SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - For the quarter ended June 30, 2001

OR

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

Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Number of shares of common stock outstanding on August 7, 2001: 49,678,384

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	June 30, 2001	December 31, 2000
Current assets:		
Cash and cash equivalents	$ 89,068	$ 120,378
Restricted cash equivalents	78,187	69,242
Accounts and notes receivable	154,966	131,540
Receivable from affiliates	21,867	214
Refundable income taxes	9,291	12,302
Inventories	175,718	205,973
Prepaid expenses	4,798	2,458
Deferred income taxes	12,059	11,673
Total current assets	545,954	553,780
Other assets:		
Marketable securities	52,703	47,186
Receivable from affiliate	12,150	--
Investment in TiO2 manufacturing joint venture .	144,791	150,002
Prepaid pension cost	22,446	22,789
Restricted cash equivalents	16,964	17,942
Other	4,296	4,707
Total other assets	253,350	242,626
Property and equipment:		
Land	23,371	24,978
Buildings	121,261	129,019
Machinery and equipment	499,858	530,920

Mining properties	65,523	67,134
Construction in progress	13,930	4,586
	723,943	756,637
Less accumulated depreciation and depletion	418,590	432,255
Net property and equipment	305,353	324,382
	$1,104,657	$1,120,788

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2001	December 31, 2000
Current liabilities:		
Notes payable	$ 58,999	$ 69,970
Current maturities of long-term debt	930	730
Accounts payable and accrued liabilities	126,543	147,877
Payable to affiliates	9,900	10,634
Accrued environmental costs	62,034	53,307
Income taxes	15,199	13,616
Deferred income taxes	1,249	1,822
Total current liabilities	274,854	297,956
Noncurrent liabilities:		
Long-term debt	196,078	195,363
Deferred income taxes	149,398	145,673
Accrued environmental costs	46,904	57,133
Accrued pension cost	18,043	21,220
Accrued postretirement benefits cost	29,744	29,404
Other	16,038	23,272
Total noncurrent liabilities	456,205	472,065
Minority interest	7,203	6,279
Shareholders' equity:		
Common stock	8,355	8,355
Additional paid-in capital	777,597	777,528
Retained earnings	181,063	141,073
Accumulated other comprehensive loss	(197,912)	(181,872)
Treasury stock	(402,708)	(400,596)
Total shareholders' equity	366,395	344,488
	$ 1,104,657	$ 1,120,788

Commitments and contingencies (Note 14)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
Revenues and other income:				
Net sales	$220,105	$251,126	$446,165	$482,135
Litigation settlement gains, net ..	--	43,000	10,582	43,000
Insurance recoveries, net	1,929	--	1,929	--
Other, net	3,369	10,946	8,218	15,446
	225,403	305,072	466,894	540,581
Costs and expenses:				
Cost of sales	151,320	164,033	301,222	323,298
Selling, general and administrative	29,336	36,832	61,658	70,222
Interest	6,887	7,897	13,863	15,753
	187,543	208,762	376,743	409,273
Income before income taxes and minority interest	37,860	96,310	90,151	131,308
Income tax expense	12,069	32,762	29,215	43,961
Income before minority interest	25,791	63,548	60,936	87,347
Minority interest	367	110	953	201
Net income	$ 25,424	$ 63,438	$ 59,983	$ 87,146
Earnings per share:				
Basic	$ .51	$ 1.26	$ 1.20	$ 1.72
Diluted	$ .51	$ 1.25	$ 1.20	$ 1.71
Weighted average shares used in the calculation of earnings per share:				
Basic	49,932	50,499	50,005	50,710
Dilutive impact of stock options	95	351	183	290

Diluted	50,027	50,850	50,188	51,000

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Net income	$ 25,424	$ 63,438	$ 59,983	$ 87,146
Other comprehensive income (loss), net of tax:				
Marketable securities adjustment:				
Unrealized holding gains arising during the period	7,391	650	3,589	708
Add: reclassification adjustment for loss included in net income	736	--	736	--
	8,127	650	4,325	708
Currency translation adjustment	(4,467)	(7,287)	(20,365)	(22,596)
Total other comprehensive income (loss)	3,660	(6,637)	(16,040)	(21,888)
Comprehensive income	$ 29,084	$ 56,801	$ 43,943	$ 65,258

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Six months ended June 30, 2001

(In thousands)

Accumulated other comprehensive income (loss)

	Common stock	Additional paid-in capital	Retained earnings	Currency translation	Marketable securities	Treasury stock	Total
Balance at December 31, 2000	$8,355	$777,528	$ 141,073	$(190,757)	$ 8,885	$(400,596)	$ 344,488
Net income	--	--	59,983	--	--	--	59,983
Other comprehensive income (loss), net	--	--	--	(20,365)	4,325	--	(16,040)
Dividends	--	--	(19,993)	--	--	--	(19,993)
Tax benefit of stock options exercised	--	69	--	--	--	--	69
Treasury stock:							
Acquired (212 shares)	--	--	--	--	--	(2,718)	(2,718)
Reissued (36 shares)	--	--	--	--	--	606	606
Balance at June 30, 2001	$8,355	$777,597	$ 181,063	$(211,122)	$13,210	$(402,708)	$ 366,395

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2001 and 2000

(In thousands)

	2001	2000
Cash flows from operating activities:		
Net income	$ 59,983	$ 87,146
Depreciation, depletion and amortization	14,930	15,361
Deferred income taxes	5,140	25,023
Distributions from TiO2 manufacturing joint venture	4,950	5,250
Litigation settlement gain, net included in restricted cash	(10,307)	(43,000)
Net (gains) losses from securities transactions	1,133	(5,553)
Insurance recoveries, net	(1,929)	--
Other, net	(2,065)	(4,166)
	71,835	80,061
Change in assets and liabilities:		
Accounts and notes receivable	(31,127)	(34,054)
Inventories	21,463	29,340
Prepaid expenses	(2,520)	(1,417)
Accounts payable and accrued liabilities	(16,310)	(9,802)
Income taxes	4,928	8,086
Other, net	(3,008)	(696)
Net cash provided by operating activities	45,261	71,518
Cash flows from investing activities:		
Capital expenditures	(17,705)	(12,598)
Property damaged by fire:		
Insurance proceeds	5,500	--
Other, net	(1,000)	--

Loans to affiliates:		
Loans	(33,400)	--
Collections	250	--
Purchase of Tremont Corporation common stock	--	(9,520)
Change in restricted cash equivalents, net	682	459
Other, net	41	108
Net cash used by investing activities	(45,632)	(21,551)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Six months ended June 30, 2001 and 2000

(In thousands)

	2001	2000
Cash flows from financing activities:		
Dividends paid	$ (19,993)	$ (15,161)
Treasury stock:		
Purchased	(2,718)	(13,959)
Reissued	606	470
Indebtedness:		
Borrowings	1,437	--
Principal payments	(6,990)	(16,830)
Other, net	(5)	(7)
Net cash used by financing activities	(27,663)	(45,487)
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(28,034)	4,480
Currency translation	(3,276)	(1,075)
Balance at beginning of period	120,378	134,224
Balance at end of period	$ 89,068	$ 137,629
Supplemental disclosures - cash paid for:		
Interest	$ 13,709	$ 15,686
Income taxes, net	19,147	10,797

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

NL Industries, Inc. conducts its titanium dioxide pigments ("TiO2") operations through its wholly owned subsidiary, Kronos, Inc. At June 30, 2001, Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, held approximately 60% and 20%, respectively, of NL's outstanding common stock. At June 30, 2001, Contran and its subsidiaries held approximately 93% of Valhi's outstanding common stock, and a company 80% owned by Valhi and 20% owned by NL held approximately 80% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies. See Note 6.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 2000 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 2001 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the interim periods ended June 30, 2001 and 2000 have been prepared by the Company without audit. In the opinion of management all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Certain prior- year amounts have been reclassified to conform to the current year presentation. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (the "2000 Annual Report").

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, effective January 1, 2001. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, all derivatives are recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives is dependent upon the intended use of the derivative. As permitted by the transition requirements of SFAS No. 133, as amended, the Company exempted from the scope of SFAS No. 133 all host contracts containing embedded derivatives which were issued or acquired prior to January 1, 1999. The Company is not a party to any significant derivative or hedging instrument covered by SFAS No. 133 at June 30, 2001, and there was no impact on the Company's financial statements from adopting SFAS No. 133.

Note 2 - Earnings per share:

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

Note 3 - Business segment information:

The Company's operations are conducted by Kronos in one operating business segment - the production and sale of TiO2.

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
	(In thousands)			
Net sales	$ 220,105	$ 251,126	$ 446,165	$ 482,135
Other income, excluding corporate	768	2,444	2,010	4,114
	220,873	253,570	448,175	486,249
Cost of sales	151,320	164,033	301,222	323,298
Selling, general and administrative, excluding corporate	24,383	26,794	49,867	53,973
Operating income	45,170	62,743	97,086	108,978
Insurance recoveries, net	1,929	--	1,929	--
Income before corporate items, income taxes and minority interest	47,099	62,743	99,015	108,978
General corporate income (expense):				
Securities earnings, net	1,186	7,390	3,792	9,108
Litigation settlement gains, net and other income	1,415	44,112	12,998	45,224
Corporate expenses	(4,953)	(10,038)	(11,791)	(16,249)
Interest expense	(6,887)	(7,897)	(13,863)	(15,753)
Income before income taxes and minority interest	$ 37,860	$ 96,310	$ 90,151	$ 131,308

Note 4 - Inventories:

	June 30, 2001	December 31, 2000
	(In thousands)	
Raw materials	$ 39,827	$ 66,061
Work in process	6,652	7,117
Finished products	104,406	107,120
Supplies	24,833	25,675
	$175,718	$205,973

Note 5 - Marketable securities:

	June 30, 2001	December 31, 2000
	(In thousands)	
Available-for-sale marketable equity securities:		
Unrealized gains	$ 20,323	$ 14,912
Unrealized losses	--	(1,244)
Cost	32,380	33,518

Aggregate fair value	$ 52,703	$ 47,186
	========	========

In June 2001, the Company recognized a $1.1 million noncash securities loss related to an other-than-temporary decline in value of certain available-for-sale securities held by the Company. See Note 11.

Note 6 - Receivable from affiliates:

A majority-owned subsidiary of the Company, NL Environmental Management Services, Inc. ("EMS"), loaned $13.4 million to Tremont under a reducing revolving loan agreement in the first quarter of 2001. See Note 1. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime plus 2% (10% at June 30, 2001), is due March 31, 2003 and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The maximum amount available for borrowing by Tremont reduces by $250,000 per quarter. The first reduction occurred on June 30, 2001, at which time Tremont repaid $250,000 of the loan.

In May 2001, a wholly owned subsidiary of EMS loaned $20 million to the Harold C. Simmons Family Trust #2 (the "Trust"), one of the trusts described in Note 1, under a $25 million revolving credit agreement. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime (7.5% at June 30, 2001), is due on demand with 60 days notice and is collateralized by 15,768 shares, or approximately 40%, of Contran's outstanding Class A voting common stock which is owned by the Trust.

Note 7 - Accounts payable and accrued liabilities:

	June 30, 2001	December 31, 2000
	(In thousands)	
Accounts payable	$ 51,268	$ 64,553
Accrued liabilities:		
Employee benefits	25,365	34,160
Interest	4,934	5,019
Deferred income	4,000	4,000
Other	40,976	40,145
	75,275	83,324
	$126,543	$147,877

Note 8 - Other noncurrent liabilities:

	June 30, 2001	December 31, 2000
	(In thousands)	
Insurance claims and expenses	$ 9,370	$10,314
Employee benefits	3,496	7,721
Deferred income	2,333	4,333
Other	839	904
	$16,038	$23,272

Note 9 - Notes payable and long-term debt:

	June 30, 2001	December 31, 2000
	(In thousands)	
Notes payable - Kronos	$ 58,999	$ 69,970
Long-term debt:		
NL Industries, Inc. - 11.75% Senior Secured Notes (See Note 13)	$194,000	$194,000
Kronos	3,008	2,093
	197,008	196,093
Less current maturities	930	730
	$196,078	$195,363

Notes payable consists of euro 43.5 million and NOK 200 million at June 30, 2001 and euro 51 million and NOK 200 million at December 31, 2000.

Note 10 - Income taxes:

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

	Six months ended June 30,	
	2001	2000
	(In thousands)	
Expected tax expense	$ 31,553	$ 45,958
Non-U.S. tax rates	(2,722)	(2,900)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return	300	634
Valuation allowance	(1,113)	(1,325)
U.S. state income taxes	234	614
Other, net	963	980
Income tax expense	$ 29,215	$ 43,961

Note 11 - Litigation settlement gains, net and other income, net:

Litigation settlement gains, net

In the first quarter of 2001 and the second quarter of 2000, the Company recognized litigation settlement gains with former insurance carrier groups of $10.6 million and $43 million, respectively, to settle certain insurance coverage claims related to environmental remediation. A majority of the proceeds from these settlements were transferred to special-purpose trusts established by the insurance carrier groups to pay future remediation and other environmental expenditures of the Company. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

Other income, net

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
	(In thousands)			
Securities earnings:				
Interest and dividends	$ 2,319	$ 1,837	$ 4,925	$ 3,555
Securities transactions	(1,133)	5,553	(1,133)	5,553
	1,186	7,390	3,792	9,108
Currency transaction gains, net	214	2,413	1,281	3,654
Noncompete agreement income	1,000	1,000	2,000	2,000
Disposition of property and equipment	(58)	(546)	(419)	(948)
Trade interest income	476	470	1,069	827
Other, net	551	219	495	805
	$ 3,369	$ 10,946	$ 8,218	$ 15,446

In the second quarter of 2000, the Company recognized a $5.6 million securities gain related to common stock received from the demutualization of an insurance company from which the Company had purchased certain insurance policies.

Note 12 - Leverkusen fire and insurance claim:

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

On April 8, 2001, repairs to the damaged support equipment were substantially completed and full production resumed at the Chloride Plant. In April, the undamaged section of the Sulfate Plant resumed limited production (5% to 20% of capacity) of an intermediate form of TiO2 ("Hydrated TiO2"). The Hydrated TiO2 is being transported to the Company's Nordenham, Germany sulfate-process TiO2 plant to be further processed and finished into certain grades of TiO2. The Company's ability to produce the Hydrated TiO2 at the Sulfate Plant is limited by the available excess capacity at its Nordenham plant. The Company expects the Sulfate Plant to be over 50% operational in August 2001 and fully operational in October 2001.

The Company believes that the damage to property and the business interruption losses caused by the fire are covered by insurance, but the effect on the financial results of the Company on a quarter-to-quarter basis or a year-to-year basis will depend on the timing and amount of insurance recoveries. During the second quarter of 2001, the Company's insurance carriers approved a partial payment of $10.5 million ($9 million received as of June 30, 2001) for property damage costs and business interruption losses caused by the Leverkusen fire. Five million dollars of this payment represented partial compensation for business interruption losses which was recorded as a reduction of cost of sales to offset unallocated period costs that resulted from lost production. The remaining $5.5 million represented property damage recoveries against which the

Company recorded $3.6 million of expenses related to destroyed asset write-offs and related clean-up costs, resulting in a net gain of $1.9 million. Negotiations with the insurance carrier group continue, and the Company expects to receive additional insurance recoveries for property damage and business interruption losses. The Company did not recognize additional insurance proceeds in the second quarter of 2001 because the amounts are not presently determinable.

Note 13 - Condensed consolidating financial information:

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

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

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

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

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
June 30, 2001
(In thousands)

	NL Industries, Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 518	$ 58,873	$ 29,677	$ --	$ 89,068
Restricted cash equivalents	78,187	--	--	--	78,187
Accounts and notes receivable	316	154,578	72	--	154,966
Receivable from affiliates	6,153	1,558	21,664	(7,508)	21,867
Refundable income taxes	6,222	3,061	8	--	9,291
Inventories	--	175,718	--	--	175,718
Prepaid expenses	270	4,528	--	--	4,798
Deferred income taxes	7,206	4,853	--	--	12,059
Total current assets	98,872	403,169	51,421	(7,508)	545,954
Other assets:					
Investment in subsidiaries	1,002,596	--	294	(1,002,890)	--
Marketable securities	558	--	52,145	--	52,703
Notes receivable from affiliates	194,000	593,459	35,150	(810,459)	12,150
Investment in TiO2 manufacturing joint venture	--	144,791	--	--	144,791
Prepaid pension cost	2,007	20,439	--	--	22,446
Restricted cash equivalents	16,964	--	--	--	16,964
Other	1,492	2,804	--	--	4,296
Total other assets	1,217,617	761,493	87,589	(1,813,349)	253,350

Property and equipment, net	4,073	301,280	--	--	305,353
	$1,320,562	$1,465,942	$ 139,010	$(1,820,857)	$1,104,657

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet, (Continued)
June 30, 2001
(In thousands)

	NL Industries, Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Notes payable	$ --	$ 58,999	$ --	$ --	$ 58,999
Current maturities of long-term debt	--	930	--	--	930
Accounts payable and accrued liabilities	21,776	104,631	136	--	126,543
Payable to affiliates	5,323	11,474	611	(7,508)	9,900
Accrued environmental costs	8,061	--	53,973	--	62,034
Income taxes	--	15,199	--	--	15,199
Deferred income taxes	--	1,249	--	--	1,249
Total current liabilities	35,160	192,482	54,720	(7,508)	274,854
Noncurrent liabilities:					
Long-term debt	194,000	2,078	--	--	196,078
Notes payable to affiliate	616,459	194,000	--	(810,459)	--
Deferred income taxes	73,406	73,109	2,883	--	149,398
Accrued environmental costs	6,925	8,221	31,758	--	46,904
Accrued pension cost	1,461	16,582	--	--	18,043
Accrued postretirement benefits cost	16,083	13,661	--	--	29,744
Other	10,673	5,365	--	--	16,038
Total noncurrent liabilities	919,007	313,016	34,641	(810,459)	456,205
Minority interest	--	279	6,924	--	7,203
Shareholders' equity	366,395	960,165	42,725	(1,002,890)	366,395
	$ 1,320,562	$ 1,465,942	$ 139,010	$(1,820,857)	$ 1,104,657

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

	NL Industries, Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,632	$ 52,979	$ 63,767	$ --	$ 120,378
Restricted cash equivalents	69,242	--	--	--	69,242
Accounts and notes receivable	172	131,295	73	--	131,540
Receivable from affiliates	6,189	--	216	(6,191)	214
Refundable income taxes	10,512	1,790	--	--	12,302

Inventories	--	205,973	--	--	205,973
Prepaid expenses	347	2,111	--	--	2,458
Deferred income taxes	6,394	5,279	--	--	11,673
Total current assets	96,488	399,427	64,056	(6,191)	553,780
Other assets:					
Investment in subsidiaries	687,300	--	285	(687,585)	--
Marketable securities	452	--	46,734	--	47,186
Notes receivable from affiliates	194,000	301,695	23,000	(518,695)	--
Investment in TiO2 manufacturing joint venture	--	150,002	--	--	150,002
Prepaid pension cost	1,772	21,017	--	--	22,789
Restricted cash equivalents	17,942	--	--	--	17,942
Other	1,739	2,968	--	--	4,707
Total other assets	903,205	475,682	70,019	(1,206,280)	242,626
Property and equipment, net	4,425	319,957	--	--	324,382
	$1,004,118	$1,195,066	$ 134,075	$(1,212,471)	$1,120,788

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

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

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Three months ended June 30, 2001
(In thousands)

	NL Industries, Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 220,105	$ --	$ --	$ 220,105
Interest and dividends	6,857	8,864	1,562	(14,488)	2,795
Equity in income of subsidiaries	37,044	--	--	(37,044)	--
Insurance recoveries, net	--	1,929	--	--	1,929
Other income, net	282	292	--	--	574
	44,183	231,190	1,562	(51,532)	225,403
Costs and expenses:					
Cost of sales	--	151,320	--	--	151,320
Selling, general and administrative	4,416	25,124	(204)	--	29,336
Interest	14,564	6,811	--	(14,488)	6,887
	18,980	183,255	(204)	(14,488)	187,543
Income before income taxes and minority interest	25,203	47,935	1,766	(37,044)	37,860
Income tax expense (benefit)	(221)	12,290	--	--	12,069
Income before minority interest	25,424	35,645	1,766	(37,044)	25,791
Minority interest	--	4	363	--	367
Net income	$ 25,424	$ 35,641	$ 1,403	$ (37,044)	$ 25,424

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Three months ended June 30, 2000
(In thousands)

	NL Industries, Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 251,126	$ --	$ --	$ 251,126
Interest and dividends	7,540	5,779	1,402	(12,414)	2,307
Equity in income of subsidiaries	41,305	--	--	(41,305)	--
Litigation settlement gains, net	43,000	--	--	--	43,000
Other income, net	6,665	1,974	--	--	8,639
	98,510	258,879	1,402	(53,719)	305,072
Costs and expenses:					
Cost of sales	--	164,033	--	--	164,033
Selling, general and administrative	9,174	27,540	118	--	36,832
Interest	12,563	7,748	--	(12,414)	7,897
	21,737	199,321	118	(12,414)	208,762
Income before income taxes and minority interest	76,773	59,558	1,284	(41,305)	96,310
Income tax expense	13,335	19,427	--	--	32,762
Income before minority interest	63,438	40,131	1,284	(41,305)	63,548
Minority interest	--	4	106	--	110
Net income	$ 63,438	$ 40,127	$ 1,178	$ (41,305)	$ 63,438

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income

Six months ended June 30, 2001
(In thousands)

	NL Industries, Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 446,165	$ --	$ --	$ 446,165
Interest and dividends	13,997	15,459	3,121	(26,583)	5,994
Equity in income of subsidiaries	74,521	--	--	(74,521)	--
Litigation settlement gains, net	10,582	--	--	--	10,582
Insurance recoveries, net	--	1,929	--	--	1,929
Other income, net	1,283	941	--	--	2,224
	100,383	464,494	3,121	(101,104)	466,894
Costs and expenses:					
Cost of sales	--	301,222	--	--	301,222
Selling, general and administrative	11,057	51,339	(738)	--	61,658
Interest	26,726	13,720	--	(26,583)	13,863
	37,783	366,281	(738)	(26,583)	376,743
Income before income taxes and minority interest	62,600	98,213	3,859	(74,521)	90,151
Income tax expense	2,617	26,598	--	--	29,215
Income before minority interest	59,983	71,615	3,859	(74,521)	60,936
Minority interest	--	9	944	--	953
Net income	$ 59,983	$ 71,606	$ 2,915	$ (74,521)	$ 59,983

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Income
Six months ended June 30, 2000
(In thousands)

	NL Industries, Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues and other income:					
Net sales	$ --	$ 482,135	$ --	$ --	$ 482,135
Interest and dividends	15,174	11,579	2,802	(25,173)	4,382
Equity in income of subsidiaries	114,458	--	--	(114,458)	--
Litigation settlement gains, net	43,000	--	--	--	43,000
Other income, net	7,777	3,287	--	--	11,064
	180,409	497,001	2,802	(139,631)	540,581
Costs and expenses:					
Cost of sales	--	323,298	--	--	323,298
Selling, general and administrative	14,205	55,482	535	--	70,222
Interest	25,130	15,796	--	(25,173)	15,753
	39,335	394,576	535	(25,173)	409,273
Income before income taxes and minority interest	141,074	102,425	2,267	(114,458)	131,308
Income tax expense (benefit)	53,928	(9,967)	--	--	43,961
Income before minority interest	87,146	112,392	2,267	(114,458)	87,347
Minority interest	--	25	176	--	201
Net income	$ 87,146	$ 112,367	$ 2,091	$(114,458)	$ 87,146

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2001
(In thousands)

	NL Industries, Inc.	Kronos, Inc.	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	$ 14,106	$ 47,889	$ (929)	$(15,805)	$ 45,261
Cash flows from investing activities:					
Capital expenditures	--	(17,705)	--	--	(17,705)
Loans to affiliates	--	--	(33,150)	--	(33,150)
Change in restricted cash	4,877	--	--	(4,195)	682
Other, net	7	4,534	(8)	8	4,541
Net cash provided (used) by investing activities	4,884	(13,171)	(33,158)	(4,187)	(45,632)
Cash flows from financing activities:					
Dividends, net	(19,993)	(20,000)	--	20,000	(19,993)
Treasury stock:					
Purchased	(2,718)	--	--	--	(2,718)
Reissued	606	--	--	--	606
Indebtedness:					
Borrowings	--	1,437	--	--	1,437
Principal payments	--	(6,990)	--	--	(6,990)
Other, net	--	3	--	(8)	(5)
Net cash provided (used) by financing activities	(22,105)	(25,550)	--	19,992	(27,663)
Cash and cash equivalents:					
Net change from:					
Operating, investing and financing activities ..	(3,115)	9,168	(34,087)	--	(28,034)
Currency translation	1	(3,274)	(3)	--	(3,276)
	(3,114)	5,894	(34,090)	--	(31,310)
Balance at beginning of year	3,632	52,979	63,767	--	120,378
Balance at end of year	$ 518	$ 58,873	$ 29,677	$ --	$ 89,068

NL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2000
(In thousands)

	NL Industries, Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	$ 19,927	$ 89,698	$ (107)	$(38,000)	$ 71,518
Cash flows from investing activities:					
Capital expenditures	--	(12,598)	--	--	(12,598)
Purchase of Tremont Corporation common stock	(9,520)	--	--	--	(9,520)
Change in restricted cash	459	--	--	--	459
Loans to affiliates	--	(73,872)	68,000	5,872	--
Other, net	22	86	--	--	108
Net cash provided (used) by investing activities	(9,039)	(86,384)	68,000	5,872	(21,551)

Cash flows from financing activities:

Treasury stock:					
Purchased	(13,959)	--	--	--	(13,959)
Reissued	470	--	--	--	470
Dividends, net	(15,161)	(38,000)	--	38,000	(15,161)
Principal payments on debt	--	(16,830)	--	--	(16,830)
Loans from affiliates	5,872	--	--	(5,872)	--
Other, net	--	(7)	--	--	(7)
Net cash provided (used) by financing activities	(22,778)	(54,837)	--	32,128	(45,487)
Cash and cash equivalents:					
Net change from:					
Operating, investing and financing activities ..	(11,890)	(51,523)	67,893	--	4,480
Currency translation	--	(1,072)	(3)	--	(1,075)
	(11,890)	(52,595)	67,890	--	3,405
Balance at beginning of year	13,415	113,062	7,747	--	134,224
Balance at end of year	$ 1,525	$ 60,467	$ 75,637	$ --	$ 137,629

Note 14 - Commitments and contingencies:

For descriptions of certain legal proceedings, income tax and other commitments and contingencies related to the Company, reference is made to (i) Management's Discussion and Analysis of Financial Condition and Results of Operations, (ii) Part II, Item 1 - "Legal Proceedings," (iii) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, and (iv) the 2000 Annual Report.

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

RESULTS OF OPERATIONS

	Three months ended June 30, 2001	Three months ended June 30, 2000	% Change	Six months ended June 30, 2001	Six months ended June 30, 2000	% Change
	(In millions, except percentages and metric tons)					
Net sales and operating income						
Net sales	$220.1	$251.1	-12%	$446.2	$482.1	-7%
Operating income	$ 45.2	$ 62.7	-28%	$ 97.1	$109.0	-11%
Operating income margin percentage	21%	25%		22%	23%	
TiO2 operating statistics						
Percent change in average selling price (in billing currencies) .			+1%			+3%
Sales volume (metric tons in thousands)	105	120	-13%	208	231	-10%
Production volume (metric tons in thousands)	99	110	-10%	207	215	-4%

Kronos' operating income in the second quarter of 2001 decreased $17.5 million or 28% from the second quarter of 2000 due to lower sales and production volumes, partially offset by slightly higher average selling prices in billing currencies. Kronos' operating income in the first half of 2001 decreased $11.9 million or 11% from the first half of 2000 due to lower sales and production volumes, partially offset by higher average selling prices in billing currencies.

Kronos' average selling price in billing currencies (which excludes the effects of foreign currency translation) during the second quarter of 2001 was slightly higher than the second quarter of 2000 and 2% lower than the first quarter of 2001. Compared to the first quarter of 2001, prices in billing currencies were lower in all major markets. The average selling price in billing currencies in June was 1% lower than the average selling price during the second quarter as prices continued to trend downward. Kronos' average selling price in billing currencies for the first half of 2001 was 3% higher than the first half of 2000 due to higher European prices, partially offset by lower North American and export prices. Based on the global economic slowdown, the Company expects its average selling price in billing currencies will continue to trend downward into the fourth quarter, resulting in a lower average selling price for full-year 2001 compared to the full-year average selling price in 2000.

Kronos' second-quarter 2001 sales volume decreased 13% from the record second quarter of 2000 and increased 1% from the first quarter of 2001. Sales volume in the second quarter of 2001 was lower in all major markets compared to the second quarter of 2000. Compared to the first quarter of 2001, sales volume increased by 13% in North America while the European and export markets decreased 4% and 10%, respectively. Sales volume in the first half of 2001 was 10% lower than the record first half of 2000. Kronos anticipates its sales volume for full-year 2001 will be lower than that of 2000. Finished goods inventory levels at the end of June decreased 7% from March 2001 levels and represent about two months of sales.

Second-quarter 2001 production volume was 10% lower than the comparable 2000 period with operating rates at 87% in the second quarter of 2001 compared to near full capacity in the second quarter of 2000. Kronos' production volume in the first half of 2001 was 4% lower than the first half of 2000 with operating rates at 93% in the first half of 2001 compared to near full capacity in the first half of 2000. The lower production volume was primarily related to lost sulfate-process production at the Company's Leverkusen facility. Production at the Company's Leverkusen facility was adversely affected late in the first quarter by a fire on March 20, 2001. See Note 12 to the Consolidated Financial Statements. Production rates at the Company's Leverkusen chloride-process plant returned to full capacity in April, and the Company's Leverkusen sulfate-process plant is expected to be over 50% operational in August 2001 and fully operational in October 2001. Kronos anticipates its production volume for full-year 2001 will be lower than that of 2000.

The Company believes that the damage to property and the business interruption losses caused by the fire are covered by insurance, but the effect on the financial results of the Company on a quarter-to-quarter basis or a year-to-year basis will depend on the timing and amount of insurance recoveries. During the second quarter of 2001, the Company's insurance carriers approved a partial payment of $10.5 million ($9 million received as of June 30, 2001) for property damage costs and business interruption losses caused by the Leverkusen fire. Five million dollars of this payment represented partial compensation for business interruption losses which was recorded as a reduction of cost of sales to offset unallocated period costs that resulted from lost production. The remaining $5.5 million represented property damage recoveries against which the Company recorded $3.6 million of expenses related to destroyed asset write-offs and related clean-up costs, resulting in a net gain of $1.9 million. Negotiations with the insurance carrier group continue, and the Company expects to receive additional insurance recoveries for property damage and business interruption losses. The Company did not recognize additional insurance proceeds in the second quarter of 2001 because the amounts are not presently determinable.

Kronos expects its full-year 2001 operating income, excluding fire-related insurance recoveries for property damage, will be significantly lower than 2000 primarily because of lower average selling prices in billing currencies, lower sales and production volumes and higher energy costs.

Compared to the year-earlier periods, cost of sales as a percentage of net sales increased in both the second quarter and first half of 2001 primarily due to lower production volume. Excluding the effects of foreign currency translation, which decreased the Company's expenses in the second quarter and first half of 2001 compared to year-earlier periods, the Company's selling, general and administrative expenses, excluding corporate expenses, in the second quarter and first half of 2001 were slightly lower compared to the year-earlier periods.

A significant amount of Kronos' sales and operating costs are denominated in currencies other than the U.S. dollar. Fluctuations in the value of the U.S. dollar relative to other currencies, primarily a stronger U.S. dollar compared to the euro in the second quarter and first half of 2001 versus the year-earlier periods, decreased the dollar value of sales in the second quarter and first half of 2001 by a net $7 million and $18 million, respectively, when compared to the year-earlier periods. When translated from billing currencies to U.S. dollars using currency exchange rates prevailing during the respective periods, Kronos' second- quarter 2001 average selling price in U.S. dollars was 2% lower than in the second quarter of 2000 and 4% lower than the first quarter of 2001. Kronos' average selling price in U.S. dollars for the first half of 2001 decreased 1% from the first half of 2000. The effect of the stronger U.S. dollar on Kronos' operating costs that are not denominated in U.S. dollars reduced operating costs in the second quarter and first half of 2001 compared to the year-earlier periods. In addition, sales to export markets are typically denominated in U.S.

dollars and a stronger U.S. dollar improves margins on these sales at the Company's non-U.S. subsidiaries. The favorable margin on export sales tends to offset the unfavorable effect of translating local currency profits to U.S. dollars when the dollar is stronger. As a result, the net impact of currency exchange rate fluctuations on operating income in the second quarter and first half of 2001 was not significant when compared to the year-earlier periods.

General corporate

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

	Three months ended June 30,		Difference	Six months ended June 30,		Difference
	2001	2000		2001	2000	
			(In millions)			
Securities earnings.	$ 1.2	$ 7.4	$ (6.2)	$ 3.8	$ 9.2	$ (5.4)
Corporate income ...	1.4	44.1	(42.7)	13.0	45.2	(32.2)
Corporate expense ..	(4.9)	(10.0)	5.1	(11.7)	(16.3)	4.6
Interest expense ...	(6.9)	(7.9)	1.0	(13.9)	(15.8)	1.9
	$ (9.2)	$ 33.6	$ (42.8)	$ (8.8)	$ 22.3	$ (31.1)

Securities earnings in the second quarter and first half of 2001 declined from the comparable periods in 2000 primarily due to a $5.6 million second-quarter 2000 securities gain related to common stock received from the demutualization of an insurance company from which the Company had purchased certain insurance policies.

Corporate income in the first quarter of 2001 and the second quarter of 2000 includes litigation settlement gains with former insurance carrier groups of $10.6 million and $43 million, respectively. See Note 11 to the Consolidated Financial Statements. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

Corporate expense in the second quarter and first half of 2001 was lower than the year-earlier periods, primarily due to lower environmental remediation accruals and lower legal fees.

Interest expense in the second quarter and first half of 2001 decreased 13% and 12%, respectively, from the comparable periods in 2000 primarily due to lower average interest rates as a result of the December 2000 refinancing of $50 million of the Company's high fixed-rate public debt with lower variable- rate bank debt and lower levels of outstanding debt. At the end of the second quarter of 2001, the Company repaid $6.5 million of its euro-denominated short-term debt with excess cash flow from operations. The Company expects its full-year 2001 interest expense will be lower than full-year 2000.

Provision for income taxes

The Company reduced its deferred income tax valuation allowance by $1.1 million in the first half of 2001 and $1.3 million in the first half of 2000 primarily as a result of utilization of certain tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria.

Other

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the six months ended June 30, 2001 and 2000 are presented below.

	Six months ended June 30, 2001	Six months ended June 30, 2000
	(In millions)	
Net cash provided (used) by:		
Operating activities:		
Before changes in assets and liabilities	$ 71.8	$ 80.1
Changes in assets and liabilities	(26.5)	(8.6)
	45.3	71.5
Investing activities	(45.6)	(21.6)
Financing activities	(27.7)	(45.4)
Net cash provided (used) by operating, investing, and financing activities	$ (28.0)	$ 4.5

Operating activities

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly affect the earnings and operating cash flows of the Company. Cash flow from operations, before changes in assets and liabilities, in the first half of 2001 decreased from the comparable period in 2000 primarily due to lower operating income. The net cash used to fund changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) in the first half of 2001 was significantly higher than in the first half of 2000 due to higher inventory balances and decreases in accounts payable and accrued liabilities in the first half of 2001.

Investing activities

In February 2001, EMS loaned $13.4 million to Tremont under a reducing revolving loan agreement. See Note 1 to the Consolidated Financial Statements. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime plus 2% (10% at June 30, 2001), is due March 31, 2003 and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The maximum amount available for borrowing by Tremont reduces by $250,000 per quarter. The first reduction occurred on June 30, 2001, at which time Tremont repaid $250,000 of the loan.

In May 2001, a wholly owned subsidiary of EMS loaned $20 million to the Harold C. Simmons Family Trust #2 (the "Trust"), one of the trusts described in Note 1 to the Consolidated Financial Statements, under a new $25 million revolving credit agreement. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime (7.5% at June 30, 2001), is due

on demand with 60 days notice and is collateralized by 15,768 shares, or approximately 40%, of Contran's outstanding Class A voting common stock which is owned by the Trust.

The Company received $5.5 million of insurance proceeds for property damage resulting from the Leverkusen fire and paid $1 million of expenses related to repairs and clean-up costs.

Financing activities

At the end of the second quarter of 2001, the Company repaid euro 7.6 million ($6.5 million when paid) of its euro-denominated short-term debt with excess cash flow from operations.

In the second quarter of 2001, the Company paid a regular quarterly dividend to shareholders of $.20 per share, aggregating $10 million. Dividends paid during the first half of 2001 totaled $.40 per share or $20 million. On July 24, 2001, the Company's Board of Directors declared a regular quarterly dividend of $.20 per share to shareholders of record as of September 14, 2001 to be paid on September 28, 2001.

Pursuant to its share repurchase program, the Company purchased 212,000 shares of its common stock at an aggregate cost of $2.7 million in the second quarter of 2001. An additional 192,000 shares at an aggregate cost of $2.8 million were purchased in July 2001, with 362,000 shares remaining for purchase under the repurchase program.

Cash, cash equivalents, restricted cash equivalents and borrowing availability

At June 30, 2001, the Company had cash and cash equivalents aggregating $89 million ($47 million held by non-U.S. subsidiaries) and an additional $95 million of restricted cash equivalents held by U.S. subsidiaries, of which $17 million was classified as a noncurrent asset. The Company's subsidiaries had $12 million available for borrowing at June 30, 2001 under existing non-U.S. credit facilities.

Income tax contingencies

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

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

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately euro 12.9 million ($11.1 million at June 30, 2001). The Company has filed protests to the assessments for the years 1991 to 1996 and expects to file a protest for 1997. The Company is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit.

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

Environmental matters and litigation

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, certain of which are on the U.S. Environmental Protection Agency's (the "U.S. EPA") Superfund National Priorities List or similar state lists. On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed the Company's obligation. The Company believes it has adequate accruals ($109 million at June 30, 2001) for reasonably estimable costs of such matters, but the Company's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocations of such costs among PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites for which it is possible to estimate costs is approximately $170 million. The Company's estimates of such liabilities have not been discounted to present value. No assurance can be given that actual costs will not exceed either accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes with respect to site cleanup costs or allocation of such costs among PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites, could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. Furthermore, there can be no assurance that additional environmental matters will not arise in the future.

Lead pigment litigation

The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale of lead pigments and lead-based paints. There is no assurance that the Company will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment and paint litigation is without merit. The Company has not accrued any amounts for such pending litigation. Liability that may result, if any, cannot reasonably be estimated. 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. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. The Company currently believes the disposition of all claims and disputes, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future. See Item 1 - "Legal Proceedings."

Other

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

Special note regarding forward-looking statements

The statements contained in this Report on Form 10-Q ("Quarterly Report") which are not historical facts, including, but not limited to, statements found under the captions "Results of Operations" and "Liquidity and Capital Resources" above, are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "will," "should," "anticipates," "expects," or comparable terminology or by discussions of strategy or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve risks and uncertainties, including, but not limited to, the cyclicality of the titanium dioxide industry, global economic and political conditions, global productive capacity, customer inventory levels, changes in product pricing, changes in product costing, changes in foreign currency exchange rates, competitive technology positions, operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled downtime and transportation interruptions), recoveries from insurance claims and the timing thereof, the ultimate resolution of pending or possible future lead pigment litigation and legislative developments related to the lead paint litigation, the outcome of other litigation, and other risks and uncertainties included in this Quarterly Report and in the 2000 Annual Report, and the uncertainties set forth from time to time in the Company's other public reports and filings. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the 2000 Annual Report and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 for descriptions of certain previously reported legal proceedings.

City of St. Louis v. Lead Industries Association, et al. (No. 002-245). In June 2001 defendants moved to dismiss all claims. The court has not ruled.

County of Santa Clara v. Atlantic Richfield Company, et al. (No. CV788657). In June 2001 the court granted the previously described motions with respect to privately owned buildings and with respect to the nuisance claim, with leave to replead, and otherwise denied the motions.

City of Milwaukee v. N. L. Industries, Inc. and Mautz Paint (No. 01CV003088). The Company was served in May 2001 and answered the complaint in August 2001 denying all wrongdoing.

Harris County, Texas v. Lead Industries Association, et al. (No. 2001-21413). The Company was served in May 2001 and answered the complaint in June 2001 denying all wrongdoing.

In June 2001 a complaint was filed in Jefferson County School District v. Lead Industries Association, et al. (Circuit Court of Jefferson County, Mississippi, Case No. 2001-69). The complaint seeks joint and several liability for compensatory and punitive damages for the abatement of lead paint in Jefferson County Schools from the Company, former manufacturers of lead pigment and paint and local retailers. The complaint asserts strict liability design defect and marketing defect, negligent product design and failure to warn, fraudulent misrepresentation, negligent misrepresentation, concert of action, public nuisance, restitution, and conspiracy. The Company answered in July 2001 denying all allegations of wrongdoing and has removed the case to Federal Court.

It is possible that other governmental entities or other plaintiffs may file claims related to lead pigment and paint similar to those described above and in the 2000 Annual Report.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 - Intercorporate Services Agreement by and between Titanium Metals Corporation and the Registrant effective as of January 1, 2001.

(b) Reports on Form 8-K

There were no Reports on Form 8-K filed during the quarter ended June 30, 2001 and through the date of this report.

SIGNATURES

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

NL INDUSTRIES, INC.

(Registrant)

Date: August 7, 2001 By /s/ Susan E. Alderton
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Susan E. Alderton
Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 7, 2001 By /s/ Robert D. Hardy

Robert D. Hardy
Vice President and Controller
(Principal Accounting Officer)

Exhibit 10.1

INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement") is made effective as of January 1, 2001, by and between Titanium Metals Corporation ("TIMET"), a Delaware corporation, and NL Industries, Inc. ("NL"), a New Jersey corporation.

WHEREAS, TIMET desires that NL provide certain tax services and use of NL's corporate aircraft to TIMET, as set forth in this Agreement.

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

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

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

(b) use of corporate aircraft.

2. Fees for Services and Reimbursement of Expenses. During the Term (as defined below) of the Agreement, TIMET shall pay to NL an annual fee of $244,875 for the Services described in paragraph 1(a) above payable in quarterly installments of $61,219 plus all out-of-pocket expenses incurred in connection with the performance of such Services. Regarding Services described in Paragraph 1(b), TIMET will pay to NL within thirty (30) days after receipt of an invoice an amount equal to TIMET's share of NL's corporate aircraft expenses which includes TIMET's share of the monthly management fee (computed on a per hour basis) and actual flight hour costs at a rate of $1,875 per hour (subject to annual escalation) plus fuel variable charges, segment fees and excise taxes. Notwithstanding the foregoing, in the event that TIMET determines, in its sole discretion, that it no longer desires certain of the Services or NL determines, in its sole discretion, that it no longer desires to provide certain of the Services, then TIMET or NL, as appropriate, shall provide the other party with a thirty (30) day prior written notice of cancellation describing the Services to be terminated or discontinued and TIMET and NL during such ninety-day period shall agree to a pro-rata reduction of the fees due hereunder for such terminated or discontinued Services.

3. Limitation of Liability. In providing Services hereunder, NL shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither NL nor any officer, director, employee or agent of NL shall

be liable to TIMET or its subsidiaries for any error of judgment or mistake of law or for any loss incurred by TIMET or its subsidiaries in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of NL or from NL's reckless disregard of obligations and duties under this Agreement.

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

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

out the terms hereof.

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

If to NL:	NL Industries, Inc. 16825 Northchase Drive, Suite 1200 Houston, Texas 77060 Attention: General Counsel
If to TIMET:	Titanium Metals Corporation 1999 Broadway, Suite 4300 Denver, Colorado 80202 Attention: General Counsel

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

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

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

9. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written

and oral, between the parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. This Agreement shall be governed in all respects, including validity, interpretation and affect, by the laws of the State of Texas.

10. Term of Agreement. This Agreement shall be effective as of January 1, 2001, and shall remain in effect for a term of one year until December 31, 2001 (the "Term"); provided, however, the Agreement shall be extended on a quarter-to-quarter basis after the expiration of the Term unless written notification is given by either party thirty (30) days in advance of the first day of each successive quarter or unless it is terminated or superseded by a subsequent written agreement of the parties hereto. Upon such termination or upon the expiration of this Agreement, the parties' rights and obligations hereunder shall cease and terminate except with respect to rights and obligations arising on or prior to the date of expiration or termination and the rights and obligations arising under paragraph 4 above.

IN WITNESS WHEREOF, the parties have duly executed this Agreement effective as of the 10th day of May, 2001, which Agreement will be deemed to be effective as of January 1, 2001.

NL INDUSTRIES, INC.

By: /s/Robert D. Hardy

Robert D. Hardy
Vice President

TITANIUM METALS CORPORATION

By: /s/Mark A. Wallace

Mark A. Wallace

Executive Vice President