Valhi and Contran ISAs was \$1.4 million in 1992, \$.7 million in 1993 and \$.6 million in 1994.

Baroid Corporation, a former wholly-owned subsidiary of the Company and a subsidiary of Dresser Industries, Inc., and the Company were parties to an intercorporate services agreement (the "Baroid ISA") pursuant to which, as amended, Baroid agreed to make certain services available to the Company on a

fee basis subject to termination or renewal by mutual agreement. Management services fee expense pursuant to the Baroid ISA approximated \$2.3 million in 1992, \$.3 million in 1993 and \$.2 million in 1994.

The Company was party to an intercorporate services agreement with Tremont (the "Tremont ISA") until June 1993 when the agreement was terminated. Under the terms of the contract, the Company provided certain management, financial and legal services to Tremont on a fee basis. Management services fee income related to the Tremont ISA was \$.5 million in 1992 and \$.1 million in 1993.

Purchases from Tremont in the ordinary course of business pursuant to a long-term supply contract were \$.6 million in 1992, \$.4 million in 1993 and nil in 1994.

Sales to Baroid in the ordinary course of business were \$2.1 million in 1992 and \$1.8 million in both 1993 and 1994.

Purchases in the ordinary course of business from unconsolidated joint ventures, including LPC, were approximately \$9 million in 1992, \$22 million in 1993 and \$74 million in 1994.

Certain employees of the Company have been granted options to purchase Valhi common stock under the terms of Valhi's stock option plans. The Company and Valhi have agreed that the Company will pay Valhi the aggregate difference between the option price and the market value of Valhi's common stock on the exercise date of such options. For financial reporting purposes, the Company accounts for the related expense (nil in 1992 and 1993 and \$64,000 in 1994) in a manner similar to accounting for SARs. At December 31, 1994, employees of the Company held options to purchase 365,000 shares (356,000 shares vested) of Valhi common stock at exercise prices ranging from \$5 to \$15 per share. At December 31, 1994, 30,000 of these options were exercisable at prices less than Valhi's quoted market price per share of \$7.625.

The Company and TRE Insurance, a wholly-owned subsidiary of Tremont, are parties to an Insurance Sharing Agreement with respect to certain loss payments and reserves established by TRE Insurance that (i) arise out of claims against other entities for which the Company is responsible and (ii) are subject to payment by TRE Insurance under certain reinsurance contracts. Also, TRE Insurance will credit the Company with respect to certain underwriting profits or credit recoveries that TRE Insurance receives from independent reinsurers that relate to retained liabilities.

Net amounts payable to affiliates are summarized in the following table.

	December 31,	
	1993	1994
	(In thousands)	
Tremont Corporation	\$4,777	\$ 4,780
LPC	4,789	6,565
Other	-	3
	\$9,566	\$11,348

Amounts payable to LPC are generally for the purchase of TiO2 (see Note 6), and amounts payable to Tremont relate to the Company's Insurance Sharing Agreement described above.

NOTE 18 - COMMITMENTS AND CONTINGENCIES:

Leases

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

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO2 production capacity, is located within the lessor's extensive manufacturing complex, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement, which expired in 1991 and to which an extension through 2011 has been agreed in principle, the lessor provides some raw materials, auxiliary and operating materials and utilities services necessary to

operate the Leverkusen facility. Kronos and the lessor are continuing discussions regarding a definitive agreement for the extension of the supplies and services agreement. Both the lease and the supplies and services agreements restrict the Company's ability to transfer ownership or use of the Leverkusen facility.

Net rent expense aggregated \$9 million in 1992 and \$8 million in both 1993 and 1994. At December 31, 1993, minimum rental commitments under the terms of noncancellable operating leases were as follows:

Years ending December 31,	Real Estate	Equipment
	(In thousands)	
1995	\$ 1,782	\$1,582
1996	1,550	1,083
1997	1,432	602
1998	1,455	325
1999	1,325	116
2000 and thereafter	13,200	17
	\$20,744	\$3,725

Legal proceedings

Lead pigment litigation. Since 1987, the Company, other past manufacturers of lead pigments for use in paint and lead-based paint and the Lead Industries Association have been named as defendants in various legal proceedings seeking damages for personal injury and property damage allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of large United States cities or their public housing authorities and certain others have been asserted as class actions. These legal proceedings seek recovery under a variety of theories, including negligent product design, failure to warn, breach of warranty, conspiracy/concert of action, enterprise liability, market share liability, intentional tort, and fraud and misrepresentation.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and asserted health concerns associated with the use of lead-based paints, which was permitted for interior residential use in the United States until 1973, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. Most of these legal proceedings are in various pre-trial stages; several are on appeal.

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

Environmental matters and litigation. Some of the Company's current and former facilities, including several divested secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or of investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, the Company has been named a potential responsible party ("PRP") pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") in approximately 80 governmental enforcement and private actions associated with hazardous waste sites and former mining locations, some of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List. These actions seek cleanup costs and/or damages for personal injury or property damage. While the Company may be jointly and severally liable for such costs, in most cases, it is only one of a number of PRPs who are also jointly and severally liable. In addition, the Company is a party to a number of lawsuits filed in various jurisdictions alleging CERCLA or other environmental claims. At December 31, 1994, the Company had accrued \$87 million in respect of those environmental matters which are reasonably estimable. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites which it is possible to estimate costs is approximately \$160 million. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or

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

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

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

The Company currently believes the disposition of all claims and disputes individually or in the aggregate, should not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

Concentrations of credit risk

Sales of TiO2 accounted for almost 90% of net sales during the past three years. TiO2 is sold to the paint, paper and plastics industries. Such markets are generally considered "quality-of-life" markets whose demand for TiO2 is influenced by the relative economic well-being of the various geographic regions. TiO2 is sold to over 5,000 customers, none of which represents a significant portion of net sales. In each of the past three years, approximately one-half of the Company's TiO2 sales by volume were to Europe and approximately 33% in 1992, 38% in 1993 and 36% in 1994 of sales were attributable to North America.

Consolidated cash and cash equivalents includes \$64 million and \$80 million invested in U.S. Treasury securities purchased under short-term agreements to resell at December 31, 1993 and 1994, respectively, of which \$56 million and \$73 million, respectively, of such securities are held in trust for the Company by a single U.S. bank.

NOTE 19 - CHANGES IN ACCOUNTING PRINCIPLES:

In 1993, the Company adopted SFAS No. 115 (marketable securities) as of December 31, 1993. In 1992, the Company (i) elected early compliance with both SFAS No. 106 (OPEB) and SFAS No. 109 (income taxes) as of January 1, 1992; (ii) elected immediate recognition of the OPEB transition obligation; and (iii) elected to apply SFAS No. 109 prospectively and not restate prior years. The cumulative effect of changes in accounting principles adjustments are shown below.

	Amount reflected in	Equity
	Earnings	component
	(In thousands)	
Increase (decrease) in net assets at		
December 31, 1993 - SFAS No. 115:		
Marketable securities	\$1,872	\$(1,872)
Deferred income taxes	(655)	655
	\$1,217	\$(1,217)

Amount

(In thousands)

Increase (decrease) in net assets at January 1, 1992 - SFAS Nos. 106 and 109:	
Accrued postretirement benefits cost	\$ (74,918)
Deferred income taxes, net	43,114
	\$ (31,804)

NOTE 20 - FINANCIAL INSTRUMENTS:

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

	December 31, 1993		December 31, 1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash and cash equivalents	\$ 106.6	\$106.6	\$ 131.1	\$131.1
Marketable securities - classified as:				
Trading securities	41.1	41.1	25.2	25.2
Available-for-sale	18.4	18.4	21.3	21.3
Notes payable and long-term debt:				
Fixed rate with market quotes:				
Senior Secured Notes	\$ 250.0	\$260.0	\$ 250.0	\$247.1
Senior Secured Discount Notes	102.6	108.3	116.4	114.8
Rheox debt with rates fixed via interest rate swaps	60.0	61.0	-	-
Variable rate debt	458.3	458.3	423.2	423.2
Common shareholders' equity (deficit)	\$ (264.8)	\$229.0	\$ (293.1)	\$644.5

Fair value of the Company's marketable securities and Notes are based upon quoted market prices and the fair value of the Company's common shareholder's equity (deficit) is based upon quoted market prices for NL's common stock. The fair value of debt on which interest rates have been effectively fixed through the use of interest rate swaps (a portion of Rheox's U.S. term loans in 1993) is deemed to approximate the book value of the debt plus or minus the fair value of the related swaps. The fair value of Rheox's interest rate swaps is estimated to be a \$1 million payable at December 31, 1993. Such fair value represents the estimated amount the Company would pay if it were to terminate the swap agreements at that date. The fair value of swap agreements is estimated by obtaining quotes from the counter party financial institutions. The fair value of variable interest rate debt is deemed to approximate book value. With the exception of certain interest rate cap agreements that have a carrying value of \$.5 million and a fair value of nil, the Company holds no derivative financial instruments at December 31, 1994.

NOTE 21 - QUARTERLY FINANCIAL DATA (UNAUDITED):

	Quarter ended,			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share amounts)			
Year ended December 31, 1993:				
Net sales	\$198,518	\$221,378	\$202,096	\$183,331
Cost of sales	142,506	171,671	156,894	141,296
Operating income	23,105	15,166	12,773	11,356
Loss before extraordinary item and cumulative effect of change in accounting principle	\$ (13,490)	\$ (28,002)	\$ (18,722)	\$ (22,997)
Extraordinary item	-	-	-	(27,815)
Cumulative effect of change in accounting principle	-	-	-	1,217
Net loss	\$ (13,490)	\$ (28,002)	\$ (18,722)	\$ (49,595)
Per share of common stock:				
Loss before extraordinary item and cumulative effect of change in accounting principle	\$ (.27)	\$ (.55)	\$ (.37)	\$ (.44)
Extraordinary item	-	-	-	(.55)
Cumulative effect of change in accounting principle	-	-	-	.02
Net loss	\$ (.27)	\$ (.55)	\$ (.37)	\$ (.97)
Weighted average shares outstanding	50,890	50,890	50,890	50,890

Year ended December 31, 1994:				
Net sales	\$201,849	\$237,113	\$225,200	\$223,792
Cost of sales	146,956	178,925	168,033	155,831
Operating income	22,313	26,242	27,093	35,704
Net income (loss)	\$ (6,367)	\$ (15,534)	\$ (4,578)	\$ 2,497
Net income (loss) per share of common stock	\$ (.12)	\$ (.30)	\$ (.09)	\$.05
Weighted average shares outstanding	50,965	51,040	51,040	51,045

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULES

Our report on the consolidated financial statements of NL Industries, Inc. is included on page F-2 of this Annual Report on Form 10-K. As discussed in Notes 2 and 19 to the consolidated financial statements, the Company changed its method of accounting for marketable securities in 1993 and, the Company changed its method of accounting for postretirement benefits other than pensions and income taxes in 1992. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index on page F-1.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Houston, Texas
February 3, 1995

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheets

December 31, 1993 and 1994

(In thousands)

	1993	1994
Current assets:		
Cash and cash equivalents	\$ 11,107	\$ 18,371
Marketable securities	41,045	25,165
Accounts and notes receivable	2,088	1,274
Receivable from subsidiaries	980	2,854
Prepaid expenses	248	747
Total current assets	55,468	48,411
Other assets:		
Marketable securities	18,428	21,329
Notes receivable from subsidiary	352,627	366,409
Investment in subsidiaries	(156,615)	(181,751)
Other	10,713	9,214
Total other assets	225,153	215,201
Property and equipment, net	3,925	3,732
	\$ 284,546	\$ 267,344
Current liabilities:		
Accounts payable and accrued liabilities	\$ 38,176	\$ 33,248

Payable to affiliates	4,777	4,783
Income taxes	93	186
Deferred income taxes	3,627	1,436
Total current liabilities	46,673	39,653
Noncurrent liabilities:		
Long-term debt	352,627	366,409
Deferred income taxes	27,182	9,546
Accrued pension cost	16,164	14,021
Accrued postretirement benefits cost	42,216	40,711
Other	64,479	90,086
Total noncurrent liabilities	502,668	520,773
Shareholders' deficit	(264,795)	(293,082)
	\$ 284,546	\$ 267,344

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Operations

Years ended December 31, 1992, 1993 and 1994

(In thousands)

	1992	1993	1994
Revenues and other income:			
Equity in income (loss) of subsidiaries	\$ (10,703)	\$ (49,766)	\$ 7,925
Interest and dividends	2,829	3,622	2,538
Interest income from subsidiary	-	8,358	43,157
Securities transactions	2,691	3,637	(1,220)
Other income, net	1,791	2,597	3,135
	(3,392)	(31,552)	55,535
Costs and expenses:			
General and administrative	45,243	44,113	69,875
Interest	1,598	13,771	44,003
	46,841	57,884	113,878
Loss before income taxes, extraordinary item and cumulative effect of changes in accounting principles	(50,233)	(89,436)	(58,343)
Income tax benefit	5,637	6,225	34,361
Loss before extraordinary item and cumulative effect of changes in accounting principles	(44,596)	(83,211)	(23,982)
Extraordinary item - equity in income of subsidiaries	-	(27,815)	-
Cumulative effect of changes in accounting principles:			
NL	(30,546)	1,217	-
Equity in income of subsidiaries	(1,258)	-	-
	(31,804)	1,217	-
Net loss	\$ (76,400)	\$ (109,809)	\$ (23,982)

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows

Years ended December 31, 1992, 1993 and 1994

(In thousands)

	1992	1993	1994
Cash flows from operating activities:			
Net loss	\$ (76,400)	\$ (109,809)	\$ (23,982)
Undistributed earnings of subsidiaries:			
Equity in (income) loss before extraordinary item and cumulative effect of changes in accounting principles	10,703	49,766	(7,925)
Extraordinary item	-	27,815	-
Cumulative effect of changes in accounting principles	1,258	-	-
Distributions	54,000	-	30,000
Non-cash interest expense	-	165	845
Deferred income taxes	843	1,510	(20,577)
Securities transactions	(2,691)	(3,637)	1,220
Cumulative effect of changes in accounting principles	30,546	(1,217)	-
Other, net	400	(1,268)	(3,836)
	18,659	(36,675)	(24,255)
Change in assets and liabilities, net	6,340	14,428	23,263
Marketable trading securities:			
Purchases	-	-	(870)
Dispositions	-	-	15,530
Net cash provided (used) by operating activities	24,999	(22,247)	13,668
Cash flows from investing activities:			
Investment in subsidiary	(3,896)	(6,478)	(6,630)
Capital expenditures	(214)	(4)	(126)
Loans to subsidiaries	-	(341,500)	-
Purchases of marketable securities	(1,238)	(10,899)	-
Proceeds from disposition of marketable securities	6,735	69,232	-
Other, net	(768)	667	402
Net cash provided (used) by investing activities	619	(288,982)	(6,354)

NL INDUSTRIES, INC. AND SUBSIDIARIES
SCHEDULE I-CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (Continued)
Condensed Statements of Cash Flows (Continued)
Years ended December 31, 1992, 1993 and 1994
(In thousands)

	1992	1993	1994
Cash flows from financing activities:			
Borrowings of (principal payments on):			
Long-term debt	\$ (14,873)	\$ 327,340	\$ (170)
Loans from affiliates	12,298	(16,047)	-
Dividends paid	(17,807)	-	-
Other, net	(3,660)	-	120
Net cash provided (used) by financing activities	(24,042)	311,293	(50)
Cash and cash equivalents:			
Increase (decrease) from:			
Operating activities	24,999	(22,247)	13,668
Investing activities	619	(288,982)	(6,354)
Financing activities	(24,042)	311,293	(50)
Net change from operating, investing and financing activities	1,576	64	7,264
Balance at beginning of year	9,467	11,043	11,107
Balance at end of year	\$ 11,043	\$ 11,107	\$ 18,371

NL INDUSTRIES, INC. AND SUBSIDIARIES
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)
Notes to Condensed Financial Information

NOTE 1 - BASIS OF PRESENTATION:

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

NOTE 2 - NET PAYABLE TO (RECEIVABLE FROM) SUBSIDIARIES AND AFFILIATES:

	December 31,	
	1993	1994
	(In thousands)	
Current:		
Tremont Corporation	\$ 4,777	\$ 4,780
Other	-	3
Kronos and Rheox:		
Income taxes	3,123	1,043
Other, net	(4,103)	(3,897)
	\$ 3,797	\$ 1,929
Noncurrent:		
Note receivable - Kronos	\$ (352,627)	\$ (366,409)

NOTE 3 - LONG-TERM DEBT:

	December 31,	
	1993	1994
	(In thousands)	
11.75% Senior Secured Notes	\$250,000	\$250,000
13% Senior Secured Discount Notes	102,627	116,409
	\$352,627	\$366,409

See Note 10 of the Consolidated Financial Statements for a description of the Notes.

The aggregate maturities of the Company's long-term debt at December 31, 1994 are shown in the table below.

	Amount (In thousands)
Senior Secured Notes due 2003	\$250,000
Senior Secured Discount Notes due 2005	187,500
	437,500
Less unamortized original issue discount on the Senior Secured Discount Notes	71,091
	\$366,409

The Company and Kronos have agreed, under certain circumstances, to provide Kronos' principal international subsidiary with up to DM 125 million through January 1, 2001.

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Balance at beginning of year	Charged to costs and expenses	Deductions
Year ended December 31, 1994:			
Allowance for doubtful accounts and notes receivable	\$ 3,008	\$ 1,141	\$ (616) (a)
Amortization of intangibles	\$ 11,941	\$ 2,901	\$ -

Valuation allowance for deferred income taxes	\$133,377	\$24,309	\$ -
Year ended December 31, 1993:			
Allowance for doubtful accounts and notes receivable	\$ 2,385	\$ 1,216	\$ (476) (a)
Amortization of intangibles	\$ 9,792	\$ 2,863	\$ -
Valuation allowance for deferred income taxes	\$ 86,031	\$50,562 (b)	\$ -
Year ended December 31, 1992:			
Allowance for doubtful accounts and notes receivable	\$ 1,749	\$ 945	\$ (190) (a)
Amortization of intangibles	\$ 7,270	\$ 2,989	\$ -
Valuation allowance for deferred income taxes	\$ -	\$86,031 (b)	\$ -

Description	Currency translation adjustments	Balance at end of year
Year ended December 31, 1994:		
Allowance for doubtful accounts and notes receivable	\$ 216	\$ 3,749
Amortization of intangibles	\$ 1,307	\$ 16,149
Valuation allowance for deferred income taxes	\$ 6,814	\$164,500
Year ended December 31, 1993:		
Allowance for doubtful accounts and notes receivable	\$ (117)	\$ 3,008
Amortization of intangibles	\$ (714)	\$ 11,941
Valuation allowance for deferred income taxes	\$ (3,216)	\$133,377
Year ended December 31, 1992:		
Allowance for doubtful accounts and notes receivable	\$ (119)	\$ 2,385
Amortization of intangibles	\$ (467)	\$ 9,792
Valuation allowance for deferred income taxes	\$ -	\$ 86,031

(a) Amounts written off, less recoveries.

(b) Includes (i) amounts recorded at the date of adoption of SFAS 109 in 1992 reported as a component of cumulative effect of changes in accounting principles and (ii) amounts recorded as part of extraordinary item in 1993.

THIS INSTRUMENT IS SECURED BY A DEED OF TRUST, ASSIGNMENT OF PERMITS, RENTS AND BENEFITS, SECURITY AGREEMENT AND FIXTURE FILING, DATED AS OF JUNE 5, 1991.

FOURTH AMENDMENT TO CREDIT AGREEMENT

FOURTH AMENDMENT dated as of September 23, 1994 TO CREDIT AGREEMENT dated as of March 20, 1991 among RHEOX, INC., a Delaware corporation (the "Company"); RHEOX INTERNATIONAL, INC., a Delaware corporation (the "Subsidiary Guarantor"); each of the lenders that is a signatory hereto (individually, a "Bank" and, collectively, the "Banks"); THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), a national banking association, and THE NIPPON CREDIT BANK, LTD., a Japanese banking corporation acting through its New York branch, as co-agents for the Banks (each in such capacity, a "Co-Agent" and, collectively, the "Co-Agents"); and THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), as administrative agent for the Banks (in such capacity, together with its successors in such capacity, the "Administrative Agent").

WHEREAS, the parties hereto are parties to a Credit Agreement dated as of March 20, 1991 among the Company, the Subsidiary Guarantor, the Banks, the Co-Agents and the Administrative Agent (as at any time amended or otherwise modified, the "Credit Agreement"; terms defined therein having their respective defined meanings when used herein unless otherwise defined herein);

WHEREAS, the Company has requested that the Credit Agreement be amended, and the Banks are willing to consent to such amendment upon the terms and conditions contained herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. AMENDMENTS. The Credit Agreement is hereby amended (effective as provided in Section 3 hereof) as follows:

A. The first sentence of the definition of "Revolving Credit Termination Date" in Section 1.01 of the Credit Agreement is amended to read as follows:

"Revolving Credit Termination Date" shall mean
September 23, 1995.

In that connection, each Revolving Credit Bank confirms its participation in the Letter of Credit issued by Chase pursuant to the Credit Agreement outstanding on March 20, 1994 (which Letter of Credit remains outstanding on the date hereof) and its obligations under Section 2.10 of the Credit Agreement (and the Company confirms its obligations under said Section 2.10) with respect to such Letter of Credit as if such Letter of Credit had been (and all parties hereto agree that such Letter of Credit shall be deemed, for all purposes of the Credit Agreement and the other Credit Documents to have been) outstanding under the Credit Agreement at all times during the period commencing on March 20, 1994 through the date upon which this Section 1 becomes effective as provided in Section 3 hereof (the "Effective Date") and at all times thereafter; provided that the commitment fee provided for by Section 2.04(b) of the Credit Agreement, and the letter of credit fee of 21/4% per annum provided for by Section 2.10(g) of the Credit Agreement, shall not be payable for the period commencing on March 20, 1994 and ending on the day preceding the Effective Date.

B. Section 12.04 of the Credit Agreement is amended by inserting the following immediately before the comma at the end of clause (i)(a) thereof:

(except for extensions of the Revolving Credit Termination Date as provided in the definition of such term in Section

1.01 hereof).

C. Anything in the Credit Agreement to the contrary notwithstanding:

(i) Any Bank (x) that is not a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under any laws of the United States of America, or any estate or trust that is subject to Federal income taxation regardless of the source of its income, (y) that is not a "bank" within the meaning of section 881(c)(3)(A) of the U.S. Internal Revenue Code and (z) that could become completely exempt from withholding of any tax, assessment or other charge or levy imposed by or on behalf of the United States of America or any taxing authority thereof ("U.S. Taxes") in respect of payment of any obligations due to such Bank under the Credit Agreement ("Obligations") if the Obligations were in registered form for U.S. Federal income tax purposes (a "Non-U.S. Bank") may request the Company (through the Administrative Agent), and the Company agrees thereupon, to record on the Register referred to in paragraph (d) below any Obligations held by such Non-U.S. Bank.

(ii) Obligations recorded on the Register ("Registered Obligations") may not be evidenced by promissory notes other than Registered Notes (as defined below) and, upon the registration of any Obligation, any Note or Notes (other than a Registered Note) evidencing the same shall be null and void and shall be returned to the Company. The Company agrees, at the request of any Non-U.S. Bank holding any Registered Obligation(s) (a copy of which shall be sent to the Administrative Agent), to issue promissory note(s) registered as provided in paragraph (d) below (each, a "Registered Note") to evidence such Registered Obligation(s); each such note shall be in the form of Exhibit A-2 to the Credit Agreement appropriately modified to reflect the provisions of this paragraph C (and each such note shall be deemed to be a "Term Loan Note" for all purposes of the Credit Agreement and the other Credit Documents). An Obligation once recorded on the Register may not be removed from the Register as long as it remains outstanding and a Registered Note may not be exchanged for a promissory note that is not a Registered Note. Registered Notes may be surrendered to the Company for cancellation so that the Registered Obligations that were evidenced thereby are no longer evidenced by any promissory notes.

(iii) Each Non-U.S. Bank holding Registered Obligations (a "Registered Holder") (or, if such Registered Holder is not the beneficial owner thereof, such beneficial owner) shall, if legally entitled to do so, deliver to the Company prior to or at the time such Non-U.S. Bank becomes a Registered Holder a Form W-8 (Certificate of Foreign Status of the U.S. Department of Treasury) (or any successor or related form adopted by the U.S. taxing authorities), together with an annual certificate stating that (x) such Registered Holder (or beneficial owner, as the case may be) is not a "bank" within the meaning of section 881(c)(3)(A) of the U.S. Internal Revenue Code and (y) such Registered Holder (or beneficial owner, as the case may be) shall promptly notify the Company if at any time such Registered Holder (or beneficial owner, as the case may be) determines that it is no longer in a position to provide such certification to the

Company (or any other form of certification adopted by the U.S. taxing authorities for such purposes).

(iv) At the request of any Non-U.S. Bank the Company shall maintain, or cause to be maintained, a register (the "Register") (which, at the request of the Company, shall be kept by the Administrative Agent on behalf of the Company at no extra charge to the Company at the address to which notices to the Administrative Agent are to be sent under the Credit Agreement) on which it enters the name of the Registered Holder of Registered Obligation(s) (and any Registered Note evidencing the same). A Registered Obligation (and any Registered Note evidencing the same) may be assigned or otherwise transferred in whole or in part only by registration of the assignment or

transfer of such Registered Obligation (and any Registered Note evidencing the same) on the Register (and each Registered Note shall expressly so provide). Any assignment or transfer of all or part of such Registered Obligation (and any Registered Note evidencing the same) shall be registered on the Register only upon presentment for registration of a written instrument of assignment or transfer of such Registered Obligation duly executed by the Registered Holder (together with surrender of any Registered Note evidencing such Registered Obligation, duly endorsed by (or accompanied by a written instrument of assignment or transfer duly executed by) the Registered Holder thereof, and thereupon one or more new Registered Note(s) in the same aggregate principal amount shall be issued to the designated assignee(s) or transferee(s)). Prior to such due presentment for registration of assignment or transfer, the Company and the Administrative Agent shall treat the Person in whose name such Registered Obligation (and any Registered Note evidencing the same) is registered as the owner thereof for the purpose of receiving all payments thereon and for all other purposes, notwithstanding any notice to the contrary.

(v) The Register shall be available for inspection by the Company and any Bank at any reasonable time upon reasonable prior notice.

D. Each reference in the Credit Agreement and the other Credit Documents to the Credit Agreement shall be deemed to be a reference to the Credit Agreement as amended hereby. Except as expressly provided in this Section 1, the Credit Agreement shall remain unchanged and in full force and effect.

SECTION 2. REPRESENTATIONS AND WARRANTIES. Each of the Company and the Subsidiary Guarantor represents and warrants that:

A. The execution and delivery of this Amendment by it has been duly authorized by all necessary corporate action on its part.

B. This Amendment has been duly executed and delivered by it, and each of this Amendment and the Credit Agreement as modified hereby constitutes its legal, valid and binding obligation enforceable in accordance with its respective terms subject, however, to the application by a court of general principles of equity and to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.

SECTION 3. EFFECTIVENESS. The provisions of Section 1 hereof shall become effective on the date by which counterparts hereof have been duly executed by the Company, the Subsidiary Guarantor, the Banks and the Administrative Agent and delivered to the Administrative Agent and the Administrative Agent has received evidence reasonably satisfactory to it as to the truth of the representation contained in Section 2.A hereof.

SECTION 4. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which may be deemed an original but all of which together shall constitute one and the same instrument.

SECTION 5. GOVERNING LAW. This Amendment shall be governed and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers duly authorized as of the date first above written.

RHEOX, INC.

By
Name:
Title:

RHEOX INTERNATIONAL, INC.

By _____
Name:

Title:

THE CHASE MANHATTAN BANK
(NATIONAL ASSOCIATION), as
Co-Agent and
Administrative Agent

By _____

Name:
Title:

THE NIPPON CREDIT BANK, LTD.,
as Co-Agent

By _____

Name:
Title:

THE CHASE MANHATTAN BANK
(NATIONAL ASSOCIATION)

By _____

Name:
Title:

THE NIPPON CREDIT BANK, LTD.

By _____

Name:
Title:

VAN KAMPEN MERRITT PRIME
RATE INCOME TRUST

By _____

Name:
Title:

CHANCELLOR SENIOR SECURED
MANAGEMENT, INC., as Investment
Advisor to:

RESTRUCTURED OBLIGATIONS BACKED
BY SENIOR ASSETS B.V.

By _____

Name:
Title:

GIROCREDIT BANK,
NEW YORK BRANCH

By _____

Name:
Title:

BANQUE PARIBAS

By _____

Name:
Title:

THIS INSTRUMENT IS SECURED BY A DEED OF TRUST, ASSIGNMENT OF PERMITS,
RENTS AND BENEFITS, SECURITY AGREEMENT AND FIXTURE FILING, DATED AS OF
JUNE 5, 1991.

FIFTH AMENDMENT TO CREDIT AGREEMENT

FIFTH AMENDMENT dated as of December 15, 1994 TO CREDIT AGREEMENT dated as of March 20, 1991 among RHEOX, INC., a Delaware corporation (the "Company"); RHEOX INTERNATIONAL, INC., a Delaware corporation (the "Subsidiary Guarantor"); each of the lenders that is a signatory hereto (individually, a "Bank" and, collectively, the "Banks"); THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), a national banking association, and THE NIPPON CREDIT BANK, LTD., a Japanese banking corporation acting through its New York branch, as co-agents for the Banks (each in such capacity, a "Co-Agent" and, collectively, the "Co-Agents"); and THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), as administrative agent for the Banks (in such capacity, together with its successors in such capacity, the "Administrative Agent").

WHEREAS, the parties hereto are parties to a Credit Agreement dated as of March 20, 1991 among the Company, the Subsidiary Guarantor, the Banks, the Co-Agents and the Administrative Agent (as at any time amended or otherwise modified, the "Credit Agreement"; terms defined therein having their respective defined meanings when used herein unless otherwise defined herein);

WHEREAS, the Company has requested that the Credit Agreement be amended, and the Banks are willing to consent to such amendment upon the terms and conditions contained herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 6. AMENDMENTS. The Credit Agreement is hereby amended (effective as provided in Section 3 hereof) as follows:

A. Section 9.11 of the Credit Agreement is amended by changing the references to "\$10,000,000", "\$20,000,000" and "\$50,000,000" at the end of the table in said Section 9.11 to read "\$12,500,000", "\$5,000,000" and "\$20,000,000", respectively.

B. Section 9.13 of the Credit Agreement is amended to read as follows:

9.13 Fixed Charges Ratio. The Company will not permit the Fixed Charges Ratio to be less than 1 to 1 on the last day of any fiscal quarter of the Company.

C. Each reference in the Credit Agreement and the other Credit Documents to the Credit Agreement shall be deemed to be a reference to the Credit Agreement as amended hereby.

Except as expressly provided in this Section 1, the Credit Agreement shall remain unchanged and in full force and effect.

SECTION 7. REPRESENTATIONS AND WARRANTIES. Each of the Company and the Subsidiary Guarantor represents and warrants that:

A. The execution and delivery of this Amendment by it has been duly authorized by all necessary corporate action on its part.

B. This Amendment has been duly executed and delivered by it, and each of this Amendment and the Credit Agreement as modified hereby constitutes its legal, valid and binding obligation enforceable in accordance with its respective terms subject, however, to the application by a court of general principles of equity and to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.

SECTION 8. EFFECTIVENESS. The provisions of Section 1 hereof shall become effective on the date on which counterparts hereof have been duly executed by the Company, the Subsidiary Guarantor, the Banks and the Administrative Agent and delivered to the Administrative Agent.

SECTION 9. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which may be deemed an original but all of which together shall constitute one and the same instrument.

SECTION 10. GOVERNING LAW. This Amendment shall be governed and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers duly authorized as of the date first above written.

RHEOX, INC.

By
Name:
Title:

RHEOX INTERNATIONAL, INC.

By _____
Name:
Title:

THE CHASE MANHATTAN BANK
(NATIONAL ASSOCIATION), as
Co-Agent and

Administrative Agent

By _____
Name:
Title:

THE NIPPON CREDIT BANK, LTD.,
as Co-Agent

By _____
Name:
Title:

THE CHASE MANHATTAN BANK
(NATIONAL ASSOCIATION)

By _____
Name:
Title:

THE NIPPON CREDIT BANK, LTD.

By _____
Name:
Title:

VAN KAMPEN MERRITT PRIME
RATE INCOME TRUST

By _____
Name:
Title:

CHANCELLOR SENIOR SECURED
MANAGEMENT, INC., as Investment
Advisor to:

RESTRUCTURED OBLIGATIONS BACKED
BY SENIOR ASSETS B.V.

By _____
Name:
Title:

GIROCREDIT BANK,
NEW YORK BRANCH

By _____
Name:
Title:

BANQUE PARIBAS

By _____
Name:
Title:

EXHIBIT 21.1 SUBSIDIARIES OF THE REGISTRANT

NAME OF CORPORATION	Jurisdiction of incorporation or organization	% of Voting Securities Held
Kronos, Inc.	Delaware	100
Kronos (US) Inc.	Delaware	100
Kronos International, Inc.	Delaware	100
NL Industries (Deutschland) GmbH	Germany	100
Kronos Titan-GmbH	Germany	100
Unterstützungskasse Titan GmbH	Germany	100
Kronos Chemie-GmbH	Germany	100
Kronos Europe S.A./N.V.	Belgium	100
Kronos World Services S.A./N.V.	Belgium	100
Kronos B.V.	Holland	100
Kronos Canada, Inc.	Canada	100
2927527 Canada Inc.	Canada	100
2969157 Canada Inc.	Canada	100
Societe Industrielle Du Titane, S.A.	France	93
Kronos Norge A/S	Norway	100
Kronos Titan A/S	Norway	100
Titania A/S	Norway	100
The Jossingfjord Manufacturing Company A/S	Norway	100
Kronos Limited	United Kingdom	100
Kronos Louisiana, Inc.	Delaware	100
Louisiana Pigment Company, L.P.	Delaware	50*
Rheox, Inc.	Delaware	100
Rheox International, Inc.	Delaware	100
Bentone Sud, S.A.	France	86
Rheox GmbH	Germany	100
Bentone-Chemie GmbH	Germany	70
Rheox Limited	United Kingdom	100
Abbey Chemicals Limited	United Kingdom	70
Rheox Europe S.A./N.V.	Belgium	100
Enenco, Inc.	New York	50*

* Unconsolidated joint venture accounted for by the equity method.

EXHIBIT 21.1 SUBSIDIARIES OF THE REGISTRANT (Continued)

NAME OF CORPORATION	Jurisdiction of incorporation or organization	% of Voting Securities Held
Other:		
National Lead Company	New Jersey	100
NL Industries (USA), Inc.	Texas	100
NLO, Inc.	Ohio	100
Salem Lead Company	Massachusetts	100
Sayre & Fisher Land Company	New Jersey	100
153506 Canada Inc.	Canada	100
The 1230 Corporation	California	100
Titanium Pigment Corporation	New Jersey	100
United Lead Company	New Jersey	100

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the registration statement on Form S-8 of our report dated February 3, 1995 on our audits of the consolidated financial statements of NL Industries, Inc. as of December 31, 1993 and 1994 and for each of the three years in the period ended December 31, 1994, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Houston, Texas
March 3, 1995

<ARTICLE> 5

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The schedule contains summary financial information extracted from NL Industries Inc.'s consolidated financial statements for the year ended December 31, 1994, and is qualified in its entirety by reference to such consolidated financial statements.

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<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(23,982)
<EPS-PRIMARY>		(0.47)
<EPS-DILUTED>		(0.47)