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, 1999

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 12, 1999: 51,826,139

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 1998	June 30, 1999
Current assets:		
Cash and cash equivalents	$ 154,953	$ 122,456
Restricted cash equivalents	8,164	24,605
Accounts and notes receivable	133,769	161,428
Refundable income taxes	15,919	6,146
Inventories	228,611	206,196
Prepaid expenses	2,724	4,460
Deferred income taxes	1,955	10,688
Total current assets	546,095	535,979
Other assets:		
Marketable securities	17,580	16,340
Investment in TiO2 manufacturing joint venture	171,202	160,052
Prepaid pension cost	23,990	24,002
Other	13,927	6,830
Total other assets	226,699	207,224
Property and equipment:		

Land	19,626	17,868
Buildings	144,228	133,680
Machinery and equipment	586,400	544,307
Mining properties	84,015	82,498
Construction in progress	4,385	12,522
	838,654	790,875
Less accumulated depreciation and depletion	456,495	436,480
Net property and equipment	382,159	354,395
	$1,154,953	$1,097,598

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 1998	June 30, 1999
Current liabilities:		
Notes payable	$ 36,391	$ 32,132
Current maturities of long-term debt	64,826	29,508
Accounts payable and accrued liabilities	187,661	178,255
Payable to affiliates	10,625	8,451
Income taxes	9,224	5,891
Deferred income taxes	1,236	1,731
Total current liabilities	309,963	255,968
Noncurrent liabilities:		
Long-term debt	292,803	300,147
Deferred income taxes	196,180	106,097
Accrued pension cost	44,649	39,629
Accrued postretirement benefits cost	41,659	39,101
Other	116,732	100,418
Total noncurrent liabilities	692,023	585,392
Minority interest	633	2,839
Shareholders' equity:		
Common stock	8,355	8,355
Additional paid-in capital	774,288	774,288
Accumulated deficit	(133,379)	(11,244)
Accumulated other comprehensive loss	(132,129)	(153,316)
Treasury stock	(364,801)	(364,684)

Total shareholders' equity	152,334	253,399
	$ 1,154,953	$ 1,097,598

Commitments and contingencies (Note 13)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	1998	1999	1998	1999
Revenues and other income:				
Net sales	$ 241,645	$ 232,568	$ 464,274	$ 434,137
Other, net	7,288	9,660	13,269	16,073
	248,933	242,228	477,543	450,210
Costs and expenses:				
Cost of sales	167,329	167,779	324,244	314,819
Selling, general and administrative	33,629	33,079	66,268	65,641
Interest	15,452	9,298	31,851	19,077
	216,410	210,156	422,363	399,537
Income from continuing operations before income taxes and minority interest	32,523	32,072	55,180	50,673
Income tax benefit (expense) .	(9,105)	81,990	(15,447)	77,340
Income from continuing operations before minority interest	23,418	114,062	39,733	128,013
Minority interest	4	2,239	19	2,250
Income from continuing operations	23,414	111,823	39,714	125,763
Discontinued operations	336	--	287,396	--
Extraordinary item - early extinguishment of debt, net				

of tax benefit of $12 and $1,275, respectively	(21)	--	(2,366)	--
Net income	$ 23,729	$ 111,823	$ 324,744	$ 125,763

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	1998	1999	1998	1999
Basic earnings per share:				
Continuing operations	$ .46	$ 2.16	$ .77	$ 2.43
Discontinued operations	--	--	5.61	--
Extraordinary item	--	--	(.05)	--
Net income	$ .46	$ 2.16	$ 6.33	$ 2.43
Diluted earnings per share:				
Continuing operations	$ .45	$ 2.16	$ .77	$ 2.42
Discontinued operations	.01	--	5.53	--
Extraordinary item	--	--	(.05)	--
Net income	$ .46	$ 2.16	$ 6.25	$ 2.42
Shares used in the calculation of earnings per share:				
Basic	51,341	51,826	51,311	51,823
Dilutive impact of stock options	689	57	636	48
Diluted	52,030	51,883	51,947	51,871

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,	
	1998	1999	1998	1999
Net income	$ 23,729	$ 111,823	$ 324,744	$ 125,763
Other comprehensive income (loss), net of tax:				
Marketable securities adjustment	407	135	899	(805)
Currency translation adjustment	(3,472)	(8,131)	(3,072)	(20,382)
Total other comprehensive loss	(3,065)	(7,996)	(2,173)	(21,187)
Comprehensive income	$ 20,664	$ 103,827	$ 322,571	$ 104,576

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Six months ended June 30, 1999

(In thousands)

				Accumulated other comprehensive income (loss)				
	Common stock	Additional paid-in capital	Accumulated deficit	Currency translation	Pension liabilities	Marketable securities	Treasury stock	Total
Balance at December 31, 1998	$ 8,355	$ 774,288	$(133,379)	$(133,440)	$ (3,187)	$ 4,498	$(364,801)	$ 152,334
Net income	--	--	125,763	--	--	--	--	125,763
Other comprehensive loss, net	--	--	--	(20,382)	--	(805)	--	(21,187)
Dividends	--	--	(3,628)	--	--	--	--	(3,628)
Treasury stock reissued	--	--	--	--	--	--	117	117
Balance at June 30, 1999	$ 8,355	$ 774,288	$ (11,244)	$(153,822)	$ (3,187)	$ 3,693	$(364,684)	$ 253,399

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 1998 and 1999

(In thousands)

	1998	1999
Cash flows from operating activities:		
Net income	$ 324,744	$ 125,763
Depreciation, depletion and amortization	16,989	17,024
Noncash interest expense	11,919	898
Deferred income taxes	1,496	(88,415)
Distribution from TiO2 manufacturing joint venture	--	11,150
Discontinued operations:		
Net gain from sale of Rheox	(286,071)	--
Income from operations of Rheox	(1,325)	--
Other, net	(5,948)	(2,325)
	61,804	64,095
Change in assets and liabilities:		
Accounts and notes receivable	(39,273)	(37,743)
Inventories	2,019	8,485
Prepaid expenses	(2,563)	(2,375)
Accounts payable and accrued liabilities	2,807	(8,964)
Income taxes	(7,186)	5,830
Other, net	20,547	(13,119)
Rheox, net	(20,791)	--
Net cash provided by operating activities	17,364	16,209
Cash flows from investing activities:		
Capital expenditures	(8,210)	(17,235)
Change in restricted cash equivalents, net	3,893	(12,516)
Proceeds from disposition of property and equipment	179	2,128
Collection of note receivable	6,875	--
Investment in joint venture	(371)	--
Proceeds from sale of Rheox	435,080	--
Rheox, net	(26)	--
Net cash provided (used) by investing activities	437,420	(27,623)

Six months ended June 30, 1998 and 1999

(In thousands)

	1998	1999
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 30,491	$ 56,271
Principal payments	(116,672)	(71,563)
Dividends paid	(1,541)	(3,628)
Settlement of shareholder derivative lawsuit, net	11,211	--
Other, net	797	111
Rheox, net	(117,500)	--
Net cash used by financing activities	(193,214)	(18,809)
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	261,570	(30,223)
Currency translation	(872)	(2,274)
Sale of Rheox	(7,630)	--
Balance at beginning of period	96,394	154,953
Balance at end of period	$ 349,462	$ 122,456
Supplemental disclosures - cash paid for:		
Interest, net of amounts capitalized	$ 20,850	$ 18,672
Income taxes, net	39,019	5,238

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

NL Industries, Inc. conducts its titanium dioxide pigments ("TiO2") operations through its wholly owned subsidiary, Kronos, Inc. At June 30, 1999, Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, held approximately 58% and 20%, respectively, of NL's outstanding common stock, and together they may be deemed to control NL. At June 30, 1999, Contran and its subsidiaries held approximately 92% of Valhi's outstanding common stock, and Valhi and other entities related to Harold C. Simmons held approximately 55% of Tremont's outstanding common stock.

The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 1998 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 1999 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the interim periods ended June 30, 1998 and 1999 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, 1998 (the "1998 Annual Report").

The Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, no later than the first quarter of 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 will be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives will depend upon the intended use of the derivative. The impact of adopting SFAS No. 133, if any, has not been determined but will be dependent upon the extent to which the Company is then a party to derivative contracts or engaged in hedging activities.

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 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 - TiO_2.

	Three months ended June 30,		Six months ended June 30,	
	1998	1999	1998	1999
	(In thousands)			
Net sales	$ 241,645	$ 232,568	$ 464,274	$ 434,137
Other income, excluding corporate	1,335	6,909	2,683	10,602
	242,980	239,477	466,957	444,739
Cost of sales	167,329	167,779	324,244	314,819
Selling, general and administrative, excluding corporate	28,926	27,562	56,589	54,823
Operating income	46,725	44,136	86,124	75,097
General corporate income (expense):				
Securities earnings, net	4,554	1,545	8,402	3,145
Expenses, net	(3,304)	(4,311)	(7,495)	(8,492)
Interest expense	(15,452)	(9,298)	(31,851)	(19,077)
	$ 32,523	$ 32,072	$ 55,180	$ 50,673

NOTE 4 - INVENTORIES:

	December 31, 1998	June 30, 1999
	(In thousands)	
Raw materials	$ 46,114	$ 44,171
Work in process	11,530	7,164
Finished products	136,225	126,073
Supplies	34,742	28,788
	$228,611	$206,196

NOTE 5 - NONCURRENT MARKETABLE SECURITIES:

	December 31, 1998	June 30, 1999
	(In thousands)	
Available-for-sale - marketable equity securities:		
Unrealized gains	$ 8,512	$ 7,761
Unrealized losses	(1,591)	(2,080)
Cost	10,659	10,659
Aggregate market	$ 17,580	$ 16,340

NOTE 6 - OTHER NONCURRENT ASSETS:

	December 31, 1998	June 30, 1999
	(In thousands)	
Deferred financing costs, net	$ 4,124	$ 3,124
Restricted cash equivalents	4,225	300
Intangible assets, net	1,985	877
Other	3,593	2,529
	$13,927	$ 6,830

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	December 31, 1998	June 30, 1999

	(In thousands)	
Accounts payable	$ 55,270	$ 48,156
Accrued liabilities:		
Environmental costs	44,122	51,501
Employee benefits	37,399	28,748
Interest	7,346	6,805
Other	43,524	43,045
	132,391	130,099
	$187,661	$178,255

NOTE 8 - OTHER NONCURRENT LIABILITIES:

	December 31, 1998	June 30, 1999
	(In thousands)	
Environmental costs	$ 81,454	$ 67,560
Insurance claims and expenses	10,872	11,312
Deferred income	12,333	10,333
Employee benefits	9,778	8,378
Other	2,295	2,835
	$116,732	$100,418

NOTE 9 - NOTES PAYABLE AND LONG-TERM DEBT:

	December 31, 1998	June 30, 1999
	(In thousands)	
Notes payable - Kronos (DM 60,500)	$ 36,391	$ 32,132
Long-term debt:		
Kronos:		
DM bank credit facility (DM 187,322 and DM 160,072, respectively)	$112,674	$ 85,015
Other	955	640
	113,629	85,655
NL Industries - 11.75% Senior Secured Notes	244,000	244,000

	357,629	329,655
Less current maturities	64,826	29,508
	$292,803	$300,147

NOTE 10 - INCOME TAXES:

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

	Six months ended June 30,	
	1998	1999
	(In thousands)	
Expected tax expense	$(19,313)	$(17,736)
Non-U.S. tax rates	70	824
German solidarity and trade income taxes	(1,151)	(4,186)
Change in German income tax law	--	(24,070)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return	(1,519)	(1,169)
Valuation allowance	6,407	85,108
U.S. state income taxes	(200)	803
Settlement of German income tax audits	--	36,490
Other, net	259	1,276
Income tax benefit (expense)	$(15,447)	$ 77,340

The Company recognized a $90 million noncash income tax benefit in the second quarter of 1999 related to (i) a favorable resolution of the Company's previously reported tax contingency in Germany ($36 million) and (ii) a net reduction in the Company's deferred income tax valuation allowance due to a change in estimate of the Company's ability to utilize certain income tax attributes under the "more-likely-than-not" recognition criteria ($54 million).

With respect to the German tax contingency, the German government has conceded substantially all of its income tax claims against the Company and has released a DM 94 million ($50 million) lien on the Company's Nordenham, Germany TiO_2 plant that secured the government's claim.

The $54 million net decrease in the Company's deferred income tax valuation allowance is comprised of (i) a $78 million decrease in the valuation allowance to recognize the benefit of certain deductible income tax attributes which the Company now believes meets the recognition criteria as a result of, among other things, a legal restructuring of the Company's German subsidiaries offset by (ii) a $24 million increase in the valuation allowance to reduce the previously recognized benefit of certain other deductible income tax attributes which the Company now believes do not meet the recognition criteria due to a change in German tax law. The German tax law change, enacted on April 1, 1999, was effective retroactive to January 1, 1999 and resulted in an additional $3.8 million of current tax expense during the first six months of 1999.

During the first six months of 1999, the Company also reduced its deferred income tax valuation allowance by $7 million 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.

NOTE 11 - OTHER INCOME, NET:

	Three months ended June 30,		Six months ended June 30,	
	1998	1999	1998	1999
	(In thousands)			
Corporate interest and dividend income	$4,554	$1,545	$ 8,402	$ 3,145
Currency transaction gains, net	1,134	6,272	1,717	7,841
Noncompete agreement income	1,000	1,000	1,667	2,000
Trade interest income	456	357	1,037	1,305
Gain (loss) from disposition of property and equipment	(278)	(32)	(302)	947
Other, net	422	518	748	835
	$7,288	$9,660	$13,269	$16,073

NOTE 12 - DISCONTINUED OPERATIONS:

The Company sold the net assets of its Rheox specialty chemicals business for $465 million cash (before fees and expenses) in January 1998, including $20 million attributable to a five-year agreement by the Company not to compete in the rheological products business. The Company recognized an after-tax gain of approximately $286 million on the sale of this business segment.

Condensed income statement and cash flow data for Rheox (excluding dividends paid to, contributions received from and intercompany loans with NL) is presented below. Interest expense has been allocated to discontinued operations based on the amount of debt specifically attributed to Rheox's operations.

	Six months ended June 30, 1998
	(In thousands)
Operations:	
Net sales	$ 12,630
Operating income	$ 2,900
Interest and other expenses	797
Income before income taxes	2,103

Income tax expense	778
	1,325
Gain from sale of Rheox, net of tax expense of $86,222	286,071
	$ 287,396
Cash flows from:	
Operating activities	$ (20,791)
Investing activities - capital expenditures	(26)
Financing activities - indebtedness, net	(117,500)
	$(138,317)

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

For descriptions of certain legal proceedings, income tax and other commitments and contingencies related to the Company, reference is made to (i) Management's Discussion and Analysis of Financial Condition and Results of Operations, (ii) Part II, Item 1 -"Legal Proceedings", (iii) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, and (iv) the 1998 Annual Report.

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

RESULTS OF OPERATIONS

	Three months ended June 30,		% Change	Six months ended June 30,		% Change
	1998	1999		1998	1999	
	(In millions)			(In millions)		
Net sales	$241.6	$232.6	-4%	$464.3	$434.1	-6%
Operating income	$ 46.7	$ 44.1	-6%	$ 86.1	$ 75.1	-13%
Percent changes in TiO2:						
Sales volume			-1%			-8%
Average selling prices (in billing currencies)			N/C			+3%

Kronos' operating income in the second quarter and first half of 1999 decreased from the comparable periods in 1998 due to lower production and sales volumes, partially offset by a second-quarter 1999 $5.3 million currency exchange transaction gain related to certain of the Company's short-term intercompany cross-border financings. These intercompany financings were settled in July 1999. Kronos' second-quarter sales volume decreased 1% from the record sales volume in the second quarter of 1998 but increased 24% from the first quarter of 1999. Sales volume in the first six months of 1999 was 8% lower than the first half of 1998. Kronos anticipates its TiO2 sales volume for full-year 1999 will approximate that of 1998.

Kronos' production volume closely matched sales volume in the second quarter and first half of 1999, decreasing 2% and 7%, respectively, from the year-earlier periods. Kronos' average capacity utilization rate was 98% in the second quarter of 1999 and 91% for the first half of 1999.

Average TiO_2 selling prices for the second quarter of 1999 were comparable to the second quarter of 1998 and were 2% lower than the first quarter of 1999 reflecting weaker prices in European and export markets and, to a lesser degree, North American markets. Average selling prices at the end of the second quarter were 1% lower than the average for the quarter. Average selling prices in the first six months of 1999 were 3% higher than the 1998 period, primarily due to higher North American prices. Although Kronos expects average TiO_2 prices during the second half of 1999 will be below average prices in the first half of 1999, the Company does not expect that the downward pressures on prices will be long-term in nature due to the continuing recovery in Asia and the Company's positive view of the worldwide economy. Kronos recently announced a 7.5% price increase in Europe that is expected to improve pricing trends in late 1999.

Kronos expects its full-year 1999 operating income will be below that of 1998 primarily because of lower production volumes and lower average selling prices.

Kronos' cost of sales as a percentage of net sales in the second quarter and first half of 1999 increased from the comparable periods in 1998 primarily due to lower production volume. Kronos' selling, general and administrative

expenses decreased $1.4 million in the second quarter of 1999 compared to the second quarter of 1998 due to lower employee benefit expenses, a German non-income tax refund and the favorable effects of foreign currency translation. Selling, general and administrative expenses decreased $1.8 million in the first half of 1999 due to lower distribution expenses associated with lower first-quarter 1999 sales volume.

A significant amount of sales are denominated in currencies other than the U.S. dollar. Fluctuations in the value of the U.S. dollar relative to other currencies decreased the dollar value of sales for the second quarter of 1999 by $4 million compared to the second quarter of 1998 and increased the dollar value of sales for the first half of 1999 by $1 million compared to the first half of 1998. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted the Company's operating expenses and the net impact of currency exchange rate fluctuations on the operating income comparisons to 1998, excluding the $5.3 million gain described above, were not significant in the second quarter and first half of 1999.

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

	Three months ended June 30,		Difference	Six months ended June 30,		Difference
	1998	1999		1998	1999	
	(In millions)					
Securities earnings ...	$ 4.6	$ 1.5	$ (3.1)	$ 8.4	$ 3.1	$ (5.3)
Corporate expenses, net	(3.3)	(4.2)	(.9)	(7.5)	(8.4)	(.9)
Interest expense	(15.5)	(9.3)	6.2	(31.9)	(19.1)	12.8
	$ (14.2)	$ (12.0)	$ 2.2	$ (31.0)	$ (24.4)	$ 6.6

Securities earnings decreased due to lower average balances available for investment. Interest expense in the second quarter and first half of 1999 each decreased 40% from the comparable periods in 1998 primarily due to lower levels of outstanding debt. The Company expects its full-year 1999 securities earnings and interest expense will be lower than 1998, primarily due to lower average balances available for investment and lower levels of outstanding debt, respectively.

See Note 10 to the Consolidated Financial Statements for a description of the Company's $90 million noncash income tax benefit recognized in the second quarter of 1999. Although the Company's overall cash income tax rate is expected to continue to be lower than statutory rates, beginning in 2000 the Company expects its overall income tax rate (current and deferred income tax expense) to approximate statutory tax rates.

Minority interest in the second quarter of 1999 relates to the Company's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS"). EMS was established in 1998, at which time EMS contractually assumed certain of the Company's environmental liabilities. EMS' earnings are based, in part, upon its ability to favorably resolve these liabilities. The shareholders of EMS, other than the Company, actively manage the environmental liabilities and share in 39% of EMS' cumulative earnings. The

Company continues to consolidate EMS and provides accruals for the reasonably estimable costs for the settlement of EMS' environmental liabilities, as discussed below.

Discontinued operations in 1998 represent the Company's former specialty chemicals operations which were sold in January 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the six months ended June 30, 1998 and 1999 are presented below.

	Six months ended June 30, 1998	Six months ended June 30, 1999
	(In millions)	
Net cash provided (used) by:		
Operating activities:		
Before changes in assets and liabilities	$ 61.8	$ 64.1
Changes in assets and liabilities	(44.4)	(47.9)
	17.4	16.2
Investing activities	437.4	(27.6)
Financing activities	(193.2)	(18.8)
Net cash provided (used) by operating, investing, and financing activities	$ 261.6	$(30.2)

The TiO2 industry is cyclical and changes in economic conditions significantly impact the earnings and operating cash flows of the Company. Cash flow from operations, before changes in assets and liabilities, in the 1999 period increased from the comparable period in 1998 primarily due to $11.2 million of cash distributions from the Company's TiO2 manufacturing joint venture, partially offset by lower operating income. Changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) used cash in the first half of both 1998 and 1999, primarily due to increases in receivables in each respective period. Cash provided by operations in 1998 also includes $20 million related to an agreement not to compete in the rheological products business offset by $20 million of tax payments related to the gain on sale of Rheox.

The Company prepaid its DM 107 million ($60 million when paid) term loan in full in the first quarter of 1999, principally by drawing DM 100 million ($56 million when drawn) on its DM revolving credit facility. In the second quarter of 1999, the Company repaid DM 20 million ($11 million when paid) of the DM revolving credit facility. The revolver's outstanding balance of DM 160 million ($85 million at June 30, 1999) is scheduled to be reduced to DM 105 million ($56 million at June 30, 1999) in March 2000, with the remaining balance to be repaid in September 2000.

At June 30, 1999, the Company had cash and cash equivalents aggregating $122 million ($16 million held by non-U.S. subsidiaries) and an additional $25

million of restricted cash equivalents. The Company's subsidiaries had $56 million available for borrowing at June 30, 1999 under existing non-U.S. credit facilities, of which $37 million relates to the Company's DM revolving credit facility.

In the second quarter of 1999, the Company paid a regular quarterly dividend of $.035 per share to shareholders aggregating $1.8 million. Dividends paid during the first half of 1999 totaled $3.6 million. In July 1999 the Company's Board of Directors declared a regular quarterly dividend of $.035 per share to shareholders of record as of September 16, 1999 to be paid on September 30, 1999.

See Note 10 to the Consolidated Financial Statements for a description of the Company's $90 million noncash income tax benefit recognized in the second quarter of 1999. Although the Company's overall cash income tax rate is expected to continue to be lower than statutory rates, beginning in 2000 the Company expects its overall income tax rate (current and deferred income tax expense) to approximate statutory tax rates.

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 non-income tax related items and interest. In the second quarter of 1999, certain significant German tax contingencies aggregating an estimated DM 188 million ($100 million when resolved) through 1998 were resolved in the Company's favor. See Note 10 to the Consolidated Financial Statements.

On April 1, 1999, the German government enacted certain income tax law changes that were retroactively effective as of January 1, 1999. Based on these changes, the Company's ongoing cash income tax rate in Germany increased beginning in the second quarter of 1999.

During 1997 the Company received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($7 million at June 30, 1999) relating to 1994. The Company has appealed this assessment and has begun litigation proceedings. During 1998 the Company was informed by the Norwegian tax authorities that additional tax deficiencies of NOK 39 million ($5 million at June 30, 1999) will likely be proposed for the year 1996. The Company intends to vigorously contest this issue and litigate, if necessary. Although the Company believes that it will ultimately prevail, the Company has granted a lien for the 1994 tax assessment on its Fredrikstad, Norway TiO_2 plant in favor of the Norwegian tax authorities and will be required to grant security on the 1996 assessment when received.

No assurance can be given that these tax matters will be resolved in the Company's favor in view of the inherent uncertainties involved in court proceedings. The Company believes that it has 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.

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 ($119 million at June 30, 1999) 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 $160 million. The Company's estimates of such liabilities have not been discounted to present value, and the Company has not recognized any potential insurance recoveries. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

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

The Company is in the process of evaluating and upgrading its computer systems (both information technology ("IT") systems and non-IT systems involving embedded chip technology) and software applications (collectively referred to as "systems") to ensure that the systems function properly beginning January 1, 2000. To achieve its year 2000 compliance plan, the Company is utilizing

internal and external resources to identify, correct or reprogram, and test its systems.

The Company has conducted an inventory of its IT systems worldwide and is currently testing, where practical, the systems and applications that have been corrected or reprogrammed for year 2000 compliance. The Company has completed an inventory of its non-IT systems and is in the process of correcting or replacing date-deficient systems. The remediation effort is in progress on all critical IT and non-IT systems, and the Company anticipates that remediation of all such systems will be substantially complete by September 1999. Once systems undergo remediation, they are tested for year 2000 compliance. For critical systems, the testing process usually involves subjecting the remediated system to a simulated change of date from the year 1999 to the year 2000 using, in many cases, computer resources. The Company uses a number of packaged software products that have been upgraded to a year 2000 compliant version in the normal course of business. Excluding the cost of these software upgrades, the Company's cost of becoming year 2000 compliant is expected to be approximately $2 million, of which about 75% has been spent through June 30, 1999.

The Company has approximately 30 major computer systems which have been assessed for year 2000 compliance. At June 30, 1999, the Company believes approximately 90% of such systems are year 2000 compliant. Each operating unit has responsibility for its own conversion, in line with overall guidance and oversight provided by a corporate-level coordinator, and the status of each of the remaining systems will be specifically tracked and monitored.

As part of its year 2000 compliance plan, the Company has requested confirmations from its major domestic and foreign software vendors, hardware vendors, primary suppliers and major customers, that they are developing and implementing plans to become, or are, year 2000 compliant. Confirmations received to date from the Company's software vendors, hardware vendors, primary suppliers and major customers, indicate that generally they are in the process of implementing remediation plans to ensure that their systems are compliant by December 31, 1999. The major software vendors used by the Company have already delivered year 2000 compliant software. Notwithstanding these efforts, the ability of the Company to affect the year 2000 preparedness of such vendors, suppliers and customers is limited.

The Company is in the process of developing a contingency plan to address potential year 2000 related business interruptions that may occur on January 1, 2000, or thereafter. The contingency plan is expected to be completed in the third quarter of 1999.

Although the Company expects its systems to be year 2000 compliant before December 31, 1999, it cannot predict the outcome or success of the year 2000 compliance programs of its vendors, suppliers, and customers. The Company also cannot predict whether its major software vendors, who continue to test for year 2000 compliance, will find additional problems that would result in unplanned upgrades of their applications after December 31, 1999. As a result of these uncertainties, the Company cannot predict the impact on its financial condition or results of operations from noncompliant year 2000 systems that the Company

directly or indirectly relies upon. Should the Company's year 2000 compliance plan not be successful or be delayed beyond January 2000, or should one or more vendors, suppliers or customers fail to adequately address their year 2000 issues, the consequences to the Company could be far-reaching and material, including an inability to produce TiO_2 at its manufacturing facilities, which could lead to an indeterminate amount of lost revenue. Other potential negative consequences could include plant malfunction, impeded communications or power supplies, or slower transaction processing and financial reporting. Although not anticipated, the most reasonably likely worst-case scenario of failure by the Company or its key suppliers or customers to become year 2000 compliant would be a short-term slowdown or cessation of manufacturing operations at one or more of the Company's facilities and a short-term inability on the part of the Company to process orders and billings in a timely manner, and to deliver products to customers.

Beginning January 1, 1999, eleven of the fifteen members of the European Union ("EU"), including Germany, Belgium, the Netherlands and France, adopted a new European currency unit (the "euro") as their common legal currency. Following the introduction of the euro, the participating countries' national currencies remain legal tender as denominations of the euro from January 1, 1999 through January 1, 2002, and the exchange rates between the euro and such national currency units are fixed.

The Company conducts substantial operations in Europe, and has a significant amount of outstanding DM-denominated indebtedness. The functional currency of the Company's German, Belgian, Dutch and French operations will convert to the euro from their respective national currencies over a two-year period beginning in 1999. The Company has assessed and evaluated the impact of the euro conversion on its business and made the necessary system conversions. The euro conversion may impact the Company's operations including, among other things, changes in product pricing decisions necessitated by cross-border price transparencies. Such changes in product pricing decisions could impact both selling prices and purchasing costs and, consequently, favorably or unfavorably impact results of operations, financial condition or liquidity.

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

The statements contained in this Report on Form 10-Q ("Quarterly Report") which are not historical facts, including, but not limited to, statements found under the captions "Results of Operations" and "Liquidity and Capital Resources" above, are forward-looking statements that 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. 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 involve risks and uncertainties, including, but not limited to, the cyclicality of the titanium dioxide industry, global economic conditions, global productive capacity, changes in product pricing, "Year 2000" issues, and other risks and uncertainties included in this Quarterly Report and in the 1998 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 assumes no duty to update any forward-looking statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to the 1998 Annual Report and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 for descriptions of certain previously-reported legal proceedings.

THE CITY OF NEW YORK, ET AL. V. LEAD INDUSTRIES ASSOCIATION, ET AL. In July 1999 the court heard oral argument on plaintiffs' and defendants' motions for partial summary judgment in this previously reported case.

SWEET, ET AL. V. SHEAHAN, ET AL. In July 1999 the defendants filed a motion to dismiss this previously reported case for lack of jurisdiction.

CHEROKEE COUNTY, KANSAS SITE. The Company and other PRPs have entered into a consent decree agreeing to perform the remedy previously selected in the Record of Decision at the Baxter Springs subsite and agreeing that the Company is not responsible for performing the remedy at the Treece subsite.

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

The Company held its Annual Meeting of Shareholders on May 4, 1999. All the nominees for director were elected with the voting results for each as follows:

Director	Shares For	Shares Withheld
Joseph S. Compofelice	49,540,211	952,274
J. Landis Martin	49,527,779	964,706
Kenneth R. Peak	50,078,926	413,559
Glenn R. Simmons	49,524,117	968,368
Harold C. Simmons	49,523,763	968,772
Lawrence A. Wigdor	49,538,638	953,847
Admiral Elmo R. Zumwalt, Jr.	50,072,655	419,830

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

10.1 - Intercorporate Services Agreement by and between CompX International, Inc. and the Registrant effective as of January 1, 1999.

27.1 - Financial Data Schedule for the six-month period ended June 30, 1999.

(b) REPORTS ON FORM 8-K

Reports on Form 8-K for the quarter ended June 30, 1999 and through the date of this report:

April 26, 1999 - reported Items 5 and 7.
May 4, 1999 - reported Items 5 and 7.
July 20, 1999 - reported Items 5 and 7.
July 26, 1999 - reported Items 5 and 7.

SIGNATURES

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

NL INDUSTRIES, INC.
(Registrant)

Date: August 12, 1999 By /s/ Susan E. Alderton

Susan E. Alderton
Vice President and
Chief Financial Officer

Date: August 12, 1999 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"), effective as of January 1, 1999, amends and supersedes that certain Intercorporate Services Agreement effective as of January 1, 1999 between NL INDUSTRIES, INC., a New Jersey corporation ("NL"), and COMPX INTERNATIONAL INC., a Delaware corporation ("RECIPIENT").

RECITALS

A. NL provides Recipient (i) certain occupancy and related office services (the "OCCUPANCY AND RELATED OFFICE SERVICES"), which services include, without limitation, office space that Recipient's personnel currently occupy at NL's corporate offices at Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas and mail, telecommunication, computer support, copying and other reasonable office services related to such occupancy and (ii) certain insurance, risk management, loss control and internal audit services as set forth in this Agreement.

B. The terms of this Agreement are no less favorable to Recipient than could otherwise be obtained from a third party for comparable services.

C. Recipient desires to continue receiving the services presently provided by NL and affiliates of NL and NL is willing to continue to provide such services under the terms of this Agreement.

AGREEMENT

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

SECTION 1. SERVICES TO BE PROVIDED. NL agrees to make available to Recipient the following services (the "SERVICES") to be rendered by the internal staff of NL and affiliates of NL:

(a) the Occupancy and Related Office Services (as outlined in Attachment 1);

(b) certain administration and management services with respect to Recipient's insurance and risk management needs, including:

- (i) management of claims (including insured and self-insured workers compensation and liability claims);
- (ii) budgeting and related activities;
- (iii) coordination of property loss control program; and
- (iv) administration of Recipient's insurance program, excluding all employee benefit and welfare related programs;

(c) consultation and assistance in performing internal audit projects, as requested; and

(d) such other services as may be requested by Recipient or deemed necessary and proper from time to time.

SECTION 2. MISCELLANEOUS SERVICES. It is the intent of the parties hereto that NL provide only the Services requested by Recipient in connection with routine administrative functions related to the ongoing operations of Recipient and not with respect to special projects, including corporate investments, acquisitions and divestitures. The parties hereto contemplate that the Services rendered in connection with the conduct of Recipient's business will be on a scale compared to that existing on the effective date of this Agreement but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects. Recipient will continue to bear all other costs required for outside services, and it is expressly understood that NL assumes no liability for any expenses or services other than those stated in SECTION 1.

SECTION 3. FEE FOR SERVICES. During the Term (as defined below) of the Agreement, Recipient shall pay to NL an annual fee of $108,500 for the Services described in SUBSECTIONS 1(a), 1(b), AND 1(d) above payable in quarterly installments of $27,125 plus all out-of-pocket expenses incurred in connection with the performance of such Services described in paragraphs 1(b) and 1(d). In addition, Recipient will pay to NL within thirty (30) days after receipt of an invoice (such invoices to occur no more frequently than once per month) an amount equal to the product of $600 multiplied by the number of days devoted by NL's internal auditors to providing Services described in SUBSECTION 1(c) above times the number of internal auditors providing such Services plus all out-of-pocket expenses incurred in their performance of such Services. Nothwithstanding the foregoing, in the event that Recipient 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 Recipient or NL, as appropriate, shall provide the other party with a ninety (90) day prior written notice of cancellation describing the Services to be terminated or discontinued and Recipient 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.

SECTION 4. ORIGINAL TERM. Subject to the provisions of SUBSECTION 5 hereof, the original term of this Agreement shall be from January 1, 1999 to December 31, 1999.

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

SECTION 6. LIMITATION OF LIABILITY. In providing its Services hereunder, 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 or its affiliates shall be liable to Recipient for any error of judgment or mistake of law or for any loss incurred by Recipient in connection with the matter to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of NL.

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

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

SECTION 9. NOTICES. All communications hereunder shall be in writing and shall be addressed, if intended for NL, to Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas 77060, Attention: President, or such other address as it shall have furnished to Recipient in writing, and if intended for Recipient, to Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas 77060, Attention: Chairman of the Board, or such other address as it shall have furnished to NL in writing.

SECTION 10. AMENDMENT AND MODIFICATION. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

SECTION 11. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of NL and Recipient and their respective successors and assigns, except that neither party may assign its rights under this Agreement without the prior written consent of the other party.

SECTION 12. GOVERNING LAW. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the state of Texas.

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

NL INDUSTRIES, INC.

By: /s/ ROBERT D. HARDY

ROBERT D. HARDY
VICE PRESIDENT

COMPX INTERNATIONAL INC.

By: /s/ JOSEPH S. COMPOFELICE

JOSEPH S. COMPOFELICE
CHAIRMAN OF THE BOARD AND CHIEF
EXECUTIVE OFFICER

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NL INDUSTRIES, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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