SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - For the fiscal year ended December 31, 1997

OR

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

Commission file number 1-640

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

New Jersey	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

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

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

Securities registered pursuant to Section 12(g) of the Act: None.

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

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

As of March 18, 1998, 51,290,614 shares of common stock were outstanding. The aggregate market value of the 12,381,624 shares of voting stock held by nonaffiliates as of such date approximated $203 million.

Documents incorporated by reference:

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

Forward-Looking Information.

The statements contained in this Annual Report on Form 10-K ("Annual Report") which are not historical facts, including, but not limited to, statements found (i) under the captions "Kronos-Industry," "Kronos-Products and operations," "Kronos-Manufacturing process and raw materials," "Kronos-Competition," "Rheox-discontinued operations," "Patents and Trademarks," "Foreign Operations," and "Regulatory and Environmental Matters," all contained in Item 1. Business, (ii) under the captions "Lead pigment litigation" and "Environmental matters and litigation," both contained in Item 3. Legal

Proceedings, and (iii) under the captions "Results of Operations" and "Liquidity and Capital Resources," both contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements that involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements in this Annual Report could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Annual Report, including, without limitation, the portions referenced above, and the risks and uncertainties set forth from time to time in the Company's filings with the Securities and Exchange Committee, and other public statements.

PART I

ITEM 1. BUSINESS

General

NL Industries, Inc., organized as a New Jersey corporation in 1891, conducts its continuing operations through its principal wholly-owned subsidiary, Kronos, Inc. In January 1998 the specialty chemicals business of Rheox, Inc., a wholly-owned subsidiary of NL, was sold for $465 million to Elementis plc, including $20 million attributable to a five-year agreement by the Company not to compete in the rheological products business. See "Rheox - discontinued operations" for related discussion. At December 31, 1997 Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, held 57% and 18%, respectively, of NL's outstanding common stock, and together may be deemed to control the Company. At December 31, 1997 Contran and other entities related to Harold C. Simmons held approximately 93% of Valhi's and 49% 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 Mr. Simmons of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board, President and Chief Executive Officer of each of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies. NL and its consolidated subsidiaries are sometimes referred to herein collectively as the "Company."

Kronos is the world's fourth largest producer of titanium dioxide pigments ("TiO2") with an estimated 12% share of worldwide TiO2 sales volume in 1997. Approximately one-half of Kronos' 1997 sales volume was in Europe, where Kronos is the second largest producer of TiO2.

The Company's objective is to maximize total shareholder returns by (i) focusing on continued cost control, (ii) acquiring additional TiO2 production capacity, (iii) investing in certain cost effective debottlenecking projects to also increase TiO2 production capacity and productivity and (iv) reducing outstanding indebtedness.

Kronos

Industry

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

Pricing within the TiO2 industry is cyclical, and changes in industry economic conditions can significantly impact the Company's earnings and operating cash flow. The Company's average TiO2 selling prices increased during the last

three quarters of 1997, following a downturn in prices that began in the last half of 1995. The Company expects TiO2 prices will continue to increase during 1998 as the impact of announced price increases take effect. Industry-wide demand for TiO2 continued to grow in 1997, and Kronos' record 1997 sales volume was 10% higher than the previous record set in 1996. The Company's expectations as to the future prospects of the TiO2 industry and prices are based upon a number of factors beyond the Company's control, including continued worldwide growth of gross domestic product, competition in the market place, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from the Company's expectations, industry and Company performance could be unfavorably affected.

Kronos has an estimated 18% share of European TiO2 sales volume and an estimated 13% share of North American TiO2 sales volume. Consumption per capita in the United States and Western Europe far exceeds that in other areas of the world and these regions are expected to continue to be the largest consumers of TiO2. A significant region for TiO2 consumption could emerge in Eastern Europe, the Far East or China if the economies in these countries develop to the point where quality-of-life products, including TiO2, are in greater demand. Kronos believes that, due to its strong presence in Western Europe, it is well positioned to participate in growth in consumption of TiO2 in Eastern Europe. Geographic segment information is contained in Note 3 to the Consolidated Financial Statements.

Products and operations

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

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

Kronos is one of the world's leading producers and marketers of TiO2. Kronos and its distributors and agents sell and provide technical services for its products to over 4,000 customers with the majority of sales in Europe and North America. Kronos' international operations are conducted through Kronos International, Inc., a Germany-based holding company formed in 1989 to manage and coordinate the Company's manufacturing operations in Germany, Canada, Belgium and Norway, and its sales and marketing activities in over 100 countries worldwide. Kronos and its predecessors have produced and marketed TiO2 in North America and Europe for over 70 years. As a result, Kronos believes that it has developed considerable expertise and efficiency in the manufacture, sale, shipment and

service of its products in domestic and international markets. By volume, approximately one-half of Kronos' 1997 TiO2 sales were to Europe, with 36% to North America and the balance to export markets.

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

Manufacturing process and raw materials

TiO2 is manufactured by Kronos using both the chloride process and the sulfate process. Approximately two-thirds of Kronos' current production capacity

is based on its chloride process which generates less waste than the sulfate process. Although most end-use applications can use pigments produced by either process, chloride-process pigments are generally preferred in certain coatings and plastics applications, and sulfate-process pigments are generally preferred for certain paper, fibers and ceramics applications. Due to environmental factors and customer considerations, the proportion of TiO2 industry sales represented by chloride-process pigments has increased relative to sulfate-process pigments in the past few years, and chloride-process production facilities in 1997 represented almost 60% of industry capacity.

Kronos produced a record 408,000 metric tons of TiO2 in 1997, compared to 373,000 metric tons produced in 1996 and 393,000 metric tons in 1995. Kronos' production rates were increased to near full capacity in late 1996 and Kronos maintained near full capacity production rates throughout 1997 in response to strong demand. Kronos believes its current annual attainable production capacity is approximately 420,000 metric tons, including its one-half interest in the joint venture-owned Louisiana plant (see "TiO2 manufacturing joint venture"). Kronos substantially completed a $34 million debottlenecking expansion of its Leverkusen, Germany chloride-process plant in 1997 which increased annual production capacity by approximately 20,000 metric tons.

The primary raw materials used in the TiO2 chloride production process are chlorine, coke and titanium-containing feedstock derived from beach sand ilmenite and natural rutile ore. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited number of suppliers around the world, principally in Australia, South Africa, Canada, India and the United States. Kronos purchases slag refined from beach sand ilmenite from Richards Bay Iron and Titanium (Proprietary) Limited (South Africa) under a long-term supply contract that expires in 2000. Natural rutile ore, another chloride feedstock, is purchased primarily from RGC Mineral Sands Limited (Australia), under a long-term supply contract that also expires in 2000. Raw materials purchased under these contracts are expected to meet Kronos' chloride feedstock requirements over the next several years. The Company does not expect to encounter difficulties obtaining extensions to existing long-term supply contracts prior to the expiration of the contracts.

The primary raw materials used in the TiO2 sulfate production process are sulfuric acid and titanium-containing feedstock derived primarily from rock and beach sand ilmenite. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. As one of the few vertically-integrated producers of sulfate-process pigments, Kronos operates a rock ilmenite mine in Norway which provided all of Kronos' feedstock for its European sulfate-process pigment plants in 1997. For its Canadian plant, Kronos also purchases sulfate grade slag from Q.I.T.-Fer et Titane Inc. under a long-term supply contract which expires in 2002.

Kronos believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate for the next several years. Kronos does not anticipate experiencing any interruptions of its raw material supplies because of its long-term supply contracts. However, political and economic instability in certain countries from which the Company purchases its raw material supplies could adversely affect the availability of such feedstock.

TiO2 manufacturing joint venture

Subsidiaries of Kronos and Tioxide Group, Ltd. ("Tioxide"), a wholly-owned subsidiary of Imperial Chemicals Industries plc ("ICI"), each own a 50%-interest in a manufacturing joint venture, Louisiana Pigment Company ("LPC"). LPC owns and operates a chloride-process TiO2 plant located in Lake Charles, Louisiana. Production from the plant is shared equally by Kronos and Tioxide (the "Partners") pursuant to separate offtake agreements. ICI has agreed to sell Tioxide's non-North American operations to E.I. du Pont de Nemours & Co. ("DuPont"), subject to regulatory approval. ICI has announced it intends to sell Tioxide's 50% interest in LPC and its remaining North American operations in a separate transaction. The Company has advised ICI of its interest in acquiring

the portion of LPC it does not currently own.

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

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

Competition

The TiO2 industry is highly competitive. During the early 1990s, supply of TiO2 exceeded demand, primarily due to new chloride-process capacity coming on-stream. Relative supply/demand relationships, which had a favorable impact on industry-wide prices during the late 1980s, had a negative impact during the subsequent downturn. During 1994 and the first half of 1995, strong demand growth improved industry capacity utilization and resulted in increases in worldwide TiO2 prices. Kronos believes that the increased demand was partially due to customers stocking inventories. In the second half of 1995 and first half of 1996, customers reduced inventory levels, which reduced industry-wide demand. Demand improved in the second half of 1996 and throughout 1997, and selling prices of TiO2 began to increase during the last three quarters of 1997. Additional price increases have been announced by most major TiO2 producers, including Kronos, that are expected to be implemented during the first half of 1998, and which Kronos expects to favorably impact operating income comparisons in 1998 versus 1997. No assurance can be given that price trends will conform to the Company's expectations. See "Industry" for the Company's views of risks and uncertainties within the TiO2 industry.

Capacity additions that are the result of construction of grassroot plants in the worldwide TiO2 market require significant capital expenditures and substantial lead time (typically three to five years in the Company's experience) for, among other things, planning, obtaining environmental approvals and construction. No grassroot plants have been announced, but industry capacity can be expected to increase as Kronos and its competitors complete debottlenecking projects at existing plants. Based on the factors described under the caption "Kronos-Industry" above, the Company expects that the average annual increase in industry capacity from announced debottlenecking projects will be less than the average annual demand growth for TiO2 during the next three to five years.

Kronos competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO2 grades are considered specialty pigments, the majority of grades and substantially all of Kronos' production are considered commodity pigments with price generally being the most significant competitive factor. During 1997 Kronos had an estimated 12% share of worldwide TiO2 sales volume, and Kronos believes that it is the leading seller of TiO2 in a number of countries, including Germany and Canada.

Kronos' principal competitors are DuPont; ICI (Tioxide); Millennium Chemicals, Inc. (Millennium Inorganic Chemicals, Inc.); Kerr-McGee Corporation; Kemira Oy; Ishihara Sangyo Kaisha, Ltd.; and Bayer AG. These seven competitors have estimated individual shares of TiO2 production capacity ranging from 23% to 4%, and an estimated aggregate 74% share of worldwide TiO2 production volume. DuPont has about one-half of total U.S. TiO2 production capacity and is Kronos' principal North American competitor.

In July 1997 DuPont announced an agreement had been reached to acquire Tioxide's TiO2 business in Europe, Asia and Africa, that it expects to close in

early 1998 subject to regulatory approval. In January 1998 Kerr-McGee announced an agreement to acquire approximately 80% of the European TiO2 business of Bayer.

Rheox - discontinued operations

On January 30, 1998 the specialty chemicals business of Rheox was sold to Elementis plc (formerly known as Harrisons and Crosfield, plc) for $465 million, including $20 million attributable to a five-year agreement by the Company not to compete in the rheological products business. As a result of the sale, the Company has reported its Rheox operation as discontinued operations. Following the sale, Rheox, Inc. was renamed NL Capital Corporation. The Company intends to use the after-tax proceeds of about $400 million primarily to invest in additional TiO2 production capacity and reduce its outstanding indebtedness.

Research and Development

The Company's expenditures for research and development and certain technical support programs, excluding discontinued operations, have averaged approximately $8 million annually during the past three years. Research and development activities are conducted principally at the Leverkusen, Germany facility. Such activities are directed primarily toward improving both the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications.

Patents and Trademarks

Patents held for products and production processes are believed to be important to the Company and to the continuing business activities of Kronos. The Company continually seeks patent protection for its technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties.

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

Foreign Operations

The Company's chemical businesses have operated in international markets since the 1920s. Most of Kronos' current production capacity is located in Europe and Canada. Approximately three-quarters of the Company's 1997 consolidated sales, excluding discontinued operations, were to non-U.S. customers, including 13% to customers in areas other than Europe and Canada. Sales to customers in Asia accounted for 5% of consolidated net sales. Foreign operations are subject to, among other things, currency exchange rate fluctuations and the Company's results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. Effects of fluctuations in currency exchange rates on the Company's results of

operations are discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Customer Base and Seasonality

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

Employees

As of December 31, 1997 the Company employed approximately 2,600 persons, excluding the joint venture employees and discontinued operations, with approximately 100 employees in the United States and approximately 2,500 at sites outside the United States. Hourly employees in production facilities worldwide, including the TiO2 manufacturing joint venture, are represented by a variety of labor unions, with labor agreements having various expiration dates. The Company believes its labor relations are good.

Regulatory and Environmental Matters

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

The Company's U.S. manufacturing operations are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), as well as the state counterparts of these statutes. The Company believes the Louisiana plant owned and operated by the joint venture is in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. Following the sale of its specialty chemicals business, the Company has no U.S. plants other than LPC. From time to time, the Company's facilities may be subject to environmental regulatory enforcement under such statutes. Resolution of such matters typically involves the establishment of compliance programs. Occasionally, resolution may result in the payment of penalties, but to date such penalties have not involved amounts having a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

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

reached with European environmental authorities and with an EU directive to control the effluents produced by TiO2 production facilities.

The Company has a contract with a third party to treat certain of its Leverkusen and Nordenham, Germany sulfate-process effluents. Either party may terminate the contract after giving four years advance notice with regard to the Nordenham plant. After December 1998 and under certain circumstances, Kronos may terminate the contract after giving six months notice with respect to treatment of effluent from the Leverkusen plant.

In order to reduce sulfur dioxide emissions into the atmosphere consistent with applicable environmental regulations, Kronos completed the installation of off-gas desulfurization systems in 1997 at its Norwegian and German plants at an estimated cost of $30 million. The manufacturing joint venture completed the installation of a $16 million off-gas desulfurization system at the Louisiana plant in 1996.

The Company's capital expenditures related to its ongoing environmental protection and improvement programs are currently expected to be approximately $5 million in each of 1998 and 1999.

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, pursuant to CERCLA and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, or its subsidiaries, or their predecessors, certain of which are on the U.S. Environmental Protection Agency's ("U.S. EPA") Superfund National Priorities List or similar state lists. See Item 3. "Legal Proceedings."

ITEM 2. PROPERTIES

Kronos currently operates four TiO2 facilities in Europe (Leverkusen and Nordenham, Germany; Langerbrugge, Belgium; and Fredrikstad, Norway). In North America, Kronos has a facility in Varennes, Quebec, Canada and, through the manufacturing joint venture described above, a one-half interest in a plant in Lake Charles, Louisiana. Certain of the Company's properties collateralize long-term debt agreements and the Company's Nordenham TiO2 plant has liens on it that secure claims by the City of Leverkusen and the German federal tax authorities, pending resolution of certain tax litigation. See Notes 10 and 13 to the Consolidated Financial Statements.

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with about one-third of Kronos' current TiO2 production capacity, is located within an extensive manufacturing complex owned by Bayer AG. Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, Bayer provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and the supplies and services agreement restrict Kronos' ability to transfer ownership or use of the Leverkusen facility.

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

ITEM 3. LEGAL PROCEEDINGS

Lead pigment litigation

The Company was formerly involved in the manufacture of lead pigments for use in paint and lead-based paint. The Company has been named as a defendant or third party defendant in various legal proceedings alleging that the Company and other manufacturers are responsible for personal injury and property damage allegedly associated with the use of lead pigments. The Company is vigorously defending such litigation. Considering the Company's previous involvement in the lead pigment and lead-based paint businesses, there can be no assurance that additional litigation, similar to that described below, will not be filed. In

addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn court decisions in which the Company and other pigment

manufacturers have been successful. 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. While no legislation or regulations have been enacted to date which are expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity, the imposition of market share liability could have such an effect. The Company has not accrued any amounts for the pending lead pigment and lead-based paint litigation. 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 lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated.

In 1989 and 1990 the Housing Authority of New Orleans ("HANO") filed third-party complaints for indemnity and/or contribution against the Company, other alleged manufacturers of lead pigment (together with the Company, the "pigment manufacturers") and the Lead Industries Association (the "LIA") in 14 actions commenced by residents of HANO units seeking compensatory and punitive damages for injuries allegedly caused by lead pigment. The actions, which were pending in the Civil District Court for the Parish of Orleans, State of Louisiana, were dismissed by the district court in 1990. Subsequently, HANO agreed to consolidate all the cases and appealed. In March 1992 the Louisiana Court of Appeals, Fourth Circuit, dismissed HANO's appeal as untimely with respect to three of these cases. With respect to the other cases included in the appeal, the court of appeals reversed the lower court decision dismissing the cases. These cases were remanded to the District Court for further proceedings. In November 1994 the District Court granted defendants' motion for summary judgment in one of the remaining cases and in June 1995 the District Court granted defendants' motion for summary judgment in several of the remaining cases. After such grant, only two cases remain pending and have been inactive since 1992, Hall v. HANO, et al. (No. 89-3552) and Allen V. HANO, et al. (No. 89-427) Civil District Court for the Parish of Orleans, State of Louisiana.

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

denial of the motion to dismiss plaintiffs' fraud, restitution and indemnification claims. In May 1994 the trial court granted the defendants' motion to dismiss the plaintiffs' restitution and indemnification claims, and plaintiffs appealed. In June 1996 the Appellate Division reversed the trial court's dismissal of plaintiffs' restitution and indemnification claims,

reinstating those claims. Defendants' motion for summary judgment on the fraud claim was denied in August 1995. In December 1995 defendants moved for summary judgment on the basis that the fraud claim was time-barred. In February 1996 the motion was denied. In July 1997 the denial of defendants' two summary judgment motions on the fraud claim were affirmed by the Appellate Division. Discovery is proceeding.

In August 1992 the Company was served with an amended complaint in Jackson, et al. v. The Glidden Co., et al., Court of Common Pleas, Cuyahoga County, Cleveland, Ohio (Case No. 236835). Plaintiffs seek compensatory and punitive damages for personal injury caused by the ingestion of lead, and an order directing defendants to abate lead-based paint in buildings. Plaintiffs purport to represent a class of similarly situated persons throughout the State of Ohio. The amended complaint identifies 18 other defendants who allegedly manufactured lead products or lead-based paint, and asserts causes of action under theories of strict liability, negligence per se, negligence, breach of express and implied warranty, fraud, nuisance, restitution, and negligent infliction of emotional distress. The complaint asserts several theories of liability including joint and several, market share, enterprise and alternative liability. In October 1992 the Company and the other defendants moved to dismiss the complaint with prejudice. In July 1993 the court dismissed the complaint. In December 1994 the Ohio Court of Appeals reversed the trial court dismissal and remanded the case to the trial court. In July 1996 the trial court granted defendants' motion to dismiss the property damage and enterprise liability claims, but denied the remainder of the motion. Discovery is proceeding with respect to class certification.

In November 1993 the Company was served with a complaint in Brenner, et al. v. American Cyanamid, et al., (No. 12596-93) Supreme Court, State of New York, Erie County alleging injuries to two children purportedly caused by lead pigment. The complaint seeks $24 million in compensatory and $10 million in punitive damages for alleged negligent failure to warn, strict liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, and alternative liability. In January 1994 the Company answered the complaint, denying liability. Discovery is proceeding.

In January 1995 the Company was served with complaints in Wright (Alvin) and Wright (Allen) v. Lead Industries, et. al., (Nos. 94-363042 and 363043), Circuit Court, Baltimore City, Maryland. Plaintiffs are two brothers (one deceased) who allege injuries due to exposure to lead pigment. The complaints, as amended in April 1995, seek more than $100 million in compensatory and punitive damages for alleged strict liability, negligence, conspiracy, fraud and unfair and deceptive trade practices claims. In July 1995 the trial court granted, in part, the defendants' motion to dismiss, and dismissed the plaintiffs' fraud and unfair and deceptive trade practices claims. In June 1996 the trial court granted defendants' motions for summary judgement on plaintiffs'

conspiracy claim, and dismissed the Company and certain other defendants from the cases. In September 1996 the trial court granted the remaining defendants' motions for summary judgment and in October 1997 the Maryland Special Court of Appeals affirmed. Plaintiffs did not seek further review of the dismissal of the conspiracy claims against the Company and other defendants. Plaintiffs' request for review of the affirmance of the dismissal of the remaining defendants was denied by the Maryland Court of Appeals in February 1998.

In January 1996 the Company was served with a complaint on behalf of individual intervenors in German, et. al. v. Federal Home Loan Mortgage Corp., et. al., (U.S. District Court, Southern District of New York, Civil Action No. 93 Civ. 6941 (RWS)). This alleged class action lawsuit had originally been brought against the City of New York and other landlord defendants. The intervenors' complaint alleges claims against the Company and other former manufacturers of lead pigment for medical monitoring, property abatement, and other injunctive relief, based on various causes of action, including negligent product design, negligent failure to warn, strict liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, breach of express and implied warranties, and nuisance. The intervenors purport to represent a class of children and pregnant women who reside in New York City. In May 1996 the Company and the other former manufacturers of lead pigments filed motions to dismiss the intervenors'

complaint. In May 1997 plaintiffs moved for class certification and defendants moved for summary judgment. In June 1997 the Court stayed all further activity in the case pending reconsideration of its 1995 decision permitting filing of the complaint against the manufacturer defendants and joinder of the new complaint with the pre-existing complaint against New York City and other landlords.

In April 1996 the Company was served with a complaint in Gates v. American Cyanamid Co., et al., (No. I1996-2114) Supreme Court, State of New York, Erie County, alleging personal injury arising out of exposure to lead pigment. Plaintiff seeks compensatory and punitive damages from the Company, other former lead pigment manufacturers and the LIA based on claims of negligence, strict liability, fraud, concert of action, civil conspiracy, enterprise liability, market share liability and alternative liability. Plaintiff also asserts claims against the landlords of the apartments in which plaintiff has lived since 1977. In July 1996 the Company filed an answer denying plaintiff's allegations of wrongdoing and liability. In November 1997 plaintiffs dismissed this case with prejudice as to all defendants.

In April 1997 the Company was served with a complaint in Parker v. NL Industries, et al. (Circuit Court, Baltimore City, Maryland, No. 97085060 CC915). Plaintiff, now an adult, and his wife, seek compensatory and punitive damages from the Company, another former manufacturer of lead paint and a local paint retailer, based on claims of negligence, strict liability and fraud, for plaintiff's alleged ingestion of lead paint as a child. In June 1997 the Company answered the complaint denying liability. In February 1998 the Court dismissed the fraud claim. The case is set for trial in July 1998.

In January 1998 the Company was served with an amended complaint in Adams v. NL Industries, Inc., et at., (No. A9701785), Court of Common Pleas, Hamilton County, Ohio, alleging injury to a minor arising out of exposure to lead, and seeking compensatory and punitive damages from the Company, and other former manufacturers of lead products and the LIA based on claims of negligence, strict liability, breach of warranty, failure to warn, and nuisance. The amended complaint also asserts various claims against plaintiff's landlord. In February 1998 the Company filed a motion to dismiss the action on procedural grounds. In March 1998 plaintiffs informed the Court that they intend to dismiss the complaint.

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

The Company has filed actions seeking declaratory judgment and other relief against various insurance carriers with respect to costs of defense and indemnity coverage for certain of its environmental and lead pigment litigation. NL Industries, Inc. v. Commercial Union Insurance Cos., et al., Nos. 90-2124, - -2125 (HLS) (District Court of New Jersey). The action relating to lead pigment litigation defense costs filed in May 1990 against Commercial Union Insurance Company ("Commercial Union") seeks to recover defense costs incurred in the City of New York lead pigment case and two other cases which have since been resolved in the Company's favor. In July 1991 the court granted the Company's motion for summary judgment and ordered Commercial Union to pay the Company's reasonable defense costs for such cases. In June 1992 the Company filed an amended complaint in the United States District Court for the District of New Jersey against Commercial Union seeking to recover costs incurred in defending four additional lead pigment cases which have since been resolved in the Company's favor. In August 1993 the court granted the Company's motion for summary judgment and ordered Commercial Union to pay the reasonable costs of defending those cases. In July 1994 the court entered judgment on the order requiring Commercial Union to pay previously-incurred Company costs in defending those cases. In September 1995 the U.S. Court of Appeals for the Third Circuit reversed and remanded for further consideration the decision by the trial court that Commercial Union was obligated to pay the Company's reasonable defense costs in certain of the lead pigment cases. The trial court had made its decision applying New Jersey law; the appeals court concluded that New York and not New Jersey law applied and remanded the case to the trial court for a determination under New York law. On remand from the Court of Appeals, the trial

court in April 1996 granted the Company's motion for summary judgment, finding that Commercial Union had a duty to defend the Company in the four lead paint cases which were the subject of the Company's second amended complaint. The court also issued a partial ruling on Commercial Union's motion for summary judgment in which it sought allocation of defense costs and contribution from the Company and two other insurance carriers in connection with the three lead paint actions on which the court had granted the Company summary judgment in 1991. The court ruled that Commercial Union is entitled to receive such contribution from the Company and the two carriers, but reserved ruling with respect to the relative contributions to be made by each of the parties, including contributions by the Company that may be required with respect to periods in which it was self-insured

and contributions from one carrier which were reinsured by a former subsidiary of the Company, the reinsurance costs of which the Company may ultimately be required to bear.

In June 1997 the Company reached a settlement in principle with its insurers regarding allocation of defense costs in the lead pigment cases in which reimbursement of defense costs had been sought.

Other than granting motions for summary judgment brought by two excess liability insurance carriers, which contended that their policies contained absolute pollution exclusion language, and certain summary judgment motions regarding policy periods, the Court has not made any final rulings on defense costs or indemnity coverage with respect to the Company's pending environmental litigation. Nor has the Court made any final ruling on indemnity coverage in the lead pigment litigation. No trial dates have been set. Other than rulings to date, the issue of whether insurance coverage for defense costs or indemnity or both will be found to exist depends upon a variety of factors, and there can be no assurance that such insurance coverage will exist in other cases. The Company has not considered any potential insurance recoveries for lead pigment or environmental litigation in determining related accruals.

Environmental matters and litigation

The Company has been named as a defendant, PRP, or both, pursuant to CERCLA and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, or its subsidiaries, or their predecessors, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable.

The extent of CERCLA liability cannot accurately be determined until the Remedial Investigation and Feasibility Study ("RIFS") is complete, the U.S. EPA issues a record of decision and costs are allocated among PRPs. The extent of liability under analogous state cleanup statutes and for common law equivalents are subject to similar uncertainties. The Company believes it has provided adequate accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 1997 the Company had accrued $135 million for those environmental matters which are reasonably estimable. The Company determines the amount of accrual on a quarterly basis by analyzing and estimating the range of possible costs to the Company. Such costs include, among other things, remedial investigations, monitoring, studies, clean-up, removal and remediation. During the first quarter of 1997 the Company's accrual was increased by $30 million to include legal fees and other costs of managing and monitoring environmental remediation sites as required by the adoption of the AICPA's Statement of Position 96-1, "Environmental Remediation Liabilities." See Note 2 to the Consolidated Financial Statements. It is not possible to estimate

the range of costs for certain sites. The Company has estimated that the upper end of the range of reasonably possible costs to the Company for sites for which it is possible to estimate costs is approximately $175 million. The Company's estimate of such liability has 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 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 respecting site cleanup costs or allocation of such costs among PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. Further, there can be no assurance that additional environmental matters will not arise in the future. More detailed descriptions of certain legal proceedings relating to environmental matters are set forth below.

In July 1991 the United States filed an action in the U.S. District Court for the Southern District of Illinois against the Company and others (United States of America v. NL Industries, Inc., et al., Civ. No. 91-CV 00578) with respect to the Granite City, Illinois lead smelter formerly owned by the Company. The complaint seeks injunctive relief to compel the defendants to comply with an administrative order issued pursuant to CERCLA, and fines and treble damages for the alleged failure to comply with the order. The Company and the other parties did not implement the order, believing that the remedy selected by the U.S. EPA was invalid, arbitrary, capricious and was not selected in accordance with law. The complaint also seeks recovery of past costs and a declaration that the defendants are liable for future costs. Although the action was filed against the Company and ten other defendants, there are 330 other PRPs who have been notified by the U.S. EPA. Some of those notified were also respondents to the administrative order. In February 1992 the court entered a case management order directing that the remedy issues be tried before the liability aspects are presented. In September 1995 the U.S. EPA released its amended decision selecting cleanup remedies for the Granite City site. The Company presently is challenging portions of the U.S. EPA's selection of the remedy. In September 1997 the U.S. EPA informed the Company that past and future cleanup costs are estimated to total approximately $63.5 million. There is currently no allocation among the PRPs for these costs.

At the Pedricktown, New Jersey lead smelter site formerly owned by the Company the U.S. EPA has divided the site into two operable units. Operable unit one addresses contaminated ground water, surface water, soils and stream sediments. In July 1994 the U.S. EPA issued the Record of Decision for operable unit one. The U.S. EPA estimates the cost to complete operable unit one is $18.7 million. In May 1996 certain PRPs, but not the Company, entered into an administrative consent order with the U.S. EPA to perform the remedial design phase of operable unit one. In January 1998 the Company and the other PRPs were informed that U.S. EPA would begin negotiations in 1998 with respect to performance of the remedial action phase of operable unit one. In addition, the U.S. EPA has indicated that it has incurred approximately $6.2 million in past

costs. The U.S. EPA issued an order with respect to operable unit two in March 1992 to the Company and 30 other PRPs directing immediate removal activities including the cleanup of waste, surface water and building surfaces. The Company has complied with the order, and the work with respect to operable unit two is completed. The Company has paid approximately 50% of operable unit two costs, or $2.5 million.

Having completed the RIFS at the Company's former Portland, Oregon lead smelter site, the Company conducted predesign studies to explore the viability of the U.S. EPA's selected remedy pursuant to a June 1989 consent decree captioned U.S. v. NL Industries, Inc., Civ. No. 89-408, United States District Court for the District of Oregon. Subsequent to the completion of the predesign studies, the U.S. EPA issued notices of potential liability to approximately 20 PRPs, including the Company, directing them to perform the remedy, which was initially estimated to cost approximately $17 million, exclusive of

administrative and overhead costs and any additional costs, for the disposition of recycled materials from the site. In January 1992 the U.S. EPA issued unilateral administrative orders to the Company and six other PRPs directing the performance of the remedy. The Company and the other PRPs commenced performance of the remedy. In August 1994, the U.S. EPA authorized the Company and the other PRPs to cease performing most aspects of the selected remedy. In May 1997 the U.S. EPA issued an Amended Record of Decision ("ARD") for the soils operable unit changing portions of the cleanup remedy selected. The ARD requires construction of an onsite containment facility estimated to cost between $10.5 million and $12 million, including capital costs and operating and maintenance costs. The Company and certain other PRPs have entered into a consent decree to perform the remedial action in the ARD. In November 1991 Gould, Inc., the current owner of the site, filed an action, Gould, Inc. v. NL Industries, Inc., No. 91-1091, United States District Court for the District of Oregon, against the Company for damages for alleged fraud in the sale of the smelter, rescission of the sale, past CERCLA response costs and a declaratory judgment allocating future response costs and punitive damages. In February 1998 the Company and the other defendants reached an agreement in principle to settle the litigation by agreeing to pay a portion of future costs, which are estimated to be within previously-accrued amounts.

The Company and other PRPs entered into an administrative consent order with the U.S. EPA requiring the performance of a RIFS at two sites in Cherokee County, Kansas, where the Company and others formerly mined lead and zinc. A former subsidiary of the Company mined at the Baxter Springs subsite, where it is the largest viable PRP. In August 1997 the U.S. EPA issued the record of decision for the Baxter Springs and Treece subsites. The U.S. EPA has estimated that the selected remedy will cost an aggregate of approximately $7.1 million for both subsites ($5.4 million for the Baxter Springs subsite). In addition, the Company received a notice in March 1998 from the U.S. EPA that it may be a PRP in three additional subsites in Cherokee County.

In January 1989 the State of Illinois brought an action against the Company and several other subsequent owners and operators of the former plant in Chicago, Illinois (People of the State of Illinois v. NL Industries, et al., No. 88-CH- 11618, Circuit Court, Cook County). The complaint seeks recovery of $2.3 million

of cleanup costs expended by the Illinois Environmental Protection Agency, plus penalties and treble damages. In October 1992 the Supreme Court of Illinois reversed the Appellate Division, which had affirmed the trial court's earlier dismissal of the complaint, and remanded the case for further proceedings. In December 1993 the trial court denied the State's petition to reinstate the complaint, and dismissed the case with prejudice. In November 1996 the appeals court reversed the dismissal. In August 1997 the trial court again dismissed the case and the state has appealed. The U.S. EPA has issued an order to the Company to perform a removal action at the Company's former facility involved in the State of Illinois case. The Company is complying with the order.

Residents in the vicinity of the Company's former Philadelphia lead chemicals plant commenced a class action allegedly comprised of over 7,500 individuals seeking medical monitoring and damages allegedly caused by emissions from the plant. Wagner, et al. v. Anzon, Inc. and NL Industries, Inc., No. 87-4420, Court of Common Pleas, Philadelphia County. The complaint sought compensatory and punitive damages from the Company and the current owner of the plant, and alleged causes of action for, among other things, negligence, strict liability, and nuisance. A class was certified to include persons who resided, owned or rented property, or who work or have worked within up to approximately three-quarters of a mile from the plant from 1960 through the present. The Company answered the complaint, denying liability. In December 1994 the jury returned a verdict in favor of the Company. Plaintiffs appealed to the Pennsylvania Superior Court and in September 1996 the Superior Court affirmed the judgment in favor of the Company. In December 1996 plaintiffs filed a petition for allowance of appeal to the Pennsylvania Supreme Court, which was declined. Residents also filed consolidated actions in the United States District Court for the Eastern District of Pennsylvania, Shinozaki v. Anzon, Inc. and Wagner and Antczak v. Anzon and NL Industries, Inc. Nos. 87-3441, 87-3502, 87-4137 and 87- 5150. The consolidated action is a putative class action seeking CERCLA response costs, including cleanup and medical monitoring,

declaratory and injunctive relief and civil penalties for alleged violations of the Resource Conservation and Recovery Act ("RCRA"), and also asserting pendent common law claims for strict liability, trespass, nuisance and punitive damages. The court dismissed the common law claims without prejudice, dismissed two of the three RCRA claims as against the Company with prejudice, and stayed the case pending the outcome of the state court litigation.

In July 1991 a complaint was filed in the United States District Court for the Central District of California, United States of America v. Peter Gull and NL Industries, Inc., Civ. No. 91-4098, seeking recovery of $2 million in costs incurred by the United States in response to the alleged release of hazardous substances into the environment from a facility located in Norco, California, treble damages and $1.8 million in penalties for the Company's alleged failure to comply with the U.S. EPA's administrative order No. 88-13. The order, which alleged that the Company arranged for the treatment or disposal of materials at the Norco site, directed the immediate removal of hazardous substances from the site. The Company carried out a portion of the remedy at the Norco site, but did not complete the ordered activities because it believed they were in conflict with California law. The court ruled that the Company was liable for approximately $2.7 million in response costs plus approximately $3.6 million in

penalties for failure to comply with the administrative order. In April 1994 the court entered final judgment in this matter directing the Company to pay $6.3 million plus interest. Both the Company and the government have appealed. In February 1998 the parties reached agreement in principle to settle this matter within previously-accrued amounts.

At a municipal and industrial waste disposal site in Batavia, New York, the Company and 50 others have been identified as PRPs. The U.S. EPA has divided the site into two operable units. Pursuant to an administrative consent order entered into with the U.S. EPA, the Company conducted a RIFS for operable unit one, the closure of the industrial waste disposal section of the landfill. The Company's RIFS costs were approximately $2 million. In June 1995 the U.S. EPA issued the record of decision for operable unit one, which is estimated by the U.S. EPA to cost approximately $12.3 million. In September 1995 the U.S. EPA and certain PRPs entered into an administrative order on consent for the remedial design phase of the remedy for operable unit one and the design phase is proceeding. The Company and other PRPs entered into an interim cost sharing arrangement for this phase of work. The Company and the other PRPs have completed the work comprising operable unit two (the extension of the municipal water supply) with the exception of annual operation and maintenance. The U.S. EPA has also demanded approximately $.9 million in past costs from the PRPs.

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

Other litigation

Rhodes, et al. v. ACF Industries, Inc., et al. (Circuit Court of Putnam County, West Virginia, No. 95-C-261). Twelve plaintiffs brought this action against the Company and various other defendants in July 1995. Plaintiffs allege that they were employed by demolition and disposal contractors, and claim that as a result of the defendants' negligence they were exposed to asbestos during demolition and disposal of materials from defendants' premises in West Virginia. Plaintiffs allege personal injuries and seek compensatory damages totaling $18.5 million and punitive damages totaling $55.5 million. An agreement has been reached settling this matter, with the Company being indemnified by another party.

The Company has been named as a defendant in various lawsuits alleging personal injuries as a result of exposure to asbestos in connection with formerly-owned operations. Various of these actions remain pending. One such case, In re: Monongalia Mass II, (Circuit Court of Monongalia County, West Virginia, Nos. 93-C-362, et al.), involves the consolidated claims of approximately 3,100 plaintiffs. The Company has reached an agreement to settle this case.

In March 1997 the Company was served with a complaint in Ernest Hughes, et al. v. Owens-Corning Fiberglass, Corporation, et al., No. 97-C-051, filed in the Fifth Judicial District Court of Cass County, Texas, on behalf of approximately

4,000 plaintiffs and their spouses alleging injury due to exposure to asbestos and seeking compensatory and punitive damages. The Company has filed an answer denying the material allegations. The case has been stayed, and the plaintiffs

are refiling their cases in Ohio. The Company is also a defendant in approximately 1,000 additional asbestos cases pending in Ohio, the first of which is scheduled for trial in the third quarter of 1998.

Plaintiff brought the complaint in Frank D. Seinfeld v. Harold C. Simmons, et al. (Superior Court of New Jersey, Bergen County, Chancery Division, No. C-336-96) in September 1996 on behalf of himself and derivatively, on behalf of the Company, against the Company, Valhi and certain current and former members of the Company's Board of Directors. The complaint alleges, among other things, that the Company's purchase of shares in an August 1991 "Dutch auction" tender offer was an unfair and wasteful expenditure of the Company's funds that constituted a breach of the defendants' fiduciary duties to the Company's shareholders. Plaintiff seeks, among other things, to rescind the Company's purchase of approximately 10.9 million shares of its common stock from Valhi pursuant to the Dutch auction, and plaintiff has stated that damages sought are $149 million. The Company and the other defendants have answered the complaint and have denied all allegations of wrongdoing. In March 1998 Valhi reached an agreement to settle this matter. Under the stipulation of settlement, in which the defendants denied any wrongdoing, Valhi would transfer to the Company 750,000 shares of the Company's common stock held by Valhi, subject to adjustment based upon the market price of the Company's shares at the time of closing, up to a maximum of 825,000 shares of the Company and a minimum of 675,000 shares of the Company. Valhi may, at its option, transfer cash or cash equivalents in lieu of all or a portion of such shares of the Company based on the market price of the Company's common stock at the time of transfer. The settlement is subject to, among other things, approval by the court and, if approved, is expected to close in the second or third quarter of 1998. Pursuant to the agreement and subject to court approval, the Company will reimburse plaintiffs for attorneys' fees of up to $3 million and related costs. There can be no assurance that any such settlement will become effective.

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

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 1997.

PART II

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

NL's common stock is listed and traded on the New York Stock Exchange and the Pacific Exchange under the symbol "NL." As of March 18, 1998 there were approximately 8,000 holders of record of NL common stock. The following table sets forth the high and low sales prices for NL common stock on the New York Stock Exchange ("NYSE") Composite Tape. On March 18, 1998 the closing price of NL common stock according to the NYSE Composite Tape was $16-3/8.

	High	Low

Year ended December 31, 1996:		
First quarter	$ 14-3/4	$12-1/4
Second quarter	15-3/8	11-1/2
Third quarter	12-1/4	9-1/8
Fourth quarter	11-1/4	7-5/8
Year ended December 31, 1997:		
First quarter	13-1/8	9-3/4
Second quarter	14-11/16	9-1/8
Third quarter	16-1/16	12-1/4
Fourth quarter	17-5/16	12-1/2

The Company's Senior Notes generally limit the ability of the Company to pay dividends and at December 31, 1997 no amounts were available for dividends. The Company paid three quarterly cash dividends during 1996 of $.10 per share, beginning with a dividend paid on March 1, 1996. The Company suspended its quarterly dividend in October 1996. The Company did not pay dividends in 1995 or 1997. The declaration and payment of future dividends and the amount thereof will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Company's Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain amounts have been reclassified to reflect the results of the Company's specialty chemicals business as discontinued operations and to conform with the current year's consolidated financial statement presentation.

	Years ended December 31,				
	1993	1994	1995	1996	1997
	(In millions, except per share amounts)				
INCOME STATEMENT DATA:					
Net sales	$ 697.0	$ 770.1	$ 894.1	$ 851.2	$ 837.2
Operating income	36.1	80.5	161.2	71.6	82.5
Income (loss) from continuing operations	(90.9)	(38.9)	66.5	(11.7)	(29.9)
Net income (loss)	(109.8)	(24.0)	85.6	10.8	(9.5)
Earnings per common share:					
Basic:					
Income (loss) from continuing operations	$ (1.79)	$ (.76)	$ 1.30	$ (.23)	$ (.58)
Net income (loss)	(2.16)	(.47)	1.68	.21	(.19)
Diluted:					
Income (loss) from continuing operations	$ (1.79)	$ (.76)	$ 1.29	$ (.23)	$ (.58)
Net income (loss)	(2.16)	(.47)	1.66	.21	(.19)
Cash dividends	$ -	$ -	$ -	$ .30	$ -
BALANCE SHEET DATA at year-end:					
Cash, cash equivalents and current marketable					

securities, including restricted cash	$ 147.6	$ 156.3	$ 141.3	$ 114.1	$ 106.1
Current assets	467.5	486.4	551.1	500.2	454.5
Total assets	1,206.5	1,162.4	1,271.7	1,221.4	1,098.2
Current liabilities	232.5	244.9	302.4	290.3	276.4
Long-term debt including current maturities	870.9	789.6	783.7	829.0	744.2
Shareholders' deficit	(264.8)	(293.1)	(209.4)	(203.5)	(222.3)
CASH FLOW DATA:					
Operating activities	$ (7.3)	$ 181.8	$ 71.6	$ 16.5	$ 89.2
Investing activities	182.0	(32.8)	(62.2)	(67.6)	(12.2)
Financing activities	(155.3)	(132.1)	(3.3)	26.6	(82.6)
OTHER NON-GAAP FINANCIAL DATA:					
EBITDA (1)	$ 37.8	$ 66.3	$ 170.3	$ 90.7	$ 67.6

	Years ended December 31,				
	1993	1994	1995	1996	1997
	(In millions, except per share amounts)				
OTHER DATA:					
Net debt (2)	$723.2	$633.4	$681.6	$740.7	$652.0
Interest expense, net (3)	86.5	71.5	69.5	64.6	63.0
Cash interest expense, net (4)	79.7	54.5	50.9	44.2	39.9
Capital expenditures	46.9	34.6	60.7	64.2	28.2
TiO2 sales volumes (metric tons in thousands)	346	376	366	388	427
Average TiO2 selling price index (1983=100)	128	132	152	139	133

(1) EBITDA, as presented, represents operating income less corporate expense, net, plus depreciation, depletion and amortization. EBITDA is presented as a supplement to the Company's operating income and cash flow from operations because the Company believes that EBITDA is a widely accepted financial indicator of cash flows and the ability to service debt. EBITDA should not be considered as an alternative to, or more meaningful than, operating income or net income determined under generally accepted accounting principles ("GAAP") as an indicator of the Company's operating performance, or cash flows from operating, investing and financing activities determined under GAAP as a measure of liquidity. EBITDA is not intended to depict funds available for reinvestment or other discretionary uses, as the Company has significant debt requirements and other commitments. Investors should consider certain factors in evaluating the Company's EBITDA, including interest expense, income taxes, noncash income and expense items, changes in assets and liabilities, capital expenditures, investments in joint ventures and other items included in GAAP cash flows as well as future debt repayment requirements and other commitments, including those described in Notes 10, 13 and 17 to the Consolidated Financial Statements. The Company believes that the trend of its EBITDA is consistent with the trend of its GAAP operating income. See "Management's Discussion and Analysis" for a discussion of operating income and cash flows during the last three years and the Company's outlook. EBITDA as a measure of a company's performance may not be comparable to other companies, unless substantially all companies and analysts determine EBITDA as computed and presented herein.

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

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

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

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

RESULTS OF OPERATIONS

General

The Company's continuing operations are conducted by Kronos in the TiO2 business segment. As discussed below, average TiO2 selling prices declined in 1996 and 1997 compared to the prior year, but average selling prices increased during each of the last three quarters of 1997 compared to the immediately preceding quarter. Kronos' operating income and margins declined during 1996, but improved in 1997.

Many factors influence TiO2 pricing levels, including industry capacity, worldwide demand growth and customer inventory levels and purchasing decisions. Kronos believes that the TiO2 industry has long-term growth potential, as discussed in "Item 1. Business - Kronos - Industry" and "Competition."

Net sales and operating income

	Years ended December 31,			% Change	
	1995	1996	1997	1996-95	1997-96
	(In millions)				
Net sales - Kronos	$894.1	$851.2	$837.2	-5%	-2%
Operating income - Kronos	$161.2	$ 71.6	$ 82.5	-56%	+15%
Percent change in TiO2:					
Sales volume				+6%	+10%
Average selling prices (in billing currencies)				-9%	-4%

Kronos' operating income for 1997 increased on record production and sales volumes and $12.9 million of income resulting from the refunds of German trade capital taxes related to prior years, offset by lower average TiO2 selling prices compared to 1996. In billing currency terms, Kronos' 1997 average TiO2 selling prices were 4% lower than in 1996. Average selling prices in the fourth quarter of 1997 were 10% higher than the fourth quarter of 1996 and were 5% higher than the third quarter of 1997. Selling prices at the end of 1997 were 12% higher than year-end 1996 levels, 7% higher than the average for 1997 and were 1% higher than the average selling prices for the fourth quarter of 1997. Kronos' operating income in 1996 was lower than 1995, primarily due to 9% lower average TiO2 selling prices, partially offset by higher sales volumes.

Kronos' 1997 operating income includes $12.9 million of income resulting from German trade capital tax refunds related to prior years, including interest. The German tax authorities were required to remit refunds based on (i) recent court decisions which resulted in reducing the trade capital tax base and (ii) prior agreements between the Company and the German tax authorities regarding payment of disputed taxes.

Kronos' cost of sales in 1997 was lower than 1996 due to the favorable effects of foreign currency translation and lower unit costs, primarily due to higher production levels, partially offset by higher sales volumes. Kronos' cost of sales in 1996 was higher than 1995 due to higher sales volumes and higher unit costs, primarily due to lower production levels. As a percentage of net sales, cost of sales decreased in 1997 primarily due to lower unit costs and increased in 1996 primarily due to the impact on net sales of decreased average selling prices.

Kronos' selling, general and administrative expenses declined in 1997 from the previous year due to favorable effects of foreign currency translation and German trade capital tax refunds, partially offset by higher distribution expenses associated with higher 1997 sales volumes, while 1996 expenses were lower than 1995 as a result of continuing cost containment efforts.

Record sales volume of 427,000 metric tons of TiO2 in 1997 was 10% higher than 1996, with improvements in all major markets, including a 12% increase in Europe. Approximately one-half of Kronos' 1997 TiO2 sales, by volume, were attributable to markets in Europe with approximately 36% attributable to North America, approximately 5% to Asia and the balance to other regions.

Strong demand growth during 1994 and the first half of 1995 allowed Kronos to maintain full capacity production rates in 1995. Kronos believes that the increased demand was partially due to customers stocking inventories. In the second half of 1995 and first half of 1996, customers reduced inventory levels, which reduced industry-wide demand and Kronos responded by reducing production rates. Kronos' average capacity utilization was approximately 95% in 1996. Demand improved in the second half of 1996 and throughout 1997. Kronos produced near full capacity in 1997.

Pricing of TiO2 has historically been cyclical. Kronos anticipates its TiO2 operating income and margins will continue to improve in 1998 compared to 1997 as the impact of announced TiO2 price increases take effect. Demand for TiO2 in 1997 increased over 1996 and Kronos expects demand will increase in 1998, although Kronos' 1998 sales volume is expected to be slightly lower as a result of Kronos' lower inventory levels at the beginning of the year. Kronos believes continued growth in demand should result in significant improvement in average selling prices over the longer term.

The Company has substantial operations and assets located outside the United States (principally Germany, Norway, Belgium and Canada). The U.S. dollar translated value of the Company's foreign sales and operating costs is subject to currency exchange rate fluctuations which may slightly impact reported earnings and may affect the comparability of period-to-period revenues and expenses. A significant amount of the Company's sales are denominated in currencies other than the U.S. dollar (67% in 1997), principally major European currencies and the Canadian dollar. Certain purchases of raw materials, primarily titanium-containing feedstocks, are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local currencies. Fluctuations in the value of the U.S. dollar relative to other currencies decreased sales by $12 million and $58 million during 1996 and 1997,

respectively, compared to the year-earlier period. Fluctuation 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 operating income comparisons was not significant in 1996 or 1997.

General corporate

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

	Years ended December 31,			Change	
	1995	1996	1997	1996-95	1997-96
	(In millions)				
Securities earnings	$ 7.4	$ 4.7	$ 5.4	$(2.7)	$ .7
Corporate expenses, net	(26.6)	(17.2)	(49.8)	9.4	(32.6)
Interest expense	(75.8)	(69.3)	(65.8)	6.5	3.5
	$(95.0)	$(81.8)	$(110.2)	$13.2	$(28.4)

Securities earnings fluctuate in part based upon the amount of funds invested and yields thereon. Corporate expenses, net in 1997 exceeded that of 1996, primarily due to the $30 million noncash charge related to the Company's adoption of SOP 96-1, "Environmental Remediation Liabilities." See Note 2 to the Consolidated Financial Statements. This charge is included in selling, general and administrative expense in the Company's Consolidated Statements of Operations. Corporate expenses, net in 1996 were lower than 1995 due to lower provisions for environmental remediation cost. In 1998 the Company expects corporate expenses, net will be lower than 1997 due to the absence of the $30 million noncash charge.

Interest expense

Interest expense declined in 1997 from 1996 due to lower levels of Kronos' Deutsche mark-denominated debt, partially offset by higher variable interest rates on such debt. Interest expense in 1996 declined compared to 1995 principally due to lower interest rates on variable rate debt, principally Kronos' DM-denominated debt, partially offset by higher levels of such DM-denominated debt. Interest expense in 1998 is expected to be lower compared to 1997 due to lower expected levels of outstanding indebtedness, including required payments on the DM term loan and anticipated prepayments of the joint venture term loan.

Provision for income taxes

The principal reasons for the difference between the U.S. federal statutory income tax rates and the Company's effective income tax rates are explained in Note 13 to the Consolidated Financial Statements. The Company's operations are conducted on a worldwide basis and the geographic mix of income can significantly impact the Company's effective income tax rate. In 1996 and 1997, the geographic mix of income, including losses in certain jurisdictions for which no current refund was available and recognition of a deferred tax asset was not considered

appropriate, contributed to the Company's effective tax rate varying from a normally-expected rate.

Due to the Company's higher U.S. earnings before taxes in 1995, the Company changed its estimate of the future tax benefit of certain U.S. tax credits which the Company believes satisfies the "more-likely-than-not" recognition criteria. Accordingly, the Company's valuation allowance was reduced by approximately $10 million. During 1995 the Company also recorded deferred tax benefits of $6.6 million due to the reduction in dividend withholding tax rates pursuant to ratification of the U.S./Canada income tax treaty. The Company's deferred income tax status at December 31, 1997 is discussed in "Liquidity and Capital Resources."

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows provided by operating, investing and

financing activities for each of the past three years are presented below.

	Years ended December 31,		
	1995	1996	1997
	(In millions)		
Net cash provided (used) by:			
Operating activities	$ 71.5	$ 16.5	$ 89.2
Investing activities	(62.2)	(67.6)	(12.3)
Financing activities	(3.3)	26.6	(82.6)
Net cash provided (used) by operating, investing and financing activities	$ 6.0	$(24.5)	$ (5.7)

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of the Company. Although average selling prices were 4% lower in 1997 compared to 1996, average selling prices in each of the last three quarters of 1997 were higher than the preceding quarter, reflecting the impact of industry-wide price increases announced beginning in late 1996. The upturn in prices follows a downward trend in prices that began in the last half of 1995. Operating cash flows were favorably impacted in 1997 versus 1996 due to higher production and sales volumes and $12.9 million of refunds of German trade capital taxes related to prior years. The Company expects prices will continue to increase in 1998; however, no assurance can be given that price trends will conform to the Company's expectations and future cash flows could be adversely affected should prices trend downward.

Changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) also contributed to the cash provided by operations in 1996 and 1997. Such changes used cash in 1995 primarily due to increased inventory levels. In 1995 net proceeds of $26 million from the sale of trading securities is included in cash provided from operations. Certain German income tax payments, discussed below, significantly decreased cash flows from operating activities in 1996.

The Company sold its specialty chemicals business to Elementis plc in January 1998 for cash proceeds of $465 million, including $20 million attributable to a five-year agreement by the Company not to compete in the rheological products business, and expects to recognize an after-tax gain of approximately $300 million in the first quarter of 1998. With the after-tax net proceeds of about $400 million, the Company prepaid and terminated its $117.5 million Rheox credit facility and terminated the related interest rate collar agreements. With the remaining proceeds, the Company intends to reduce outstanding indebtedness and invest in additional TiO2 production capacity. The Company has advised ICI of its interest in acquiring the portion of LPC it does not currently own.

The indentures under which the Company's Senior Secured Notes and Senior Secured Discount Notes (collectively, the "Senior Notes") were issued provide that, if by November 1998 the Company has not applied the net cash proceeds from the sale of its specialty chemicals business in a manner permitted by the indentures, the Company must use the proceeds not so applied to offer to acquire the Senior Notes for cash on a pro rata basis at par value. Permitted uses of the proceeds include the acquisition of additional TiO2 capacity and the permanent reduction of certain debt other than the Senior Notes. The Senior Secured Discount Notes can first be redeemed at the option of the Company in October 1998 at a price of 106% of their principal amount, which the Company presently intends to do, depending on market conditions, availability of resources and other factors. The Company may acquire Senior Notes in the open

market. The Company has notified the lender of its joint venture term loan that it intends to prepay the $42.4 million balance in March 1998.

The Company's capital expenditures during the past three years include an aggregate of $58 million ($6 million in 1997) for the Company's ongoing environmental protection and compliance programs, including German and Norwegian off-gas desulfurization systems. The Company's estimated 1998 and 1999 capital expenditures are $30 million for each year and include $5 million for each year in the area of environmental protection and compliance primarily related to the off-gas desulfurization systems.

In the last three years the Company spent $34 million ($7 million in 1997) in capital expenditures related to its substantially-completed debottlenecking project at its Leverkusen, Germany chloride-process TiO2 facility. The debottlenecking project increased the Company's annual attainable production by approximately 20,000 metric tons, and the Company estimates its worldwide annual attainable capacity is 420,000 metric tons. Capital expenditures of the manufacturing joint venture and the Company's discontinued operations are not included in the Company's capital expenditures.

In 1997 the Company prepaid DM 207 million ($127 million when paid) of its DM term loan, repaid DM 43 million ($26 million when paid) of its DM revolving credit facility, repaid $15 million of its joint venture term loan and repaid DM 15 million ($9 million when paid) of its short-term DM-denominated notes payable. In the first quarter of 1997 Rheox refinanced its debt obtaining $125 million of new long-term financing and, with the proceeds, repaid a note payable

to NL. Rheox's financing activities are accumulated as "Rheox, net" in the Company's Consolidated Statements of Cash Flows.

In 1996 the Company borrowed DM 144 million ($96 million when borrowed) under its DM credit facility. It used DM 49 million ($32 million) to fund the German tax settlement payments described below, and used the remainder of the proceeds primarily to fund operations. Repayments of indebtedness in 1996 included payments of $15 million on the joint venture term loan and DM 16 million ($10 million when repaid) in payments on DM-denominated notes payable. Net repayments of indebtedness in 1995 included $15 million in payments on the joint venture term loan. In addition, the Company borrowed a net DM 56 million ($40 million when borrowed) under DM-denominated short-term credit lines.

At December 31, 1997 the Company had cash and cash equivalents aggregating $106 million (45% held by non-U.S. subsidiaries) including restricted cash equivalents of $10 million. Excluding cash and cash equivalents of discontinued operations, the Company had $97 million in cash and cash equivalents (44% held by non-U.S. subsidiaries) including restricted cash equivalents of $10 million. At December 31, 1997 the Company's subsidiaries, excluding discontinued operations, had $84 million available for borrowing under non-U.S. credit facilities. At December 31, 1997 the Company had complied with all financial covenants governing its debt agreements.

No dividends were paid in 1995 or 1997. Dividends paid during 1996 totaled $15.3 million. At December 31, 1997 the Company was unable to pay dividends due to certain restrictions under the indentures of the Senior Notes.

Based upon the Company's expectations for the TiO2 industry and anticipated demands on the Company's cash resources as discussed herein, the Company expects to have sufficient liquidity to meet its near-term obligations including operations, capital expenditures and debt service. To the extent that actual developments differ from Company's expectations, the Company's liquidity could be adversely affected.

Certain of the Company's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies. The Company previously reached an agreement with the German tax authorities and paid certain tax deficiencies of approximately DM 44 million ($28 million when paid), including interest, which resolved significant tax contingencies for years through 1990. During 1997 the Company reached a tentative agreement with the German tax authorities regarding the years 1991 through 1994, and expects to pay DM 9 million ($5 million at December 31, 1997)

during 1998 in settlement of certain tax issues. Certain other significant German tax contingencies remain outstanding for the years 1990 through 1996 and will continue to be litigated. With respect to these contingencies, the Company has received certain revised tax assessments aggregating DM 119 million ($66 million at December 31, 1997), including non-income tax related items and interest, for years through 1996. The Company expects to receive tax assessments for an additional DM 20 million ($11 million at December 31, 1997), including non-income tax related items and interest, for the years 1991 through 1994. No

payments of tax or interest deficiencies related to these assessments are expected until the litigation is resolved.

During 1997 a German tax court proceeding involving a tax issue substantially the same as that involved in the Company's primary remaining tax contingency was decided in favor of the taxpayer. The German tax authorities have appealed that decision to the German Supreme Court; the Company believes that the decision by the German Supreme Court will be rendered within two years and will become a legal precedent which will likely determine the outcome of the Company's primary dispute with the German tax authorities, which assessments, including non-income tax related items and interest, aggregate DM 121 million. Although the Company believes that it will ultimately prevail, the Company has granted a DM 94 million ($53 million at December 31, 1997) lien on its Nordenham, Germany TiO_2 plant in favor of the City of Leverkusen, and a DM 5 million ($3 million at December 31, 1997) lien in favor of the German federal tax authorities.

During 1997 the Company received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($7 million at December 31, 1997) relating to 1994. The Company has appealed this assessment and expects to litigate this issue.

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

At December 31, 1997 the Company had net deferred tax liabilities of $132 million. The Company operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). The Company has provided a deferred tax valuation allowance of $189 million at December 31, 1997, principally related to the U.S. and Germany, partially offsetting deferred tax assets which the Company believes do not currently meet the "more-likely-than-not" recognition criteria.

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

The Company has been named as a defendant, PRP, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant. The Company believes it has adequate accruals for reasonably estimable costs of such matters, but the Company's ultimate liability

may be affected by a number of factors, including changes in remedial

alternatives and costs and the allocation of such costs among PRPs. The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale of lead pigments and lead-based paints. 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. The Company currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future. See Item 3. "Legal Proceedings" and Note 17 to the Consolidated Financial Statements.

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

As a result of certain computer programs being written using two digits rather than four to define the applicable year, certain of the Company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000 (the "Year 2000 Issue"). This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in normal business activities.

The Company has completed the process of evaluating the modifications to critical software required to mitigate the Year 2000 Issue. The Company is in the process of communicating with its significant customers and suppliers to determine the extent to which the Company is vulnerable to those third parties' failure to minimize their own Year 2000 Issue. The Company is utilizing both internal and external resources to reprogram or replace and test its software and expects to complete substantially all of the requirements by the first quarter of 1999. However, if such modifications are not made or are not completed timely, the Year 2000 Issue could have a material adverse impact on the operations of the Company. In addition, there can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company. The Company's estimate of the costs to complete the modifications to critical software required to address the Year 2000 Issue is not significant.

The date on which the Company plans to complete any necessary Year 2000 Issue modifications is based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

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 in light of its capital resources 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 acquisition, divestiture, joint venture or other business combinations in the chemicals industry. In the event of any such 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. See Note 10 to the Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the NL Proxy Statement. See also Note 16 to the Consolidated Financial Statements.

PART IV

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

(a) and (d) Financial Statements and Schedules

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

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended December 31, 1997 and thereafter through the date of this report.

October 17, 1997 - reported Items 5 and 7.
December 30, 1997 - reported Items 5 and 7.
January 23, 1998 - reported Items 5 and 7.
January 30, 1998 - reported Items 5 and 7.
January 30, 1998 - reported Items 2 and 7.
February 17, 1998 - reported Item 5.
February 26, 1998 - reported Item 5 and 7.
February 26, 1998 - reported Item 5.

(c) Exhibits

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

Item No. Exhibit Index

3.1 By-Laws, as amended on June 28, 1990 - incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990.

3.2 Certificate of Amended and Restated Certificate of Incorporation dated June 28, 1990 - incorporated by reference to Exhibit 1 to the Registrant's Proxy Statement on Schedule 14A for the annual meeting held on June 28, 1990.

4.1 Registration Rights Agreement dated October 30, 1991, by and between the Registrant and Tremont Corporation - incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.

4.2 Indenture dated October 20, 1993 governing the Registrant's 11.75% Senior Secured Notes due 2003, including form of Senior Note incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

4.3 Senior Mirror Notes dated October 20, 1993 - incorporated by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

4.4 Senior Note Subsidiary Pledge Agreement dated October 20, 1993 between Registrant and Kronos, Inc. - incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

4.5 Third Party Pledge and Intercreditor Agreement dated October 20, 1993 between Registrant, Chase Manhattan Bank (National Association) and Chemical Bank - incorporated by reference to Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

4.6 Indenture dated October 20, 1993 governing the Registrant's 13% Senior Secured Discount Notes due 2005, including form of Discount Note - incorporated by reference to Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

4.7 Discount Mirror Notes dated October 20, 1993 - incorporated by reference to Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

4.8 Discount Note Subsidiary Pledge Agreement dated October 20, 1993 between Registrant and Kronos, Inc. - incorporated by reference to Exhibit 4.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.1 Amended and Restated Loan Agreement dated as of October 15, 1993

among Kronos International, Inc., the Banks set forth therein, Hypobank International S.A., as Agent and Banque Paribas, as Co-agent - incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.2 Second Amended and Restated Loan Agreement dated as of January 31, 1997 among Kronos International, Inc., Hypobank International S.A., as Agent, and the Banks set forth therein - incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.3 Amended and Restated Liquidity Undertaking dated October 15, 1993 by the Registrant, Kronos, Inc. and Kronos International, Inc. to Hypobank International S.A., as agent, and the Banks set forth therein - incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.4 Second Amended and Restated Liquidity Undertaking dated January 31, 1997 by the Registrant, Kronos, Inc. and Kronos International, Inc. to and in favor of Hypobank International S.A., as Agent, and the Banks set forth therein - incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.5 Guaranty dated as of January 31, 1997 made by the Registrant in favor of Hypobank International S.A., as Agent - incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.6 Credit Agreement dated as of March 20, 1991 between Rheox, Inc. and Subsidiary Guarantors and The Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd., as Co-agents incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990.

10.7 Amendments 1 and 2 dated May 1, 1991 and February 15, 1992, respectively, to the Credit Agreement between Rheox, Inc. and Subsidiary Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd. as Co-agents incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on form 10-Q for the quarter ended June 30, 1992.

10.8 Third amendment to the Credit Agreement, dated March 5, 1993 between Rheox, Inc. and Subsidiary Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd as Co-agents - incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.

10.9 Fourth and Fifth Amendments to the Credit Agreement, dated September 23, 1994 and December 15, 1994, respectively, between Rheox, Inc. and Subsidiary Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd. as Co-agents incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.

10.10 Sixth and Seventh Amendments to the Credit Agreement, dated September 23, 1995 and February 2, 1996, respectively, between Rheox, Inc. and Subsidiary Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd. as Co-agents - incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.11 Eighth amendment to the Credit Agreement, dated September 17, 1996, between Rheox, Inc. and Subsidiaries, Guarantors and the Chase Manhattan Bank (National Association) and the Nippon Credit Bank, Ltd. as Co-Agents - incorporated by reference to Exhibit 10.1 to the Registrants' Quarterly Report on Form 10-Q for the quarter ended

September 30, 1996.

10.12 Amended and Restated Credit Agreement dated as of January 30, 1997 between Rheox, Inc., the Subsidiary Guarantors Party thereto, the Lenders Party thereto, the Chase Manhattan Bank, as Administrative Agent, and Bankers Trust Company, as Documentation Agent incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.13 Credit Agreement dated as of October 18, 1993 among Louisiana Pigment Company, L.P., as Borrower, the Banks listed therein and Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.14 Security Agreement dated October 18, 1993 from Louisiana Pigment Company, L.P., as Borrower, to Citibank, N.A., as Agent incorporated by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.15 Security Agreement dated October 18, 1993 from Kronos Louisiana, Inc. as Grantor, to Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.16 KLA Consent and Agreement dated as of October 18, 1993 between Kronos Louisiana, Inc. and Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.17 Guaranty dated October 18, 1993, from Kronos, Inc., as guarantor, in favor of Lenders named therein, as Lenders, and Citibank, N.A., as Agent - incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.18 Mortgage by Louisiana Pigment Company, L.P. dated October 18, 1993 in favor of Citibank, N.A. - incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.19 Lease Contract dated June 21, 1952, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschrankter Haftung (German language version and English translation thereof) incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1985.

10.20 Contract on Supplies and Services among Bayer AG, Kronos Titan-GmbH and Kronos International, Inc. dated June 30, 1995 (English translation from German language document) - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.

10.21 Richards Bay Slag Sales Agreement dated May 1, 1995 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.22 Formation Agreement dated as of October 18, 1993 among Tioxide Americas Inc., Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.23 Joint Venture Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.24 Kronos Offtake Agreement dated as of October 18, 1993 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.25 Amendment No. 1 to Kronos Offtake Agreement dated as of December 20, 1995 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.26 Tioxide Americas Offtake Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.27 Amendment No. 1 to Tioxide Americas Offtake Agreement dated as of December 20, 1995 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.28 TCI/KCI Output Purchase Agreement dated as of October 18, 1993 between Tioxide Canada Inc. and Kronos Canada, Inc. - incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.29 TAI/KLA Output Purchase Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.30 Master Technology Exchange Agreement dated as of October 18, 1993 among Kronos, Inc., Kronos Louisiana, Inc., Kronos International, Inc., Tioxide Group Limited and Tioxide Group Services Limited incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.31 Parents' Undertaking dated as of October 18, 1993 between ICI American Holdings Inc. and Kronos, Inc. - incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.32 Allocation Agreement dated as of October 18, 1993 between Tioxide Americas Inc., ICI American Holdings, Inc., Kronos, Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.33* 1985 Long Term Performance Incentive Plan of NL Industries, Inc., as adopted by the Board of Directors on February 27, 1985 incorporated by reference to Exhibit A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on April 24, 1985.

10.34 Form of Director's Indemnity Agreement between NL and the independent members of the Board of Directors of NL - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987.

10.35* 1989 Long Term Performance Incentive Plan of NL Industries, Inc. - incorporated by reference to Exhibit B to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 8, 1996.

10.36* NL Industries, Inc. Variable Compensation Plan - incorporated by reference to Exhibit A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 8, 1996.

10.37* NL Industries, Inc. Retirement Savings Plan, as amended and restated effective April 1, 1996 - incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.38* NL Industries, Inc. 1992 Non-Employee Director Stock Option Plan, as adopted by the Board of Directors on February 13, 1992 incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held April 30, 1992.

10.39 Intercorporate Services Agreement by and between Valhi, Inc. and the Registrant effective as of January 1, 1997 - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

10.40 Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 1997 - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

10.41 Intercorporate Services Agreement by and between Tremont Corporation and the Registrant effective as of January 1, 1997 - incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

10.42 Intercorporate Service Agreement by and between Titanium Metals Corporation and the Registrant effective January 1, 1997 incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

10.43 Insurance Sharing Agreement, effective January 1, 1990, by and between the Registrant, NL Insurance, Ltd. (an indirect subsidiary of Tremont Corporation) and Baroid Corporation - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.

10.44* Executive severance agreement effective as of February 16, 1994 by and between the Registrant and Joseph S. Compofelice - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

10.45* Executive severance agreement effective as of March 9, 1995 by and between the Registrant and Lawrence A. Wigdor - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

10.46* Executive severance agreement effective as of July 24, 1996 by and between the Registrant and J. Landis Martin - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

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

10.48*	Agreement to Defer Bonus Payment dated February 20, 1998 between the Registrant and Lawrence A. Wigdor and related trust agreement.
10.49*	Agreement to Defer Bonus Payment dated February 20, 1998 between the Registrant and J. Landis Martin and related trust agreement.
10.50	Asset Purchase Agreement dated as of December 29, 1997 by and among NL Industries, Inc., Rheox, Inc., Rheox International, Inc., Harrisons and Crosfield plc, Harrisons and Crosfield (America) Inc. and Elementis Acquisition 98, Inc.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Accountants.
27.1	Restated Financial Data Schedule for the year ended December 31, 1995.
27.2	Restated Financial Data Schedules for the year-to-date periods ending March 31, 1996, June 30, 1996, September 30, 1996 and December 31, 1996.
27.3	Restated Financial Data Schedules for the year-to-date periods ending March 31, 1997, June 30, 1997, September 30, 1997 and December 31, 1997.
99.1	Annual Report of NL Industries, Inc. Retirement Savings Plan (Form 11-K) to be filed under Form 10-K/A to the Registrant's Annual Report on Form 10-K within 180 days after December 31, 1997.

* Management contract, compensatory plan or arrangement.

SIGNATURES

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

NL Industries, Inc.
(Registrant)

By /s/ J. Landis Martin
J. Landis Martin, March 20, 1998
President and Chief Executive Officer

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

/s/ J. Landis Martin
J. Landis Martin, March 20, 1998
Director, President and
Chief Executive Officer

/s/ Harold C. Simmons
Harold C. Simmons, March 20, 1998
Chairman of the Board

/s/ Glenn R. Simmons
Glenn R. Simmons, March 20, 1998
Director

/s/ Joseph S. Compofelice
Joseph S. Compofelice, March 20, 1998
Director

/s/ Kenneth R. Peak
Kenneth R. Peak, March 20, 1998
Director

/s/ Dr. Lawrence A. Wigdor
Dr. Lawrence A. Wigdor, March 20, 1998
Director, President and Chief
Executive Officer of Kronos

/s/ Elmo R. Zumwalt, Jr.
Elmo R. Zumwalt, Jr., March 20, 1998
Director

/s/ Susan E. Alderton
Susan E. Alderton, March 20, 1998
Vice President and Chief Financial Officer

/s/ Dennis G. Newkirk
Dennis G. Newkirk, March 20, 1998
Vice President and Controller
(Principal Accounting Officer)

NL INDUSTRIES, INC.

ANNUAL REPORT ON FORM 10-K

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

Index of Financial Statements and Schedules

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of NL

Industries, Inc. as of December 31, 1996 and 1997, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NL Industries, Inc. as of December 31, 1996 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for environmental remediation costs in 1997 in accordance with Statement of Position No. 96-1.

COOPERS & LYBRAND L.L.P.

Houston, Texas
February 11, 1998

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1996 and 1997

(In thousands, except per share data)

ASSETS

	1996	1997
Current assets:		
Cash and cash equivalents, including restricted cash of $10,895 and $9,751	$ 114,115	$ 106,145
Accounts and notes receivable, less allowance of $3,813 and $2,828	138,538	148,676
Refundable income taxes	9,267	1,941
Inventories	232,510	192,780
Prepaid expenses	4,219	3,348
Deferred income taxes	1,597	1,642
Total current assets	500,246	454,532

Other assets:		
Marketable securities	23,718	17,270
Investment in joint ventures	181,479	172,721
Prepaid pension cost	24,821	23,848
Deferred income taxes	223	110
Other	24,825	18,482
Total other assets	255,066	232,431
Property and equipment:		
Land	21,963	19,479
Buildings	165,479	150,090
Machinery and equipment	660,333	616,309
Mining properties	95,891	88,617
Construction in progress	13,231	2,577
	956,897	877,072
Less accumulated depreciation and depletion	490,851	465,843
Net property and equipment	466,046	411,229
	$1,221,358	$1,098,192

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 1996 and 1997

(In thousands, except per share data)

LIABILITIES AND SHAREHOLDERS' DEFICIT	1996	1997
Current liabilities:		
Notes payable	$ 25,732	$ 13,968
Current maturities of long-term debt	91,946	77,374
Accounts payable and accrued liabilities	153,904	161,730
Payable to affiliates	10,204	11,512
Income taxes	5,664	10,910
Deferred income taxes	2,895	891
Total current liabilities	290,345	276,385
Noncurrent liabilities:		
Long-term debt	737,100	666,779

Deferred income taxes	151,221	132,797
Accrued pension cost	57,941	44,389
Accrued postretirement benefits cost	55,935	50,951
Other	132,048	148,903
Total noncurrent liabilities	1,134,245	1,043,819
Minority interest	249	257
Shareholders' deficit:		
Preferred stock - 5,000 shares authorized, no shares issued or outstanding	--	--
Common stock - $.125 par value; 150,000 shares authorized; 66,839 shares issued	8,355	8,355
Additional paid-in capital	759,281	759,281
Adjustments:		
Currency translation	(118,629)	(133,810)
Pension liabilities	(1,822)	--
Marketable securities	1,278	4,297
Accumulated deficit	(485,948)	(495,421)
Treasury stock, at cost (15,721 and 15,572 shares)	(365,996)	(364,971)
Total shareholders' deficit	(203,481)	(222,269)
	$ 1,221,358	$ 1,098,192

Commitments and contingencies (Notes 13 and 17)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 1995, 1996 and 1997

(In thousands, except per share data)

	1995	1996	1997
Revenues and other income:			
Net sales	$894,149	$851,179	$837,240
Other, net	21,518	27,669	19,367
	915,667	878,848	856,607
Costs and expenses:			
Cost of sales	611,882	668,605	649,945
Selling, general and administrative	161,753	151,144	168,592
Interest	75,759	69,333	65,759
	849,394	889,082	884,296
Income (loss) from continuing			

operations before income taxes and minority interest	66,273	(10,234)	(27,689)
Income tax expense (benefit)	(278)	1,496	2,244
Income (loss) from continuing operations before minority interest	66,551	(11,730)	(29,933)
Minority interest	56	5	(58)
Income (loss) from continuing operations	66,495	(11,735)	(29,875)
Discontinued operations	19,114	22,552	20,402
Net income (loss)	$ 85,609	$ 10,817	$ (9,473)
Earnings per common share:			
Basic:			
Income (loss) from continuing operations	$ 1.30	$ (.23)	$ (.58)
Net income (loss)	$ 1.68	$ .21	$ (.19)
Diluted:			
Income (loss) from continuing operations	$ 1.29	$ (.23)	$ (.58)
Net income (loss)	$ 1.66	$ .21	$ (.19)
Weighted average common shares and potential common shares outstanding:			
Basic	51,006	51,103	51,152
Diluted	51,512	51,103	51,152

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

Years ended December 31, 1995, 1996 and 1997

(In thousands)

			Adjustments					
	Common stock	Additional paid-in capital	Currency translation	Pension liabilities	Marketable securities	Accumulated deficit	Treasury stock	Total
Balance at December 31, 1994	$ 8,355	$ 759,281	$(125,494)	$ (1,635)	$ (12)	$(567,041)	$(366,536)	$(293,082)
Net income	--	--	--	--	--	85,609	--	85,609
Treasury stock reissued	--	--	--	--	--	--	278	278
Adjustments	--	--	(1,440)	(273)	(513)	--	--	(2,226)
Balance at December 31, 1995	8,355	759,281	(126,934)	(1,908)	(525)	(481,432)	(366,258)	(209,421)
Net income	--	--	--	--	--	10,817	--	10,817

Common dividends declared - $.30 per share	--	--	--	--	--	(15,333)	--	(15,333)
Treasury stock reissued	--	--	--	--	--	--	262	262
Adjustments	--	--	8,305	86	1,803	--	--	10,194
Balance at December 31, 1996	8,355	759,281	(118,629)	(1,822)	1,278	(485,948)	(365,996)	(203,481)
Net loss	--	--	--	--	--	(9,473)	--	(9,473)
Treasury stock reissued	--	--	--	--	--	--	1,025	1,025
Adjustments	--	--	(15,181)	1,822	3,019	--	--	(10,340)
Balance at December 31, 1997	$ 8,355	$ 759,281	$(133,810)	$ --	$ 4,297	$(495,421)	$(364,971)	$(222,269)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1995, 1996 and 1997

(In thousands)

	1995	1996	1997
Cash flows from operating activities:			
Net income (loss)	$ 85,609	$ 10,817	$ (9,473)
Depreciation, depletion and amortization	35,696	36,285	34,887
Noncash interest expense	18,610	20,442	23,092
Deferred income taxes	(28,327)	297	(5,627)
Minority interest	56	5	(58)
Net (gains) losses from:			
Securities transactions	(1,175)	--	(2,657)
Disposition of property and equipment	2,695	2,236	(1,735)
Pension cost, net	(7,833)	(8,018)	(5,112)
Other postretirement benefits, net	(3,973)	(4,962)	(4,799)
Change in accounting for environmental remediation costs	--	--	30,000
Discontinued operations	(19,114)	(22,552)	(20,402)
Other, net	(434)	(67)	--
	81,810	34,483	38,116
Rheox, net	17,551	20,705	31,506
Change in assets and liabilities:			
Accounts and notes receivable	(103)	3,083	(14,925)
Inventories	(52,883)	7,192	22,872
Prepaid expenses	996	(1,355)	96
Accounts payable and accrued liabilities	(19,560)	(1,949)	9,347
Income taxes	14,010	(36,414)	12,978
Accounts with affiliates	(2,805)	3,408	(3,915)
Other noncurrent assets	1,022	236	(269)
Other noncurrent liabilities	5,183	(12,851)	(6,640)
Marketable trading securities:			
Purchases	(762)	--	--
Dispositions	27,102	--	--

Net cash provided by operating activities	71,561	16,538	89,166

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1995, 1996 and 1997

(In thousands)

	1995	1996	1997
Cash flows from investing activities:			
Capital expenditures	$ (60,732)	$ (64,241)	$ (28,220)
Proceeds from disposition of marketable available-for-sale securities	--	--	6,875
Investment in joint venture, net	1,993	3,934	8,364
Proceeds from disposition of property and equipment	159	76	3,049
Rheox, net	(3,641)	(7,376)	(2,314)
Net cash used by investing activities	(62,221)	(67,607)	(12,246)
Cash flows from financing activities:			
Indebtedness:			
Borrowings	57,556	97,503	--
Principal payments	(30,629)	(32,362)	(182,215)
Deferred financing costs	--	--	(2,343)
Dividends paid	--	(15,333)	--
Rheox, net	(30,499)	(23,492)	100,940
Other, net	264	249	1,023
Net cash provided (used) by financing activities	(3,308)	26,565	(82,595)
Net change during the year from operating, investing and financing activities	$ 6,032	$ (24,504)	$ (5,675)

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1995, 1996 and 1997

(In thousands)

	1995	1996	1997
Cash and cash equivalents:			
Net change during the year from:			
Operating, investing and financing activities	$ 6,032	$ (24,504)	$ (5,675)
Currency translation	4,177	(2,714)	(2,295)
	10,209	(27,218)	(7,970)
Balance at beginning of year	131,124	141,333	114,115
Balance at end of year	$ 141,333	$ 114,115	$ 106,145
Supplemental disclosures:			
Cash paid for:			
Interest, net of amounts capitalized	$ 62,078	$ 51,678	$ 55,908
Income taxes	27,965	50,400	6,875
Noncash investing activities - marketable securities exchanged for a note receivable	$ --	$ --	$ 6,875

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 primarily through its wholly-owned subsidiary, Kronos, Inc. In January 1998 the specialty chemicals business of Rheox, Inc., a wholly-owned subsidiary of NL, was sold. See Note 20.

At December 31, 1997 Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, held 57% and 18%, respectively, of NL's outstanding common stock, and together may be deemed to control the Company. At December 31, 1997 Contran and other entities related to Harold C. Simmons held approximately 93% of Valhi's and 49% 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 Mr. Simmons, of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board, President, and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies.

Note 2 - Summary of significant accounting policies:

Principles of consolidation and management's estimates

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

Translation of foreign currencies

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

Cash and cash equivalents

Cash equivalents, including restricted cash, include U.S. Treasury securities purchased under short-term agreements to resell and bank deposits with original maturities of three months or less. Cash equivalents of approximately $6 million in 1996 and $5 million in 1997 is restricted under the Company's joint venture indebtedness agreement and, in addition, cash equivalents of approximately $5 million in 1996 and 1997 secures undrawn letters of credit.

Marketable securities and securities transactions

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

Inventories

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

Investment in joint ventures

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

Intangible assets

Intangible assets, included in other noncurrent assets, are amortized by the straight-line method over the periods expected to be benefitted, not exceeding ten years.

Property, equipment, depreciation and depletion

Property and equipment are stated at cost. Interest costs related to major, long-term capital projects are capitalized as a component of construction

costs. Maintenance, repairs and minor renewals are expensed; major improvements are capitalized.

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

Long-term debt

Long-term debt is stated net of unamortized original issue discount ("OID"). OID is amortized over the period during which cash interest payments are not required and deferred financing costs are amortized over the term of the applicable issue, both by the interest method.

Employee benefit plans

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

The Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion ("APBO") No. 25, "Accounting for Stock Issued to Employees," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. Compensation cost recognized by the Company in accordance with APBO No. 25 has not been significant in each of the past three years.

Environmental remediation costs

Environmental remediation costs are accrued when estimated future expenditures are probable and reasonably estimable. The estimated future expenditures are not discounted to present value. Recoveries of remediation costs from other parties, if any, are reported as receivables when their receipt is deemed probable. At December 31, 1996 and 1997 no receivables for recoveries have been recognized.

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

Net sales

Sales are recognized as products are shipped.

Income taxes

Deferred income tax assets and liabilities are recognized for the expected

future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including investments in subsidiaries and unconsolidated affiliates not included in the Company's U.S. tax group (the "NL Tax Group"). The Company periodically evaluates its deferred tax assets and adjusts any related valuation allowance. The Company's valuation allowance is equal to the amount of deferred tax assets which the Company believes do not meet the "more-likely-than-not" recognition criteria.

Interest rate swaps and contracts

The Company periodically uses interest rate swaps and contracts (such as caps and floors) to manage interest rate risk with respect to financial assets or liabilities. The Company does not enter into these contracts for speculative purposes. Income or expense on swaps and contracts designated as hedges of assets or liabilities is recorded as an adjustment to interest income or expense. If the swap or contract is terminated, the resulting gain or loss is deferred and amortized over the remaining life of the underlying asset or liability. If the hedged instrument is disposed of, the swap or contract agreement is marked to market with any resulting gain or loss included with the gain or loss from the disposition. Any cost associated with the swap or contract is deferred and amortized over the life of the agreement.

Earnings per common share

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings per Share", in the fourth quarter of 1997 and retroactively restated its reported earnings per common share. The new accounting standard requires both "basic" and "diluted" earnings per share presentation. 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. The weighted average number of shares resulting from outstanding stock options which were excluded from the calculation of diluted earnings per share because their impact would have been antidilutive aggregated 1,878,000, 2,483,000 and 2,709,000 in 1995, 1996 and 1997, respectively. There were no adjustments to income (loss) from continuing operations or net income (loss) in the computation of earnings per common share. Both basic and diluted earnings per share from discontinued operations were $.37 per share, $.44 per share and $.40 per share in 1995, 1996 and 1997, respectively.

New accounting principles not yet adopted

The Company will adopt SFAS No. 130, "Reporting Comprehensive Income," in the first quarter of 1998. Upon adoption of SFAS No. 130, the Company will present a new Statement of Comprehensive Income which will report all changes in the Company's shareholders' deficit other than transactions with its shareholders. Comprehensive income pursuant to SFAS No. 130 would include the Company's consolidated net income (loss), as reported in the Consolidated

Statement of Operations, plus the net change in the currency translation, pension liabilities and marketable securities components of shareholders' deficit.

The Company will adopt SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," no later than the fourth quarter of 1998. SFAS No. 131 will supersede the business segment disclosure requirements currently in effect under SFAS No. 14. SFAS No. 131, among other things, establishes standards regarding the information a company is required to disclose about its operating segments. SFAS No. 131 also provides guidance regarding what constitutes a reportable operating segment. The Company expects to have one operating segment pursuant to SFAS No. 131, the same one segment currently in effect under SFAS No. 14. Accordingly, segment disclosures pursuant to SFAS No. 131 are not expected to be materially different from the current disclosures pursuant to SFAS No. 14.

The Company will adopt the disclosure requirements of SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," in the fourth quarter of 1998. SFAS No. 132 revises disclosure requirements for

such pension and postretirement benefit plans to, among other things, standardize certain disclosures and eliminate certain other disclosures no longer deemed useful. SFAS No. 132 does not change the measurement or recognition criteria for such plans.

Note 3 - Business and geographic segments:

The Company's operations are conducted by Kronos in one operating business segment - TiO2. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. General corporate assets consists principally of cash, cash equivalents and marketable securities. Discontinued operations consists of the Company's specialty chemicals business owned by Rheox which was sold in January 1998. See Note 20. At December 31, 1996 and 1997 the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $124 million and $287 million, respectively.

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Business segments			
Operating income - Kronos	$ 161,175	$ 71,606	$ 82,501
General corporate income (expense):			
Securities earnings	7,419	4,708	5,393
Expenses, net	(26,562)	(17,215)	(49,824)
Interest expense	(75,759)	(69,333)	(65,759)
	$ 66,273	$ (10,234)	$ (27,689)
Capital expenditures:			
Kronos	$ 60,699	$ 64,201	$ 28,193
General corporate	33	40	27
	$ 60,732	$ 64,241	$ 28,220

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Depreciation, depletion and amortization:			
Kronos	$ 35,502	$ 36,091	$ 34,684
General corporate	194	194	203
	$ 35,696	$ 36,285	$ 34,887
Geographic areas			
Net sales - point of origin:			

United States	$ 246,474	$ 252,448	$ 258,300
Europe	647,635	594,824	584,339
Canada	134,361	134,199	145,160
Eliminations	(134,321)	(130,292)	(150,559)
	$ 894,149	$ 851,179	$ 837,240
Net sales - point of destination:			
United States	$ 209,236	$ 222,710	$ 230,923
Europe	529,464	471,948	442,043
Canada	55,492	51,292	58,231
Asia	47,230	43,842	41,328
Other	52,727	61,387	64,715
	$ 894,149	$ 851,179	$ 837,240
Operating income:			
United States	$ 45,652	$ 37,797	$ 30,514
Europe	94,815	21,024	40,882
Canada	20,708	12,785	11,105
	$ 161,175	$ 71,606	$ 82,501

	December 31,		
	1995	1996	1997
	(In thousands)		
Identifiable assets			
Business segments:			
Kronos	$1,063,369	$1,064,285	$ 961,635
General corporate	124,664	66,978	47,922
Discontinued operations	83,620	90,095	88,635
	$1,271,653	$1,221,358	$1,098,192
Geographic segments:			
United States	$ 257,164	$ 252,331	$ 268,518
Europe	662,997	681,380	562,454
Canada	143,208	130,574	130,663
General corporate	124,664	66,978	47,922
Discontinued operations	83,620	90,095	88,635
	$1,271,653	$1,221,358	$1,098,192

Note 4 - Marketable securities and securities transactions:

	December 31,	
	1996	1997
	(In thousands)	

Available-for-sale securities - noncurrent marketable equity securities:		
Unrealized gains	$ 3,516	$ 6,939
Unrealized losses	(1,550)	(328)
Cost	21,752	10,659
Aggregate market	$ 23,718	$ 17,270

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Securities transactions gains on trading securities (in 1995) and available-for-sale securities (in 1997):			
Unrealized	$1,125	$ -	$ -
Realized	50	-	2,657
	$1,175	$ -	$2,657

Note 5 - Inventories:

	December 31,	
	1996	1997
	(In thousands)	
Raw materials	$ 43,284	$ 45,844
Work in process	10,356	8,018
Finished products	142,091	107,427
Supplies	36,779	31,491
	$232,510	$192,780

Note 6 - Investment in joint ventures:

	December 31,	
	1996	1997
	(In thousands)	
TiO2 manufacturing joint venture	$179,195	$170,830
Other	2,284	1,891
	$181,479	$172,721

Kronos Louisiana, Inc. ("KLA"), a wholly-owned subsidiary of Kronos, owns a 50% interest in Louisiana Pigment Company, L.P. ("LPC"). LPC is a manufacturing joint venture that is also 50%-owned by Tioxide Group, Ltd. ("Tioxide"), a wholly-owned subsidiary of Imperial Chemicals Industries PLC

("ICI"). LPC owns and operates a chloride-process TiO_2 plant in Lake Charles, Louisiana. ICI has agreed to sell Tioxide's non-North American operations to E.I. du Pont de Nemours & Co., subject to regulatory approval. ICI has announced it intends to sell Tioxide and the remaining North American operations in a separate transaction. The Company had advised ICI of its interest in acquiring the portion of LPC it does not currently own.

LPC has long-term debt that is collateralized by the partnership interests of the partners and substantially all of the assets of LPC. The long-term debt consists of two tranches, one attributable to each partner, and each tranche is serviced through (i) the purchase of the plant's TiO_2 output in equal quantities by the partners and (ii) cash capital contributions. KLA is required to purchase one-half of the TiO_2 produced by LPC. KLA's tranche of LPC's debt is reflected as outstanding indebtedness of the Company because Kronos has guaranteed the purchase obligation relative to the debt service of its tranche. See Note 10.

LPC is intended to be operated on a break-even basis and, accordingly, Kronos' transfer price for its share of the TiO_2 produced is equal to its share of LPC's production costs and interest expense. Kronos' share of the production costs are reported as cost of sales as the related TiO_2 acquired from LPC is sold, and its share of the interest expense is reported as a component of interest expense.

Summary balance sheets of LPC are shown below.

	December 31,	
	1996	1997
	(In thousands)	
ASSETS		
Current assets	$ 47,861	$ 41,602
Other assets	1,224	764
Property and equipment, net	325,617	309,989
	$374,702	$352,355
LIABILITIES AND PARTNERS' EQUITY		
Long-term debt, including current portion:		
Kronos tranche	$ 57,858	$ 42,429
Tioxide tranche	16,800	7,200
Note payable to Tioxide	21,000	9,000
Other liabilities, primarily current	14,084	8,466
	109,742	67,095
Partners' equity	264,960	285,260
	$374,702	$352,355

Summary income statements of LPC are shown below.

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Revenues and other income:			
Kronos	$ 76,365	$ 74,916	$ 82,171
Tioxide	75,241	73,774	80,512
Interest income	653	518	636
	152,259	149,208	163,319
Cost and expenses:			
Cost of sales	140,103	140,361	156,811
General and administrative	385	377	355
Interest	11,771	8,470	6,153
	152,259	149,208	163,319
Net income	$ --	$ --	$ --

Note 7 - Other noncurrent assets:

	December 31,	
	1996	1997
	(In thousands)	
Deferred financing costs, net	$ 9,791	$ 9,973
Intangible assets, net of accumulated amortization of $22,207 and $22,366	7,939	4,228
Other	7,095	4,281
	$24,825	$18,482

Note 8 - Accounts payable and accrued liabilities:

	December 31,	
	1996	1997
	(In thousands)	
Accounts payable	$ 60,648	$ 64,698
Accrued liabilities:		
Employee benefits	34,618	40,110
Environmental costs	6,000	9,000
Interest	9,429	6,966
Miscellaneous taxes	4,073	330
Other	39,136	40,626

	93,256	97,032
	$153,904	$161,730

Note 9 - Other noncurrent liabilities:

	December 31,	
	1996	1997
	(In thousands)	
Environmental costs	$106,849	$125,502
Insurance claims expense	11,673	11,436
Employee benefits	11,960	10,835
Other	1,566	1,130
	$132,048	$148,903

Note 10 - Notes payable and long-term debt:

	December 31,	
	1996	1997
	(In thousands)	
Notes payable (DM 40,000 and DM 25,000, respectively)	$ 25,732	$ 13,968
Long-term debt:		
NL Industries:		
11.75% Senior Secured Notes	$250,000	$250,000
13% Senior Secured Discount Notes	149,756	169,857
	399,756	419,857
Kronos:		
DM bank credit facility (DM 539,971, and DM 288,322, respectively)	347,362	161,085
LPC term loan	57,858	42,429
Other	9,125	3,282
	414,345	206,796
Rheox:		
Bank term loan	14,659	117,500
Other	286	--
	14,945	117,500

	829,046	744,153
Less current maturities	91,946	77,374
	$737,100	$666,779

The Company's $250 million principal amount of 11.75% Senior Secured Notes due 2003 and $188 million principal amount at maturity ($100 million proceeds at issuance) of 13% Senior Secured Discount Notes due 2005 (collectively, the "Notes") are collateralized by a series of intercompany notes from Kronos International, Inc. ("KII"), a wholly-owned subsidiary of Kronos, to NL, the interest rate and payment terms of which mirror those of the respective Notes (the "Mirror Notes"). The Senior Secured Notes are also collateralized by a first priority lien on the stock of Kronos and a second priority lien on the stock of Rheox.

In the event of foreclosure, the Note holders 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 to a full, unconditional and joint and several guarantee of the Notes by Kronos and Rheox.

The Senior Secured Notes and the Senior Secured Discount Notes are redeemable, at the Company's option, after October 2000 and October 1998, respectively. The redemption prices range from 101.5% (starting October 2000) declining to 100% (after October 2001) of the principal amount for the Senior Secured Notes and range from 106% (starting October 1998) declining to 100% (after October 2001) of the accreted value of the Senior Secured Discount Notes. The Company presently intends to redeem the Senior Secured Discount Notes in October 1998, depending on market conditions, availability of resources and other factors. In the event of a Change of Control, as defined, the Company would be required to make an offer to purchase the Notes at 101% of the principal amount of the Senior Secured Notes and 101% of the accreted value of the Senior Secured Discount Notes. The Notes are issued pursuant to indentures which contain a number of covenants and restrictions which, among other things, restrict the ability of the Company and its subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. At December 31, 1997 no amounts were available for payment of dividends pursuant to the terms of the indentures.

Rheox sold its specialty chemicals business in January 1998. See Note 20. Under the terms of the indentures, the Company is required to make an offer to tender for a portion of the Notes, on a pro rata basis, (at par value for the Senior Secured Notes and at accreted value for the Senior Secured Discount Notes) to the extent that the amount of the net proceeds from the disposal of Rheox, as defined, are not used to either permanently pay down certain indebtedness of the Company or its subsidiaries or invest in additional productive assets by November 1998.

The Senior Secured Discount Notes do not require semiannual cash interest payments until April 1999. The net carrying value of the Senior Secured Discount Notes per $100 principal amount at maturity was $79.87 and $90.59 at December 31, 1996 and 1997, respectively. At December 31, 1997 the quoted market price of the Senior Secured Notes was $111.17 per $100 principal amount and the quoted market price of the Senior Secured Discount Notes was $99.59 per $100 principal amount (1996 - $106.08 and $86.34, respectively).

At December 31, 1997 the DM credit facility consisted of a DM 188 million term loan and a DM 230 million revolving credit facility, of which DM 100 million is outstanding. Borrowings bear interest at DM LIBOR plus 2.75% (1.625% margin at December 31, 1996) (4.76% and 6.28% at December 31, 1996 and 1997, respectively), and are collateralized by the stock of certain KII subsidiaries, pledges of certain Canadian and German assets and NL has guaranteed the facility. The term loan is due in semiannual installments commencing in September 1998 through September 1999 and the revolver is due in 2000. In accordance with the provisions of the DM credit agreement and as a result of higher than expected operating income in 1997 for KII, the Company intends to

prepay in March 1998

DM 81 million ($45 million at December 31, 1997) of the term loan, of which DM 49 million ($27 million at December 31, 1997) will satisfy the September 1998 scheduled term loan payment and the remaining DM 32 million ($18 million at December 31, 1997) will reduce the March 1999 scheduled term loan payment.

Unused lines of credit available for borrowing under the Company's non-U.S. credit facilities, including the DM facility, approximated $84 million at December 31, 1997.

Borrowings under KLA's tranche of LPC's term loan bear interest at U.S. LIBOR plus 1.625% (7.245% and 7.438% at December 31, 1996 and 1997, respectively) and are repayable in quarterly installments through September 2000. The Company has notified the lender that it intends to prepay the loan in March 1998.

Notes payable at December 31, 1996 and 1997 consists of DM 40 million and DM 25 million, respectively, of short-term borrowings due within one year from non-U.S. banks with interest rates ranging from 3.25% to 3.70% in 1996 and from 3.75% to 3.875% in 1997.

The Company used a portion of the net proceeds from the January 1998 sale of substantially all of Rheox's net assets to prepay and terminate the Rheox bank credit facility. See Note 20. At December 31, 1997 this facility consisted of a $117.5 million term loan due in quarterly installments through January 2004 and a $25 million revolver (nil outstanding) due no later than January 2004. Borrowings bore interest at LIBOR plus a margin of .75% to 1.75%, depending upon the level of a certain Rheox financial ratio (the margin was 1.5% at December 31, 1997 resulting in a rate of 7.3%), and were collateralized principally by the stock of Rheox and its U.S. subsidiaries. The interest rate on outstanding prime-rate borrowings under a prior Rheox bank credit facility at December 31, 1996 was 9.8%.

The aggregate maturities of long-term debt at December 31, 1997 on a historical and a pro forma basis, giving effect for the January 1998 sale of Rheox described above and in Note 20, are shown in the table below.

Years ending December 31,	Historical	Pro forma
		(Unaudited)
	(In thousands)	
1998	$ 77,374	$ 62,374
1999	91,077	76,077
2000	82,936	67,936
2001	22,909	409
2002	25,000	-
2003 and thereafter	462,500	437,500
	761,796	644,296
Less unamortized original issue discount on the Senior Secured Discount Notes	17,643	17,643
	$744,153	$626,653

Note 11 - Employee benefit plans:

Company-sponsored pension plans

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

A majority of U.S. employees are eligible to participate in a contributory savings plan. The Company partially matches employee contributions to the Plan, and, beginning in 1996, the Company contributes to each employee's account an amount equal to approximately 3% of the employee's annual eligible earnings. The Company also has an unfunded defined contribution plan covering certain executives, and contributions are based on a formula involving eligible earnings. The Company's expense related to these plans included in continuing operations was $.7 million in 1995, $.8 million in 1996 and $.7 million in 1997. Expense related to these plans included in discontinued operations was $.5 million in each of 1995, 1996 and 1997.

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

Certain actuarial assumptions used in measuring the defined benefit pension assets, liabilities and expenses are presented below.

	Years ended December 31,		
	1995	1996	1997
	(Percentages)		
Discount rate	7.0 to 8.5	6.5 to 8.5	6.0 to 8.5
Rate of increase in future compensation levels	3.5 to 6.0	3.5 to 6.0	3.0 to 6.0
Long-term rate of return on plan assets	8.0 to 9.0	7.0 to 9.0	6.0 to 9.0

During 1996 the Company curtailed certain U.S. employee pension benefits and recognized a gain of $4.6 million, of which $2.7 million is included in discontinued operations. Plan assets are comprised primarily of investments in U.S. and non-U.S. corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

SFAS No. 87, "Employers' Accounting for Pension Costs" requires that an additional pension liability be recognized when the unfunded accumulated pension benefit obligation exceeds the unfunded accrued pension liability. Variances from actuarially-assumed rates, including the rate of return on pension plan

assets, will result in additional increases or decreases in accrued pension liabilities, pension expense and funding requirements in future periods. At December 31, 1997 77% of the projected benefit obligations in excess of plan assets relate to non-U.S. plans. The funded status of the Company's defined benefit pension plans is set forth below.

	Assets exceed accumulated benefits		Accumulated benefits exceed assets	
	December 31,		December 31,	
	1996	1997	1996	1997
	(In thousands)			
Actuarial present value of benefit obligations:				
Vested benefits	$ 48,953	$ 51,474	$ 167,411	$ 157,556
Nonvested benefits	4,075	4,483	9,466	8,442
Accumulated benefit obligations	53,028	55,957	176,877	165,998
Effect of projected salary increases	7,598	6,691	25,741	22,726
Projected benefit obligations ("PBO")	60,626	62,648	202,618	188,724
Plan assets at fair value	78,511	73,446	126,580	125,925
Plan assets over (under) PBO	17,885	10,798	(76,038)	(62,799)
Unrecognized net loss from experience different from actuarial assumptions	3,567	9,778	11,414	8,375
Unrecognized prior service cost	3,838	3,799	262	399
Unrecognized transition obligations (assets) being amortized over 15 to 18 years	(469)	(527)	2,043	1,530
Adjustment required to recognize minimum liability	--	--	(1,822)	--
Total prepaid (accrued) pension cost	24,821	23,848	(64,141)	(52,495)
Less current portion	--	--	(6,200)	(8,106)
Noncurrent prepaid (accrued) pension cost	$ 24,821	$ 23,848	$(57,941)	$(44,389)

The components of the net periodic defined benefit pension cost, excluding curtailment gain and discontinued operations, are set forth below. The net periodic defined benefit pension cost included in discontinued operations was $.6 million in 1995, $.3 million in 1996 and nil in 1997.

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Service cost benefits	$ 3,582	$ 3,131	$ 4,067
Interest cost on PBO	16,721	15,439	15,335
Return on plan assets	(14,843)	(15,112)	(16,194)
Net amortization and deferrals	(2,890)	48	869
	$ 2,570	$ 3,506	$ 4,077

Incentive bonus programs

The Company has incentive bonus programs for certain employees providing for annual payments, which may be in the form of NL common stock, based on formulas involving the profitability of Kronos in relation to the annual

operating plan and, for most of these employees, individual performance.

Postretirement benefits other than pensions

In addition to providing pension benefits, the Company currently provides certain health care and life insurance benefits for eligible retired employees. Certain of the Company's U.S. and Canadian employees may become eligible for such postretirement health care and life insurance benefits if they reach retirement age while working for the Company. In 1989, the Company began phasing out such benefits for currently active U.S. employees over a ten-year period. The majority of all retirees are required to contribute a portion of the cost of their benefits and certain current and future retirees are eligible for reduced health care benefits at age 65. The Company's policy is to fund medical claims as they are incurred, net of any contributions by the retirees.

For measuring the OPEB liability at December 31, 1997, the expected rate of increase in health care costs is 7% in 1998, 6% in 1999 and 5% in 2000 and years thereafter. Other assumptions used to measure the liability and expense are presented below.

	Years ended December 31,		
	1995	1996	1997
	(Percentages)		
Discount rate	7.5	7.5	7.0
Long-term rate for compensation increases	4.5	6.0	6.0
Long-term rate of return on plan assets	9.0	9.0	9.0

Variances from actuarially-assumed rates will result in additional increases or decreases in accrued OPEB liabilities, net periodic OPEB expense and funding requirements in future periods. If the health care cost trend rate was increased by one percentage point for each year, postretirement benefit expense would have increased approximately $.1 million in 1997, and the actuarial present value of accumulated benefit obligations at December 31, 1997 would have increased by approximately $1.2 million. During 1996 the Company curtailed certain Canadian employee OPEB benefits and recognized a $1.3 million gain.

	December 31,	
	1996	1997
	(In thousands)	
Actuarial present value of accumulated benefit obligations:		
Retiree benefits	$41,768	$34,173
Other fully eligible active plan participants	840	799
Other active plan participants	2,152	2,022
	44,760	36,994
Plan assets at fair value	6,689	6,527
Accumulated postretirement benefit obligations in excess of plan assets	38,071	30,467
Unrecognized net gain from experience different from actuarial assumptions	7,083	11,722
Unrecognized prior service credit	16,259	14,171

Total accrued postretirement benefits cost	61,413	56,360
Less current portion	5,478	5,409
Noncurrent accrued postretirement benefits cost	$55,935	$50,951

The components of the Company's net periodic postretirement benefit cost, excluding curtailment gain and discontinued operations, are set forth below. The net periodic postretirement benefit costs included in discontinued operations was $.3 million in each of 1995 and 1996 and $.2 million in 1997.

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Interest cost on accumulated benefit obligations	$ 4,194	$ 3,777	$ 2,972
Service cost benefits earned during the year ..	50	52	39
Return on plan assets	(637)	(596)	(584)
Net amortization and deferrals	(1,905)	(1,460)	(2,380)
	$ 1,702	$ 1,773	$ 47

Note 12 - Shareholders' deficit:

Common stock

	Shares of common stock		
	Issued	Treasury stock	Outstanding
	(In thousands)		
Balance at December 31, 1994	66,839	15,787	51,052
Treasury shares reissued	-	(39)	39
Balance at December 31, 1995	66,839	15,748	51,091
Treasury shares reissued	-	(27)	27
Balance at December 31, 1996	66,839	15,721	51,118
Treasury shares reissued	-	(149)	149
Balance at December 31, 1997	66,839	15,572	51,267

Common stock options

The 1989 Long Term Performance Incentive Plan of NL Industries, Inc. (the "NL Option Plan") provides for the discretionary grant of restricted common stock, stock options, stock appreciation rights ("SARs") and other incentive compensation to officers and other key employees of the Company. Although certain stock options granted pursuant to a similar plan which preceded the NL Option Plan ("the Predecessor Option Plan") remain outstanding at December 31, 1997, no additional options may be granted under the Predecessor Option Plan.

Up to five million shares of NL common stock may be issued pursuant to the NL Option Plan and at December 31, 1997, an aggregate of 1.9 million shares were available for future grants. The NL Option Plan provides for the grant of options that qualify as incentive options and for options which are not so qualified. Generally, stock options and SARs (collectively, "options") are granted at a price equal to or greater than 100% of the market price at the date of grant, vest over a five year period and expire ten years from the date of grant. Restricted stock, forfeitable unless certain periods of employment are completed, is held in escrow in the name of the grantee until the restriction period expires. No SARs have been granted under the NL Option Plan.

In addition to the NL Option Plan, the Company maintains a stock option plan for its nonemployee directors. At December 31, 1997 there were options to acquire 9,000 shares of common stock outstanding of which 7,000 were fully vested.

Changes in outstanding options granted pursuant to the NL Option Plan, the Predecessor Option Plan and the nonemployee director plan are summarized in the table below.

	Shares	Exercise price per share		Amount payable upon exercise
		Low	High	
	(In thousands, except per share amounts)			
Outstanding at December 31, 1994	2,374	$ 4.81	$ 24.19	$ 26,773
Granted	94	11.81	14.81	1,150
Exercised	(39)	5.00	10.78	(278)
Forfeited	(36)	5.00	11.81	(324)
Outstanding at December 31, 1995	2,393	4.81	24.19	27,321
Granted	218	14.25	17.25	3,316
Exercised	(27)	5.00	10.78	(262)
Forfeited	(10)	5.00	14.25	(91)
Expired	(1)	10.78	10.78	(6)
Outstanding at December 31, 1996	2,573	4.81	24.19	30,278
Granted	442	11.88	14.88	5,792
Exercised	(149)	4.81	11.81	(1,025)
Forfeited	(21)	5.00	22.29	(284)
Outstanding at December 31, 1997	2,845	$ 4.81	$ 24.19	$ 34,761

At December 31, 1995, 1996 and 1997 options to purchase 1,189,907, 1,660,068 and 1,801,955 shares, respectively, were exercisable and options to purchase 301,002 shares become exercisable in 1998. Of the exercisable options at December 31, 1997, options to purchase 1,380,296 shares had exercise prices less than the Company's December 31, 1997 quoted market price of $13.625 per share. Outstanding options at December 31, 1997 expire at various dates through 2007, with a weighted-average remaining life of five years.

The pro forma information required by SFAS No. 123, "Accounting for Stock-Based Compensation," is based on an estimation of the fair value of options issued during 1995, 1996 and 1997. The weighted average fair values of options granted during 1995, 1996 and 1997 were $6.02, $8.38 and $6.35 per share, respectively. The fair values of employee stock options were calculated using the Black-Scholes stock option valuation model with the following weighted average assumptions for grants in 1995, 1996 and 1997: stock price volatility of 31%, 42% and 37% in 1995, 1996 and 1997, respectively; risk-free rate of return of 5%; no dividend yield; and an expected term of 9 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

The Company's pro forma net income (loss) and basic net income (loss) per common share were as follows. The pro forma impact on earnings per common share for 1995, 1996 and 1997 is not necessarily indicative of future effects on earnings per share.

	Years Ended December 31,		
	1995	1996	1997
	(In thousands except per share amounts)		
Net income (loss)- as reported	$85,609	$10,817	$ (9,473)
Net income (loss)- pro forma	$85,450	$10,085	$(11,057)
Net income (loss) per basic common share - as reported	$ 1.68	$ .21	$ (.19)
Net income (loss) per basic common share - pro forma	$ 1.68	$ .20	$ (.22)

Preferred stock

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

Note 13 - Income taxes:

The components of (i) income (loss) from continuing operations before income taxes and minority interest ("pretax income (loss)"), (ii) the difference between the provision for income taxes attributable to pretax income (loss) and the amounts that would be expected using the U.S. federal statutory income tax rate of 35%, (iii) the provision for income taxes and (iv) the comprehensive tax

provision are presented below.

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Pretax income (loss):			
U.S	$ 17,943	$ 20,481	$ (9,308)
Non-U.S	48,330	(30,715)	(18,381)
	$ 66,273	$(10,234)	$(27,689)
Expected tax expense (benefit)	$ 23,196	$ (3,581)	$ (9,692)
Non-U.S. tax rates	(7,268)	(6)	(784)
Rate change adjustment of deferred taxes	(6,593)	--	--
Valuation allowance	(9,588)	3,013	8,704
Incremental tax on income of companies not included in the NL Tax Group	795	3,423	3,886
U.S. state income taxes	(639)	(569)	231
Other, net	(181)	(784)	(101)
	$ (278)	$ 1,496	$ 2,244
Provision for income taxes:			
Current income tax expense (benefit):			
U.S. federal	$ (8,245)	$ (3,539)	$ (6,881)
U.S. state	(258)	(460)	681
Non-U.S	36,552	5,198	14,071
	28,049	1,199	7,871
Deferred income tax expense (benefit):			
U.S. federal	(8,827)	(6,493)	1,224
U.S. state	(726)	(668)	(450)
Non-U.S	(18,774)	7,458	(6,401)
	(28,327)	297	(5,627)
	$ (278)	$ 1,496	$ 2,244
Comprehensive tax provision allocable to:			
Pretax income (loss)	$ (278)	$ 1,496	$ 2,244
Shareholders' deficit, principally deferred income taxes allocable to currency translation and marketable securities adjustments	10	329	2,036
	$ (268)	$ 1,825	$ 4,280

The components of the net deferred tax liability are summarized below:

	December 31,	
	1996	1997
	Deferred tax	Deferred tax

	Assets	Liabilities	Assets	Liabilities
	(In thousands)			
Tax effect of temporary differences relating to:				
Inventories	$ 4,130	$ (4,967)	$ 4,223	$ (2,674)
Property and equipment	512	(109,963)	--	(105,806)
Accrued postretirement benefits cost	21,396	--	19,682	--
Accrued (prepaid) pension cost	6,308	(17,579)	5,296	(16,697)
Accrued environmental costs	36,670	--	45,242	--
Other accrued liabilities and deductible differences	33,464	--	42,393	--
Other taxable differences	--	(102,578)	--	(85,139)
Tax on unremitted earnings of non-U.S. subsidiaries	--	(18,048)	--	(17,551)
Tax loss and tax credit carryforwards	205,476	--	167,680	--
Valuation allowance	(207,117)	--	(188,585)	--
Gross deferred tax assets (liabilities)	100,839	(253,135)	95,931	(227,867)
Reclassification, principally netting by tax jurisdiction	(99,019)	99,019	(94,179)	94,179
Net total deferred tax assets (liabilities)	1,820	(154,116)	1,752	(133,688)
Net current deferred tax assets (liabilities)	1,597	(2,895)	1,642	(891)
Net noncurrent deferred tax assets (liabilities)	$ 223	$(151,221)	$ 110	$(132,797)

Changes in the Company's deferred income tax valuation allowance during the past three years are summarized below.

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Balance at the beginning of year	$ 164,500	$ 195,569	$ 207,117
Increase in certain deductible temporary differences which the Company believes do not meet the "more-likely-than-not" recognition criteria	--	3,013	8,704
Change in estimate of the future tax benefit of certain tax credits which the Company believes satisfies the "more-likely-than-not" recognition criteria	(9,588)	--	--
Foreign currency translation	6,451	(5,937)	(12,339)
Offset to the increase in gross			

deferred income tax assets resulting from recharacterization of certain tax attributes due primarily to changes in certain tax return elections	34,206	--	--
Offset to the change in gross deferred income tax assets due to dual residency status of a Company subsidiary and redetermination of certain U.S. tax attributes	--	14,472	(14,897)
Balance at the end of year	$ 195,569	$ 207,117	$ 188,585

Certain of the Company's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies. The Company previously reached an agreement with the German tax authorities and paid certain tax deficiencies of approximately DM 44 million ($28 million when paid), including interest, which resolved significant tax contingencies for years through 1990. During 1997 the Company received DM 19 million ($11 million when received) in trade capital tax refunds based on (i) recent court decisions which resulted in reducing the trade capital tax base and (ii) prior agreements between the Company and the German tax authorities regarding payment of disputed taxes. The Company also reached a tentative agreement with the German tax authorities regarding the years 1991 through 1994, and expects to pay DM 9 million ($5 million at December 31, 1997) during 1998 in settlement of certain tax issues. Certain other significant German tax contingencies remain outstanding for the years 1990 through 1996 and will continue to be litigated. With respect to these contingencies, the Company has received certain revised tax assessments aggregating DM 119 million ($66 million at December 31, 1997), including non-income tax related items and interest, for years through 1996. The Company expects to receive tax assessments for an additional DM 20 million ($11 million at December 31, 1997), including non-income tax related items and interest, for the years 1991 through 1994. No payments of

tax or interest deficiencies related to these assessments are expected until the litigation is resolved.

During 1997 a German tax court proceeding involving a tax issue substantially the same as that involved in the Company's primary remaining tax contingency was decided in favor of the taxpayer. The German tax authorities have appealed that decision to the German Supreme Court; the Company believes that the decision by the German Supreme Court will be rendered within two years and will become a legal precedent which will likely determine the outcome of the Company's primary dispute with the German tax authorities, which assessments, including non-income tax related items and interest, aggregate DM 121 million. Although the Company believes that it will ultimately prevail, the Company has granted a DM 94 million ($53 million at December 31, 1997) lien on its Nordenham, Germany TiO_2 plant in favor of the City of Leverkusen, and a DM 5 million ($3 million at December 31, 1997) lien in favor of the German federal tax authorities.

During 1997 the Company received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($7 million at December 31, 1997) relating to 1994. The Company has appealed this assessment and expects to litigate this issue.

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

During 1995 the Company recorded tax benefits of $6.6 million due to the reduction in dividend withholding tax rates pursuant to ratification of the

U.S./Canada income tax treaty.

The Company utilized foreign tax credit carryforwards of $11 million in 1995, $2 million in 1996 and $5 million in 1997, and utilized U.S. net operating loss carryforwards of $8 million in 1995 and $26 million in 1997, to reduce U.S. federal income tax expense. At December 31, 1997 for U.S. federal income tax purposes, the Company had approximately $19 million of unutilized foreign tax credit carryforwards expiring during 1998 through 2001 and approximately $12 million of alternative minimum tax credit carryforwards with no expiration date. The Company also had approximately $350 million of income tax loss carryforwards in Germany with no expiration date.

Note 14 - Other income, net:

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Securities earnings:			
Interest and dividends	$ 6,244	$ 4,708	$ 2,736
Securities transactions	1,175	--	2,657
	7,419	4,708	5,393
Currency transaction gains, net	293	5,890	5,919
Trade interest income	2,522	1,613	2,983
Disposition of property and equipment	(2,695)	(2,236)	1,735
Technology fee income	10,660	8,743	--
Pension and OPEB curtailment gains	--	3,240	--
Litigation settlement gains	--	2,756	--
Other, net	3,319	2,955	3,337
	$ 21,518	$ 27,669	$ 19,367

Technology fee income was amortized by the straight-line method over a three-year period ending October 1996.

Note 15 - Other items:

Advertising costs included in continuing operations, expensed as incurred, were $1 million in each of 1995, 1996 and 1997.

Research, development and certain sales technical support costs included in continuing operations, expensed as incurred, approximated $9 million in 1995, $8 million in 1996 and $7 million in 1997.

Interest capitalized related to continuing operations in connection with long-term capital projects was $1 million in 1995 and $2 million in each of 1996 and 1997.

Note 16 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and

dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. While no transactions of the type described above are planned or proposed with respect to the Company other than

as set forth in this Annual Report on Form 10-K, the Company from time to time considers, reviews and evaluates and understands that Contran, Valhi and related entities consider, review and evaluate, such transactions. Depending upon the business, tax and other objectives then relevant, and restrictions under the indentures and other agreements, it is possible that the Company might be a party to one or more such transactions in the future.

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

The Company is a party to an intercorporate services agreement with Contran (the "Contran ISA") whereby Contran provides certain management services to the Company on a fee basis. Management services fee expense related to the Contran ISA was $.4 million in each of 1995 and 1996 and $.5 million in 1997.

The Company is a party to an intercorporate services agreement with Valhi (the "Valhi ISA") whereby Valhi and the Company provide certain management, financial and administrative services to each other on a fee basis. Net management services fee expense (income) related to the Valhi ISA was $.1 million in each of 1995 and 1996 and $(.1) million in 1997.

The Company is party to an intercorporate services agreement with Tremont (the "Tremont ISA"). Under the terms of the contract, the Company provides certain management and financial services to Tremont on a fee basis. Management services fee income related to the Tremont ISA was $.1 million in each of 1995 and 1996 and $.2 million in 1997.

The Company is party to an intercorporate services agreement (the "Timet ISA") with Titanium Metals Corporation ("Timet"), approximately 30% of the outstanding common stock of which is held by Tremont. Under the terms of the contract, the Company provides certain management and financial services to Timet on a fee basis. Management services fee income related to the Timet ISA was $.3 million in 1997.

Purchases from LPC were $69.7 million in 1995, $69.8 million in 1996 and $78.1 million in 1997.

Certain employees of the Company have been granted options to purchase Valhi common stock under the terms of Valhi's stock option plans. The Company and Valhi have agreed that the Company will pay Valhi the aggregate difference between the option price and the market value of Valhi's common stock on the exercise date of such options. For financial reporting purposes, the Company accounts for the related expense (income) ($(25,000) in 1995, $1,000 in 1996 and $68,000 in 1997) in a manner similar to accounting for SARs. At December 31, 1997 an employee of the Company held vested options to purchase 15,000 shares of Valhi common stock at an exercise price of $14.66 per share which exceeded Valhi's December 31, 1997 quoted market price per share of $9.4375.

The Company and NLI Insurance, Ltd., a wholly-owned subsidiary of Tremont, are parties to an Insurance Sharing Agreement with respect to certain loss payments and reserves established by NLI Insurance, Ltd. that (i) arise out of claims against other entities for which the Company is responsible and (ii) are subject to payment by NLI Insurance, Ltd. under certain reinsurance contracts. Also, NLI Insurance, Ltd. will credit the Company with respect to certain

underwriting profits or credit recoveries that NLI Insurance, Ltd. receives from independent reinsurers that relate to retained liabilities.

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

	December 31,	
	1996	1997
	(In thousands)	
Tremont Corporation	$ 3,529	$ 3,354
LPC	6,677	8,513
Other, net	(2)	(355)
	$ 10,204	$ 11,512

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

Note 17 - Commitments and contingencies:

Leases

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

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO2 production capacity, is located within the lessor's extensive manufacturing complex, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and the supplies and services agreements restrict the Company's ability to transfer ownership or use of the Leverkusen facility.

Net rent expense included in continuing operations aggregated $7 million in 1995, $8 million in 1996 and $7 million in 1997. At December 31, 1997 minimum rental commitments under the terms of noncancellable operating leases, excluding discontinued operations, were as follows:

Years ending December 31,	Real Estate	Equipment
	(In thousands)	
1998	$ 1,744	$ 1,962
1999	1,555	854
2000	1,056	345
2001	1,046	129
2002	1,031	47
2003 and thereafter	18,608	87

$25,040	$3,424

Capital expenditures

At December 31, 1997 the estimated cost to complete capital projects in process approximated $4 million, including $2 million to complete a debottlenecking expansion project at the Company's Leverkusen, Germany chloride-process TiO2 facility.

Purchase commitments

The Company has long-term supply contracts that provide for the Company's chloride feedstock requirements through 2000. The agreements require the Company purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately $101 million.

Legal proceedings

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

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

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

Environmental matters and litigation. Some of the Company's current and former facilities, including several divested secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, the Company has been named a potential responsible party ("PRP") pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") in approximately 75 governmental and private actions associated with hazardous waste sites and former mining locations, certain of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List. These actions seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. While the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who are also jointly and severally liable. In addition, the Company is a party to a number of lawsuits filed in various jurisdictions alleging CERCLA or other environmental claims. At December 31, 1997 the Company had accrued $135 million for those environmental matters which are reasonably estimable. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites which it is possible to estimate costs is approximately $175 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. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future. As discussed in Note 2, the Company adopted the AICPA's Statement of Position 96-1, "Environmental Remediation Liabilities," in the first quarter of 1997, increasing its environmental liability by $30 million.

Certain of the Company's businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws. As with other companies engaged in similar businesses, certain operations and products of the Company have the potential to cause environmental or other damage. The Company continues to implement various policies and programs in an effort to minimize these risks. The Company's policy is to comply with environmental laws

and regulations at all of its facilities and to continually strive to improve environmental performance in association with applicable industry initiatives. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies thereunder, could affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances as well as the Company's consolidated financial position, results of operations or liquidity.

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

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

Concentrations of credit risk

Sales of TiO2 accounted for more than 90% of net sales from continuing operations during each of the past three years. TiO2 is sold to the paint, plastics and paper industries. Such markets are generally considered "quality-of-life" markets whose demand for TiO2 is influenced by the relative economic well-being of the various geographic regions. TiO2 is sold to over 4,000 customers, none of which represents a significant portion of net sales. In each of the past three years, approximately one-half of the Company's TiO2 sales by volume were to Europe and approximately 36% in 1995, 37% in 1996 and 36% in 1997 of sales were attributable to North America.

Consolidated cash, cash equivalents and restricted cash includes $63 million and $53 million invested in U.S. Treasury securities purchased under short-term agreements to resell at December 31, 1996 and 1997, respectively, of which $53 million and $45 million, respectively, of such securities are held in trust for the Company by a single U.S. bank.

Note 18 - Financial instruments:

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

	December 31, 1996		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash and cash equivalents, including restricted cash	$ 114.1	$ 114.1	$ 106.1	$ 106.1
Marketable securities - classified as available-for-sale	23.7	23.7	17.3	17.3
Notes payable and long-term debt:				
Fixed rate with market quotes:				
Senior Secured Notes	$ 250.0	$ 265.2	$ 250.0	$ 277.9
Senior Secured Discount Notes	149.8	161.9	169.9	186.7
Variable rate debt	455.0	455.0	338.3	338.3
Common shareholders' equity (deficit)	$ (203.5)	$ 555.9	$ (222.3)	$ 698.5

Fair value of the Company's marketable securities and Notes are based upon quoted market prices and the fair value of the Company's common shareholder's equity (deficit) is based upon quoted market prices for NL's common stock.

In connection with its credit facility, Rheox entered into interest rate collar agreements in 1997 which effectively set minimum and maximum U.S. LIBOR interest rates of 5.25% and 8%, respectively, on $50 million principal amount of its variable-rate bank term loan through May 2001. The margin on such borrowings ranged from .75% to 1.75%, depending upon the level of a certain Rheox financial ratio. The Company was exposed to interest rate risk in the event of nonperformance by the other parties to the agreements. At December 31, 1997 the estimated fair value of such agreements was estimated to be a $.1 million payable. Such fair value represented the amount the Company would pay if it terminated the collar agreements at that date, and is based upon quotes obtained from the counter party financial institutions. The Company terminated these agreements in the first quarter of 1998 concurrently with the prepayment and termination of the underlying credit facility. See Note 20. The Company held no derivative financial instruments at December 31, 1996.

Note 19 - Quarterly financial data (unaudited):

	Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share amounts)			
Year ended December 31, 1996:				
Net sales	$ 206,368	$ 228,229	$ 215,038	$ 201,544
Cost of sales	152,333	177,396	175,864	163,012
Operating income	29,472	25,443	9,640	7,051
Income (loss) from continuing operations	6,314	6,134	(9,724)	(14,459)

Net income (loss)	$ 13,444	$ 11,919	$ (4,249)	$ (10,297)
Basic and diluted earnings per common share:				
Income (loss) from continuing operations	$ .12	$ .12	$ (.19)	$ (.28)
Net income (loss)	$ .26	$ .23	$ (.08)	$ (.20)
Weighted average common shares and potential common shares outstanding:				
Basic	51,006	51,105	51,118	51,118
Diluted	51,519	51,496	51,118	51,118
Year ended December 31, 1997:				
Net sales	$ 204,389	$ 214,354	$ 210,343	$ 208,154
Cost of sales	167,175	172,679	162,499	147,592
Operating income	8,689	16,815	24,908	32,089
Income (loss) from continuing operations	(40,180)	(3,428)	3,984	9,749
Net income (loss)	$ (35,721)	$ 2,255	$ 9,761	$ 14,232
Basic and diluted earnings per common share:				
Income (loss) from continuing operations	$ (.79)	$ (.07)	$ .08	$ .19
Net income (loss)	$ (.70)	$ .04	$ .19	$ .28
Weighted average common shares and potential common shares outstanding:				
Basic	51,140	51,144	51,146	51,175
Diluted	51,140	51,144	51,585	51,717

Note 20 - Subsequent event:

The specialty chemical business of Rheox was sold to Elementis plc for $465 million in January 1998, including $20 million attributable to a five-year agreement by the Company not to compete in the rheological products business. A portion of the net proceeds were used to prepay and terminate Rheox's bank credit facility. The Company expects to recognize an after-tax gain of approximately $300 million on the disposal of this business segment in the first quarter of 1998. Had the sale occurred at December 31, 1997, the Company's pro forma unaudited cash and cash equivalents would have been $326 million; notes payable and long-term debt, including the current portion, would have been $641 million; and shareholders' equity would have been $40 million. As a result of the sale, the Company has presented the results of this business segment as discontinued operations for all periods presented. Following the sale, Rheox, Inc. was renamed NL Capital Corporation.

Condensed income statements related to discontinued operations for 1995, 1996 and 1997 are as follows. Interest expense has been allocated to discontinued operations based on the amount of debt specifically attributed to Rheox's operations.

	1995	1996	1997
	(In thousands)		

Net sales	$ 129,790	$ 134,895	$ 147,199
Other income (expense), net	723	2,811	(200)
	130,513	137,706	146,999
Cost of sales	64,302	69,843	73,583
Selling, general and administrative	27,724	26,310	29,231
Interest expense	5,858	5,706	11,207
	97,884	101,859	114,021
Income before income taxes and minority interest	32,629	35,847	32,978
Income tax expense	12,949	13,337	12,475
Minority interest	566	(42)	101
	$ 19,114	$ 22,552	$ 20,402

Condensed balance sheets related to discontinued operations included in the Company's consolidated balance sheets at December 31, 1996 and 1997 are as follows.

ASSETS	1996	1997
	(In thousands)	
Cash and cash equivalents	$ 9,269	$ 9,137
Accounts and notes receivable	14,725	15,415
Inventories	18,015	19,921
Other current assets	8,183	6,443
Current assets	50,192	50,916
Property, plant and equipment, net	31,436	30,308
Other assets	8,467	7,411
	$ 90,095	$ 88,635
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current portion of long-term debt	$ 14,892	$ 15,000
Other current liabilities	11,277	19,129
	26,169	34,129
Long-term debt	53	102,500
Note payable to parent	105,801	--
Deferred income taxes	3,248	2,485
Other noncurrent liabilities	2,875	4,489
	111,977	109,474
Stockholder's deficit	(48,051)	(54,968)
	$ 90,095	$ 88,635

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

	Years ended December 31,		
	1995	1996	1997
	(In thousands)		
Cash flows from operating activities	$ 17,551	$ 20,705	$ 31,506
Cash flows from investing activities:			
Capital expenditures	(3,464)	(2,665)	(2,330)
Purchase of minority interests	--	(5,168)	--
Other, net	(177)	457	16
	(3,641)	(7,376)	(2,314)
Cash flows from financing activities:			
Indebtedness, net	(30,499)	(23,041)	100,940
Other, net	--	(451)	--
	(30,499)	(23,492)	100,940
	$ (16,589)	$ (10,163)	$ 130,132

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

Our report on the consolidated financial statements of NL Industries, Inc. is included on page F-2 of this Annual Report on Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index on page F-1.

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

As discussed in Note 1 to the Condensed Financial Information on Schedule I, the Company changed its method of accounting for environmental remediation costs in 1997 in accordance with Statement of Position No. 96-1.

COOPERS & LYBRAND L.L.P.

Houston, Texas
February 11, 1998

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheets

December 31, 1996 and 1997

(In thousands)

	1996	1997
Current assets:		
Cash and cash equivalents, including restricted cash of $4,833 and $4,934	$ 12,135	$ 16,541
Accounts and notes receivable	356	7,119
Receivable from subsidiaries	9,542	10,625
Prepaid expenses	445	256
Total current assets	22,478	34,541
Other assets:		
Marketable securities	23,718	17,270
Notes receivable from subsidiary	505,557	573,218
Investment in subsidiaries	(175,063)	(216,264)
Other	6,680	5,778
Total other assets	360,892	380,002
Property and equipment, net	3,396	3,221
	$ 386,766	$ 417,764
Current liabilities:		
Accounts payable and accrued liabilities	$ 24,929	$ 35,636
Payable to affiliates	2,813	3,218
Income taxes	3,024	5,051
Deferred income taxes	1,908	1,640
Total current liabilities	32,674	45,545
Noncurrent liabilities:		
Long-term debt	399,756	419,857
Deferred income taxes	9,736	12,856
Accrued pension cost	10,974	7,019
Accrued postretirement benefits cost	34,396	31,117
Other	102,711	123,639
Total noncurrent liabilities	557,573	594,488
Shareholders' deficit	(203,481)	(222,269)
	$ 386,766	$ 417,764

Contingencies (Note 4)

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Operations

Years ended December 31, 1995, 1996 and 1997

(In thousands)

	1995	1996	1997
Revenues and other income:			
Equity in income (loss) from continuing operations of subsidiaries	$ 80,620	$ (4,316)	$ (1,019)
Interest and dividends	2,739	1,461	1,246
Interest income from subsidiaries:			
Continuing	45,551	47,097	57,851
Discontinued	--	2,641	1,189
Securities transactions	1,175	--	2,657
Other income, net	460	1,873	523
	130,545	48,756	62,447
Costs and expenses:			
General and administrative	27,079	18,094	49,502
Interest	45,842	47,940	50,319
	72,921	66,034	99,821
Income (loss) from continuing operations before income taxes	57,624	(17,278)	(37,374)
Income tax benefit	8,871	5,543	7,499
Income (loss) from continuing operations	66,495	(11,735)	(29,875)
Discontinued operations	19,114	22,552	20,402
Net income (loss)	$ 85,609	$ 10,817	$ (9,473)

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows

Years ended December 31, 1995, 1996 and 1997

(In thousands)

	1995	1996	1997
Cash flows from operating activities:			
Net income (loss)	$ 85,609	$ 10,817	$ (9,473)

Equity in (income) loss of subsidiaries:			
Continuing	(80,620)	4,316	1,019
Discontinued	(19,114)	(22,552)	(20,402)
Distributions from subsidiaries:			
Continuing	15,000	20,000	35,000
Discontinued	--	--	30,000
Noncash interest expense	842	842	(7,523)
Deferred income taxes	1,411	(1,443)	1,224
Securities transactions	(1,175)	--	(2,657)
Change in accounting for environmental remediation costs	--	--	30,000
Other, net	(5,819)	(3,291)	(2,544)
	(3,866)	8,689	54,644
Change in assets and liabilities, net	8,042	(8,593)	789
Marketable trading securities:			
Purchases	(762)	--	--
Dispositions	27,102	--	--
Net cash provided by operating activities	30,516	96	55,433
Cash flows from investing activities:			
Investments in and loans to subsidiaries	(9,062)	(12,941)	(58,900)
Proceeds from disposition of securities	--	--	6,875
Capital expenditures	(33)	(40)	(15)
Other, net	10	11	(12)
Net cash used by investing activities	(9,085)	(12,970)	(52,052)

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows (Continued)

Years ended December 31, 1995, 1996 and 1997

(In thousands)

	1995	1996	1997
Cash flows from financing activities:			
Dividends	$ --	$(15,333)	$ --
Other, net	278	262	1,025
Net cash provided (used) by financing activities	278	(15,071)	1,025
Cash and cash equivalents:			
Increase (decrease) from:			
Operating activities	30,516	96	55,433
Investing activities	(9,085)	(12,970)	(52,052)
Financing activities	278	(15,071)	1,025
Net change from operating, investing and financing activities	21,709	(27,945)	4,406
Balance at beginning of year	18,371	40,080	12,135
Balance at end of year	$ 40,080	$ 12,135	$ 16,541

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Notes to Condensed Financial Information

Note 1 - Basis of presentation:

The Consolidated Financial Statements of NL Industries, Inc. (the "Company") and the related Notes to Consolidated Financial Statements are incorporated herein by reference. The Company adopted a new method of accounting for environmental remediation costs. See Note 2 to the Consolidated Financial Statements.

Note 2 - Net receivable from (payable to) subsidiaries and affiliates:

	December 31,	
	1996	1997
	(In thousands)	
Current:		
Tremont Corporation	$ (3,529)	$ (3,354)
Other, net	(2)	356
Kronos and Rheox:		
Income taxes	(836)	3,381
Other, net	11,096	7,024
	$ 6,729	$ 7,407
Noncurrent - notes receivable from:		
Kronos	$ 399,756	$ 573,218
Rheox	105,801	--
	$ 505,557	$ 573,218

Note 3 - Long-term debt:

	December 31,	
	1996	1997
	(In thousands)	
11.75% Senior Secured Notes	$250,000	$250,000
13% Senior Secured Discount Notes	149,756	169,857
	$399,756	$419,857

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

The aggregate maturities of the Company's long-term debt at December 31, 1997 are shown in the table below.

	Amount
	(In thousands)
Senior Secured Notes due 2003	$250,000
Senior Secured Discount Notes due 2005	187,500
	437,500
Less unamortized original issue discount on the Senior Secured Discount Notes	17,643
	$419,857

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

Note 4 - Contingencies:

See Legal proceedings in Note 17 to the Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Balance at beginning of year	Charged to costs and expenses	Deductions	Currency translation adjustments	Other	Balance at end of year
Year ended December 31, 1997:						
Allowance for doubtful accounts and notes receivable	$ 3,813	$ 382	$(1,153)(a)	$ (214)	$ -	$ 2,828
Amortization of intangibles	$ 22,207	$2,862	$ -	$(2,703)	$ -	$ 22,366
Year ended December 31, 1996:						
Allowance for doubtful accounts and notes receivable	$ 4,039	$ 1,274	$(1,331)(a)	$ (169)	$ -	$ 3,813
Amortization of intangibles	$ 20,562	$ 3,152	$ -	$(1,507)	$ -	$ 22,207
Year ended December 31, 1995:						
Allowance for doubtful accounts and notes receivable	$ 3,749	$ 289	$ (166)(a)	$ 167	$ -	$ 4,039

Amortization of intangibles	$ 16,149	$ 3,241	$ -	$ 1,172	$ -	$ 20,562

(a) Amounts written off, less recoveries.

EXHIBIT 10.48

AGREEMENT TO DEFER BONUS PAYMENT

This AGREEMENT TO DEFER BONUS PAYMENT (this "Agreement") is made effective as of the 20th day of February 1998 between NL Industries, Inc., a New Jersey corporation (the "Corporation") and Dr. Lawrence A. Wigdor ("Executive").

WHEREAS, Executive was awarded a Special Bonus in recognition of his performance which substantially contributed to the success of the Corporation;

WHEREAS, The Corporation and Executive desire to defer payment of $850,000 (the "Deferred Special Bonus") which Executive, in the absence of this Agreement, would be entitled to receive immediately with respect to services performed by Executive for the Corporation; and

WHEREAS, the Corporation and Robert D. Hardy as trustee, will enter into an agreement (the "Trust Agreement") which establishes an irrevocable trust (the "Trust") which is intended to hold and invest an amount of funds equal to the Deferred Special Bonus until such bonus is paid to Executive pursuant to this Agreement;

NOW, THEREFORE, in consideration of the agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. The Deferred Special Bonus shall be paid to Executive, or his designated beneficiaries, upon the earliest to occur of (a) the termination of Executive's employment (including Executive's resignation) for any reason, (b) Executive's death, or (c) such date as shall be determined by the Management Development and Compensation Committee of the Board of Directors (the "Committee") in its sole discretion but in no event later than ten (10) years after the effective date of this Agreement.

2. The Deferred Special Bonus shall accrue interest beginning on February 20, 1998 up to and including the date such amount is paid to Executive pursuant to Paragraph 1 hereof (the "Deferred Payment Date") and the entire amount of such accrued interest shall be paid to Executive, or his designated beneficiaries, on the Deferred Payment Date. Such interest shall accrue at the rate of eight and one-half percent (8.50%) per annum. Interest accrued pursuant to this Paragraph 2 shall compound on a semi-annual basis and shall be computed for the actual number of days elapsed on the basis of a year consisting of 365 or 366 days.

3. The Corporation shall immediately enter into the Trust Agreement and thereby establish the Trust. The Corporation shall contribute an amount equal to the Deferred Special Bonus to the Trust.

4. Subject to the terms of the Trust Agreement, the Corporation may satisfy its payment obligations to Executive, or to his designated beneficiaries, under this Agreement by (a)

directing the Trustee to make such payments from the principal and /or earnings of the Trust, (b) making such payments directly from the Corporation's internal funds, or (c) by any combination of (a) and (b), provided that all payments to Executive, or to his designated beneficiaries, pursuant to this Agreement shall be made in immediately available funds.

5. The Corporation shall withhold, either from the Deferred Special Bonus in the year such amount is paid to Executive pursuant to Paragraph 1 hereof, or from any salary, bonus or other compensatory payment made to Executive as the Corporation in its sole discretion may determine, such amounts as is required by law to be withheld in 1996 or after, as the case may be, pursuant to Code SS 3101 and 3121(v)(2) or successor provisions thereof.

6. Title to and beneficial ownership of any assets, whether cash or investments and whether held by the Corporation or the Trust, which the Corporation may earmark to meet its payment obligations to Executive under this

Agreement, shall at all times remain in the Corporation or the Trust, as applicable, and Executive and his designated beneficiaries shall not have any property interest whatsoever in any specific assets of the Corporation or the Trust. Any right of the Executive or any of his designated beneficiaries to receive payments from the Corporation under this Agreement shall be no greater than the right of any unsecured general creditor of the Corporation.

7. The right of Executive or any other person to any payment under this Agreement shall not be assigned, transferred, pledged or encumbered except by will or by the laws of descent and distribution.

8. If the Committee shall find that any person to whom any payment is payable under this Agreement is unable to care for his or her affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian or other legal representative) may be paid to the spouse, a child, a parent, a brother or sister, or the person or persons designated by the Executive in writing, or, in the absence of any of the foregoing, to any one or more persons deemed by the Committee to be appropriate. Any such payment shall be a complete discharge of the liabilities of the Corporation under this Agreement.

9. Nothing contained herein shall be construed as conferring upon Executive the right to continue in the employ of the Corporation as an executive or in any other capacity.

10 This Agreement shall be binding upon and inure to the benefit of the Corporation, it successors and assigns, and the Executive and his heirs, executors, administrators and legal representatives.

11. This Agreement contains the entire agreement of and between the parties with respect to the subject matter hereof, and supersedes any prior understandings, agreements, or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way. In the event of any conflict between the terms and provisions of this

Agreement and the terms and provisions of any employment or severance agreement entered into by the parties hereto, the terms and provisions of this Agreement shall govern.

12. The Agreement shall be governed by the laws of the State of Texas without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Texas.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

NL INDUSTRIES, INC.

By: /s/ David B. Garten

Its: Vice President & General Counsel

EXECUTIVE

/s/ Lawrence A. Wigdor
Dr. Lawrence A. Wigdor

TRUST AGREEMENT

This Agreement is made effective as of the 20th day of February, 1998 by and between NL Industries, Inc. (the "Corporation") and Robert D. Hardy (the "Trustee");

WHEREAS, the Corporation and Lawrence A. Wigdor (the "Executive") have entered into the Agreement to Defer Bonus Payment (the "Deferral Agreement") attached hereto as Exhibit A;

WHEREAS, the Corporation has incurred or expects to incur liability under the terms of such Deferral Agreement with respect to the Executive;

WHEREAS, the Corporation wishes to establish a trust (hereinafter called the "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of the Corporation's creditors in the event of the Corporation's Insolvency, as herein defined, until paid to the Executive and his beneficiaries in such manner and at such times as specified in the Deferral Agreement;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Deferral Agreement as an unfunded plan maintained for the purpose of providing deferred compensation for a member of the select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974;

WHEREAS, it is the intention of the Corporation to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Deferral Agreement;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust

(a) The Corporation hereby deposits with the Trustee in trust $100 or such other amount as determined by the Corporation, which shall become the principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which the Corporation is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of the Corporation and shall be used exclusively for the uses and purposes of the Executive and general creditors as herein set forth. The Executive and his beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Deferral Agreement and this Trust Agreement shall be mere unsecured contractual rights of the Executive and his beneficiaries against the Corporation. Any assets held by the Trust will be subject to the claims of the Corporation's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) The Corporation shall make additional deposits of cash or other property in trust with the Trustee in accordance with the terms of the Deferral Agreement to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. Neither the Trustee nor the Executive or any of his beneficiaries shall have any right to compel additional

deposits, except as may be required by the terms of the Deferral Agreement.

Section 2. Payments to Executive and His Beneficiaries.

(a) The Corporation shall deliver to the Trustee a written schedule (the "Payment Schedule") that indicates the amounts payable in respect of the Executive (and his beneficiaries), that provides the amounts so payable, the form in which such amount is to be paid, and the dates for payment of such amounts. Except as otherwise provided herein, the Trustee shall make payments to the Executive and his beneficiaries in accordance with such Payment Schedule. The Corporation may amend or modify such Payment Schedule from time to time by providing the Trustee with written notice of such amendments. The Trustee may conclusively rely on such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Deferral Agreement and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Corporation.

(b) The entitlement of the Executive or his beneficiaries to benefits under the Deferral Agreement shall be determined by the Corporation in accordance with the terms of the Deferral Agreement, and any claim for such benefits shall be considered and reviewed under the terms of the Deferral Agreement.

(c) The Corporation may make payment of benefits directly to the Executive or his beneficiaries as they become due under the terms of the Deferral Agreement. The Corporation shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to the Executive or his beneficiaries. Such payments by the Corporation shall not amend the Payment Schedule unless the Corporation specifically amends said Schedule in writing. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the Payment Schedule, the Corporation shall make the balance of each such payment as it falls due. The Trustee shall notify the Corporation where principal and earnings are not sufficient.

Section 3. Trustee Responsibility Regarding Payments to Trust Beneficiary When the Corporation Is Insolvent.

(a) The Trustee shall not make any payments to the Executive or his beneficiaries if the Corporation is Insolvent. Notwithstanding any other provision of this Trust Agreement, all determinations by the Trustee under this Trust Agreement regarding whether the Corporation is solvent or Insolvent should be based solely on the written representation to the Trustee from the Corporation's Controller or Chief Financial Officer without independent investigation by the Trustee. The Corporation shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Corporation is unable to pay its debts as they become due, or (ii) the Corporation is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Corporation under federal and state law as set forth below.

(1) The Board of Directors, the Chief Executive Officer, the Chief Financial Officer ("CFO") and the Controller of the Corporation shall have the duty to inform the Trustee in writing of the Corporation's Insolvency with respect to any payment date on the Payment Schedule. If a person claiming to be a creditor of the Corporation alleges in writing to the Trustee that the Corporation has become Insolvent, the Trustee shall determine whether the Corporation is Insolvent; such determination shall be made based solely on written representation from the Corporation's Controller or Chief Financial Officer. Pending such determination, the Trustee shall not make any payments to Executive or his beneficiaries.

(2) Unless the Trustee has received notice from the Corporation that the Corporation is Insolvent, the Trustee shall have no duty at

any time to inquire whether the Corporation is Insolvent. The Trustee shall in all events rely on such representation from the Corporation in making a determination concerning the Corporation's solvency.

(3) In the event that the Corporation's Controller or Chief Financial Officer has notified the Trustee in writing of the Corporation's Insolvency, the Trustee shall not make any payments to the Executive or his beneficiaries and shall hold the assets of the Trust for the benefit of the Corporation's general creditors. Nothing in this Trust Agreement shall in any way diminish or impair any rights of the Executive or his beneficiaries to pursue their rights as general creditors of the Corporation with respect to payments due under the Deferral Agreement or otherwise.

(4) The Trustee shall resume making payments to the Executive or his beneficiaries in accordance with Section 2 of this Trust Agreement only after the Trustee has determined that the Corporation is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if the Trustee discontinues making payments from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments,

the first payment following such discontinuance shall include the aggregate amount of all payments due to the Executive or his beneficiaries under the terms of the Deferral Agreement for the period of such discontinuance, less the aggregate amount of any payments made to the Executive or his beneficiaries by the Corporation in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. Payments to the Corporation.

Except as provided in Section 3 hereof, the Corporation shall have no right or power to direct the Trustee to return to the Corporation or to divert to others any of the Trust assets before all payments have been made to the Executive or his beneficiaries pursuant to the terms of the Deferral Agreement.

Section 5. Investment Authority.

In no event may the Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by the Corporation, other than a de minimis amount held in common investment vehicles in which the Trustee invests. All rights associated with assets of the Trust shall be exercised, solely in accordance with the directions of the Corporation, by the Trustee or the person designated by the Trustee, and shall in no event be exercisable by or rest with the Executive.

Section 6. Disposition of Income.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7. Accounting by the Trustee.

The Trustee shall keep records of such investments, receipts, disbursements, and all other transactions required to be made, as shall be agreed upon in writing between the Corporation and the Trustee. Within 60 days following the close of each calendar year and within 60 days after the removal or resignation of the Trustee, the Trustee shall deliver to the Corporation a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be. In the event the Trustee delegates the obligations of this section to an employee of the Corporation, such obligations shall be deemed to be fulfilled by

the Trustee.

Section 8. Responsibility of the Trustee.

(a) The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that the Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Corporation in connection, directly or indirectly, with, the terms of the Deferral Agreement or this Trust. In the event of a dispute between the Corporation and a party, the Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) The Corporation agrees to indemnify and hold the Trustee harmless from any and all costs, fees, expenses (including without limitation attorney's fees and expenses), claims or lawsuits by any person or entity, liabilities or obligations of any type or nature arising or related, directly or indirectly, to the Deferral Agreement, this Trust or any action or failure to act by the Trustee in connection in any way with any of the foregoing. Furthermore, if the Trustee undertakes or defends any litigation arising in connection with this Trust, the Corporation agrees to indemnify the Trustee against the Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be solely liable for such payments. If the Corporation does not pay such costs, expenses and liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust.

(c) The Trustee may consult with legal counsel (who may also be counsel for the Corporation generally) with respect to any of its duties or obligations hereunder.

(d) The Trustee may hire and the Corporation may make available to the Trustee agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder. In addition, the Trustee may delegate any of its duties under this Trust to employees and management of the Corporation and the Trustee may conclusively rely on the reports of such employees and management without further investigation.

(e) The Trustee shall have, without exclusion, all powers conferred on the Trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or to applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

Section 9. Compensation and Expenses of Trustee.

The Corporation shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

Section 10. Resignation and Removal of Trustee.

(a) The Trustee may resign at any time by written notice to the Corporation, which shall be effective 15 days after receipt of such notice unless the Corporation and the Trustee agree otherwise.

(b) The Trustee may be removed by the Corporation on 15 days notice to the Trustee or upon shorter notice accepted by the Trustee.

(c) Upon a Change of Control, as defined herein, the Trustee may not be removed by the Corporation for 18 months.

(d) Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 30 days after receipt of notice of resignation, removal or transfer, unless the Corporation extends the time limit.

(e) If the Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. Appointment of Successor.

(a) If the Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, the Corporation may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace the Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the Corporation or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and the Corporation shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by the Trustee and the Corporation. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Deferral Agreement or shall make the Trust revocable.

(b) The Trust shall not terminate until the date on which the Executive and his beneficiaries are no longer entitled to any payments pursuant to the terms of the Deferral Agreement. Upon termination of the Trust any assets remaining in the Trust shall be returned to the Corporation.

Section 13. Miscellaneous.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) No amount payable to the Executive or any of his beneficiaries under this Trust Agreement may be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of Texas.

(d) For purposes of this Trust, Change of Control shall mean the purchase or other acquisition by any person, entity or group of persons, within the meaning of section 13(d) or 14(d) of the Securities Exchange Act of 1934 ("Act"), or any comparable successor provisions, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of 30 percent or more of either the outstanding shares of common stock or the combined voting power of the Corporation's then outstanding voting securities entitled to vote generally, or the approval by the stockholders of the Corporation of a reorganization, merger, or consolidation, in each case, with respect to which persons who were stockholders of the Corporation immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50 percent of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Corporation's then outstanding securities, or a liquidation or dissolution of the Corporation or of the sale of all or substantially all of the Corporation's assets.

Section 14. Effective Date.

The effective date of this Trust Agreement shall be February 20, 1998.

* * * * *

EXECUTED on the dates of the respective acknowledgments hereto, to be effective as of the 20th day of February, 1998.

NL Industries, Inc.

by /s/ David B. Garten, V.P.

- TRUSTOR -

/s/ Robert D. Hardy

- TRUSTEE -

THE STATE OF TEXAS

COUNTY OF Harris

This instrument was acknowledged before me on the 20th day of February, 1998, by Irene Pepe.

/s/ Irene Pepe
Notary Public in and for
the State of T E X A S

My Commission Expires:

11/29/01

EXHIBIT 10.49

AGREEMENT TO DEFER BONUS PAYMENT

This AGREEMENT TO DEFER BONUS PAYMENT (this "Agreement") is made effective as of the 20th day of February 1998 between NL Industries, Inc., a New Jersey corporation (the "Corporation") and J. Landis Martin ("Executive").

WHEREAS, Executive was awarded a Special Bonus in recognition of his performance which substantially contributed to the success of the Corporation;

WHEREAS, The Corporation and Executive desire to defer payment of $1,508,300 (the "Deferred Special Bonus") which Executive, in the absence of this Agreement, would be entitled to receive immediately with respect to services performed by Executive for the Corporation; and

WHEREAS, the Corporation and Robert D. Hardy as trustee, will enter into an agreement (the "Trust Agreement") which establishes an irrevocable trust (the "Trust") which is intended to hold and invest an amount of funds equal to the Deferred Special Bonus until such bonus is paid to Executive pursuant to this Agreement;

NOW, THEREFORE, in consideration of the agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. The Deferred Special Bonus shall be paid to Executive, or his designated beneficiaries, upon the earliest to occur of (a) the termination of Executive's employment (including Executive's resignation) for any reason, (b) Executive's death, or (c) such date as shall be determined by the Management Development and Compensation Committee of the Board of Directors (the "Committee") in its sole discretion.

2. The Deferred Special Bonus shall accrue interest beginning on February 20, 1998 up to and including the date such amount is paid to Executive pursuant to Paragraph 1 hereof (the "Deferred Payment Date") and the entire amount of such accrued interest shall be paid to Executive, or his designated beneficiaries, on the Deferred Payment Date. Such interest shall accrue at the rate of eight and one-half percent (8.50%) per annum. Interest accrued pursuant to this Paragraph 2 shall compound on a semi-annual basis and shall be computed for the actual number of days elapsed on the basis of a year consisting of 365 or 366 days.

3. The Corporation shall immediately enter into the Trust Agreement and thereby establish the Trust. The Corporation shall contribute an amount equal to the Deferred Special Bonus to the Trust.

4. Subject to the terms of the Trust Agreement, the Corporation may satisfy its payment obligations to Executive, or to his designated beneficiaries, under this Agreement by (a) directing the Trustee to make such payments from the principal and /or earnings of the Trust, (b)

making such payments directly from the Corporation's internal funds, or (c) by any combination of (a) and (b), provided that all payments to Executive, or to his designated beneficiaries, pursuant to this Agreement shall be made in immediately available funds.

5. The Corporation shall withhold, either from the Deferred Special Bonus in the year such amount is paid to Executive pursuant to Paragraph 1 hereof, or from any salary, bonus or other compensatory payment made to Executive as the Corporation in its sole discretion may determine, such amounts as is required by law to be withheld in 1996 or after, as the case may be, pursuant to Code 3101 and 3121(v)(2) or successor provisions thereof.

6. Title to and beneficial ownership of any assets, whether cash or investments and whether held by the Corporation or the Trust, which the Corporation may earmark to meet its payment obligations to Executive under this Agreement, shall at all times remain in the Corporation or the Trust, as

applicable, and Executive and his designated beneficiaries shall not have any property interest whatsoever in any specific assets of the Corporation or the Trust. Any right of the Executive or any of his designated beneficiaries to receive payments from the Corporation under this Agreement shall be no greater than the right of any unsecured general creditor of the Corporation.

7. The right of Executive or any other person to any payment under this Agreement shall not be assigned, transferred, pledged or encumbered except by will or by the laws of descent and distribution.

8. If the Committee shall find that any person to whom any payment is payable under this Agreement is unable to care for his or her affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian or other legal representative) may be paid to the spouse, a child, a parent, a brother or sister, or the person or persons designated by the Executive in writing, or, in the absence of any of the foregoing, to any one or more persons deemed by the Committee to be appropriate. Any such payment shall be a complete discharge of the liabilities of the Corporation under this Agreement.

9. Nothing contained herein shall be construed as conferring upon Executive the right to continue in the employ of the Corporation as an executive or in any other capacity.

10 This Agreement shall be binding upon and inure to the benefit of the Corporation, it successors and assigns, and the Executive and his heirs, executors, administrators and legal representatives.

11. This Agreement contains the entire agreement of and between the parties with respect to the subject matter hereof, and supersedes any prior understandings, agreements, or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way. In the event of any conflict between the terms and provisions of this Agreement and the terms and provisions of any employment or severance agreement entered into by the parties hereto, the terms and provisions of this Agreement shall govern.

12. The Agreement shall be governed by the laws of the State of Texas without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Texas.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

NL INDUSTRIES, INC.

By: /s/ David B. Garten

Its: Vice President & General Counsel

EXECUTIVE

/s/ J. Landis Martin
J. Landis Martin

TRUST AGREEMENT

This Agreement is made effective as of the 20th day of February, 1998 by and between NL Industries, Inc. (the "Corporation") and Robert D. Hardy (the "Trustee");

WHEREAS, the Corporation and J. Landis Martin (the "Executive") have entered into the Agreement to Defer Bonus Payment (the "Deferral Agreement") attached hereto as Exhibit A;

WHEREAS, the Corporation has incurred or expects to incur liability under the terms of such Deferral Agreement with respect to the Executive;

WHEREAS, the Corporation wishes to establish a trust (hereinafter called the "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of the Corporation's creditors in the event of the Corporation's Insolvency, as herein defined, until paid to the Executive and his beneficiaries in such manner and at such times as specified in the Deferral Agreement;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Deferral Agreement as an unfunded plan maintained for the purpose of providing deferred compensation for a member of the select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974;

WHEREAS, it is the intention of the Corporation to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Deferral Agreement;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust

(a) The Corporation hereby deposits with the Trustee in trust $100 or such other amount as determined by the Corporation, which shall become the principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which the Corporation is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of the Corporation and shall be used exclusively for the uses and purposes of

the Executive and general creditors as herein set forth. The Executive and his beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Deferral Agreement and this Trust Agreement shall be mere unsecured contractual rights of the Executive and his beneficiaries against the Corporation. Any assets held by the Trust will be subject to the claims of the Corporation's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) The Corporation shall make additional deposits of cash or other property in trust with the Trustee in accordance with the terms of the Deferral Agreement to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. Neither the Trustee nor the Executive or any of his beneficiaries shall have any right to compel additional deposits, except as may be required by the terms of the Deferral Agreement.

Section 2. Payments to Executive and His Beneficiaries.

(a) The Corporation shall deliver to the Trustee a written schedule (the "Payment Schedule") that indicates the amounts payable in respect of the Executive (and his beneficiaries), that provides the amounts so payable, the form in which such amount is to be paid, and the dates for payment of such amounts. Except as otherwise provided herein, the Trustee shall make payments to the Executive and his beneficiaries in accordance with such Payment Schedule. The Corporation may amend or modify such Payment Schedule from time to time by providing the Trustee with written notice of such amendments. The Trustee may conclusively rely on such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Deferral Agreement and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Corporation.

(b) The entitlement of the Executive or his beneficiaries to benefits under the Deferral Agreement shall be determined by the Corporation in accordance with the terms of the Deferral Agreement, and any claim for such benefits shall be considered and reviewed under the terms of the Deferral Agreement.

(c) The Corporation may make payment of benefits directly to the Executive or his beneficiaries as they become due under the terms of the Deferral Agreement. The Corporation shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to the Executive or his beneficiaries. Such payments by the Corporation shall not amend the Payment Schedule unless the Corporation specifically amends said Schedule in writing. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the Payment Schedule, the Corporation shall make the balance of each such payment as it falls due. The Trustee shall notify the Corporation where principal and earnings are not sufficient.

Section 3. Trustee Responsibility Regarding Payments to Trust Beneficiary When the Corporation Is Insolvent.

(a) The Trustee shall not make any payments to the Executive or his beneficiaries if the Corporation is Insolvent. Notwithstanding any other provision of this Trust Agreement, all determinations by the Trustee under this Trust Agreement regarding whether the Corporation is solvent or Insolvent should be based solely on the written representation to the Trustee from the Corporation's Controller or Chief Financial Officer without independent investigation by the Trustee. The Corporation shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Corporation is unable to pay its debts as they become due, or (ii) the Corporation is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Corporation under federal and state law as set forth below.

(1) The Board of Directors, the Chief Executive Officer, the Chief Financial Officer ("CFO") and the Controller of the Corporation shall have the duty to inform the Trustee in writing of the Corporation's Insolvency with respect to any payment date on the Payment Schedule. If a person claiming to be a creditor of the Corporation alleges in writing to the Trustee that the Corporation has become Insolvent, the Trustee shall determine whether the Corporation is Insolvent; such determination shall be made based solely on written representation from the Corporation's Controller or Chief Financial Officer. Pending such determination, the Trustee shall not make any payments to Executive or his beneficiaries.

(2) Unless the Trustee has received notice from the Corporation that the Corporation is Insolvent, the Trustee shall have no duty at

any time to inquire whether the Corporation is Insolvent. The Trustee shall in all events rely on such representation from the Corporation in making a determination concerning the Corporation's solvency.

(3) In the event that the Corporation's Controller or Chief Financial Officer has notified the Trustee in writing of the Corporation's Insolvency, the Trustee shall not make any payments to the Executive or his beneficiaries and shall hold the assets of the Trust for the benefit of the Corporation's general creditors. Nothing in this Trust Agreement shall in any way diminish or impair any rights of the Executive or his beneficiaries to pursue their rights as general creditors of the Corporation with respect to payments due under the Deferral Agreement or otherwise.

(4) The Trustee shall resume making payments to the Executive or his beneficiaries in accordance with Section 2 of this Trust Agreement only after the Trustee has determined that the Corporation is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if the Trustee discontinues making payments from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments,

the first payment following such discontinuance shall include the aggregate amount of all payments due to the Executive or his beneficiaries under the terms of the Deferral Agreement for the period of such discontinuance, less the aggregate amount of any payments made to the Executive or his beneficiaries by the Corporation in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. Payments to the Corporation.

Except as provided in Section 3 hereof, the Corporation shall have no right or power to direct the Trustee to return to the Corporation or to divert to others any of the Trust assets before all payments have been made to the Executive or his beneficiaries pursuant to the terms of the Deferral Agreement.

Section 5. Investment Authority.

In no event may the Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by the Corporation, other than a de minimis amount held in common investment vehicles in which the Trustee invests. All rights associated with assets of the Trust shall be exercised, solely in accordance with the directions of the Corporation, by the Trustee or the person designated by the Trustee, and shall in no event be exercisable by or rest with the Executive.

Section 6. Disposition of Income.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7. Accounting by the Trustee.

The Trustee shall keep records of such investments, receipts, disbursements, and all other transactions required to be made, as shall be agreed upon in writing between the Corporation and the Trustee. Within 60 days following the close of each calendar year and within 60 days after the removal or resignation of the Trustee, the Trustee shall deliver to the Corporation a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be. In the event the Trustee delegates the obligations of this section to an employee of the Corporation, such obligations shall be deemed to be fulfilled by

the Trustee.

Section 8. Responsibility of the Trustee.

(a) The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that the Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Corporation in connection, directly or indirectly, with, the terms of the Deferral Agreement or this Trust. In the event of a dispute between the Corporation and a party, the Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) The Corporation agrees to indemnify and hold the Trustee harmless from any and all costs, fees, expenses (including without limitation attorney's fees and expenses), claims or lawsuits by any person or entity, liabilities or obligations of any type or nature arising or related, directly or indirectly, to the Deferral Agreement, this Trust or any action or failure to act by the Trustee in connection in any way with any of the foregoing. Furthermore, if the Trustee undertakes or defends any litigation arising in connection with this Trust, the Corporation agrees to indemnify the Trustee against the Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be solely liable for such payments. If the Corporation does not pay such costs, expenses and liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust.

(c) The Trustee may consult with legal counsel (who may also be counsel for the Corporation generally) with respect to any of its duties or obligations hereunder.

(d) The Trustee may hire and the Corporation may make available to the Trustee agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder. In addition, the Trustee may delegate any of its duties under this Trust to employees and management of the Corporation and the Trustee may conclusively rely on the reports of such employees and management without further investigation.

(e) The Trustee shall have, without exclusion, all powers conferred on the Trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or to applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

Section 9. Compensation and Expenses of Trustee.

The Corporation shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

Section 10. Resignation and Removal of Trustee.

(a) The Trustee may resign at any time by written notice to the Corporation, which shall be effective 15 days after receipt of such notice unless the Corporation and the Trustee agree otherwise.

(b) The Trustee may be removed by the Corporation on 15 days notice to the Trustee or upon shorter notice accepted by the Trustee.

(c) Upon a Change of Control, as defined herein, the Trustee may not be removed by the Corporation for 18 months.

(d) Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 30 days after receipt of notice of resignation, removal or transfer, unless the Corporation extends the time limit.

(e) If the Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. Appointment of Successor.

(a) If the Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, the Corporation may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace the Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the Corporation or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and the Corporation shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by the Trustee and the Corporation. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Deferral Agreement or shall make the Trust revocable.

(b) The Trust shall not terminate until the date on which the Executive and his beneficiaries are no longer entitled to any payments pursuant to the terms of the Deferral Agreement. Upon termination of the Trust any assets remaining in the Trust shall be returned to the Corporation.

Section 13. Miscellaneous.

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) No amount payable to the Executive or any of his beneficiaries under this Trust Agreement may be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of Texas.

(d) For purposes of this Trust, Change of Control shall mean the purchase or other acquisition by any person, entity or group of persons, within the meaning of section 13(d) or 14(d) of the Securities Exchange Act of 1934 ("Act"), or any comparable successor provisions, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of 30 percent or more of either the outstanding shares of common stock or the combined voting power of the Corporation's then outstanding voting securities entitled to vote generally, or the approval by the stockholders of the Corporation of a reorganization, merger, or consolidation, in each case, with respect to which persons who were stockholders of the Corporation immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50 percent of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Corporation's then outstanding securities, or a liquidation or dissolution of the Corporation or of the sale of all or substantially all of the Corporation's assets.

Section 14. Effective Date.

The effective date of this Trust Agreement shall be February 20, 1998.

* * * * *

EXECUTED on the dates of the respective acknowledgments hereto, to be effective as of the 20th day of February, 1998.

NL Industries, Inc.

by /s/ David B. Garten, V.P.

- TRUSTOR -

/s/ Robert D. Hardy

- TRUSTEE -

THE STATE OF TEXAS

COUNTY OF HARRIS

This instrument was acknowledged before me on the 20th day of February, 1998, by Irene Pepe.

/s/ Irene Pepe
Notary Public in and for
the State of T E X A S

My Commission Expires:

11/29/01

EXHIBIT 10.50

ASSET PURCHASE AGREEMENT

DATED AS OF DECEMBER 29, 1997

BY AND AMONG

NL INDUSTRIES, INC.,

RHEOX, INC., RHEOX INTERNATIONAL, INC.,

HARRISONS AND CROSFIELD PLC,

HARRISONS AND CROSFIELD (AMERICA) INC.,

AND

ELEMENTIS ACQUISITION 98, INC.

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ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (which together with the Exhibits and Schedules attached hereto is referred to as this "Agreement") is made and entered into as of the 29th day of December, 1997, by and among NL Industries, Inc., a New Jersey corporation ("Parent"), Rheox, Inc., a Delaware corporation and wholly owned subsidiary of Parent ("Seller"), Rheox International, Inc., a Delaware Corporation and a wholly owned subsidiary of Seller ("RII"), Harrisons & Crosfield plc, a public limited company formed under the laws of the United Kingdom ("H&C"), Harrisons & Crosfield (America) Inc., a Delaware corporation ("H&C America") and a wholly owned subsidiary of H&C, and Elementis Acquisition 98, Inc., a Delaware corporation and an indirect wholly owned subsidiary of H&C America ("Purchaser").

WHEREAS, Seller, itself and through its Subsidiaries (as hereinafter defined), presently conducts the business of developing, manufacturing, marketing, and selling specialty chemical products consisting primarily of rheological additives (the "Business");

WHEREAS, on the terms and subject to the conditions contained in this Agreement, Seller desires to sell, transfer, and assign to Purchaser (except as described in the next paragraph hereof) or, as applicable, cause RII, to sell, transfer, and assign to Purchaser (except as described in the next paragraph hereof), and Purchaser (except as described in the next paragraph hereof) desires to purchase from Seller, or, as applicable, RII, all of the Purchased Assets (as defined in Section 1.1 hereof);

WHEREAS, on the terms and subject to the conditions contained in this Agreement, H&C or one or more designees or assignees of H&C (to the extent permitted pursuant to Section 12.4 hereof) (the "H&C Assignees"), desires to purchase from Seller or RII as a part of the Purchased Assets, and Seller or RII

desires to sell to H&C or such H&C Assignees, all of the outstanding shares of capital stock of RIMC, Inc., a Delaware corporation ("RIMC") and all of the outstanding shares of capital stock of the subsidiaries of RII identified on Exhibit A hereto (the "Acquired Subsidiaries" and, collectively with RII and RIMC, the "Subsidiaries"), in each case as described in clause (i) of Section 1.1.11 hereto; and

WHEREAS, on the terms and subject to the conditions contained in this Agreement, Seller wishes to assign to Purchaser, or, as applicable, cause RII to assign to Purchaser, and Purchaser is willing to assume, the Assumed Liabilities (as defined in Section 2.1 hereof);

NOW, THEREFORE, in consideration of the premises and of the mutual representations, warranties, promises and covenants herein contained, the parties hereto agree as follows:

ARTICLE I. PURCHASE OF ASSETS

1.1. Purchase and Sale of Assets. On the terms and subject to the conditions hereof, at the Closing (as defined in Section 4.1), Seller will sell, transfer, convey, assign, and deliver to Purchaser or the H&C Assignees, as the case may be, or, as applicable, cause RII to sell, transfer, assign, and deliver to Purchaser or the H&C Assignees, as the case may be, and Purchaser or the H&C Assignees, as the case may be, will purchase and accept, all right, title, and interest of Seller or, as applicable, RII in and to all rights, properties, and assets of every kind, character, and description, wherever located and whether tangible or intangible, real or personal or fixed or contingent, owned, held, used, conceived, developed, or offered for sale by Seller or RII, in each case free and clear of all mortgages, liens, pledges, security interests, charges, claims on title, restrictions with respect to title, and encumbrances of any nature, including without limitation licenses, pledges, defect or objection liens, conditional and installment sales agreements, easements, or encroachments, other title or interest retention arrangements, reservations, or limitations of any nature whatsoever (collectively, "Liens") except the Permitted Liens described in clauses (a) and (b) of Sections 5.1.11 and each of the Liens identified with an asterisk on Schedule 5.1.11 hereto (as defined in Section 5.1.11), including without limitation the rights, properties, and assets of Seller and RII (but not of any Acquired Subsidiary) described in this Section 1.1 (collectively, the "Purchased Assets"):

1.1.1. Accounts Receivable. All accounts or notes receivable of, and any other amounts due to, Seller or RII, including receivables from Affiliates;

1.1.2. Contract Rights. All right, title, and interest as of the date hereof and, to the extent entered into subsequent to the date hereof in accordance with the terms hereof (including Section 6.2 hereof), as of the Closing, in and to all contracts, agreements, leases, licenses, joint venture, purchase orders (as vendor or purchaser), commitments, and other agreements and arrangements, whether oral or written (collectively, "Contracts"), of Seller or RII, including without limitation such of the foregoing as are described on Schedule 1.1.2;

1.1.3. Inventories and Stores and Supplies. All raw materials, components, work-in-process, finished products, packaging materials, stores and supplies, spare parts, and samples (collectively, "Inventories") of Seller or RII, wherever located;

1.1.4. Tangible Personal Property. All machinery and equipment,

tools, spare and maintenance parts, furniture, fixtures, vehicles, tools, jigs, dies, leasehold

improvements, and all other tangible personal property of Seller or RII, wherever located, including without limitation, the tangible personal property listed on Schedule 1.1.4 (collectively, the "Tangible Personal Property");

1.1.5. Manufacturers' and Vendors' Warranties. All rights under manufacturers' and vendors' warranties relating to items included in the Purchased Assets and all similar rights against third parties relating to items included in the Purchased Assets;

1.1.6. Intellectual Property.

(a) (i) all patents and patent applications owned by the Seller or RII, all licenses to patents and patent applications to and from third parties, in each case as set forth on Schedule 1.1.6(a) hereto, (ii) research and development data and results, manufacturing and other processes, trade secrets, know how, inventions, ideas, conceptions, mask work, designs, technology, proprietary data or information, formulae, and manufacturing, engineering, and other technical information, whether owned by the Seller or RII or licensed to the Seller or RII by third parties or Affiliates, (iii) all copyrights (registered or otherwise) and registrations and applications for registration thereof owned or licensed by Seller or RII, (iv) all copies and tangible embodiments of all the foregoing, in whatever form or medium, (v) all rights to sue for present and past infringement of any of the foregoing, (vi) all notebooks, records, reports, and data relating thereto, and (vii) all applications and registrations for any of the foregoing (collectively, the assets referred to in clauses (i) through (vii) are referred to herein as the "Patent-Related Assets");

(b) (i) all trademarks, trade names, service marks, trade dress, logos, and corporate names (including the name Rheox and any derivatives thereof), or any applications and registrations for any of the foregoing, in each case as listed on Schedule 1.1.6(b) hereto, (ii) except as may otherwise be provided in the transition services agreement (as described in more detail on Exhibit B hereto) computer programs, software and data bases licensed by the Seller or RII from third parties, with all maintenance fees therefor arising for any period after Closing to be paid by Purchaser, (iii) all copies and tangible embodiments of all the foregoing, in whatever form of medium, (iv) all rights to sue for present and past infringement of any of the foregoing, and (v) an irrevocable, perpetual, non-exclusive, fully paid up, worldwide right and license to use proprietary software developed by Affiliates of Seller or RII that are used in the Business (the "NL Software License") on the terms set forth on Exhibit C hereto, in each case as listed on Schedule 1.1.6(b) (collectively all of the foregoing assets, whether or not listed on Schedule 1.1.6(b) hereto, together with the Patent-Related Assets, are referred to herein as the "Intellectual Property");

1.1.7. Real Property. (a) The real property owned in fee by Seller or RII and listed and described on Schedule 1.1.7(a), together with all appurtenant easements thereunto and all structures, fixtures, and improvements located thereon, and any minerals and mining rights of Seller or RII with respect thereto, including, without limitation, any and all patented and unpatented mining and millsite claims (the "Owned Real Property"), and (b) the rights and incidents of interests of Seller or RII as lessee in and to all real property leases (the "Real Property Leases") used or held for use primarily in connection with the operations of the Business, including but not limited to those listed or described on Schedule 1.1.7(b), and all of Seller's and RII's rights as of the Closing in all of the structures, fixtures, and improvements located thereon (the "Leased Real Property" and, together with the Owned Real Property, the "Real Property");

1.1.8. Governmental Licenses, Permits, and Approvals. All rights, title, and interest of Seller or RII in and to all licenses, permits, franchises, authorizations, orders, registrations, certificates, variances, approvals, and similar rights of Seller and RII (collectively, "Permits") issued by any domestic or foreign court, government, governmental agency, authority, entity, or instrumentality ("Governmental Entity"), including without limitation such of the foregoing as are listed in Schedule 1.1.8;

1.1.9. Books and Records. All the books and records of Seller or RII, including without limitation all books and records relating to employees, the purchase of materials, supplies, and services, financial, accounting and operations matters, product, research and development, manufacture and sale of products and all customer and vendor lists relating to the operation of the Business and all files and documents (including credit information) relating to customers and vendors of the Business;

1.1.10. Prepaid Items. All prepaid items, deposits, costs, and fees, including rights under insurance policies covering periods through the Closing Date ("Prepaid Items");

1.1.11. Acquired Subsidiaries and Enenco. (i) All of the issued and outstanding shares of capital stock and other equity interests of the Acquired Subsidiaries as described on Schedule 1.1.11(A), (ii) all of the issued and outstanding shares of capital stock and other equity interests of Enenco, Inc., a New York corporation ("Enenco"), owned by Seller or any Affiliate of Seller, as described on Schedule 1.1.11(B) (the "Enenco Shares") and (iii) all of the issued and outstanding shares of capital stock and other equity interests of RIMC, Inc.;

1.1.12. Marketing and Other Materials. All marketing brochures and materials and other printed and written materials relating to Sellers' or RII's ownership of or operation of the Purchased Assets or the Business that the Seller or RII is not required by Law (as defined in Section 1.3.1) to retain (of which the Seller or RII may retain duplicates so long

as the confidentiality thereof is maintained by the Seller or RII, unless disclosure thereof is required by Law);

1.1.13. Rights Against Third Parties. All rights under or pursuant to all warranties, representations, and guarantees made by suppliers, manufacturers, contractors, and other third parties or Affiliates in connection with the operation of the Business or affecting any of the Purchased Assets or

Assumed Liabilities and all of Seller's or RII's rights, claims, credits, causes of action, or rights of set-off against third parties relating to the Business or the Purchased Assets, whether liquidated or unliquidated, fixed or contingent, including all claims under any Contracts of Seller or RII, except as such rights relate to a Retained Liability, an Excluded Asset, or a matter for which Seller must indemnify Purchaser;

1.1.14. Going Concern Value. The value of the Business as a going concern and all goodwill relating to the Purchased Assets;

1.1.15. Tax Refunds. Seller's or RII's rights to receive any refund attributable to, or right to offset against, any Taxes (as defined in Section 5.1.23), other than Income Taxes (as defined in Section 1.2.7) attributable to periods ending on or prior to the Closing Date or to the Pre-Closing portion of any taxable period that includes but does not end on the Closing Date;

1.1.16. Cash and Cash Equivalents. All cash and cash equivalents held by Seller or RII accounted for on the Closing Statement prepared pursuant to Section 3.2(c); and

1.1.17. Miscellaneous Assets. Except for Excluded Assets (as defined in Section 1.2), all other rights, properties, and assets owned by Seller or RII, wherever located.

1.2. Excluded Assets. Notwithstanding anything contained in this Agreement to the contrary, the following rights, properties, and assets (collectively, the "Excluded Assets") will not be included in the Purchased Assets:

1.2.1. Ordinary Course of Business Dispositions. All of the Accounts Receivable, Inventories, Tangible Personal Property, or Prepaid Items which have been sold, transferred, consumed, or otherwise disposed of by Seller or RII prior to the Closing, in each case in the ordinary course of the conduct of the Business consistent with past practice and the provisions of Section 6.2;

1.2.2. Contracts Terminated in the Ordinary Course of Business. All Contracts of Seller or RII that have terminated or expired prior to the Closing in the ordinary course of the conduct of the Business consistent with past practice and the provisions of Section 6.2;

1.2.3. Corporate Documents. Seller's or RII's corporate seal, minute books, charter documents, corporate stock record books, and such other books and records as pertain to the organization, existence, or share capitalization of Seller or RII, all books and records that pertain either to other Excluded Assets or any Retained Liabilities, and duplicate copies of such records included in the Purchased Assets as are reasonably necessary (a) to enable Seller or RII to file its tax returns and reports, (b) to prepare its financial statements, or (c) defend or pursue any claim, action, lawsuit or other proceeding which constitutes a Retained Liability or relates to any Excluded Asset (provided in each case that the confidentiality thereof is maintained except where disclosure thereof is required by Law), and any other records or materials relating to Seller or RII generally and not involving or relating to the Purchased Assets or the operation or operations of the Business, including but not limited to tax returns, reports, books and records of RII, Bentone Sud S.A. and RK Export, Inc.;

1.2.4. Employee Benefit Plans. Except as otherwise provided in Section 9.1, all Employee Plans (as defined in Section 5.1.19) which cover Employees (as defined in Section 5.1.19) and all assets relating thereto, including any contracts, insurance policies, trusts, or other similar assets.

1.2.5. [Intentionally omitted].

1.2.6. Insurance. Subject to Section 1.1.10, all contracts of insurance of Seller or RII;

1.2.7. Tax Refunds. Seller's or RII's rights to receive any refund attributable to, or right of offset against, any Income Taxes attributable to periods ending on or prior to the Closing Date or to the pre-Closing portion of any taxable period that includes but does not end on the Closing Date; for purposes of this Agreement, "Income Tax" means (i) all Taxes however denominated (including franchise taxes and premium taxes) that are based upon or measured by gross income, net income, or gross receipts (solely when used to compute income Tax), (ii) minimum and tax preference based Taxes, (iii) Taxes arising from actual or deemed dividend distributions, (iv) capital gain Taxes, and (v) any interest, fines, penalties, assessments or additions to tax resulting from, attributable to or incurred in connection with any Tax described in clauses (i) and (ii) or any contest, dispute or refund thereof;

1.2.8. Intercompany Agreements. Except as listed in Schedule 1.2.8 or as otherwise expressly contemplated by this Agreement, all Contracts entered into prior to the Closing Date between or among Parent or any Affiliate of Parent (other than Seller or RII), on the one hand, and Seller and RII, on the other hand;

1.2.9. Rights under this Agreement. Seller's rights arising out of or relating to this Agreement or the transactions contemplated hereby; and

1.2.10.Other Excluded Assets. Seller's or RII's ownership interest in Bentone Sud S.A. and RK Export, Inc., furniture, equipment, supplies, and contracted-for third party services currently utilized by employees of Affiliates of Seller located in Seller's Hightstown, New Jersey offices, and any other right, property, or asset which is described on Schedule 1.2.10.

1.3. Nonassignable Contracts and Permits.

1.3.1. Nonassignability. Without limiting or otherwise affecting the rights of Purchaser pursuant to Articles VII or X, to the extent that any Contract or Permit to be assigned pursuant to the terms of Sections 1.1.2, 1.1.6, 1.1.7(b), or 1.1.8 is not capable of being assigned (each a "Nonassignable Contract or Permit"), without the consent, approval, or waiver of any Person (including without limitation a Governmental Entity), or if such assignment or attempted assignment would constitute a breach thereof or a violation of any applicable foreign or United States federal, state, or local law, statute, ordinance, regulation, order, writ, injunction, or decree ("Law"), nothing in this Agreement will constitute an assignment or require the assignment thereof prior to the time at which all consents, approvals, and waivers necessary for such assignment shall have been obtained.

1.3.2. Seller to Use Commercially Reasonable Efforts. Notwithstanding anything contained in this Agreement to the contrary, Seller will not be obligated to assign to Purchaser, or cause RII to assign to Purchaser, any of its rights or obligations in, to, or under any of the Nonassignable Contracts or Permits without first having obtained all consents, approvals, and waivers necessary for such assignment; provided, however, that Seller shall use its commercially reasonable efforts to obtain all such consents, approvals, and waivers prior to and after the Closing Date and will otherwise comply with the provisions of Sections 6.4 and 6.5.

1.3.3. If Waivers or Consents Cannot Be Obtained. To the extent and for so long as all consents, approvals, and waivers required for the assignment of any Nonassignable Contracts or Permits shall not have been

obtained by Seller, Seller shall use its commercially reasonable efforts to, and shall cause RII to use its commercially reasonable efforts to, (a) provide to Purchaser the financial and business benefits of any such Nonassignable Contract or Permit and (b) enforce, at the request of Purchaser, for the account and at the expense of Purchaser, any rights of Seller or RII arising from any such Nonassignable Contract or Permit (including without limitation the right to elect to terminate in accordance with the terms thereof upon the advice of Purchaser, provided Purchaser agrees to indemnify Seller from and against any Indemnifiable Losses (as defined in Section 10.2(a) hereof) that Seller may incur as a result of such termination). Following the Closing, Seller shall not terminate, modify, or amend, and shall cause RII not to terminate, modify, or amend, any Nonassignable Contract or Permit without the Purchaser's prior written consent.

ARTICLE II. ASSUMPTION OF LIABILITIES

2.1. Assumed Liabilities. Subject to Section 2.2 hereof, as of the Closing, Purchaser will assume and thereafter in due course pay and fully satisfy, as and when the same shall become due and payable, all liabilities and obligations of Seller or RII in respect of the Business or the Purchased Assets, whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due (the "Assumed Liabilities"), including without limitation:

(a) all liabilities and obligations of Seller or RII under the agreements, contracts, leases, licenses, and other arrangements referred to in the definition of Purchased Assets other than those pertaining to Excluded Assets;

(b) solely to the extent of the amount accrued on the Closing Statement (as defined in Section 3.2(c)), (i) unpaid wages, vacation, holiday pay and bonuses relating to any period prior to the Closing Date and employment taxes thereon and an additional 8% of such unpaid compensation for retirement benefits with respect thereto (and such amount shall be accrued on the Closing Statement prepared in accordance with Section 3.2(c) to the extent not otherwise accrued on the Closing Statement), (ii) post-retirement medical benefits coverage of bargaining unit Employees and their eligible dependents with respect to claims arising for medical services whether rendered before, on or after the Closing Date and (iii) post-retirement life insurance coverage of bargaining unit Employees and their eligible spouses;

(c) to the extent accrued on the Closing Statement, all obligations of Seller to Employees under the collective bargaining agreements set forth in Schedule 5.1.18(a); and

(d) all liabilities accrued in the Closing Statement prepared pursuant to Section 3.2(c); and

(e) Subject to Article X, all liabilities and obligations of Seller and RII relating to the Business and the Purchased Assets with respect to environmental matters, including without limitation those arising under Environmental Laws (as defined in Section 5.1.22).

provided, however, that the Assumed Liabilities shall not include any liability which is included within the definition of Retained Liability in Section 2.2.

2.2. Retained Liabilities. Notwithstanding anything contained in this Agreement to the contrary, Purchaser does not assume or agree to pay, satisfy, discharge, or perform, and will not be deemed by virtue of the execution and delivery of this Agreement or any document delivered at the Closing pursuant to this Agreement, or as a result of the consummation of the transactions contemplated by this Agreement, to have assumed, or to have agreed to pay, satisfy, discharge, or perform, any liability, obligation, or indebtedness set forth below (such liabilities and obligations retained by Seller or RII being referred to herein as the "Retained Liabilities"):

(a) all obligations or liabilities of Seller or RII or any predecessor or Affiliate thereof (including, without limitation, with respect to any environmental matters) which relate to any of the Excluded Assets or which relate to any business or operations (other than the Business or the Purchased Assets) conducted by Parent, Kronos Inc., Seller or any of their respective Affiliates;

(b) all obligations or liabilities of Seller or RII or any predecessor or Affiliate thereof relating to Income Taxes with respect to the Business attributable to periods ending on or prior to the Closing Date or to the pre-Closing portion of any taxable period that includes but does not end on the Closing Date, including, without limitation, (i) any liability of Seller or RII for any Income Taxes arising because Seller or RII is transferring the Purchased Assets or because Seller or RII has an excess loss account (within the meaning of Treas. Reg. SS1.1502-19) in the stock of any of the Subsidiaries, or because Seller or RII has deferred gain on any deferred intercompany transaction (within the meaning of Treas. Reg. SS1.1502-13) and (ii) all liabilities of Seller and RII for the unpaid Income Taxes of persons other than Seller and Subsidiaries under Treas. Reg. SS1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise;

(c) all obligations or liabilities of Seller or RII arising out of or relating to this Agreement or the transactions contemplated hereby and all obligations or liabilities for any legal, accounting, investment banking, brokerage, or similar fees or expenses incurred by Seller or RII in connection with, resulting from, or attributable to the transactions contemplated by this Agreement;

(d) all obligations or liabilities for any indebtedness for borrowed money incurred with respect to the Business prior to the Closing Date pursuant to any indenture, mortgage, loan, letter of credit, or other credit Contract under which the Seller or RII has borrowed or is entitled to borrow any money or issued any note, bond, indenture, or other evidence of indebtedness for borrowed money, or any guarantee or other contingent liability in respect of any indebtedness of any other Person, including, without limitation any obligations or liabilities of Seller or RII

pursuant to the Amended and Restated Bank Credit Agreement dated as of January 30, 1997 among Seller, certain of the Subsidiaries, The Chase Manhattan Bank, N.A., and the other lenders named therein; and

(e) except (x) as specifically provided in Sections 2.1(b), 2.1(c) and 9.1, or (y) to the extent of the amount accrued on the Closing Statement prepared pursuant to Section 3.2(c), all obligations or liabilities (contingent or otherwise) of Seller arising from or relating to (i) the employment or termination of employment of any Employee before the Closing Date, (ii) Employee Plans (including claims arising thereunder and relating to the period prior to the Closing Date) and (iii) post-retirement medical and/or life insurance benefits coverage of current or former non-bargaining unit Employees and their eligible dependents.

ARTICLE III. PURCHASE PRICE

3.1. Unadjusted Purchase Price. At the Closing, in addition to assuming the Assumed Liabilities, Purchaser (together with the H&C Assignees) will pay for the Purchased Assets and the covenants of Seller included herein an aggregate purchase price in the amount of U.S. $445,000,000 (the "Unadjusted Purchase Price"), subject to adjustment as provided in Section 3.2 and Section 10.6 (as adjusted, the "Purchase Price"). The Unadjusted Purchase Price shall be paid by wire transfer of immediately available funds to such account as shall have been designated by Seller to Purchaser prior to the Closing. In so designating such account, Seller shall be acting as agent for RII and shall have the exclusive responsibility for the delivery to RII of such portion of the Unadjusted Purchase Price to which it may be entitled.

3.2. Adjustments to the Purchase Price

(a) If the amount of the Net Book Value of the Business (determined in accordance with Section 3.2(b) as of the Closing Statement Date (as hereinafter defined) is: (i) less than $62,343,000, the Unadjusted Purchase Price shall be decreased by an amount equal to the amount by which such Net Book Value is less than $62,343,000, (the "Downward Book Value Adjustment"); or (ii) is greater than $62,343,000, the Unadjusted Purchase Price shall be increased by an amount equal to the amount by which such Net Book Value is greater than $62,343,000, but such increased amount shall not in any event exceed the amount of cash and cash equivalents included in the Closing Statement plus $5,000,000 (the "Upward Book Value Adjustment" and, together with the Downward Book Value Adjustment, the "Book Value Adjustment"). Payment of any Book Value Adjustment shall be made pursuant to Section 3.2(f).

(b) As used herein, the term "Net Book Value" shall mean the sum of the consolidated assets of the Business minus the sum of the amount of the consolidated liabilities of the Business as reflected on the Closing Statement, (i) provided there shall be excluded from the consolidated assets: (A) any Excluded Assets; and, (B) any assets of the Acquired Subsidiaries relating to Income Taxes and deferred Income Taxes with respect to the Business attributable to periods ending on or prior to the Closing Date or to the pre-Closing portion of any taxable period that includes but does not end on the Closing Date; and (ii) provided there shall be excluded from the consolidated liabilities: (A) any Retained Liabilities and (B) any liabilities of the Acquired Subsidiaries relating to Income Taxes and deferred Income Taxes with respect to the business attributable to periods ending on or prior to the Closing Date or to the pre-Closing portion of any taxable period that includes but does not end on the Closing Date.

(c) The term "Closing Statement" shall mean the statement of Net

Book Value as of the Closing Date or, if the Closing Date does not fall on the last business day of the month, as of the month-end following the Closing Date (as applicable, the "Closing Statement Date"). The Closing Statement shall be prepared by Purchaser and shall be delivered to Seller as promptly as practicable, and in any event within 60 days after the Closing Statement Date. The Closing Statement (i) shall be prepared in accordance with United States generally accepted accounting principles ("GAAP") applied in a manner consistent with the application of those principles in the audited balance sheet of the Seller and its Subsidiaries as of December 31, 1996 and (ii) shall present fairly the Net Book Value as of the Closing Statement Date and the amount of the Book Value Adjustment resulting therefrom; provided, however, that no prepaid expense shall be included on the Closing Statement unless Purchaser will actually realize the benefit thereof subsequent to the Closing Date. For illustrative purposes, set forth on Schedule 3.2(b) hereof is calculation of the projected Net Book Value of the Business as of December 31, 1997.

(d) If the Closing Date occurs on any date other than the last business day of the month, then the Book Value Adjustment shall be decreased by an amount equal to the "Profit Adjustment" as defined below. The Profit Adjustment shall be calculated by using the Consolidated Statement of Income (which will be present in the form set out in Schedule 3.2(d)) for the month in which the Closing Date occurs (the "Closing Month"). Purchaser shall prepare the Consolidated Statement of Income in accordance with GAAP and consistent with the principles applied in the audited consolidated financial statements of Seller and its Subsidiaries for the year ended December 31, 1996. The "Profit Adjustment" shall be the amount obtained by taking the net income (as set out in the Consolidated Statement of Income) for the Closing Month multiplied by the adjustment factor. The adjustment factor will be calculated as the number of days from the Closing Date to and including the Closing Statement Date divided by the total number of days in the Closing Month.

(e) Seller shall have the opportunity to examine the work papers, schedules, and other documents prepared by Purchaser, in connection with its preparation of the Closing Statement and Profit Adjustment, as applicable. The Closing Statement and Profit Adjustment shall be final and binding on the parties unless, within 60 days after delivery to Seller notice is given by the Seller of its objection setting forth in reasonable detail its basis for objection. If notice of objection is given, the parties shall consult with each other with respect to the items in dispute. If the parties are unable to reach agreement within 20 days after the notice of objection has been given, the items in dispute shall be referred for resolution to the U.S. national office of KPMG Peat Marwick LLP (the "Accountants") as promptly as practicable. The Accountants will make a determination as to each of the items in dispute, which determination will be (i) in writing, (ii) furnished to each of the parties hereto as promptly as practicable after the items in dispute have been referred to the Accountants, (iii) made in accordance with this Agreement, and (iv) conclusive and binding upon each of the parties hereto. In connection with their determination of the disputed items, the Accountants will be entitled to rely on, if any, the workpapers, trial balances, and similar materials prepared by Purchaser's auditors in connection with such firm's examination of the financial statements of Seller and Purchaser, and the fees and expenses of the Accountants will be shared by Purchaser and Seller in such proportions as the Accountants determine and deem equitable (after taking into account, among other things, the difference between the positions taken by Purchaser and Seller, and the conclusion determined by the Accountants to be appropriate). Each of Purchaser and Seller will use commercially reasonable efforts to cause the Accountants to render their decision as soon as reasonably practicable, including without limitation by promptly complying with all reasonable requests by the Accountants for information, books, records, and similar items.

(f) Parent and Seller jointly and severally agree, within 5 days after the date of determination of the Book Value Adjustment and the Profit Adjustment, to pay to Purchaser (or to the H&C Assignees, as applicable) the amount of any Downward Book Value Adjustment, plus interest thereon from the Closing Statement Date to the date of determination at a rate of five percent (5%) per annum (subject to applicable withholding Taxes as may be required by Law), accruing daily and compounding annually, as an adjustment to the Purchase Price by wire transfer of immediately available funds to such account or accounts as shall be designated by Purchaser to Seller. Purchaser, H&C and H&C America jointly and severally agree, within 5 days after the date of determination of the Book Value Adjustment, to pay (or cause to be paid in the case of the H&C Assignees) to Seller (or to such Persons as Seller may designate) the amount of any Upward Book Value Adjustment, plus interest thereon from the Closing Statement Date to the date of determination at a rate of five percent (5%) per annum (subject to applicable withholding Taxes as may be required by Law), accruing daily and compounding annually, as an adjustment to the Purchase Price by wire transfer of immediately available funds to such account or accounts as shall be designated by Seller to Purchaser.

3.3. Allocation of Purchase Price. Seller and Purchaser agree that the Unadjusted Purchase Price shall be allocated to and among the shares of capital stock of the Acquired Subsidiaries as set forth on Schedule 3.3 hereof. Seller and Purchaser agree that the remaining portion of the Unadjusted Purchase Price of the Purchased Assets (including the amount of the Assumed Liabilities) will be allocated among the Purchased Assets and the covenants of Parent and Seller included herein within 60 Business Days after the Closing Date by mutual agreement between Purchaser and Seller, and Purchaser and Seller agree to be bound by such allocation. Such allocation shall comply with Section 1060 of the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations promulgated thereunder. Subject to the requirements of any applicable tax law, all Tax Returns and reports including, without limitation, IRS form 8594, filed by the Purchaser and the Seller shall be prepared consistently with such allocation and neither the Purchaser nor the Seller shall take a position contrary thereto. In the event of any purchase price adjustment hereunder, the Purchaser (and the H&C Assignees, as the case may be) and the Seller agree to adjust such allocation to reflect such purchase price adjustment and to file consistently any tax returns and reports including, without limitation, IRS form 8594, required as a result of such purchase price adjustment. Any disputes regarding the allocation of the Unadjusted Purchase Price of the Purchased Assets and the Assumed Liabilities shall be referred for resolution to the Accountants, and the fees and expenses of the Accountants will be shared by Purchaser and Seller in such proportions as the Accountants determine and deem equitable (after taking into account, among other matters, the difference between the allocation proposed by Seller and Purchaser, respectively, and the allocation determined by the Accountants to be appropriate). Each of Purchaser and Seller will use commercially reasonable efforts to cause the Accountants to render their decision as soon as reasonably practicable, including without limitation by promptly complying with all reasonable requests by the Accountants for information, books, records, and similar items.

ARTICLE IV. THE CLOSING

4.1. Date of Closing. The consummation of the purchase and sale of the Purchased Assets contemplated hereby (the "Closing") shall take place on January 30, 1998, at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10155 (or at such other place as the parties may designate) or on such other date designated by the parties in writing, after each of the conditions specified in Article VII has been fulfilled (or waived by the party entitled to waive that condition). The date on which the Closing is effected is

referred to in this Agreement as the "Closing Date." At the Closing, the parties shall execute and deliver the documents referred to in Article VIII.

ARTICLE V. REPRESENTATIONS AND WARRANTIES

5.1. Representations and Warranties of Seller. Each of Seller and Parent, jointly and severally, makes the following representations and warranties to H&C, H&C America and Purchaser, each of which is true and correct as of the date hereof and shall be true and correct as of the Closing Date, and, except as otherwise provided in Section 10.1 hereof, shall be unaffected by any investigation heretofore or hereafter made by or on behalf of H&C, H&C America, or Purchaser. Except with respect to the representations and warranties contained in the second sentence of Section 5.1.6(B) and Section 5.1.11(i), the representations and warranties contained in this Article V with respect to Enenco or the Enenco Shares are made to the knowledge of Parent and Seller.

5.1.1. Organization and Good Standing. Each of Seller, Parent, and RII is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, New Jersey, and Delaware respectively. Each of Seller and RII has the requisite corporate power and authority to own, lease, or otherwise hold the Purchased Assets owned, leased, or otherwise held by it and to carry on the Business as presently conducted by it. Except as described on Schedule 5.1.1, each of Seller and RII is in good standing and duly qualified to conduct business as a foreign corporation in every state of the United States in which its ownership or lease of property or conduct of its business activities makes such qualification necessary, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the Purchased Assets or the condition (financial or otherwise) or results of operations of the Business, taken as a whole, or on the ability of Purchaser to conduct the Business after the Closing ("Material Adverse Effect"). The states in which Seller and RII are so qualified are listed on Schedule 5.1.1.

5.1.2.A Acquired Subsidiaries and Enenco. Each of the Acquired Subsidiaries and Enenco is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of organization or incorporation set forth on Schedule 5.1.2A, and each of the Acquired Subsidiaries and Enenco has the requisite corporate power and authority to own, lease, or otherwise hold the assets owned, leased, or otherwise held by it and to carry on the business presently conducted by it. None of the Acquired Subsidiaries has filed in the last ten years for bankruptcy or composition proceedings. Except as described on Schedule 5.1.2A, each of the Acquired Subsidiaries and Enenco is duly qualified to conduct business as a foreign corporation in each jurisdiction in which its ownership or lease of property or assets or the conduct of its business activities makes such qualification necessary, except where the failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect. The jurisdictions in which the Acquired Subsidiaries are so qualified are listed on Schedule 5.1.2A. Except for the Subsidiaries and Enenco, and except as otherwise set forth in Section 1.2.10 and on Schedule 5.1.2A, no shares of any corporation or any ownership or other investment interest, either of record, beneficially, or equitably, in any association, partnership, joint venture, limited liability company, trust, or other legal entity are owned or held, directly or indirectly, by Seller or RII.

5.1.2.B Capital Stock. The authorized and outstanding capital stock and, as applicable, nominal values, of each Acquired Subsidiary and Enenco is as set forth on Schedule 5.1.2B. All of the issued and outstanding shares of capital stock of each Acquired Subsidiary and all of the Enenco Shares have been duly authorized and validly issued, are fully paid and nonassessable with no personal liability attaching thereto and were not issued in violation of any preemptive rights or federal or state securities Laws, and are owned beneficially and of record in the amounts (or in the nominal values) and by the Persons as disclosed in Schedule 5.1.2B. Except as set forth on Schedule 5.1.2B, all of the outstanding capital stock of each of the Acquired Subsidiaries and the Enenco Shares are free and clear of all Liens. Except as set forth on Schedule 5.1.2B, there are no outstanding securities, rights (preemptive or other), subscriptions, calls, warrants, options, or other agreements (except for this Agreement) that give any person the right to purchase, subscribe for, or otherwise receive or be issued any shares of capital stock of any Acquired Subsidiary or Enenco or any security convertible into or exchangeable or exercisable for any shares of capital stock of any Acquired Subsidiary or Enenco. Except as set forth on Schedule 5.1.2B, there are no proxies, stockholder agreements, voting trusts, or other agreements or understandings to which Parent, Seller, any Subsidiary, or Enenco is a party or by which it is bound relating to the voting of any shares of capital stock of any Acquired Subsidiary or Enenco and, except for rights held by Parent, Seller, or any Subsidiary and except as set forth on Schedule 5.1.2B, there are no rights to participate in the equity, income, or election of directors or officers of any Acquired Subsidiary or Enenco. With respect to the Acquired Subsidiaries organized under the laws of Germany, no direct or indirect repayments of stock capital have been made.

5.1.3. Authorization and Effect of Agreement. Each of Seller and Parent has the requisite corporate power to execute and deliver this Agreement and the agreements to be entered into by them at the Closing pursuant hereto (the "Seller Ancillary Documents") and to perform the transactions contemplated hereby and thereby to be performed by it. The execution and delivery by each of Seller and Parent of this Agreement and the Seller Ancillary Documents and the performance by each of them of the transactions contemplated hereby and thereby to be performed by it have been or, in the case of the Seller Ancillary Documents, will at the Closing be duly authorized by any necessary corporate and shareholder action on the part of Seller and Parent. This Agreement has been, and each Seller Ancillary Document will at the Closing be, duly executed and delivered by duly authorized officers of each of Seller and Parent and, assuming the due execution and delivery of this Agreement and, as applicable, any Seller Ancillary Document, by Purchaser, constitutes a valid and binding obligation of Seller and Parent enforceable against them in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the enforcement of creditors' rights in general and subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at Law).

5.1.4. No Restrictions Against Sale of the Purchased Assets; Required Consents. The execution and delivery of this Agreement and each Seller Ancillary Document by Seller or Parent does not or, in the case of the Seller

Ancillary Documents, will not, and the performance by Seller, Parent, or any Subsidiary of the transactions contemplated hereby or thereby to be performed by any of them will not (a) conflict with or violate any provision of the articles or certificate of incorporation or by-laws (or other organizational documents) of Seller, Parent, any Subsidiary, or Enenco (b) except as set forth on Schedule 5.1.4, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation, or acceleration of any obligation or to loss of a benefit under, any provision of any Contract or Permit to which any of Seller, Parent, any Subsidiary, or Enenco is a party or by which any of them or any of their respective properties are bound, (c) constitute a violation of any Law applicable to any of Seller, Parent, any Subsidiary, or Enenco, or the Purchased Assets, or (d) result in the creation of any Lien (other than any Permitted Lien) upon any of the Purchased Assets, except in the case of clauses (b) or (c) above, for such conflicts, violations, breaches, defaults, accelerations, terminations, modifications, or cancellations that would not, individually or in the aggregate, (i) have a Material Adverse Effect, (ii) materially impair the ability of Parent or Seller to perform its obligations hereunder or under any Seller Ancillary Document, or (iii) prevent or materially delay the consummation of the purchase and sale of the Purchased Assets contemplated hereby. No consent, approval, order, or authorization of, or registration, declaration, or filing with, any Governmental Entity is required to be obtained or made by or with respect to Seller, Parent, any Subsidiary, or Enenco in connection with the execution and delivery of this Agreement or any Seller Ancillary Document by Seller, Parent, or any Subsidiary or the performance by Seller, Parent, or any Subsidiary of the transactions contemplated hereby to be performed by either of them, except for (i) such of the foregoing as are listed or described on Schedule 5.1.4 and (ii) any filings, if required, with the Federal Trade Commission and Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act").

5.1.5. No Third Party Options. Except as described on Schedule 5.1.5, there are no existing agreements with, options, or rights of, or commitments to any Person to acquire any of the Purchased Assets or any interest therein, except for those Contracts entered into in the normal course of business consistent with past practice.

5.1.6.A Seller Financial Statements. Seller has delivered to Purchaser true and complete copies of (a) the consolidated balance sheets of Seller and its Subsidiaries at December 31, 1994, 1995, and 1996 and the related statements of income, changes in stockholder's equity (deficit), and cash flows for the fiscal years then ended, audited by Coopers & Lybrand LLP; and (b) an unaudited balance sheet of Seller and its consolidated Subsidiaries at September 30, 1997 and related statements of income, changes in stockholder's equity (deficit), and cash flows for the period then ended (collectively, the "Financial

Statements"). Except as set forth on Schedule 5.1.6, such Financial Statements have been prepared in accordance with GAAP and such balance sheets, including the related notes, fairly present the financial position, assets, and liabilities of Seller and its consolidated Subsidiaries at the dates indicated and such statements of income, changes in stockholder's equity (deficit), and cash flow fairly present the results of operations, changes in stockholder's equity (deficit), and cash flow of Seller and its consolidated Subsidiaries for the periods indicated; provided, however, that the unaudited financial statements included in the Financial Statements are subject to normal year-end adjustments (none of which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect). References in this Agreement to the "Interim Balance Sheet" shall mean the balance sheet of the Business as of September 30, 1997 referred to above, and references in this Agreement to the

"Interim Balance Sheet Date" shall be deemed to refer to September 30, 1997. The books, records, and accounts of Seller and its Subsidiaries maintained with respect to the Business fairly reflect, in reasonable detail, the transactions and the assets and liabilities of Seller and its Subsidiaries with respect to the Business. Neither Seller nor RII has engaged in any material transaction with respect to the Business, maintained any bank account for the Business, or used any of the funds of Seller or any Subsidiary in the conduct of the Business except for transactions, bank accounts, and funds which have been and are reflected in the normally maintained books and records of the Business.

5.1.6.B Enenco Financial Statements. Seller has delivered to Purchaser true and complete copies of (a) the consolidated balance sheets of Enenco at December 31, 1994, 1995, and 1996 and the related statements of income and retained earnings and cash flows for the fiscal years then ended, audited by Ernst & Young LLP ("Audited Enenco Financial Statements"); and (b) an unaudited balance sheet of Enenco at September 30, 1997 and related statements of income and retained earnings and cash flows for the period then ended. Except as set forth on Schedule 5.1.6.B., to the actual knowledge of Debbie Young without inquiry, there is no reason to believe that such Audited Enenco Financial Statements have not been prepared in accordance with GAAP and such balance sheets, including the related notes, do not fairly present the financial position, assets, and liabilities of Enenco at the dates indicated and such statements of income and retained earnings and cash flows do not fairly present the results of operations and retained earnings and cash flows of Enenco for the periods indicated.

5.1.7. Accounts Receivable. The accounts receivable of Seller and its Subsidiaries arising from the Business as set forth on the Interim Balance Sheet or arising since the date thereof are valid; and have arisen solely out of bona fide sales and deliveries of goods, performance of services, and other business transactions in the ordinary course of business consistent with past practice.

5.1.8. Inventory. All Inventory of Seller and its Subsidiaries used in the conduct of the Business, including without limitation raw materials, work-in process, and finished goods, reflected on the Interim Balance Sheet or acquired since the date thereof was acquired and has been maintained in the ordinary course of the Business; is of good and merchantable quality; consists substantially of a quality, quantity, and condition usable, leasable or saleable in the ordinary course of the Business; and, net of related inventory valuation reserves, is valued at the lower of cost or market. Except as described on Schedule 5.1.8, neither Seller nor any Subsidiary is under any liability with respect to the return of Inventory in the possession of wholesalers, retailers, or other customers.

5.1.9. Absence of Undisclosed Liabilities. Except as set forth on Schedule 5.1.9, to the knowledge of Parent or Seller, neither Seller nor any Subsidiary has any liabilities with respect to the Business except (a) those liabilities set forth on the Interim Balance Sheet and not heretofore paid or discharged and (b) those liabilities incurred in the ordinary course of business consistent with past practice since the Interim Balance Sheet Date.

5.1.10.Contracts and Commitments.

(a) Except as described on Schedule 5.1.10, neither Seller nor any Subsidiary is a party to any written or oral:

(i)employment or consulting Contract with an employee or former employee, director, agent, consultant, or similar representative;

(ii)collective bargaining agreement with any labor union;

(iii)Contract for the future purchase of, or payment for, supplies or products, or for the performance of services by a third party which supplies services to the Seller or any Subsidiary, involving in excess of (A) $500,000 with respect to the Seller's U.S. Business and (B) $1,000,000 with respect to the Seller's Non-U.S.
Business;

(iv)Contract to sell or supply products or to perform services in excess of $800,000;

(v)Contract for capital expenditures or the acquisition or construction of fixed assets involving in excess of the amounts in Schedule 5.1.16(f);

(vi)Contract in excess of $50,000 relating to cleanup, abatement, or other actions in connection with, or which result or may reasonably be expected to

result in the incurrence of, Environmental Costs or Liabilities (as defined in Section 5.1.22(j));

(vii)Contract granting to any Person a first-refusal, first-offer, or similar preferential right to purchase or acquire any of the Purchased Assets or any assets of the Acquired Subsidiaries except for Contracts relating to the sale of Inventory in the ordinary course of business consistent with past practice and Contracts involving sales of Purchased Assets which do not exceed $250,000 in the aggregate;

(viii)indenture or mortgage (without qualification), and any loan, letter of credit, or other credit Contract under which the Seller or any Subsidiary has borrowed or is entitled to borrow any amounts in excess of $50,000 or issued any note, bond, indenture, or other evidence of indebtedness for borrowed money in an amount in excess of $50,000, or any indemnity, guarantee, or other contingent liability in respect of any indebtedness of any other Person in an amount in excess of $50,000;

(ix) material Contract with any manufacturer's representative, distributor, or other sales agent;

(x)material Contract under which Seller or any Subsidiary is (A) a lessee of, or holds or uses, any machinery, equipment, vehicle, or other tangible personal property owned by any other Person, (B) a lessor of, or makes available for use by any other Person, any tangible personal property owned by any Seller or any Subsidiary, or (C) a lessee of, or holds or uses, any Leased Real Property;

(xi)except for the agreements disclosed pursuant to Schedule 5.1.10(xiv) hereto, management service, investment advisory, investment banking, or other similar Contract;

(xii)material Contract limiting the freedom of the Seller or any Subsidiary to sell any products or services of any other Person, engage in any line of business, or to compete with or obtain products from any other Person;

(xiii)material Contract pursuant to which the Seller or any Subsidiary has agreed to indemnify or hold harmless any Person;

(xiv)Contract with any officer, director, Affiliate, or stockholder of the Seller or any Subsidiary or with any holder of any securities convertible into or exchangeable or exercisable for any shares of capital stock of the Seller or any Subsidiary;

(xv)Contract or commitment for any charitable or political contribution relating to the Business in an amount involving in excess of $25,000;

(xvi)material license, franchise, distributorship, or other Contract which relates in whole or in part to any software, patent, trademark, trade name, service mark, or copyright or to any ideas, technical assistance or other know-how of or used by Seller or any Subsidiary in the conduct of the Business; or

(xvii)material Contract relating to the Business not made in the ordinary course of business.

(b) Each of the Contracts and other instruments, documents, and undertakings listed or required to be listed on Schedule 5.1.10, or not required to be listed therein because of the amount thereof, under which H&C or Purchaser is to directly or indirectly acquire rights or obligations hereunder is, to the knowledge of Parent and Seller, valid and enforceable in accordance with its terms; Seller and each Subsidiary is, and to Parent's and Seller's knowledge all other parties thereto are, in compliance with the provisions thereof; neither Seller nor any Subsidiary is, and to Parent's and Seller's knowledge no other party thereto is, in material default in the performance, observance, or fulfillment of any obligation, covenant, or condition contained therein; and no event has occurred which with or without the giving of notice or lapse of time, or both, would constitute a default thereunder.

5.1.11.Title to Assets. Except as listed or described on Schedule 5.1.11, (i) Seller and RII has, and following the Closing, Purchaser will have, good, valid, and marketable title to the Purchased Assets, and each Acquired Subsidiary has, and (ii) Enenco has, good and marketable title to the assets and properties owned or used by it, free and clear of all Liens, other than with respect to both clauses (i) and (ii), (a) Liens for Taxes, assessments, and other governmental charges which are not due and payable or which may thereafter be paid without penalty, and (b) mechanics', carriers', workmen's, repairmen's, and other like Liens arising or incurred in the ordinary course of business consistent with past practice. The items listed or described on Schedule 5.1.11, and those referred to in clauses (a) and (b) of the immediately preceding sentence are hereinafter referred to as "Permitted Liens".

5.1.12.Intellectual Property.

(a) Except as set forth on Schedule 5.1.12(a), the Intellectual Property and the Acquired Subsidiary Intellectual Property, together with the intellectual property provided pursuant to the transitional services agreement described in more detail on Exhibit B hereto or the NL Software License, includes all of the intellectual property rights owned or licensed by Seller and its Subsidiaries and used in the operation of the Business. Except as set forth on Schedule 5.1.12, Seller, directly or indirectly through its Subsidiaries, has good and

marketable title to, the Intellectual Property and the Acquired Subsidiary Intellectual Property owned by Seller and its Subsidiaries, free and clear of all Liens (other than Permitted Liens), and, subject to the receipt of consents referred to in Schedule 5.1.12, Seller and RII have the power to transfer the Intellectual Property to Purchaser and, except as set forth in Schedule 5.1.12, no Person other than Seller and its Subsidiaries has rights to use, market, or exploit the Intellectual Property or the Acquired Subsidiary Intellectual Property owned by Seller and its Subsidiaries or any portion thereof. Except as set forth in Schedule 5.1.12, there are no pending, or to the knowledge of William R. Bronner, Michael Cronin, and Robert Cottone after due inquiry, proceedings threatened affecting the Intellectual Property or the Acquired Subsidiary Intellectual Property owned by Seller and its Subsidiaries. Schedule 5.1.12 lists all notices or claims currently pending or received within the past 3 years by Seller or RII with respect to claims of infringement by others which claim infringement of any third-party domestic or foreign letters patent, patent applications, patent licenses, software licenses and know-how licenses, trade names, trademark registrations and applications, trademarks, service marks, copyrights, copyright registrations or applications, trade secrets, technical knowledge, know-how, or other confidential proprietary information. Except as (i) set forth on Schedule 5.1.12 and (ii) for those matters which could not reasonably be expected to have a Material Adverse Effect, there is, to the knowledge of William R. Bronner, Michael Cronin, and Robert Cottone, after due inquiry, no infringement or misappropriation of any domestic or foreign letters patent, patents, trade names, trademark registrations, trademarks, service marks, copyrights, copyright registrations or applications, trade secrets, technical knowledge, know-how or other confidential proprietary information held or owned by another Person. The patents and trademark registrations listed on Schedule 1.1.6(a), 1.1.6(b), 5.1.12(b), are in effect, and none of Seller, any Subsidiary, or, to the knowledge of William R. Bronner, Michael Cronin, and Robert Cottone, after due inquiry, any other Person, is in default or violation under any of the licenses specified on Schedule 1.1.6(a), 1.1.6(b), 5.1.12.

(b) For the purposes hereof, the term "Acquired Subsidiary Intellectual Property" shall mean (i) all patents and patent applications owned by any Acquired Subsidiary, all licenses to patents and patent applications to and from third parties, in each case as set forth on Schedule 5.1.12(b) hereto, (ii) research and development data and results, manufacturing and other processes, trade secrets, know how, inventions, ideas, conceptions, mask work, designs, technology, proprietary data or information, formulae, and manufacturing, engineering, and other technical information, whether owned by the Acquired Subsidiaries or licensed to the Acquired Subsidiaries by third parties or Affiliates, (iii) all copyrights (registered or otherwise) and registrations and applications for registration thereof owned or licensed by any Acquired Subsidiary, (iv) all copies and tangible embodiments of all the foregoing, in whatever form or medium, (v) all notebooks, records, reports, and data relating thereto, (vi) all applications and registrations for any of the foregoing, (vii) all trademarks, trade names, service marks, trade dress, logos, and corporate names (including the name Rheox and any derivatives thereof), or any applications and registrations for any of the

foregoing, in each case as listed on Schedule 5.1.12(b) hereto, (viii) except as may otherwise be provided in the transition services agreement described in more

detail on Exhibit B hereto, all computer programs, software and databases licensed by any Acquired Subsidiary from third parties, (ix) all copies and tangible embodiments of all the foregoing, in whatever form of medium, and (x) all rights to sue for present and past infringement of any of the foregoing.

5.1.13.Sufficiency and Condition of Assets. The Purchased Assets constitute all of the rights, properties, and assets of every kind, character, and description, wherever located and whether tangible or intangible, real or personal, or fixed or contingent, that are owned, held, used, conceived, developed, or offered for sale or license by Seller or RII in connection with the conduct of the Business as presently conducted, except the Excluded Assets; provided, however, that such representations and warranties with respect to Intellectual Property are provided in Section 5.1.12(a) above. All the Purchased Assets and all of the assets held or used by the Subsidiaries are in good operating condition and repair, subject to normal wear, maintenance, and obsolescence and are usable in the regular and ordinary course of business. Schedule 5.1.13 lists all material business arrangements between any Affiliates of Seller or Parent, on the one hand, and Seller and the Subsidiaries, on the other hand. Schedule 5.1.13 lists those material assets, tangible or intangible, owned by any Affiliate of Seller or Parent which are used in the Business of any of Seller and the Subsidiaries.

5.1.14.Real Property.

(a) Title to Owned Real Property. At Closing, title to the Owned Real Property and to all real property owned by the Acquired Subsidiaries and Enenco listed and described on Schedule 5.1.14(a), together with all appurtenant easements thereunto and all structures, fixtures, and improvements located thereon, and any minerals and mining rights with respect thereto (the "Other Owned Real Property") shall be good and marketable, free and clear of all Liens and other matters affecting Seller's, the Subsidiaries' or Enenco's title to or possession of such Owned Real Property and other Owned Real Property, including, but not limited to, all encroachments, boundary disputes, covenants, restrictions, burdens, conditions, servitudes, occupancy rights, charges, diligences, easements, rights of way, mortgages, security interests, leases, encumbrances and title objections, excepting only the Permitted Liens and such easements, restrictions, and covenants presently of record, which easements, restrictions, and covenants are listed on Schedule 5.1.14(a). Without limiting the generality of the foregoing, to Parent's and Seller's knowledge, all unpatented mining claims included in the Owned Real Property are believed by Seller to be properly located, have been properly maintained, and in good standing. At Closing, (i) title to the Owned Real Property shall be insurable by Lawyers Title Insurance Company, pursuant to the most recent version of the ALTA Owner's form of policy, and (ii) title to the Other Owned Real Property owned by the Acquired Subsidiaries (to the extent available in the country in which such Other Owned Real Property is located) shall be insurable by a title insurance company selected by Purchaser

pursuant to such owner's form of policy as is customary in such country at such insurer's customary rates, in each case free of all exceptions except the aforesaid easements, restrictions, and covenants; provided that, in the case of each of the foregoing clauses (i) and (ii), Parent and Seller make no representation as to the availability of such title insurance to the extent that Purchaser seeks to obtain title insurance in an amount and scope that is more comprehensive in the aggregate than the title insurance obtained by Chase Manhattan Bank pursuant to the title policies listed on Schedule 5.1.14(a).

(b) Leased Real Property. With respect to the Leased Real Property and all real property leased by any Acquired Subsidiary and Enenco (the "Other Leased Real Property" and, together with the Other Owned Real Property, the "Other Real Property"):

(i)Schedule 5.1.14(b) describes each Real Property Lease and each lease with respect to the Other Leased Real Property ("Other Real Property Leases") by listing the name of the landlord or sublandlord, a description of the leased premises, and the commencement and expiration dates of the current term;

(ii)each Real Property Lease and each Other Real Property Lease is, and at Closing shall be, in full force and effect and, except as contemplated hereby, has not been assigned, modified, supplemented, or amended, and none of Seller, the Subsidiaries or Enenco is in default (with or without notice or lapse of time, or both) under any of the Real Property Leases or Other Real Property Leases; and

(iii)the applicable Acquired Subsidiary has good and marketable title to the real property lease located in Livingston, Scotland.

(c) Utility Services. The water, electric, gas, and sewer utility services and the septic tank and storm drainage facilities currently available to each material parcel of the Real Property and Other Real Property are adequate for the present use of the Real Property and Other Real Property by Seller, the Subsidiaries, and Enenco, are not being appropriated by Seller, any Subsidiary, or Enenco but rather are being supplied to Seller, the Subsidiaries, and Enenco by utility companies or municipalities, and to the knowledge of Parent and Seller there is no condition which could reasonably be expected to result in the termination of the present access from the Real Property or the Other Real Property to such utility services and other facilities, except where the termination would not have a Material Adverse Effect.

(d) Assessments or Hazards. None of Seller, any Subsidiary, or Enenco has received any written notices from any Governmental Entity that the assessed value of any material parcel of the Real Property or Other Real Property has been determined to be materially greater than that upon which county, township or school tax was paid for the 1996

tax year applicable to each such tax, or, within past twelve months, in writing from any insurance carrier of Seller, any Subsidiary, or Enenco of fire hazards with respect to the Real Property or Other Real Property, except as set forth on Schedule 5.1.14 hereto.

(e) Eminent Domain. None of Seller, any Subsidiary, or Enenco has received any written notices from any Governmental Entity having the power of eminent domain over the Real Property or the Other Real Property that such Governmental Entity has commenced or intends to exercise the power of eminent domain or a similar power with respect to all or any material part of the Real Property or Other Real Property.

(f) No Violations. To the knowledge of Seller and Parent, the Real Property or Other Real Property and the present uses thereof comply in all material respects with all applicable Laws, and none of Seller, any Subsidiary, or Enenco has received any written notices from any Governmental Entity that the Real Property or Other Real Property or any improvements erected or situate thereon, or the uses conducted thereon or therein, violate any applicable Laws, except for violations that could not reasonably be expected to have a Material Adverse Effect.

(g) Flood Plain. To the knowledge of Seller and Parent, and except as set forth on Schedule 5.1.14(g), no material part of the Real Property or Other Real Property (other than the Hightstown leased property) contains, is located within, or abuts any flood plain, navigable water, or other body of

water, tideland, wetland, marshland, or any other area which is subject to special state, federal, or municipal regulation, control, or protection.

5.1.15.Insurance. Set forth in Schedule 5.1.15 is a list of all fire, liability, and other forms of insurance and all fidelity bonds held by or applicable to Seller, the Subsidiaries, the Purchased Assets, the Business, or Enenco setting forth, in respect of each such policy, the policy name, policy number, carrier, term, type of coverage, and annual premium. Except as noted on Schedule 5.1.15, all such insurance will remain, to the knowledge of Seller and Parent, in full force and effect with respect to periods before the Closing; provided, that Parent and Seller will continue to pay premiums on policies held by or applicable to Seller and RII when due and will not otherwise take any action to modify or cancel any such insurance policies except for renewals or replacements of such policies made in the ordinary course of business. To the knowledge of Seller and Parent, no event has occurred, including, without limitation, the failure by Seller, or any Subsidiary or Enenco to give any notice or information or Seller, any Subsidiary, or Enenco giving any inaccurate or erroneous notice or information, which materially limits or impairs the rights of Seller, such Subsidiary, or Enenco under any such insurance policies.

5.1.16.Conduct of the Business Since the Interim Balance Sheet Date. Since the Interim Balance Sheet Date neither Seller, any Subsidiary or, in case of clauses (a), (c), (d), (i), or (j), Enenco has:

(a) incurred any liabilities, other than liabilities incurred in the ordinary course of business consistent with past practice, or failed to pay or discharge when due any liabilities of which the failure to pay or discharge has caused or will cause any material damage or material loss to it or its assets or properties;

(b) sold, encumbered, assigned, or transferred any of its assets or properties (to the extent, in the case of Seller and RII, such assets or properties would have been included in the Purchased Assets), except for the replacement or betterment of equipment and the sale of Inventory in the ordinary course of business consistent with past practice;

(c) made or suffered any amendment or termination (other than in accordance with its terms) of any Contract listed on Schedule 5.1.10(a), Permit, or Other Permit (as defined in Section 5.1.21), or canceled, modified, or waived any substantial debts or claims held by it or waived any rights of material value, whether or not in the ordinary course of business;

(d) suffered any damage, destruction, or loss, whether or not covered by insurance, of any item or items carried on its books of account individually or in the aggregate at more than $250,000, or suffered any repeated, recurring, or prolonged shortage, cessation, or interruption of supplies or utility or other services required to conduct the Business;

(e) received notice of any actual, or written notice of any threatened, labor trouble, strike, or other material occurrence, event, or condition of any similar character;

(f) made binding commitments or Contracts for capital expenditures or capital additions or betterments exceeding the amounts specified in Schedule 5.1.16(f), except such as may be involved in ordinary repair, maintenance, or replacement of the Purchased Assets or assets or properties of any Acquired Subsidiaries;

(g) except in the ordinary course of business consistent with past

practice, increased the salaries or other compensation of, or made any advance (excluding advances for ordinary and necessary business expenses) or loan to, any of its employees or made any increase in, or any addition to, other benefits to which any of its employees may be entitled;

(h) except where the effect of the change would not be material, changed any of the accounting principles followed by it or the methods of applying such principles;

(i) entered into any transaction other than in the ordinary course of business consistent with past practice involving in excess of $100,000 individually or $250,000 in the aggregate; or

(j) suffered any event or circumstance that individually or in the aggregate has had or could reasonably be expected to have a Material Adverse Effect.

5.1.17.Customers and Suppliers. Schedule 5.1.17 sets forth (a) a list of the ten largest customers (excluding customers which are distributors or agents, but including sales known to be through distributors or agents) of Seller and the Subsidiaries (taken as a whole) based on sales during the fiscal year ended December 31, 1996 and forecast sales for the year ended December 31, 1997, showing the approximate total sales by Seller and the Subsidiaries to each such customer during such periods, and (b) a list of the nine largest suppliers of Seller and the Subsidiaries (taken as a whole) based on purchases during the fiscal year ended December 31, 1996, and the nine months ended September 30, 1997 showing the approximate total purchases by Seller and the Subsidiaries from each such supplier during such periods.

5.1.18.Labor Matters.

(a) Seller is a not a party to or bound by any written employment, consulting, collective bargaining agreement or other labor agreement, except as set forth on Schedule 5.1.18(a). A copy of each such agreement has been provided to Purchaser or included in the data room in Hightstown, New Jersey.

(b) Schedule 5.1.18(b) hereto contains a true and complete list of all persons currently employed by the Seller solely in connection with the Business as of December 29, 1997, including position, date of hire, salary or hourly wage rate, a description of material compensation arrangements (other than employee benefit plans set forth in Schedule 5.1.19), and a list of other material terms of any and all agreements affecting such persons.

(c) Except as described on Schedule 5.1.18(c), Seller has not agreed to recognize any union or other collective bargaining unit, nor has any union or other collective bargaining unit been certified as representing any of Seller's employees. Neither Parent nor Seller has any knowledge of any organizational effort currently being made or threatened in writing by or on behalf of any labor union with respect to employees of the Seller. There is

no labor strike, slowdown, work stoppage, or lockout actually pending or, to the knowledge of Parent and Seller, threatened within the preceding 12 months against Seller.

(d) Except as described on Schedule 5.1.18(d), Seller (i) does not have any written personnel policy applicable to Employees, (ii) is not or within the past 5 years has not been in violation in any material respect of any applicable Laws regarding employment and employment practices, including without limitation, those Laws relating to terms and conditions of employment, wages, and hours, occupational safety and health and workers' compensation or is engaged in any unfair labor practices, (iii) does not have any unfair labor practice charges or complaints pending or threatened in writing against it before the National Labor Relations Board, (iv) does not have any grievances pending or, to the knowledge of Parent and Seller, threatened in writing against it, and (v) does not have any charges pending before the Equal Employment Opportunity Commission of any state or local agency responsible for the prevention of unlawful employment practices.

5.1.19.Employee Benefit Plans.

(a) All "employee benefit plans," as defined by Section 3(3) of ERISA (including non-United States plans which are not subject to ERISA), and all bonus or other incentive compensation, severance, disability, salary continuation, vacation, holiday, educational assistance, and service award plan, policy, or agreement as to which the Seller has any obligation or liability (contingent or otherwise) with respect to Employees or Subsidiary Employees (the "Employee Plans") are listed on Schedule 5.1.19(a). Schedule 5.1.19(a) identifies the Employee Plans separately for each country.

(b) Seller has provided to Purchaser or included in the data room in Hightstown, New Jersey, a correct and complete copy of the applicable plan documents (except for post-retirement medical benefit and life insurance plans), summary plan descriptions, and collective bargaining agreements pertaining to post-retirement medical and life insurance benefit obligations to bargaining unit Employees and Subsidiary Employees. Seller has provided, or will prior to Closing provide, to Purchaser or, with respect to clause (ii) hereof, set forth on Schedule 5.1.19(b) is, a correct and complete list of all (i) current Employees and Subsidiary Employees, together with their date of hire, date of birth, salary or hourly wage rate, and work location and (ii) former bargaining unit Employees who are currently receiving post-retirement medical or life insurance benefits.

(c) For purposes of this Agreement, (i) "Employees" shall mean (x) current or former living employees of Seller, and (y) current employees of Kronos Titan GmbH, Kronos International, Inc., Kronos Canada, Inc., and Societe Industriele du Titane, SA, who perform and had performed services solely with respect to the business of the Seller

and Acquired Subsidiaries, and (ii) "Subsidiary Employees" shall mean current or former living employees of Acquired Subsidiaries.

5.1.20.Litigation; Decrees.

(a) There are no judicial or administrative actions, proceedings, or investigations pending or, to Parent's or Seller's knowledge, currently threatened that question the validity of this Agreement or any action taken or to be taken by Seller or any Subsidiary in connection with this Agreement. Except as listed or described on Schedules 5.1.20(a), there are no (i) lawsuits,

written claims, administrative, or other proceedings or investigations relating to the conduct of the Business or Enenco pending or, to Seller's or Parent's knowledge, currently threatened by, against, or affecting Seller, any Subsidiary, any of the Purchased Assets or Enenco or (ii) judgments, orders, or decrees of any Governmental Entity binding on the Seller, any Subsidiary, any of the Purchased Assets, or Enenco.

(b) All lawsuits within the past 3 years asserting that any product manufactured or sold by Seller or any Subsidiary in the conduct of the Business was defective or caused any injury or harm to any person, including without limitations all such claims and allegations relating to returns, warranty claims, failure to warn, breach of warranties of merchantability or fitness for any purpose or use, or similar matters are described on Schedule 5.1.20(b). Schedule 5.1.20(b) sets forth, to the knowledge of Parent and Seller, all complaints by customers of Seller and its Subsidiaries within the past twelve months that products sold by Seller and its Subsidiaries have failed to perform as anticipated.

5.1.21.Compliance With Law; Permits. To the knowledge of Parent and Seller, Seller, the Subsidiaries, and Enenco have complied with each Law to which Seller, any Subsidiary, Enenco, or its business, operations, assets, or properties is subject and is not currently in violation in any respect of any of the foregoing, except where the failure to comply or where such violation could not reasonably be expected to have a Material Adverse Effect. To the knowledge of Parent and Seller, Seller, each Subsidiary, and Enenco owns, holds, possesses, or lawfully uses in the operation of its business all Permits and Other Permits, as applicable, which are necessary for it to conduct its business as now conducted or for the ownership and use of its assets, except where the failure to own, hold, possess, or lawfully use any such Permit could not reasonably be expected to have a Material Adverse Effect. All Permits are listed and described on Schedule 1.1.8, and all licenses, permits, franchises, authorizations, orders, registrations, certificates, variances, approvals, and similar rights of any Acquired Subsidiary or Enenco issued by any Governmental Entity (collectively, "Other Permits") are listed on Schedule 5.1.21(a). None of Seller, any Subsidiary, or Enenco is in default, nor has any of Seller, Parent, any Subsidiary or Enenco received any written notice of any claim of default, with respect to any Permits or Other Permits, listed on Schedule 5.1.21(a)(1) hereto, except for such defaults that could not reasonably be expected to

have a Material Adverse Effect. To the knowledge of Seller and Parent, no shareholder, director, officer, employee, or former employee of Seller, any Subsidiary, or any Affiliates of Seller or any Subsidiary, or any other Person, owns or has any material proprietary, financial, or other direct interest in any Permits or any Other Permits which Seller or any Subsidiary owns, possesses, or uses in the operation of the Business.

5.1.22.Environmental Matters. Except as set forth in Schedule 5.1.22, to the knowledge of Patent and Seller:

(a) the operation of the Business and the operation of Enenco's business is in compliance with all Environmental Laws applicable to the respective jurisdictions in which such Business or business is conducted, except where the failure to comply would not have a Material Adverse Effect;

(b) (i) Seller, each Subsidiary, and Enenco has obtained and currently maintains all Environmental Permits necessary for its operations and is in compliance with such Environmental Permits, except where the failure to have such Environmental Permits or be in compliance therewith would not have a Material Adverse Effect, (ii) there are no judicial or administrative actions, proceedings or investigations pending or currently threatened to revoke such Environmental Permits, and (iii) neither Seller nor any Subsidiary has received

any written notice from any Governmental Entity or written notice from any Person to the effect that there is lacking any material Environmental Permit required for the current use or operation of any property owned, operated, or leased by Seller, any Subsidiary, or Enenco;

(c) there are no judicial or administrative actions, proceedings, or investigations pending or currently threatened against Seller, any Subsidiary, or Enenco alleging the violation of, or liability pursuant to, any Environmental Law or Environmental Permit, except for liabilities or violations which could not reasonably be expected to have a Material Adverse Effect;

(d) none of Seller, any Subsidiary, or Enenco or, to Parent's or Seller's knowledge any predecessor of Seller, any Subsidiary, or Enenco has filed any material notice under any Environmental Law indicating past or present treatment, storage, or disposal of or reporting a Release or currently threatened Release of Hazardous Material into the environment, except for such Releases that could not reasonably be expected to have a Material Adverse Effect;

(e) none of Seller, any Subsidiary, or Enenco or, to Parent's or Seller's knowledge, any of Seller's, any Subsidiary's, or Enenco's past or current facilities and operations or any predecessor of Seller, any Subsidiary, or Enenco, is subject to any outstanding written order, injunction, judgment, decree, ruling, assessment, or arbitration

award or any agreement with any Governmental Entity or other Person, or to any federal, state, local, or foreign investigation respecting (i) Environmental Laws or (ii) the Release or currently threatened Release of any Hazardous Material, except in either case for such orders, injunctions, judgments, decrees, rulings, assessments, arbitration awards, or agreements which could not reasonably be expected to have a Material Adverse Effect;

(f) all the Real Property or Other Real Property owned by Seller, any Subsidiary, or Enenco and all real property formerly owned, operated, or leased by Seller, any Subsidiary, or Enenco or any predecessor of Seller, any Subsidiary, or Enenco, is free of contamination by or from any Hazardous Materials, except for such contamination that could not reasonably be expected to have a Material Adverse Effect;

(g) none of the operations of Seller, any Subsidiary, or Enenco or any predecessor of Seller, any Subsidiary, or Enenco or of any owner or operator of premises currently leased or operated by Seller, any Subsidiary, or Enenco involves or previously involved the generation, transportation, treatment, storage, or disposal of hazardous waste, as defined under 40 C.F.R. Parts 260-270 or any state, local, or foreign equivalent, except for such as could not reasonably be expected to have a Material Adverse Effect; and

(h) there is not now, nor has there been in the past, on, in, or under the Real Property or any Other Real Property currently or formerly owned, leased, or operated by Seller, any Subsidiary, Enenco or any predecessor of Seller, any Subsidiary, or Enenco (i) any underground storage tanks, above-ground storage tanks, dikes, or impoundments, (ii) any asbestos-containing materials, (iii) any polychlorinated biphenyls or (iv) any radioactive substances, except where the presence of such items could not reasonably be expected to have a Material Adverse Effect.

(i) No facts or circumstances exist which could reasonably be expected to result in the Seller, any Subsidiary, or Enenco incurring Environmental Costs and Liabilities in an amount which could reasonably be expected to have a Material Adverse Effect.

(j) For purposes of the foregoing Section 5.1.22:

"Environmental Costs and Liabilities" shall mean any and all losses, liabilities, obligations, damages, fines, penalties, judgments, actions, claims, costs, and expenses (including reasonable fees, disbursements, and expenses of legal counsel, experts, engineers, and consultants and the costs of investigation and feasibility studies, remedial, or removal actions and cleanup activities) arising from or under any Environmental Law or any order or agreement now in effect with any Governmental Entity or other Person.

"Environmental Law" means any Law as in effect on the Closing Date (including common law) relating to the environment, natural resources, or public and employee health and safety and includes, but is not limited to, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. SS 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. SS 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. SS 6901, et seq., the Clean Water Act, 33 U.S.C. SS 1251 et seq., the Clean Air Act, 33 U.S.C. SS 2601, et seq., the Toxic Substances Control Act, 15 U.S.C. SS 2601, et seq., the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. SS 136, et seq., the Oil Pollution Act of 1990, 33 U.S.C. SS 2701, et seq., the Federal Safe Drinking Water Act, 42 U.S.C. SS 300F, et seq., and the Occupational Safety and Health Act, 29 U.S.C. SS651, et, seq.; as such Laws have been amended or supplemented through the Closing Date, and the regulations promulgated pursuant thereto through the Closing Date, and all analogous state or local statutes in effect on the Closing Date.

"Environmental Permit" means any permit, approval, authorization, license, variance, registration, or permission required under any applicable Environmental Law.

"Hazardous Material" means any substance, material, or waste which is regulated by any Governmental Entity as a "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous substance," "restricted hazardous waste," "contaminant," "toxic waste," or "toxic substance" under any provision of Environmental Law, which includes, but is not limited to, petroleum, petroleum products (including crude oil and any fraction thereof), asbestos, asbestos-containing materials, urea formaldehyde, and polychlorinated biphenyls.

"Release" means any release, spill, emission, leaking, pumping, pouring, dumping, emptying, injection, deposit, disposal, discharge, dispersal, leaching, or migration on or into the environment or out of any property.

5.1.23.Taxes.

(a) All Tax Returns (as defined in Section 5.1.23(g)) that are required to be filed on or before the date hereof by Seller, any Subsidiary, or Enenco have been duly filed on a timely basis with the appropriate Federal, state, local and foreign governments or foreign agencies. All such Tax Returns were complete and accurate in all material respects. Except as described in Schedule 5.1.23(a), all Taxes owed by Seller, any Subsidiary or Enenco have been paid by it, whether or not such Taxes are disputed. Except as described in Schedule 5.1.23(a), none of Seller, any Subsidiary, or Enenco has executed or filed with the Internal Revenue Service or any other taxing authority any agreement extending the period for filing any Tax Return.

(b) Except as described in Schedule 5.1.23(b), no claim for assessment or collection of Taxes has been asserted against Seller, any Subsidiary, or Enenco. Except as described in Schedule 5.1.23(b), none of Seller, any Subsidiary, or Enenco is a party to any pending action, proceeding, audit, or investigation by any Governmental Entity for the assessment or collection of Taxes nor does Parent or Seller have knowledge of any such currently threatened action, proceeding, or investigation.

(c) Except as described in Schedule 5.1.23(c), no waivers of statutes of limitation in respect of any Tax Returns have been given or requested by Seller, any Subsidiary, or Enenco, nor has Seller, any Subsidiary, or Enenco agreed to any extension of time with respect to a Tax assessment or deficiency. To the knowledge of Parent and Seller, no claim has been made by a Governmental Entity in a jurisdiction where Seller, any Subsidiary, or Enenco does not currently file Tax Returns that it is or may be subject to taxation by that jurisdiction nor is Seller or Parent aware that any such assertion of jurisdiction is currently threatened. No security interests have been imposed upon or asserted against any of the Purchased Assets as a result of or in connection with any failure, or alleged failure, to pay any Tax.

(d) Each of Seller, the Subsidiaries, and Enenco has withheld and paid all Taxes required to be withheld in connection with any amounts paid or owing to any employee, creditor, independent contractor, or other third party.

(e) The performance of the transactions contemplated hereby will not (either alone or upon the occurrence of any additional or subsequent event) result in any payment that would constitute an "excess parachute payment" within the meaning of Section 280G of the Code. None of the Purchased Assets is (i) "tax-exempt use" property within the meaning of Section 168(h) of the Code; (ii) required to be treated as owned by another person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended and in effect immediately prior to the enactment of the Tax Reform Act of 1986; or (iii) "tax exempt bond financed property" within the meaning of Section 168(g) of the Code.

(f) Except as described in Schedule 5.1.23(f), none of Seller, any Subsidiary, or Enenco is a party to any tax allocation agreement, tax sharing agreement, tax indemnity agreement, or similar agreement, arrangement, or practice with respect to Taxes (including any advance pricing agreement, closing agreement, private letter ruling, or other agreement relating to Taxes with any Tax authority). Notwithstanding the foregoing, each of Seller, RII, and RIMC is a party to an Income Tax sharing agreement with Parent.

(g) For purposes of this Agreement, the terms "Tax" and "Taxes" shall mean all federal, state, local, or foreign Income Taxes, payroll, employee withholding, unemployment insurance, and social security contributions (of whatever nature, type, purpose

and charged by whatever means), sales, use, service, service use, leasing,

leasing use, excise, franchise, gross receipts, value added, alternative or add-on minimum, estimated, occupation, real and personal property, stamp, transfer, workers' compensation, severance, windfall profits, environmental including taxes under Section 59A of the Code), or other tax of the same or of a similar nature, including any interest, penalty, or addition thereto, whether disputed or not. The term "Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes or any amendment thereto, and including any schedule or attachment thereto.

(h) Neither the Seller nor RII is a foreign person within the meaning of Section 1445 of the Code.

5.1.24.Certain Business Practices and Regulations.

(a) To the knowledge of Seller and Parent, none of Seller, any Subsidiary, Enenco, or any directors, officers, agents, or employees of Seller or any Subsidiary has (i) used any corporate funds for unlawful contributions, gifts, entertainment, or other unlawful expenses relating to political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended, or (iii) in their capacity as directors, officers, agents, or employees of Seller or any Subsidiary made any other unlawful payment.

(b) To the knowledge of Parent and Seller, except as disclosed on Schedule 5.1.24, none of (i) the officers or directors of Parent, or of any Subsidiary or entity controlled by any of the foregoing, (ii) any security holder who is known to the Parent to own of record or beneficially more than five percent of any class of the Parent's voting securities, or (iii) any member of the immediate family of any of the foregoing persons, has a direct or indirect material interest in any transaction or series of transactions to which the Seller or any of its Subsidiaries is or is to be a party, in which the amount involved exceeds $60,000. Terms in this subsection not otherwise defined in this Agreement have the meanings given them in Item 404 of Regulation S-K promulgated by the U.S. Securities and Exchange Commission as in effect on the Closing Date.

5.1.25.Warranties and Returns. Schedule 5.1.25 sets forth a summary of present practices and policies followed by Seller and its Subsidiaries with respect to guarantees, warranties, and servicing of any products manufactured or sold and services rendered by it. Except as set forth on Schedule 5.1.25, to the knowledge of Parent and Seller, there are no written statements, citations, or decisions by any Governmental Entity stating that any product actually sold by Seller or any Subsidiary is defective or unsafe or fails to meet any standards promulgated by any such person within the past 3 years. Except as set forth on

Schedule 5.1.25, there is not presently, nor has there been, any failure of a product sold by Seller or any Subsidiary such as to require a general recall or replacement campaign with respect to such product or a reformulation or change of such product. Except as set forth on Schedule 5.1.25, to the knowledge of Parent or Seller, there is no (a) fact relating to any product of Seller or any Subsidiary that may reasonably be expected to impose upon Seller or any Subsidiary a duty to recall any such product or a duty to warn customers of a defect in any such product, (b) material design, manufacturing, or other defect in any such product, or (c) material liability for warranty claims, returns, or servicing with respect to any such product not fully reflected on the Interim Balance Sheet.

5.1.26.No Implied Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT, NEITHER SELLER NOR PARENT NOR

ANY SUBSIDIARY MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF SELLER OR ANY OF THE ASSETS, LIABILITIES OR OPERATIONS OF SELLER OR ANY SUBSIDIARY, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED REPRESENTATION OR WARRANTY AS TO THE CONDITION, MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND PURCHASER, H&C AND H&C AMERICA EXPRESSLY DISCLAIMS ANY SUCH REPRESENTATION OR WARRANTY.

5.1.27.Parent's or Seller's Knowledge. As used in this Article V, the terms "to Parent's knowledge," "to Seller's knowledge," and similar words or phrases shall mean the actual knowledge, after due inquiry, of the persons listed on Schedule 5.1.27.

5.2. Representations and Warranties of H&C, H&C America and Purchaser. Each of H&C, H&C America and Purchaser, jointly and severally, makes the following representations and warranties to Parent and Seller, each of which is true and correct as of the date hereof and shall be true and correct as of the Closing Date and, except as otherwise provided in Section 10.1, shall be unaffected by any investigation heretofore or hereafter made by Parent or Seller.

5.2.1. Corporate Organization. Each of H&C, H&C America and Purchaser is a corporation duly organized, validly existing, and in good standing under the laws of the state or jurisdiction of its organization and has the requisite corporate power and authority to own, lease, or otherwise hold its properties and assets and to carry on its business as presently conducted.

5.2.2. Authorization and Effect of Agreement. Each of H&C, H&C America and Purchaser has the requisite corporate power to execute and deliver this Agreement and the agreements to be entered into by them at the Closing pursuant hereto (the

"Purchaser Ancillary Documents") and to perform the transactions contemplated hereby and thereby to be performed by it. The execution and delivery by each of H&C, H&C America and Purchaser of this Agreement and the Purchaser Ancillary Documents and the performance by it of the transactions contemplated hereby and thereby to be performed by it have been or, in the case of the Purchaser Ancillary documents, will at the Closing be, duly authorized by all necessary corporate action on the part of each of H&C, H&C America and Purchaser. This Agreement has been, and each Purchaser Ancillary Document will at the Closing be, duly executed and delivered by duly authorized officers of each of H&C, H&C America and Purchaser and, assuming the due execution and delivery of this Agreement and, as applicable, any Purchaser Ancillary Document, by Parent and Seller, constitutes a valid and binding obligation of Purchaser, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar Laws affecting the enforcement of creditors' rights in general and subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at Law).

5.2.3. No Restrictions Against Purchase of the Assets. The execution and delivery of this Agreement and each Purchaser Ancillary Document by each of H&C, H&C America and Purchaser does not or, in the case of the Purchaser Ancillary Documents will not, and the performance by each of H&C, H&C America and Purchaser of the transactions contemplated hereby or thereby to be performed by it will not (a) conflict with the certificate or articles of incorporation (or other organizational documents) or by-laws of H&C, H&C America or Purchaser, (b) conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, any provision of any contract or permit to which H&C, H&C America or Purchaser is a party or by which it is bound, or (c) constitute a violation of any Law, except in the case of clauses (b) or (c) above, for such conflicts, violations, breaches, or defaults that would not, individually or in the aggregate, (i) materially impair

the ability of Purchaser to perform its obligations hereunder or (ii) prevent or materially delay the consummation of the purchase and sale of the Purchased Assets contemplated hereby. No consent, approval, order, or authorization of, or registration, declaration, or filing with, any Governmental Entity is required to be obtained or made by or with respect to H&C, H&C America or Purchaser in connection with the execution and delivery of this Agreement by H&C, H&C America or Purchaser or the performance by H&C, H&C America or Purchaser of the transactions contemplated hereby to be performed by it, except for (i) such of the foregoing are listed or described on Schedule 5.2.3 and (ii) any filings, if required, with the Federal Trade Commission or Department or Justice pursuant to the HSR Act.

ARTICLE VI. PRE-CLOSING COVENANTS

6.1. Access to Information. Prior to the Closing, upon reasonable notice from Purchaser to Seller, and subject to the provisions of that certain confidentiality agreement between Parent and H&C dated as of September 29, 1997, Seller will afford to the officers, attorneys, accountants, or other authorized representatives (including, without limitation, environmental consultants) of Purchaser reasonable access, after consultation with Seller, during normal business hours to the employees, the Purchased Assets, facilities, and the books and records of Seller and its Subsidiaries so as to afford Purchaser a full opportunity to make such review, examination, and investigation of the Business as Purchaser may desire to make, including without limitation an environmental evaluation of Seller and its Subsidiaries reasonably satisfactory to Seller and Parent. Purchaser will be permitted to make extracts from or to make copies of such books and records as may be reasonably necessary in connection therewith. Prior to the Closing, and subject to the provisions of that certain confidentiality agreement between Parent and H&C dated as of September 29, 1997, Seller will promptly furnish or cause to be furnished to Purchaser such financial and operating data and other information as Purchaser may reasonably request.

6.2. Conduct of Business. Except (x) as set forth in Schedule 6.2, or (y) as consented to by H&C, H&C America and Purchaser in writing, during the period from the date of the Agreement and continuing until the Closing, Seller will and will cause the Subsidiaries to, and will use commercially reasonable efforts to cause Enenco (to the extent it has the power to do so) to, (i) conduct the Business and the business of Enenco only in the ordinary course of business and consistent with past practices, (ii) maintain in good repair all of the Purchased Assets and, in the case of Enenco, all of Enenco's assets, and (iii) preserve intact the Seller's, its Subsidiaries' and Enenco's present business operations, keep available the services of the Seller's, its Subsidiaries' and Enenco's officers and employees, and preserve the Seller's, its Subsidiaries' and Enenco's relationships with suppliers, customers, licensors, and others having business relationships with the Seller, any Subsidiary or Enenco. Without limiting the generality of the foregoing, the Seller will and will cause the Subsidiaries to:

(a) not fail to pay or discharge when due any liabilities of which the failure to pay or discharge may reasonably be expected to cause any material damage or material loss to it or any of the Purchased Assets;

(b) not sell, assign, or transfer any of the Purchased Assets, except in the ordinary course of business consistent with past practice, and not permit any of the Purchased Assets to be subjected to any Lien (other than the Permitted Liens);

(c) except as expressly contemplated by this Agreement, not make or suffer any material amendment or termination of any Contract listed on Schedule

5.1.10 or Permit or waive any rights of substantial value, except in the ordinary course of business;

(d) not make commitments or Contracts for capital expenditures in excess of the amounts specified in Schedule 5.1.16(f), or except such as may be involved in ordinary repair, maintenance, or replacement of the Purchased Assets;

(e) not acquire or agree to acquire any assets that would constitute Purchased Assets except in the ordinary course of business consistent with past practice;

(f) not increase the salaries or other compensation of, or make any advance (excluding advances for ordinary and necessary business expenses) or loan to, any of its employees or make any increase in, or any addition to, other benefits to which any of its employees may be entitled except in the ordinary course of business consistent with past practice;

(g) except where the effect of such change would not be material, not change any of the accounting principles followed by it or the methods of applying such principles;

(h) not take or omit to take any action as a result of which any representation or warranty of Parent or Seller in Article IV would be rendered untrue or incorrect if such representation or warranty were made immediately following the taking or failure to take such action;

(i) not enter into any Contract or other transaction (except as contemplated by the Contracts specified in Schedule 5.1.10(a)(xiv) hereto) with Parent or any Affiliate of Parent or any officer or director of Parent or any Affiliate of Parent;

(j) maintain its books, accounts, and records in the usual, regular, and ordinary manner or a basis consistent with prior years;

(k) maintain in full force and effect all insurance described in Schedule 5.1.15, except for renewals and replacements in the ordinary course of business consistent with past practice;

(l) not authorize, issue, or dispose of any shares of any Acquired Subsidiary's capital stock or other equity securities nor grant any option, warrant, or right calling for the authorization or issuance of such shares; and

(m) not commit to any of the foregoing.

6.3. Notification.

(a) Parent and Seller shall provide prompt written notice to H&C, H&C America and Purchaser, and H&C, H&C America and Purchaser shall provide prompt written notice to Parent and Seller (in each case within 5 business days), of any litigation, arbitration, or administrative proceeding pending or, to its knowledge, threatened against Parent, Seller, or any Subsidiary, on the one hand, or H&C, H&C America, or Purchaser, on the other hand, which challenges the transactions contemplated hereby.

(b) Parent and Seller will promptly notify Purchaser (in any event within 15 business days) of any development or upon learning of additional information causing or which constitutes or would at the Closing constitute a breach of any of its representations and warranties contained in Sections 5.1.4 through 5.1.25 above. Unless Purchaser has the right to terminate this Agreement pursuant to Section 11.1 below by reason of the development or information and exercises that right pursuant to such Section 11.1 below, the written notice pursuant to this Section 6.3(b) will be deemed to have qualified the representations and warranties as to which such notice relates, and to have cured any misrepresentation or breach of warranty that otherwise might have existed hereunder by reason of the development.

(c) Each Party will give prompt written notice to the other Party of any material adverse development causing or which constitutes a breach of any of its own representations and warranties in Sections 5.1.1 through 5.1.3 and 5.2.1 through 5.2.3 above. No disclosure by any party pursuant to this Section 6.3(c), however, shall be deemed to amend or supplement the representations or warranties of that Party or to prevent or cure any misrepresentation or breach of warranty.

6.4. Governmental Filings. Each of H&C, H&C America, and Purchaser, on the one hand, and Parent and Seller, on the other hand, shall as promptly as practicable following the execution and delivery of this Agreement, file with the United States Federal Trade Commission and the United States Department of Justice, the notification and report form under the HSR Act required for the transactions contemplated hereby and any supplemental information requested in connection therewith pursuant to the HSR Act. Each of H&C, H&C America and Purchaser, on the one hand, and Parent and Seller, on the other hand, shall as promptly as practicable comply with any other Laws of any country and the European Union which are applicable to any of the transactions contemplated hereby and pursuant to which any consent, approval, order, or authorization of, or registration, declaration, or filing with any Governmental Entity or any other Person in connection with such transactions is necessary. Each of H&C, H&C America and Purchaser, on the one hand, and Parent and Seller, on the other hand, shall furnish to the other such necessary information and reasonable assistance as

the other may request in connection with its preparation of any filing, registration, or declaration which is necessary under the HSR Act or any other such Laws. Each of H&C, H&C America and Purchaser, on the one hand, and Parent and Seller, on the other hand, shall keep each other apprised of the status of any communications with, and any inquiries or requests for additional information from, any Governmental Entity, and shall comply promptly with any such inquiry or request.

6.5. Third Party Consents. Each of H&C, H&C America, and Purchaser, on the

one hand, and Parent and Seller, on the other hand, will cooperate and use their respective commercially reasonable efforts to obtain as promptly as practicable all consents, approvals, and waivers required by third Persons to transfer the Purchased Assets (including the Contracts, the Leased Real Property, the Permits, the Environmental Permits, and the Intellectual Property) to Purchaser in a manner that will avoid any default, conflict, or termination of rights in respect thereof.

6.6. Compliance with Industrial Site Recovery Act. Seller will comply promptly with all requirements of the Industrial Site Recovery Act ("ISRA"), NJ Stat. Ann. SS 13:1K-7 et seq., in connection with the transactions contemplated by this Agreement as may be required by the New Jersey Department of Environmental Protection ("NJDEP") and shall take all actions necessary to cause the transaction contemplated hereby to be effected in compliance with ISRA. The Seller, after consultation with Purchaser, will determine which actions must be taken prior to or after the Closing to comply with ISRA, it being agreed that the scope, extent, and method of such actions are matters to be agreed upon by and between Seller (after consultation with Purchaser) and the NJDEP, provided that such actions do not unreasonably interfere with the use of the facilities by Purchaser. Seller will provide Purchaser with any documents to be submitted to the NJDEP in a reasonable time (in any event within five days or such shorter period necessary to meet the deadlines of NJDEP) prior to submission. All costs and expenses incurred in connection with compliance with ISRA, including reasonable attorneys fees, engineering and other professional or expert fees, prior to or after the Closing will be borne solely and exclusively by Seller. From and after the Closing Date, Purchaser will cooperate with Seller and will provide Seller access to the facilities at reasonable times in order to accomplish any actions required to comply with ISRA, in connection with this transaction, or in connection with ECRA/ISRA Case No. 86917.

6.7. Confidentiality. Each of H&C, H&C America, and Purchaser, on the one hand, and Parent and Seller, on the other hand, shall keep confidential all information obtained by it or them with respect to the other in connection with this Agreement and the negotiations preceding this Agreement, and will use such information solely in connection with the transactions contemplated by this Agreement, and if the transactions contemplated hereby are not consummated, each shall, upon request, return to the other or destroy (and certify to the other that it has so destroyed), without retaining a copy thereof, any schedules, documents, or

other written information, and any reports, notes, computer files, or other evidence, whether written or electronic, that reflect, refer to or contain such information obtained from the other in connection with this Agreement and the transactions contemplated hereby. Notwithstanding the foregoing, no party shall be required to keep confidential or return any information which (a) is required to be disclosed by Law, pursuant to an order or request of a judicial authority or Governmental Entity having competent jurisdiction, or pursuant to the rules and regulations of any national stock exchange applicable to the disclosing party and its Affiliates (provided the party seeking to disclose such information provides the other party with reasonable prior notice thereof), or (b) which can be shown to have been generally available to the public otherwise than as a result of a breach of this Section 6.7.

6.8. No Solicitation. Except for the transactions contemplated by this Agreement, from and after the date of this Agreement, neither Parent nor Seller shall, nor shall they authorize or permit any officer, director, or employee of, or any investment banker, attorney, accountant, or other representative retained by, Parent, Seller, or any Subsidiary to, directly or indirectly, solicit, initiate, encourage or entertain (including by way of furnishing information) discussions, inquiries, offers, or proposals, or participate in any discussions or negotiations for the purpose or with the intention of leading to any proposal

or offer from any Person which constitutes or concerns, or may reasonably be expected to lead to, any proposal for a merger or other business combination involving Seller or any Subsidiary or any proposal or offer to acquire any of the outstanding shares of capital stock of Seller or any Subsidiary or any material portion of the Purchased Assets.

6.9. Publicity. Prior to the Closing, no party to this Agreement will issue or cause the publication of any press release or other public announcement with respect to this Agreement or the transactions contemplated hereby without the prior consent of all other parties, which consent will not be unreasonably withheld; provided, however, that nothing herein will prohibit any party from issuing or causing publication of any such press release or public announcement to the extent that such party determines such action to be required by Law or the rules of any national stock exchange applicable to it or its Affiliates, in which event the party making such determination will allow all other parties a period of time that is reasonable under the circumstances to comment on such release or announcement in advance of its issuance.

6.10. Satisfaction of Conditions. Without limiting the generality or effect of any provision of Article VII, prior to the Closing, each of the parties will use commercially reasonable efforts with due diligence and in good faith to satisfy promptly all conditions required hereby to be satisfied by such party in order to expedite the consummation of the transactions contemplated hereby. Without limiting the generality of the foregoing, if any Governmental Entity having jurisdiction over any party issues or otherwise promulgates any injunction, decree, or similar order prior to the Closing which prohibits the consummation of

the transactions contemplated hereby, the parties will use their respective commercially reasonable efforts to have such injunction dissolved or otherwise eliminated as promptly as possible and, prior to or after the Closing, to pursue the underlying litigation diligently and in good faith.

6.11. Repayment of Indebtedness; Release of Liens. Parent and Seller shall, at or immediately prior to the Closing, cause each of the Acquired Subsidiaries to pay all amounts owing in respect of indebtedness including (A) all obligations of any Acquired Subsidiary for borrowed money or evidenced by bonds, debentures, notes, letters of credit, or similar instruments, (B) all obligations as lessee under capital leases, (C) all obligations to pay the deferred purchase price of property or securities, except accounts payable arising in the ordinary course of business consistent with past practice, and (D) all similar obligations to others guaranteed by any Acquired Subsidiary or secured by a Lien or any of the assets of any Acquired Subsidiary. In addition, Parent and Seller shall, at or immediately prior to the Closing, cause each of the Acquired Subsidiaries to obtain the release of any Liens (other than Permitted Liens) on the properties and assets of the Acquired Subsidiaries.

6.12. RII Distribution of Assets and Liabilities. Notwithstanding anything to the contrary contained in this Agreement, it is contemplated that Parent, Seller and RII will, prior to Closing, take or cause to be taken the following actions:

(i)RII will distribute to Seller, by dividend, all of its assets and liabilities (including, without limitation, the license from RIMC); and

(ii)RII will be dissolved or liquidated.

6.13. Termination of Intercompany Agreements. Except as otherwise provided on Schedule 6.13, all Contracts entered into prior to the Closing Date between or among Parent, Seller, or RII or any Affiliate of Parent, Seller, or RII

(other than any Acquired Subsidiary), on the one hand, and any Acquired Subsidiary, on the other hand, shall be terminated at or prior to the Closing (without penalty, prejudice or cost to Purchaser).

6.14. Cancellation of Intercompany Notes. Parent and Seller shall take such action as is necessary to cancel the intercompany notes of Rheox Ltd. and Rheox GmbH listed on Schedule 6.14 hereto (the "Intercompany Notes") in exchange for the issuance to Seller or RII of additional shares of capital stock of Rheox Ltd. or Rheox Gmbh, as the case may be. Upon issuance of such additional shares of capital stock, Seller shall promptly provide to Purchaser amended Schedules 5.1.2.B and 1.1.11.A to reflect the foregoing transactions.

ARTICLE VII. CONDITIONS TO CLOSING

7.1. Conditions Precedent to Obligations of Purchaser. The obligations of Purchaser under this Agreement to consummate the transactions contemplated hereby will be subject to the satisfaction, at or prior to Closing, of all of the following conditions, any one or more of which may be waived at the option of Purchaser:

7.1.1. Representations, Warranties and Covenants.

(a) All representations and warranties of Parent and Seller made in this Agreement or in any Exhibit, Schedule, or document delivered pursuant hereto (including any Seller Ancillary Documents) which include any qualification or limitation with respect to materiality (whether by reference to "Material Adverse Effect" or otherwise) or any threshold amount (whether expressed individually or in the aggregate), shall be true and correct in all respects as of the date hereof and at and as of the Closing, and all representations and warranties of Parent and Seller made in this Agreement or in any Exhibit, Schedule, or document delivered pursuant hereto (including any Seller Ancillary Documents) which are not so qualified or otherwise limited with respect to materiality (whether by reference to "Material Adverse Effect" or otherwise) or any threshold amount (whether expressed individually or in the aggregate), shall be true and correct in all material respects as of the date hereof and at and as of the Closing, in each case with the same effect as though such representations and warranties were made at and as of the Closing.

(b) Parent and Seller shall have performed and complied with, in all material respects, all the covenants and agreements required by this Agreement to be performed or complied with prior to the Closing.

(c) H&C, H&C America, and Purchaser shall have received a certificate, dated as of the Closing Date, executed on behalf of Parent and Seller by authorized officers thereof, certifying in such detail as H&C, H&C America, and Purchaser may reasonably request that the conditions specified in Sections 7.1.1(a) and (b) hereof have been fulfilled.

7.1.2. Closing Documents. Parent and Seller shall have delivered to H&C, the H&C Assignees, H&C America, and Purchaser the documents identified in Section 8.1.

7.1.3. Governmental Consents or Approvals. Each of the approvals, consents, or waivers of any Governmental Entity listed on Schedules 5.1.4 and 5.2.3 shall have been obtained.

7.1.4. HSR Act. If applicable, the waiting period under the HSR Act shall have expired or terminated.

7.1.5. No Adverse Proceedings. No suit, action, claim, or governmental proceeding shall be pending against, and no order, decree, or judgment of any court, agency, or Governmental Entity shall have been rendered against, any party hereto which would render it unlawful, as of the Closing Date, to effect the transactions contemplated by this Agreement in accordance with its terms.

7.1.6. Third Party Consents. The Seller shall have obtained and shall have delivered to H&C, H&C America, and Purchaser the third-party consents (which shall be in form and substance reasonably satisfactory to H&C, H&C America, and Purchaser and which in any event shall not, except with the prior written consent of H&C, H&C America, and Purchaser, be conditioned upon or subject to the payment of any additional consideration or modification of the terms of any Contract or Permit included within the Purchased Assets or any Other Permit) necessary to transfer the Purchased Assets listed on Schedule 7.1.6.

7.1.7. Material Adverse Effect. Between the date of this Agreement and the Closing Date, there shall not have occurred any event or circumstance that individually or in the aggregate has had or could reasonably be expected to have a Material Adverse Effect.

7.1.8. ISRA Compliance. Seller shall have obtained a writing executed by the NJDEP authorizing the transaction contemplated by this Agreement to occur in accordance with ISRA, including, without limitation, any of the following: (i) a determination that ISRA is not applicable to the transaction pursuant to N.J.A.C. 7:26B-2.2; (ii) an approval of a Negative Declaration; (iii) an approval of a Remedial Action Workplan; (iv) a No Further Action letter as defined by N.J.S.A. 13:1K-9(d); (v) a Remedial Agreement pursuant to N.J.S.A. 13:1K-9(e); or (vi) an authorization to transfer operations pursuant to N.J.S.A. 13:1K-11.2 or N.J.S.A. 13:1K-11.5.

7.1.9. Transitional Services Agreements. Parent and Seller shall have entered into the transitional services agreement(s) and other arrangements described in more detail on Exhibit B hereto.

7.1.10.[Intentionally omitted].

7.1.11.Purchaser's Shareholders Approval. H&C shall have obtained the requisite consent or vote of its shareholders to the consummation of the transactions contemplated hereby.

7.1.12.Opinion of New Jersey Counsel. H&C, H&C America, and Purchaser shall have received the opinion of McCarter & English, special counsel to Parent, to the effect set forth on Exhibit D hereto.

7.1.13.Tax Deeds. Parent and Seller shall have entered into the U.K. Tax Deed and German Tax Deed in the form attached hereto as Exhibit E-1 and E-2 hereto (the "Tax Deeds").

7.1.14.NL Software License. Parent shall have entered into the NL Software License.

7.2. Conditions Precedent to Obligations of Seller and Parent. The obligations of Seller and Parent under this Agreement to consummate the transactions contemplated hereby will be subject to the satisfaction, at or prior to the Closing, of all the following conditions, any one or more of which may be waived at the option of Seller and Parent:

7.2.1. No Material Misrepresentation or Breach.

(a) All representations and warranties of H&C, H&C America, and Purchaser made in this Agreement or in any Exhibit, Schedule, or document delivered pursuant hereto (including any Purchaser Ancillary Document), shall be true and correct in all material respects as of the date hereof and at and as of the Closing, with the same effect as though such representations and warranties were made at and as of the Closing.

(b) All of H&C, H&C America, and Purchaser shall have performed and complied with, in all material respects, all the covenants and agreements required by this Agreement to be performed or complied with prior to the Closing.

(c) Parent and Seller shall have received a certificate, dated as of the Closing Date, executed on behalf of each of H&C, H&C America, and Purchaser by an authorized officer thereof, certifying in such detail as Parent and Seller may reasonably request that the conditions specified in Sections 7.2.1(a) and (b) have been fulfilled.

7.2.2. Closing Documents. H&C, the H&C Assignees, H&C America, and Purchaser shall have delivered to Parent and Seller the documents and other items identified in Section 8.2.

7.2.3. Governmental Consents or Approvals. Each of the approvals, consents, or waivers of any Governmental Entity listed on Schedules 5.1.4 and 5.2.3 shall have been obtained.

7.2.4. HSR Act. If applicable, the waiting period under the HSR Act shall have expired or terminated.

7.2.5. No Adverse Proceedings. No suit, action, claim, or governmental proceeding shall be pending against, and no order, decree, or judgment of any court, agency, or other Governmental Entity shall have been rendered against, any party hereto which would render it unlawful, as of the Closing Date, to effect the transactions contemplated by this Agreement in accordance with its terms.

7.2.6. Transitional Services Agreements. Purchaser (or one or more of its Affiliates) shall have entered into the transitional services agreement(s) and other arrangements described in more detail on Exhibit B hereto.

7.2.7. Tax Deeds. H&C (or its designee or assignee) shall have

entered into the Tax Deeds

7.2.8. NL Software License. H&C (or an H&C Assignee) shall have entered into the NL Software License.

ARTICLE VIII. DOCUMENTS TO BE DELIVERED AT THE CLOSING

8.1. Documents to be Delivered by Parent and Seller. At the Closing, Parent and Seller will deliver to H&C, the H&C Assignees, as applicable, H&C America, and Purchaser, and will cause the Subsidiaries to deliver to the H&C, H&C America, and Purchaser, the following, at the expense of Parent and Seller and in proper form for recording when appropriate:

8.1.1. Transfer Documents. Such bills of sale, assignments, deeds, and other instruments of transfer as Purchaser may reasonably request conveying and transferring to Purchaser title to the Purchased Assets, which shall be in form and substance reasonably satisfactory to Purchaser, on the one hand, and Parent and Seller, on the other hand, including, without limitation, such instruments of transfer and other documents relating to the transfer of the shares of the Acquired Subsidiaries as are described in Schedules 8.1.1(a), 8.1.1(b), and 8.1.1(c).

8.1.2. Certified Resolutions. Certified resolutions of the Boards of Directors of Parent, Seller, and RII approving the execution and delivery of this Agreement and the Seller Ancillary Documents and authorizing the consummation of the transactions contemplated hereby and thereby.

8.1.3. Officer's Certificate. A certificate, dated the Closing Date, executed on behalf of the Parent and Seller in the form described in Section 7.1.1.

8.1.4. Good Standing Certificates. Governmental certificates showing that Seller and each Subsidiary is duly incorporated and in good standing in the state or jurisdiction of its incorporation and in good standing in each state listed on Schedule 5.1.1 or 5.1.2, as applicable, certified as of a date not more than 5 days before the Closing Date.

8.1.5. Other Documents. Such additional information and materials as H&C, H&C America, and Purchaser shall reasonably request.

8.2. Documents to be Delivered by Purchaser. At the Closing, H&C, the H&C Assignees, as applicable, H&C America and Purchaser will deliver to Parent and Seller, at the expense of H&C, H&C America and Purchaser:

8.2.1. Purchase Price. A wire transfer of immediately available funds in the amount of the Unadjusted Purchase Price as provided in Section 3.1.

8.2.2. Assumption Agreement. Such assumption agreements as Seller may reasonably request relating to Purchaser's assumption of the Assumed Liabilities.

8.2.3. Certified Resolutions. Certified resolutions of the Board of Directors of H&C, H&C America, and Purchaser approving the execution and delivery of this Agreement and the Purchaser Ancillary Documents and authorizing the consummation of the transactions contemplated hereby and thereby.

8.2.4. Officer's Certificate. A certificate, dated the Closing Date, executed on behalf of H&C, H&C America, and Purchaser in the form described in Section 7.2.1.

8.2.5. Good Standing Certificates. Governmental certificates showing that each of H&C, H&C America, and Purchaser is duly incorporated and in good standing in the state of its incorporation certified as of a date not more than 5 days before the Closing Date

8.2.6. Other Documents. Such additional information and materials as Seller shall reasonably request.

ARTICLE IX. POST-CLOSING COVENANTS

9.1. Employee Benefits Plans and Practices.

(a) Employment.

Bargaining Unit Employees. Purchaser shall assume on the Closing Date the collective bargaining agreements set forth on Schedule 5.1.18(a) and shall employ each of the United States bargaining unit Employees who are employed on the Closing Date and are covered by such agreements; provided, however, except to the extent of the amount accrued on the Closing Statement prepared in accordance with Section 3.2(c), Seller shall remain responsible for employee welfare benefits for U.S. bargaining unit Employees who are not actively at work on the Closing Date until the date such employees commence active work with Purchaser or any of its Affiliates.

Non-Bargaining Unit Employees. All of the non-bargaining unit Employees (other than the individuals set forth on Schedule 9.1(a)) who are actively working on the Closing Date shall be offered employment with the Purchaser as of the Closing Date, and such Employees who continue employment after the Closing Date shall be hereafter referred to as "Continued Employees." Each such offer of employment to such non-bargaining unit Employees shall be at the same salary and cash bonus opportunity (in the aggregate) or hourly wage rate and position in effect on the Closing Date. Purchaser shall also offer employment to each non-bargaining unit Employee who is employed but is temporarily absent from active employment on the Closing Date upon termination of such temporary absence within 6 months following the Closing Date provided such Employee is able to perform the essential functions of the position he or she previously held with the Seller prior to such absence, and any such U.S. Employee shall be treated as a Continued Employee from and after his or her date of employment with Purchaser.

(b) [Intentionally Omitted]

(c) Purchaser Benefit Plans. Effective immediately as of the Closing Date, except as otherwise specifically provided in this Section 9.1, Purchaser will provide or cause any of its subsidiaries to provide Continued Employees at such time with coverage initially under the applicable benefit plans described in Schedule 9.1(c) ("Purchaser Benefit Plans"). Purchaser has provided or will provide prior to Closing (to the extent available prior to Closing) a copy (or, if a copy is not available, a written description) of each Purchaser Benefit Plan to Seller.

(d) Past Service Credit and Continued Credit. Purchaser shall amend the Purchaser Benefit Plans to the extent necessary or appropriate to credit Continued Employees under such plans for their period of employment with the Seller or any of its Subsidiaries or Affiliates solely for purposes of eligibility, vesting and eligibility for levels of benefits under such plans and will waive pre-existing conditions to the same extent waived by Seller under similar Employee Plans. Seller shall, subject to the Closing, fully vest

Continued Employees in their accrued benefits under the Seller's retirement plans and continue to credit those Continued Employees who are presently eligible for early retirement with their service

with Purchaser and its subsidiaries or affiliates solely for purposes of eligibility for early or normal retirement benefits under the Seller's retirement plans.

(e) Unpaid Wages. On the Closing Date, Purchaser agrees that with respect to current bargaining unit Employees on the Closing Date and Continued Employees it shall be responsible and liable for (and Purchaser shall pay or cause the relevant subsidiary to pay in the ordinary course) solely to the extent accrued on the Closing Statement all accrued and unpaid wages for services rendered, vacation, and cash bonuses. Seller shall pay all other salary continuation payments (including, but not limited to, disability or paid leaves of absence) to Employees with respect to the period prior to their commencement of active work with Purchaser or any of its Affiliates.

(f) Union Benefit Plans. In the case of contracts relating to employee benefits coverage for bargaining unit Employees, Purchaser may seek to adopt or cause a subsidiary to adopt substantially identical contracts with respect to the period following the Closing Date, and Seller shall reasonably cooperate with and assist Purchaser with respect to such contracts.

(g) Medical and Death Benefits. Schedule 9.1.(g) lists the former bargaining unit Employees or their surviving spouses who are covered by post-retirement medical and life insurance benefits. Schedule 9.1.(g) lists the type of post-retirement medical and life insurance plan applicable to such former bargaining unit Employees (including the type of coverage (i.e., single or family).

(i) Seller shall provide post-retirement medical benefits in accordance with the current terms of the Employee Plans to any Continued Employee who retires from Purchaser or its Affiliates prior to 1999 and was eligible for such benefits if they had retired on the Closing Date.

(ii) Medical Claims. Seller shall continue to administer in accordance with past practices all claims for medical and dental services rendered before the Closing Date with respect to Employees.

(h) 401(k) Plan. After the Seller receives a favorable determination by the Internal Revenue Service on the qualification of the NL Industries Retirement Savings Plan under Section 401 of the Code, Seller shall promptly cause such plan to transfer to Purchaser's 401(k) plan which Purchaser shall cause to accept such transfer, in a trust-to-trust transfer in compliance with applicable Laws, an amount in cash equal to the vested and non-vested account balances as of the last day of a calendar month of all Continued Employees and all bargaining unit Employees, together with earnings thereon at the applicable rate available under such plan to the actual date of transfer. Seller and Purchaser shall each provide the

other with reasonable assurances that its 401(k) plan qualifies under Section 401 of the Code. Purchaser shall cause its 401(k) plan to comply with Code Section 411(d)(6) with respect to the amounts so transferred.

(i) Amendment of Plans, Severance Pay. Nothing in this Agreement shall limit, subject to applicable Laws, Purchaser's right, at any time, to dismiss any or all Continued Employees or Subsidiary Employees at any time, with or without cause, and to change the terms and conditions of their employment (including compensation and employee benefits provided to them); provided that any such Continued Employee or Subsidiary Employee dismissed without cause within 12 months following the Closing Date shall be entitled to receive from Purchaser severance pay, in accordance with the severance policy disclosed on Schedule 5.1.18 (a complete and correct copy of each such policy has been provided to Purchaser). Nothing in this Agreement shall preclude amendment or termination of any of Purchaser Benefit Plans or the Employee Plans, as to which Purchaser has no present intention to amend or terminate, at any time without notice to Employees or any other affected individual. Purchaser has no present intention to materially reduce the compensation of any Continued Employee or Subsidiary Employee after Closing.

(j) Cooperation. Purchaser, Parent, Acquired Subsidiaries and Seller agree to cooperate in collecting and providing information as may be required by any of them in order to discharge its respective obligations under this Section 9.1. Purchaser, Parent, Acquired Subsidiaries and Seller each agrees to promptly make all payments and perform all obligations with respect to which they have retained liability under Section 9.1.

(k) Employee Notices and Certificates. Purchaser shall be responsible for issuing certificates or notices in lieu of certificates intended to comply with the Health Insurance Portability and Accountability Act with respect to Continued Employees, and Seller and Purchaser shall reasonably cooperate with each other to ensure that such certificates or notices are timely provided to such Employees. Purchaser agrees not to take any action or omit to take any action in connection with the hiring process that would subject Seller to any responsibility or liability under the Workers Adjustment and Retraining Notification Act with respect to Continued Employees.

(l) Withholding. Seller agrees to transfer to Purchaser any records (including, but not limited to, Forms W-4 and Employee Withholding Allowance Certificates) relating to withholding and payment of income and employment taxes (federal, state, and local) and FICA taxes with respect to wages paid by Seller during the current calendar year to Continued Employees. Purchaser agrees, to the extent permitted by applicable Law, to provide such employees with Forms W-2, Wage and Tax Statements for the current calendar year setting forth the wages and taxes withheld with respect to such employees for the current calendar year by Seller and Purchaser, as predecessor and successor employers, respectively.

Seller and Purchaser also agree to comply with the filing requirements set forth in Revenue Procedure 96-60 to implement this Section.

(m) Insurance. Seller shall maintain through the last day of the calendar month in which the Closing Date occurs the insurance policies (and not administration service obligation contracts) in effect immediately prior to the Closing Date under the applicable Employee Plan.

(n) No Third Party Beneficiaries. Nothing contained in this Section 9.1 shall be construed to grant to any Continued Employees a right to employment by Purchaser for any particular length of time or to otherwise provide to any such Continued Employee any rights or remedies under or by reason of this Agreement.

(o) U.K. Pension Schedule. The parties will take such actions as may be required to be taken pursuant to the U.K. pension schedule attached hereto as Exhibit F, which schedule is deemed to be incorporated into this Agreement for all purposes (including for the purposes of Article X hereof).

9.2. Maintenance of Books and Records. Seller shall and shall cause RII to, and Purchaser shall and shall cause each Acquired Subsidiary to, preserve until the eighth anniversary of the Closing Date all records possessed or to be possessed by such party relating to any of the assets or liabilities of the Business, or the operation of the Business, prior to the Closing Date. After the Closing Date, where there is a legitimate purpose, such party shall provide the other parties with access, upon prior reasonable written request specifying the need therefor, during regular business hours, to (a) the officers and employees of such party and (b) the books of account and records of such party, but, in each case, only to the extent relating to the assets, liabilities or business of the Business prior to the Closing Date, and the other parties and their representatives shall have the right to make copies of such books and records; provided, however, that the foregoing right of access shall not be exercisable in such a manner as to interfere unreasonably with the normal operations and business of such party; and provided, further that, as to so much of such information as constitutes trade secrets or confidential business information of such party, the requesting party and its officers, directors, and representatives will use due care to not disclose such information except to the extent such information (a) is required to be disclosed by Law or pursuant to an order or request of a judicial authority or Governmental Entity having competent jurisdiction (provided the party seeking to disclose such information provides the other party or parties with reasonable prior notice thereof) or (b) which can be shown to have been generally available to the public otherwise than as a result of a breach of this Section 9.2. Such records may nevertheless be destroyed by a party if such party sends to the other parties written notice of its intent to destroy records, specifying with particularity the contents of the records to be destroyed. Such records may then be destroyed after the 30th day after such notice is given unless another party

objects to the destruction, in which case the party seeking to destroy the records shall either agree to retain such records or deliver such records to the objecting party.

9.3. Payments Received. After the Closing, Seller will and will cause RII to, and Purchaser will and will cause each Acquired Subsidiary to, hold and promptly transfer and deliver to the other, from time to time as and when received by them, any cash, checks with appropriate endorsements (using their best efforts not to convert such checks into cash), or other property that they may receive on or after the Closing which properly belongs to the other party, including without limitation any insurance proceeds, and will account to the other for all such receipts.

From and after the Closing, Purchaser shall have the right and authority to endorse without recourse the name of Seller or RII on any check or other evidence of indebtedness received by the Purchaser on account of the Business or the Purchased Assets transferred to the Purchaser hereunder.

9.4. Use of Name. From and after the Closing Date, Parent and Seller will, and will cause RII and each of its Affiliates to, sign such consents and take such other action as Purchaser shall reasonably request in order to permit

Purchaser to use the name "Rheox," "Bentone," and variants thereof. From and after the Closing Date, Seller will not itself, and will cause RII and its Affiliates not to, use the name "Rheox," "Bentone," or any names similar thereto or variants thereof and shall use commercially reasonable efforts to promptly amend and cause RII and each Affiliate to amend its charter or other organizational documents to remove such reference.

9.5. UCC Matters. From and after the Closing Date, Seller will and will cause RII to promptly refer all inquiries with respect to ownership of the Purchased Assets or the Business to Purchaser. In addition, Seller will and will cause RII to execute such documents and financing and termination statements as Purchaser may reasonably request from time to time to evidence transfer of the Purchased Assets to Purchaser and the release of any Liens therefrom.

9.6. Covenant Not to Compete. Until the fifth anniversary of the Closing Date (such period of time being referred to herein as the "Noncompetition Term"), each of Parent and Seller severally agrees to refrain from, anywhere in the world, directly or indirectly through any controlled Affiliate (whether individually or as a principal, officer, director, employee, shareholder, investor, consultant, advisor, partner, joint venturer, agent, equity owner, or in any other capacity whatsoever):

(a) engaging or participating in any activity with respect to the development, manufacturing, marketing, and sale of rheological products or products

using the same or similar chemistry ("Products") that compete with the Business as presently conducted; provided, however, that the foregoing shall not be construed to preclude Parent, Seller, or any of their respective Affiliates from (i) making any investments in the securities of any person, whether or not engaged in competition with the Business as presently conducted, to the extent that such securities are actively traded on a national securities exchange or in the over-the-counter market in the United States or any foreign securities exchange and such investment does not exceed five percent of the issued and outstanding shares of such Person or give Parent, Seller, or any of their respective Affiliates the right or power to control or participate directly in making the policy decisions of such Person or (ii) acquiring all or substantially all of the assets or voting stock of any person which is engaged primarily in a business not in competition with the Business as presently conducted but which has a direct or indirect division, subsidiary, or other business unit which competes with the Business (the "Competing Business Unit"), provided that Parent, Seller, or such Affiliates shall use their respective commercially reasonable efforts to sell or otherwise dispose of such Competing Business promptly following the consummation of such acquisition; or

(b) causing or attempting to cause (A) any customer to whom the Business supplies Products to terminate any purchase or other similar Contract, or relationship with the Business after the Closing or to replace the Business as a supplier of Products, in whole or in part, with any other Person, or (B) any supplier from whom the Business purchases raw materials and other products to terminate any supply or other similar Contract or relationship with the Business; or

(c) except as otherwise contemplated by this Agreement encouraging, soliciting, or inducing any manager, officer, supervisor, or other employee of the Business to terminate his or her employment relationship with the Business or to become employed by any Person other than the Business.

Each of Parent and Seller severally acknowledges that the geographic boundaries, scope of prohibited activities and the Noncompetition Term contained in this Section 9.6 are reasonable and no broader than necessary to protect the investment by Purchaser in the Purchased Assets being acquired pursuant to this Agreement and Purchaser's and its Affiliates ongoing interests in the Business and do not and will not impose any unreasonable burden upon any of Parent, Seller, or their respective Affiliates. Each of Parent and Seller severally agree that (i) any breach by it of any of the provisions contained in this Section 9.6 would cause irreparable damage to Purchaser for which monetary damages and other remedies at law may not be adequate, and (ii) Purchaser will be entitled to seek a restraining order, an injunction, specific performance, or other form of equitable or extraordinary relief from any court of competent jurisdiction to restrain any threatened or further breach of this Section 9.6 above or to require any of Parent or Seller to perform his or its respective obligations under this Section 9.6,

which right to equitable or extraordinary relief will not be exclusive of but will be in addition to all other remedies to which Purchaser may be entitled under this Agreement, at law, or in equity (including, the right to recover monetary damages). As consideration for the agreements set forth in this Section 9.6, Purchaser agrees to pay to Parent at the Closing $20,000,000 by delivery of cash payable by wire transfer of immediately available funds.

9.7. Post-Closing Confidentiality.

(a) For a period of 5 years after the Closing Date, Parent and Seller shall and shall cause RII, and shall cause their respective officers, directors, employees, affiliates, agents, and other representatives to, hold in confidence (and not release or disclose to any Person other than H&C, H&C America, and Purchaser and their respective authorized representatives) and not use for any purpose any (i) proprietary or other information regarding H&C, H&C America, Purchaser, or any of their respective affiliates described to Seller or Parent or any of the other foregoing persons in connection with the negotiation or preparation of this Agreement or otherwise in connection with the transactions contemplated hereby or (ii) proprietary or other information relating to the Purchased Assets or the Business that remains after the Closing in the possession of Parent or Seller or any of the other foregoing persons. Notwithstanding the foregoing, the confidentiality obligations of this Section 9.7(a) shall not apply to information which (x) is required to be disclosed by Law or pursuant to an order or request of a judicial authority or Governmental Entity having competent jurisdiction (provided Parent or Seller provides H&C, H&C America, and Purchaser with reasonable prior notice thereof), or (y) which can be shown to have been generally available to the public otherwise than as a result of a breach of this Section 9.7(a).

(b) For a period of 5 years after the Closing Date, Purchaser, H&C America, and H&C shall and shall cause the Acquired Subsidiaries to, and shall cause their respective officers, directors, employees, affiliates, agents, and other representatives to, hold in confidence (and not release or disclose to any Person other than Parent or Seller and their authorized representatives) and not use for any purpose any proprietary or other information regarding Parent or Seller or any of their respective Affiliates (other than any of the Acquired Subsidiaries or any information relating to the Purchased Assets or Assumed Liabilities) disclosed to Purchaser, H&C America, H&C, or any of the other foregoing persons in connection with the negotiation or preparation of this Agreement or otherwise in connection with the transactions contemplated hereby. Notwithstanding the foregoing, the confidentiality obligations of this Section 9.7(b) shall not apply to information which (x) is required to be disclosed pursuant to Law or an order or request of a judicial authority or Governmental Entity having competent jurisdiction (provided Purchaser, H&C, or H&C America provides Parent and Seller with reasonable prior notice thereof), or (y) which

can be shown to have been generally available to the public otherwise than as a result of a breach of this Section 9.7(b).

9.8. Post-Closing Notifications. Each of H&C, H&C America, and Purchaser will, and will cause the Acquired Subsidiaries to, and Parent and Seller will, comply with any post-Closing notification or other requirements, to the extent then applicable to such party, of any antitrust, trade competition, investment, or control, export, or other Law of any Governmental Entity having jurisdiction over H&C, H&C America, Purchaser, Parent, Seller, or such Acquired Subsidiaries, as applicable.

9.9. Transfer Taxes. All sales, use, transfer, stamp, conveyance, value added or other similar taxes, duties, excises or governmental charges imposed by any taxing jurisdiction, domestic or foreign, and all recording or filing fees, notarial fees, and other similar costs of Closing with respect to the transfer of the Purchased Assets or otherwise on account of this Agreement or the transactions contemplated hereby will be borne one-half by H&C and Purchaser and one-half by Parent and Seller.

9.10. Insurance. With respect to any loss, liability, or damage relating to, resulting from, or arising out of the conduct of the Business on or prior to the Closing Date which constitutes an Assumed Liability and for which Seller or RII would be entitled to assert, or cause any Affiliate or other Person to assert, a claim for recovery under any policy of insurance maintained by or for the benefit of Seller or RII or Affiliate thereof in respect of the Business or the Purchased Assets, at the request of Purchaser, Seller will use commercially reasonable efforts to assert, or to assist Purchaser to assert, one or more claims under such insurance covering such loss, liability, or damage if Purchaser is not itself entitled to assert such claim but Seller is so entitled. In the case of any damage to or destruction of the Purchased Assets or the assets of the Acquired Subsidiaries occurring prior to Closing that is covered by insurance maintained by Seller or RII or any Affiliate, Seller shall deliver all insurance proceeds realized therefrom to Purchaser at Closing or as soon thereafter as collected by Seller or RII or any Affiliate.

9.11. Restrictions on Hiring of Seller's Employees. Except as otherwise contemplated by this Agreement, for a period of five years following the Closing Date, H&C, H&C America, and Purchaser shall, and shall cause their respective controlled Affiliates to, refrain from encouraging, soliciting, or inducing any manager, officer, supervisor, or other employee of Parent, Seller or any controlled Affiliate of Parent or Seller to terminate his or her employment relationship with the such Person or to become employed by any Person other than any such Person.

9.12. Certain Tax Matters.

(a) (i) Seller and Purchaser hereby agree to make an election under Section 338(h)(10) of the Code to treat the purchase and sale of the stock of RIMC pursuant to this Agreement as a sale of assets for federal (and, to the extent applicable,

State and local) Income Tax purposes. Allocation of the deemed purchase price of RIMC's assets shall be determined in accordance with Section 3.3.

(ii) Seller and Purchaser agree to (A) sign all federal, state, and local Tax Returns prepared in accordance with Sections 9.12(c) and (d) hereof and all forms and documents relating to the Section 338(h)(10) election as prepared by Purchaser; (B) do all other acts necessary to ensure that the section 338(h)(10) election is timely and effectively filed; (C) take all other actions as are required in order to give effect to the election for state and local Income Taxes purposes to the greatest extent permitted by Law; and (D) report all federal, state, and local income Taxes in a manner consistent with such election.

(b) Any agreement between Parent, Seller, and RIMC regarding allocation or payment of Income taxes or amounts in lieu of Taxes shall be terminated at and as of the Closing.

(c) Seller will be responsible for the preparation and filing of all Income Tax returns for RIMC for all periods as to which Income Tax returns are due after the Closing Date (including the consolidated, unitary, and combined Income Tax returns for Parent and Seller which include the operations of RIMC for any period prior to the Closing Date). Seller will make all payments required with respect to any such Tax return.

(d) Purchaser will be responsible for the preparation and filing of all Income Tax returns for RIMC for all periods as to which Income Tax returns are due after the Closing Date (other than for Income Taxes with respect to periods for which the consolidated, unitary, and combined Income Tax returns of Seller will include the operations of Seller and RIMC). Purchaser will make all payments required with respect to any such Income Tax return; provided, however, that Parent and Seller jointly and severally agree to reimburse Purchaser concurrently therewith to the extent any payment Purchaser is making relates to the operations of RIMC for any period ending on or before the Closing Date.

9.13. German Tax Deed. Seller and Parent will indemnify and hold Purchaser harmless from and against any Tax liability of Rheox GmbH, Bentone Chemie GmbH, and Rheox Europe S.A./N.V. in accordance with the Tax Deed in the form of Exhibit E-2.

ARTICLE X. SURVIVAL AND INDEMNIFICATION

10.1. Survival of Representations, Warranties, and Covenants.

(a) Except as to (i) the representations and warranties contained in Sections 5.1.1, 5.1.2.A, 5.1.2.B, 5.1.3, 5.2.1, and 5.2.2, which shall survive the Closing until the expiration of the statute of limitations applicable thereto and (ii) the representations and warranties contained in Section 5.1.23, which shall survive the Closing until the expiration of the last day on which any Tax may be validly assessed by the IRS or any other Governmental Entity against Seller, any Subsidiary, the Purchased Assets, or the Business, the representations and warranties of Seller and Parent and of H&C, H&C America, and Purchaser contained in this Agreement shall survive the Closing until the expiration of three years from the Closing Date; provided, however,

that no representation or warranty shall survive the Closing if the party for whose benefit the representation of warranty is made had actual knowledge that the representation or warranty was not true when made or at the time of Closing; provided, further, that for the purposes of the preceding clause, the term "actual knowledge" as it relates to H&C, H&C America, or Purchaser shall mean the actual knowledge of Michael Parker, George Fairweather, Philip Brown, Mark Barocas, Ian Burnley, and Judith Hackitt. Any claim for indemnification with respect to any of such matters which is not asserted by notice given as herein provided relating thereto within such specified period of survival may not be pursued and is hereby irrevocably waived after such time. Any claim for an Indemnifiable Loss (as defined in Section 10.2) asserted within such period of survival as herein provided will be timely made for purposes hereof.

(b) Unless a specified post-Closing survival period is set forth in this Agreement (in which event such specified period will control), (i) the covenants in this Agreement (other than those contained in this Article X) will survive the Closing and remain in effect for the applicable statute of limitations, (ii) the covenant contained in Section 10.3(a)(iv) shall survive until the expiration of four years from the Closing Date, and (iii) the other covenants contained in this Article X and the covenant contained in Section 9.13 shall survive indefinitely.

10.2. Limitations on Liability.

(a) For purposes of this Agreement, (i) "Indemnity Payment" means any amount of Indemnifiable Losses required to be paid pursuant to this Agreement, (ii) "Indemnitee" means any Person entitled to indemnification under this Agreement, (iii) "Indemnifying Party" means any Person required to provide indemnification under this Agreement, (iv) "Indemnifiable Losses" means any and all damages, losses, liabilities, obligations, costs, and expenses, and any and all claims, demands, or suits (by any Person, including without limitation any Governmental Entity), including without limitation the costs and expenses of any and all actions, suits, proceedings, demands, assessments, judgments, settlements, and compromises relating thereto and including reasonable attorneys' fees and out-of-pocket expenses in connection therewith, and (v) "Third Party Claim" means any claim,

action, or proceeding made or brought by any Person who or which is not a party to this Agreement or an Affiliate of a party to this Agreement.

(b) Notwithstanding any other provision hereof or of any applicable Law, no Indemnitee will be entitled to make a claim under Sections 10.3(a)(i) or 10.3(b)(i) against an Indemnifying Party in respect of any breach of a representation or warranty (other than those contained in Sections 5.1.1, 5.1.2.A, 5.1.2.B, 5.1.3, 5.1.22, 5.1.23, 5.2.1, and 5.2.2), unless and until the aggregate amount of claims in respect of breaches of representations and warranties asserted for Indemnifiable Losses under Section 10.3(a)(i) or 10.3(b)(i), as applicable, exceeds $4,000,000, in which event the Indemnitee will be entitled to make a claim against the Indemnifying Party to the extent that such Indemnifiable Losses exceed $2,000,000.

(c) Notwithstanding any other provision hereof or of any applicable Law, none of H&C, the H&C Assignees, H&C America, or Purchaser will be entitled to make a claim against Parent or Seller pursuant to Section 10.3(a)(i) in respect of a breach of any representation or warranty contained in Section 5.1.22 or pursuant to Section 10.3(a)(iv) unless and until the aggregate amount of claims asserted for Indemnifiable Losses under such Sections exceeds $500,000, in which event the H&C, the H&C Assignees, H&C America, and Purchaser will be entitled to make a claim against Parent or Seller only to the extent of further such Indemnifiable Losses; provided, however, that any such Indemnifiable Losses under Section 10.3(a)(i) in respect of a breach of any

representation or warranty contained in Section 5.1.22 or pursuant to Section 10.3(a)(iv) hereof which exceed $20,000,000 shall be borne one-half by Parent and Seller, and one-half by H&C, H&C America, and Purchaser.

(d) No Indemnifying Party shall be liable for Indemnifiable Losses pursuant hereto (other than in respect of a breach of any representation and warranty contained in Sections 5.1., 5.1.2.A, 5.1.2.B, 5.1.3, 5.2.1 and 5.2.2 and other than pursuant to a claim for indemnification pursuant to Section 10.3(a)(iii), Section 10.3(a)(v), or pursuant to the Tax Deeds) to the extent (but only to the extent) that the aggregate amount of Indemnifiable Losses exceeds $120,000,000.

(e) Except as otherwise expressly provided in this Agreement, all Parties acknowledge and agree that the indemnification provisions in this Article X shall be the exclusive remedy of Purchaser, H&C, H&C America, and their Affiliates with respect to Seller, Parent and their Affiliates, and the exclusive remedy of Seller, Parent and their Affiliates with respect to Purchaser, H&C, H&C America, and their Affiliates with respect to any breach of any representation, warranty, covenant, or agreement contained in this Agreement or any certificate delivered pursuant hereto. Without limiting the generality of the foregoing sentence, Purchaser, H&C, and H&C America understand and agree that their right to indemnification under Section 10.3(a)(iv) shall constitute its sole and exclusive remedy

against Seller with respect to any environmental, health, or safety matter relating to the past, current, or future facilities, properties, or operations of Seller and the Subsidiaries, and all of their respective predecessors or Affiliates, including without limitation any such matter arising under any Environmental Laws, but excluding any such matter that constitutes a Retained Liability. Subject to Purchaser's rights and remedies under this Agreement as described in the preceding sentence, Purchaser, H&C, and H&C America each hereby waives any right, whether arising at law or in equity, to seek contribution, cost recovery, damages, or any other recourse or remedy from Seller, Parent, and their respective Affiliates, and hereby release Seller, Parent, and their respective Affiliates from any claim, demand, or liability, with respect to any such environmental, health, or safety matter (including without limitation any arising under any Environmental Laws, including without limitation under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), any analogous state law, or the common law).

10.3. Indemnification.

(a) Subject to Sections 10.1 and 10.2, Seller and Parent jointly and severally agree to indemnify, defend, and hold harmless H&C, the H&C Assignees, H&C America, and Purchaser and their respective Affiliates and directors, officers, partners, employees, agents, and representatives (the "H&C Indemnified Parties") from and against any and all Indemnifiable Losses to the extent relating to, resulting from, or arising out of:

(i) any breach of representation or warranty of Seller or Parent under the terms of this Agreement and any certificate delivered pursuant hereto (which representations and warranties shall be deemed for the purposes of this Section 10.3(a)(i) not to include any qualification or limitation with respect to materiality (whether by reference to "Material Adverse Effect" or otherwise), whether expressed individually or in the aggregate);

(ii) any breach or nonfulfillment of any agreement or covenant of Seller or Parent under the terms of this Agreement and any certificate delivered pursuant hereto;

(iii) any Retained Liabilities;

(iv) subject to Section 10.5, any Environmental Claim or Remedial Action based upon the operation of Seller, the Business, or any of the Subsidiaries or any predecessor of the Seller, the Business, or any of the Subsidiaries prior to the Closing or the ownership, use, or operation at or on any of the real property owned, operated, or leased by Seller or any Subsidiary or any predecessor thereof to the extent the underlying claim is attributable to acts or omissions occurring prior to the Closing,

including liability imposed strictly under Environmental Laws. For the purposes of the foregoing: "Environmental Claim" means any notice of violation, action, claim, environmental lien, demand, abatement, or other order or directive (conditional or otherwise) by any Governmental Entity or any other Person for personal injury (including sickness, disease, or death), tangible or intangible property damage, damage to the environment, nuisance, pollution, contamination, or other adverse effects on the environment, or for fines, penalties, or restrictions resulting from or based upon (i) the existence, or the continuation of the existence, of a Release (including, without limitation, sudden or non-sudden accidental or non-accidental Releases) of, or exposure to, any Hazardous Substance, odor, or audible noise in, into, or onto the environment (including, without limitation, the air, soil, surface water, or groundwater) at, in, by, from, or related to any property owned, operated, or leased by the Seller or any activities or operations thereof; (ii) the transportation, storage, treatment, or disposal of Hazardous Materials in connection with any property owned, operated, or leased by the Seller or its operations or facilities; or (iii) the violation, or alleged violation, of any Environmental Law or Permit of or from any Governmental Entity relating to environmental matters connected with any property owned, leased, or operated by the Seller or any of the Subsidiaries; and "Remedial Action" means all actions, including, without limitation, any capital expenditures, required to (i) clean up, remove, treat, or in any other way address any Hazardous Material or other substance; (ii) prevent the Release or threat of Release, or minimize the further Release of any Hazardous Material or other substance so it does not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment; (iii) perform pre-remedial studies and investigations or post-remedial monitoring and care; or (iv) bring facilities on any property owned, operated, or leased by the Seller or any Subsidiary and the facilities located and operations conducted thereon into compliance with all Environmental Laws and Environmental Permits; provided, however, no Remedial Action shall be undertaken unless required by a Governmental Authority or Environmental Laws or is necessary to achieve or maintain compliance with Environmental Laws; and

(v) the transactions to be effected pursuant to Section 6.12 hereto and the conduct of business by RIMC prior to Closing (including without limitation, any obligations or liabilities of RIMC relating to Taxes attributable to periods ending on or prior to the Closing Date or to the pre-Closing portion of any taxable period that includes but does not end on the Closing Date).

(b) Subject to Section 10.1 and 10.2, H&C, H&C America and Purchaser jointly and severally agree to indemnify, defend, and hold harmless Parent and Seller and their respect Affiliates and directors, officers, partners, employees, agents, and representatives from

and against any and all Indemnifiable Losses to the extent relating to, resulting from, or arising out of:

(i) any breach of representation or warranty of H&C, H&C America or Purchaser under the terms of this Agreement and any certificate delivered pursuant hereto;

(ii) any breach or nonfulfillment of any agreement or covenant of H&C, H&C America or Purchaser under the terms of this Agreement and any certificate delivered pursuant hereto; and

(iii) any Assumed Liabilities.

10.4. Defense of Claims.

(a) If any Indemnitee receives notice of assertion or commencement of any Third Party Claim against such Indemnitee with respect to which an Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnitee will give such Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 10 calendar days after receipt of such notice of such Third Party Claim. Such notice will describe the Third Party Claim in reasonable detail, will include copies of all material written evidence thereof, and will indicate the estimated amount, if reasonably practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. The Indemnifying Party will have the right to participate in, or, by giving written notice to the Indemnitee, to assume, the defense of any Third Party Claim at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel (reasonably satisfactory to the Indemnitee), and the Indemnitee will cooperate in good faith in such defense.

(b) If, within 10 calendar days after giving notice of a Third Party Claim to an Indemnifying Party pursuant to Section 10.4(a), an Indemnitee receives written notice from the Indemnifying Party that the Indemnifying Party has elected to assume the defense of such Third Party Claim as provided in the last sentence of Section 10.4(a), the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof; provided, however, that if the Indemnifying Party fails to take reasonable steps necessary to defend diligently such Third Party Claim within 10 calendar days after receiving written notice from the Indemnitee that the Indemnitee believes the Indemnifying Party has failed to take such steps or if the Indemnifying Party has not undertaken fully to indemnify the Indemnitee in respect of all Indemnifiable Losses relating to the matter, the Indemnitee may assume its own defense, and the Indemnifying Party will be liable for all reasonable costs or expenses paid or incurred in connection therewith. Without the prior written consent of the Indemnitee, the Indemnifying Party will not enter into any

settlement of any Third Party Claim which would lead to liability or create any obligation on the part of the Indemnitee for which the Indemnitee is not

entitled to indemnification hereunder.

(c) A failure to give timely notice or to include any specified information in any notice as provided in Sections 10.4(a) or 10.4(b) will not affect the rights or obligations of any party hereunder except and only to the extent that, as a result of such failure, any party which was entitled to receive such notice was actually prejudiced as a result of such failure.

(d) The Indemnifying Party will have a period of 30 calendar days within which to respond in writing to any claim by an Indemnitee on account of an Indemnifiable Loss which does not result from a Third Party Claim (a "Direct Claim"). If the Indemnifying Party does not so respond within such 30 calendar day period, the Indemnifying Party will be deemed to have rejected such claim, in which event the Indemnitee will be free to pursue such remedies as may be available to the Indemnitee on the terms and subject to the provisions of this Article X.

(e) If the amount of any Indemnifiable Loss, at any time subsequent to the making of an Indemnity Payment, is reduced by recovery, settlement, or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement, or payment by or against any other Person, the amount of such reduction, less any costs, expenses, premiums or taxes incurred in connection therewith will promptly be repaid by the Indemnitee to the Indemnifying Party. Upon making any Indemnity Payment the Indemnifying Party will, to the extent of such Indemnity Payment, be subrogated to all rights of the Indemnitee against any Person that is not an Affiliate of the Indemnitee in respect of the Indemnifiable Loss to which the Indemnity Payment related; provided, however, that (i) the Indemnifying Party shall then be in compliance with its obligations under this Agreement in respect of such Indemnifiable Loss and (ii) until the Indemnitee recovers fully payment of its Indemnifiable Loss, any and all claims of the Indemnifying Party against any such Person on account of said Indemnity Payment will be subrogated and subordinated in right of payment to the Indemnitee's rights against such Person. Without limiting the generality or effect of any other provision hereof, each such Indemnitee and Indemnifying Party will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation and subordination rights.

10.5. Conduct of Remedial Actions.

(a) The obligations of Seller and Parent to indemnify the H&C Indemnified Parties for any Remedial Action pursuant to Sections 10.3(a)(i) (as it relates to a breach of any representation or warranty contained in Section 5.1.22) or 10.3(a)(iv) hereof shall be subject to the following:

(i) any Remedial Action (1) must be required by a Governmental Authority or Environmental Laws or be necessary to achieve or maintain compliance with Environmental Laws; (2) shall be performed in a commercially reasonable, cost-effective manner; and (3) shall use cleanup criteria no more stringent than (A) if specific applicable cleanup criteria are specified by applicable Environmental Laws, that specific cleanup criteria, or (B) otherwise, cleanup criteria that are commercially reasonable and appropriate to comply with applicable Environmental Laws (in all cases where permitted and appropriate such cleanup criteria shall be that applicable to real property that is used for industrial purposes);

(ii) if a need for Remedial Action arises, Purchaser shall provide Seller notice thereof as soon as reasonably practicable under the circumstances; provided, however that the failure to give such notice to Seller should not affect the obligations hereunder unless Seller has been materially prejudiced as a result thereof; and

(iii)prior to the commencement of any Remedial Action, Purchaser shall provide Seller with a plan as to its intended course of action. Seller shall have the right to review such plan with Purchaser, to consult with Purchaser with respect to the finalization and implementation of such plan and, if Seller does not concur in Purchaser's proposed plan of action, to provide alternative proposals for the undertaking and completion of such Remedial Action. Notwithstanding the foregoing, if Purchaser and Seller, after due consultation, cannot agree as to the method of proceeding, or the reasonable costs and expenses to be incurred in connection therewith, Purchaser shall have the right to assume the obligation to complete such Remedial Action, which is subject to indemnification hereunder.

(b) The party conducting the Remedial Action shall (i) comply in all material respects with Environmental Laws, (ii) in a timely manner, but no less often than once every three months, provide the other party with progress reports with respect to the Remedial Action, and (iii) provide the other party with all substantive correspondence to or from any Governmental Authority, all reports, all sampling results, and all other relevant and significant documents relating to the Remedial Action and endeavor to provide the other party with the opportunity to participate in any material discussions with such Governmental Authority.

(c) Any party incurring costs hereunder, a portion of which is to be paid by another party hereto (for purposes of this Section 10.5, an "Obligated Party") pursuant to Article X, shall deliver to the Obligated Party, on a quarterly basis, invoices for any Remedial Action effected during such quarterly period, along with appropriate back-up documentation, setting forth in reasonable detail the work done during such period and a detailed break-down

of the fees and expenses incurred in connection therewith and included in such invoice. The Obligated Party shall pay such invoices within 30 days after receipt thereof, except with respect to any portion thereof which they claim by written notice to the other party, delivered within 20 days after receipt of any such invoice, does not conform to the terms of this indemnification plus, in the event payment is not made within such 30 day period as required hereby, interest thereon at a rate of seven percent (7%) per annum, accruing daily and compounding annually.

(d) With respect to any invoices disputed by an Obligated Party hereunder, the parties shall use reasonable efforts to resolve such matter or matters on or before the due date of the relevant invoice; if the parties cannot resolve any such dispute, said matters shall be referred for resolution to an independent engineering consulting firm mutually agreed upon by the parties, whose determination with respect to any such disputed matters shall be final and binding upon Parent, Seller, H&C and Purchaser.

10.6. Adjustment to Purchase Price. Any Indemnity Payment hereunder shall be treated as an adjustment to the Purchase Price.

ARTICLE XI. TERMINATION

11.1. Termination. Notwithstanding anything contained in this Agreement to the contrary, this Agreement may be terminated at any time prior to the Closing, if, in the case of a termination pursuant to Section 11.1(b), 11.1(d), or 11(e) the party seeking to terminate is not then in material default or breach of any representations, warranties, covenants, or agreements contained in this Agreement:

(a) By the mutual written consent of H&C, H&C America, Purchaser, Parent, and Seller;

(b) By H&C, H&C America, and Purchaser, on the one hand, or Parent and Seller, on the other hand, if the Closing shall not have occurred on or before February 20, 1998;

(c) By H&C, H&C America, and Purchaser, on the one hand, or Parent and Seller, on the other hand, if there shall have been entered a final, nonappealable order or injunction of any Governmental Entity restraining or prohibiting the consummation of the transactions contemplated hereby or any material part thereof;

(d) By H&C, H&C America, and Purchaser by giving written notice to Seller at any time prior to the Closing in the event (A) Seller has within the then

previous 15 business days given Buyer any notice pursuant to Section 6.3(b) above and (B) the development that is the subject of the notice, together with any developments that are or were the subject of any prior notice pursuant to Section 6.3(b) (whether or not such prior notices were given during the previous 15 business days), has had or could reasonably be expected to have a Material Adverse Effect; or

(e) By H&C, H&C America, and Purchaser, on the one hand, or Parent and Seller, on the other hand, if, prior to the Closing Date, the other party is in breach in any material respect of any representation, warranty, covenant, or agreement herein contained (other than a representation and warranty which is subject to the notice provisions of Section 6.3(b) and the termination provisions of Section 11.1(d) above) and such breach shall not be cured within 5 business days of the date of notice of breach served by the party claiming such breach.

11.2. Effect of Termination. If this Agreement is validly terminated pursuant to Section 11.1, this Agreement, except for the provisions of Sections 6.7, 11.2, 12.3, 12.4, 12.5, 12.6, 12.7, 12.8, 12.9, 12.12, 12.13, 12.14, 12.15, and 12.17, shall become null and void and of no further force and effect and all obligations of the parties hereto shall terminate and there shall be no liability or obligation of any party hereto, except that nothing in this Section 11.2 shall relieve any party from liability for its default under or breach of any of its representations, warranties, covenants, or agreements under this Agreement prior to its termination.

ARTICLE XII. MISCELLANEOUS PROVISIONS

12.1. Specific Performance. The parties recognize that if any other party refuses to perform under the provisions of this Agreement, monetary damages alone will not be adequate to compensate such party for its injuries. Each party shall therefore be entitled, in addition to any other remedies that may be available, to obtain specific performance of the terms of this Agreement. If any action is brought to obtain specific performance of the terms of this Agreement, the parties against whom such action is brought shall waive the defense that there is an adequate remedy at Law. In the event of a default which results in the filing of a lawsuit for damages, specific performance, or other remedies, the prevailing party shall be entitled to reimbursement by the non-prevailing party of reasonable legal fees and expenses incurred by them.

12.2. Notices. All notices and other communications required or permitted hereunder will be in writing and, unless otherwise provided in this Agreement, will be deemed to have been duly given when delivered in person or when

dispatched by electronic facsimile transfer or one business day after having been dispatched by an internationally recognized

overnight courier service (providing regular international service) to the appropriate party at the address specified below:

(a) If to Parent or Seller, to:

c/o NL Industries, Inc.
16825 Northchase Drive
Suite 1200
Houston, Texas 77060
Facsimile No.: (281) 423-3333
Attention: David B. Garten, Esq.

with a copy to:

Bartlit Beck Herman Palenchar & Scott
511 Sixteenth Street, Suite 700
Denver, Colorado 80202
Facsimile No.: (303) 592-3140
Attention: James L. Palenchar, Esq.

(b) If to H&C America or Purchaser, to:

Harrisons & Crosfield (America) Inc.
900 Market Street
Suite 200
Wilmington, Delaware 19801
Facsimile: (401) 732-2995
Attention: Mark Barocas

(c) If to H&C, to:

Harrisons & Crosfield plc
One Great Tower Street
London EC3R 5AH
Facsimile No.: 011-44-171-711-1473
Attention: Philip Brown

with copies to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Facsimile No.: 212-310-8007

Attention: Jeffrey J. Weinberg, Esq.

or to such other address or addresses as any such party may from time to time designate as to itself by like notice.

12.3. Expenses. Except as otherwise expressly provided in this Agreement, Parent and Seller will pay any expenses incurred by it or any of the Subsidiaries incident to this Agreement and in preparing to consummate and consummating the transactions provided for herein. H&C, H&C America and Purchaser will pay any expenses incurred by them incident to this Agreement and in preparing to consummate and consummating the transactions provided for herein.

12.4. Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but will not be assignable or delegable by any party without the prior written consent of the other party which shall not be unreasonably withheld; provided, however, that (a) nothing in this Agreement is intended to limit Purchaser's ability to sell or to transfer any or all of the Purchased Assets following the Closing Date, (b) prior to the Closing, upon notice to Seller, Purchaser may assign or delegate to any direct or indirect wholly owned subsidiary of H&C America, H&C, or Purchaser the right to acquire part or all of the Purchased Assets and its obligation to assume any Assumed Liabilities in connection therewith provided that H&C and H&C America jointly and severally guarantee the performance of such assignee or delegatee, (c) prior to Closing, H&C shall notify Parent and Seller of the H&C Assignee(s) which have been designated by it to purchase the Acquired Subsidiaries, and (d) each of H&C, the H&C Assignees, H&C America and Purchaser may make a collateral assignment of its rights under this Agreement to any lender who provides funds to H&C, the H&C Assignees, H&C America and Purchaser for the acquisition of the Purchased Assets provided that the rights of Seller and Parent under this Agreement are not diminished or their obligations increased in any way by such collateral assignment. Seller agrees to execute acknowledgments of such assignment(s) and collateral assignments reflecting all of the conditions of such assignment(s) and collateral assignments in such forms as H&C, H&C America and Purchaser or H&C, H&C America's or Purchaser's lender(s) may from time to time reasonably request. In the event of such a proposed assignment by H&C, H&C America and Purchaser, the provisions of this Agreement shall inure to the benefit of and be binding upon H&C's, H&C America's and Purchaser's assigns.

12.5. Waiver. Purchaser (on behalf of itself, H&C and H&C America) and Seller (on behalf of itself, Parent, and RII) by written notice to the other referring to this Agreement may (a) extend the time for performance of any of the obligations of the other under this Agreement, (b) waive any inaccuracies in the representations or warranties of the other contained in this Agreement or in any document delivered in connection herewith, (c) waive compliance with any of the conditions or covenants of the other contained in this Agreement, or (d) waive or modify performance of any of the obligations of the other under this Agreement; provided, however, that no such party may, without the prior consent of the other party in a writing referring to this Agreement, make or grant such extension of time, waiver of inaccuracies, or compliance or waiver or modification of performance with respect to its (or any of its Affiliates) representations, warranties, conditions, or covenants hereunder. Except as provided in the immediately preceding sentence, no action taken pursuant to this Agreement will be deemed to constitute a waiver of compliance with any representations, warranties, conditions, or covenants contained in this Agreement and will not operate or be construed as a waiver of any subsequent breach, whether of a similar or dissimilar nature.

12.6. Entire Agreement. This Agreement (including the Exhibits and Schedules hereto and any other documents and instruments delivered pursuant

hereto) supersedes any other agreement, whether written or oral, that may have been made or entered into by any party or any of their respective Affiliates (or by any director, officer, or representative thereof) relating to the matters contemplated hereby. This Agreement (together with the Exhibits and Schedules hereto and any other documents and instruments delivered pursuant hereto) constitutes the entire agreement by and among the parties hereto and there are no agreements or commitments by or among such parties or their Affiliates except as expressly set forth herein.

12.7. Amendments and Supplements. This Agreement may be amended or supplemented at any time by additional written agreements referring to this Agreement signed by the parties hereto.

12.8. Rights of the Parties. Except as provided in Articles II, IX and X or in Section 12.4, nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity other than the parties hereto and their respective Affiliates any rights or remedies under or by reason of this Agreement or any transaction contemplated hereby.

12.9. Brokers. H&C, H&C America and Purchaser agree to jointly and severally indemnify and hold harmless Parent and Seller, and Seller and Parent agree to jointly and severally indemnify and hold harmless H&C, H&C America and Purchaser, from and against any liability, claim, loss, damage, or expense incurred by H&C, H&C America and Purchaser or by Parent and Seller, respectively, relating to any fees or commissions owed or allegedly

owed to any broker, finder, or financial advisor as a result of actions taken by H&C, H&C America or Purchaser or by Parent or Seller, respectively, in connection with this Agreement or the transactions contemplated hereby.

12.10. Further Assurances. From time to time, as and when requested by either party, the other party will execute and deliver, or cause to be executed and delivered, all such documents and instruments as may be reasonably necessary to consummate the transactions contemplated by this Agreement.

12.11. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware applicable to contracts made and to be performed entirely in the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflict of laws.

12.12. Severability. The parties agree that if one or more provisions contained in this Agreement shall be deemed or held to be invalid, illegal or unenforceable in any respect under any applicable Law, this Agreement shall be construed with the invalid, illegal, or unenforceable provision deleted, and the validity, legality and enforceability of the remaining provisions contained herein shall not be affected or impaired thereby.

12.13. Execution in Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same agreement.

12.14. Titles and Headings. Titles and headings to sections herein are inserted for convenience of reference only, and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

12.15. Passage of Title and Risk of Loss. Legal title, equitable title, and risk of loss with respect to the Purchased Assets will not pass to Purchaser (or the H&C Assignees, as applicable) until such Purchased Assets are transferred at the Closing, which transfer, once it has occurred, will be deemed effective for tax, accounting, and other computational purposes as of the time

of the close of business at on the Closing.

12.16. Certain Interpretive Matters and Definitions.

(a) Unless the context otherwise requires, (i) all references to Sections, Articles, Schedules, or Exhibits are to Sections, Articles, Schedules, or Exhibits of or to this Agreement, (ii) each term defined in this Agreement has the meaning assigned to it, (iii) each accounting term not otherwise defined in this Agreement has the meaning assigned to it in accordance with GAAP, (iv) "or" is disjunctive but not necessarily exclusive, (v) words in the

singular include the plural and vice versa, (vi) the term "affiliate" or "Affiliate" has the meaning given to such term in Rule 12b-2 of Regulation 12B under the 1934 Act, (vii) the phrase "liabilities" shall include, without limitation, any direct or indirect indebtedness, guaranty, endorsement, claim, loss, damage, deficiency, cost, expense, obligation or responsibility, whether fixed or contingent, known or unknown, asserted or unasserted, choate or inchoate, liquidated or unliquidated, secured or unsecured, (viii) the word "including" and similar terms following any statement will not be construed to limit the statement to matters listed after such word or term, whether a phrase of nonlimitation such as "without limitation" is used, (ix) the term "person" or "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization, or other form of business or legal entity or Governmental Entity and (x) references to any State of Delaware or United States legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any other legal concept shall, in respect of any foreign jurisdiction, be deemed to include the legal concept which most nearly approximates in that jurisdiction to the State of Delaware or United States legal term. All references to "$" or dollar amounts will be to lawful currency of the United States of America.

(b) No provision of this Agreement will be interpreted in favor of, or against, either of the parties hereto by reason of the extent to which either such party or its counsel participated in the drafting thereof or by reason of the extent to which any such provision is inconsistent with any prior draft hereof or thereof.

* * * * * * * * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NL INDUSTRIES, INC.

By: /s/ Joseph S. Compofelice
Name: Joseph S. Compofelice
Title: Vice President & Chief Financial Officer

RHEOX, INC.

By: /s/ Lawrence A. Wigdor
Name: Lawrence A. Wigdor
Title: President

RHEOX INTERNATIONAL, INC.

By: /s/ Lawrence A. Wigdor
Name: Lawrence A. Wigdor
Title: President

HARRISONS & CROSFIELD (AMERICA) INC.

By: /s/ Mark L. Barocas
Name: Mark L. Barocas
Title: President

HARRISONS & CROSFIELD PLC

By: /s/ Philip Damian Brown
Name: Philip Damian Brown
Title: Company Secretary

ELEMENTIS ACQUISITION 98, INC.

By: /s/ Mark L. Barocas
Name: Mark L. Barocas
Title: President

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME OF CORPORATION	Jurisdiction of incorporation or organization	% of Voting Securities Held
Kronos, Inc.	Delaware	100
Kronos (US) Inc.	Delaware	100
Kronos International, Inc.	Delaware	100
NL Industries (Deutschland) GmbH	Germany	100
Kronos Titan-GmbH	Germany	100
Unterstutzungskasse Titan GmbH	Germany	100
Kronos Chemie-GmbH	Germany	100
Kronos Europe S.A./N.V.	Belgium	100
Kronos World Services S.A./N.V.	Belgium	100
Kronos B.V.	Holland	100
Kronos Canada, Inc.	Canada	100
2927527 Canada Inc.	Canada	100
2969157 Canada Inc.	Canada	100
Societe Industrielle Du Titane, S.A.	France	93
Kronos Norge A/S	Norway	100
Kronos Titan A/S	Norway	100
Titania A/S	Norway	100
The Jossingfjord Manufacturing Company A/S	Norway	100
Kronos Limited	United Kingdom	100
Kronos Louisiana, Inc.	Delaware	100
Louisiana Pigment Company, L.P.	Delaware	50(a)
NL Capital Corporation (formerly Rheox, Inc.)	Delaware	100
Rheox International, Inc.	Delaware	100(d)
Bentone Sud, S.A.	France	100
Rheox GmbH	Germany	100(c)
Bentone-Chemie GmbH	Germany	100(c)
Rheox Limited	United Kingdom	100(c)
Abbey Chemicals Limited	United Kingdom	100(c)
Rheox Europe S.A./N.V.	Belgium	100(c)
RK Export, Inc.	Barbados	100(b)
RIMC, Inc.	Delaware	100(c)
Enenco, Inc.	New York	50(a)(c)
Other:		
National Lead Company	New Jersey	100
NL Industries (USA), Inc.	Texas	100
NLO, Inc.	Ohio	100
Salem Lead Company	Massachusetts	100
Sayre & Fisher Land Company	New Jersey	100
153506 Canada Inc.	Canada	100
The 1230 Corporation	California	100
United Lead Company	New Jersey	100

(a) Unconsolidated joint venture accounted for by the equity method.
(b) Registrant indirectly owns 100% with 50% owned by Kronos and 50% owned by NL Capital Corporation.
(c) Company was sold in January 1998 to Elementis plc.
(d) Company was dissolved January 1998.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the:

(i) Registration Statement No. 2-98713 on Form S-8 and related Prospectus with respect to the 1985 Long Term Performance Incentive Plan of NL Industries, Inc.; and

(ii) Registration Statement No. 33-25913 on Form S-8 and related Prospectus with respect to the Savings Plan for Employees of NL Industries, Inc.; and

(iii) Registration Statement No. 33-29287 on Form S-8 and related Prospectus with respect to the 1989 Long Term Performance Incentive Plan of NL Industries, Inc.; and

(iv) Registration Statement No. 33-48145 on Form S-8 and related Prospectus with respect to the NL Industries, Inc. 1992 Non-Employee Directors Stock Option Plan.

of our report dated February 11, 1998, which includes an explanatory paragraph for the 1997 change in accounting for environmental remediation costs in accordance with Statement of Position 96-1, on our audits of the consolidated financial statements and financial statement schedules of NL Industries, Inc. as of December 31, 1996 and 1997, and for each of the three years in the period ended December 31, 1997, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Houston, Texas
March 20, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NL INDUSTRIES INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1995, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NL INDUSTRIES INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR-TO-DATE PERIODS ENDED MARCH 31, 1996, JUNE 30, 1996, SEPTEMBER 30, 1996 AND DECEMBER 31, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERNECE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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<CURRENT-ASSETS>	550,007	542,416	520,882	500,246
<PP&E>	942,100	937,931	955,293	956,897
<DEPRECIATION>	485,993	482,115	489,355	490,851
<TOTAL-ASSETS>	1,268,082	1,256,665	1,239,230	1,221,358
<CURRENT-LIABILITIES>	287,477	299,490	332,427	290,345
<BONDS>	760,624	742,919	711,846	737,100
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<COMMON>	8,355	8,355	8,355	8,355
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<TOTAL-LIABILITY-AND-EQUITY>	1,268,082	1,256,665	1,239,230	1,221,358
<SALES>	206,368	434,597	649,635	851,179
<TOTAL-REVENUES>	214,151	452,561	673,179	878,848
<CGS>	152,333	329,729	505,593	668,605
<TOTAL-COSTS>	152,333	329,729	505,593	668,605
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<LOSS-PROVISION>	89	(636)	(539)	30
<INTEREST-EXPENSE>	17,866	35,182	53,400	69,333
<INCOME-PRETAX>	7,813	15,077	2,546	(10,234)
<INCOME-TAX>	(1,493)	(2,615)	203	(1,496)
<INCOME-CONTINUING>	6,314	12,448	2,724	(11,735)
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<NET-INCOME>	13,444	25,363	21,114	10,817
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<EPS-DILUTED>	0.26	0.49	0.41	0.21

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NL INDUSTRIES INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR-TO-DATE PERIODS ENDED MARCH 31, 1997, JUNE 30, 1997, SEPTEMBER 30, 1997 AND DECEMBER 31, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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<FISCAL-YEAR-END>	DEC-31-1997	DEC-31-1997	DEC-31-1997	DEC-31-1997
<PERIOD-START>	JAN-01-1997	JAN-01-1997	JAN-01-1997	JAN-01-1997
<PERIOD-END>	MAR-31-1997	JUN-30-1997	SEP-30-1997	DEC-31-1997
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<INVENTORY>	194,033	188,544	172,308	192,780
<CURRENT-ASSETS>	444,722	442,302	447,679	454,532
<PP&E>	913,526	894,865	894,562	877,072
<DEPRECIATION>	472,279	466,331	470,636	465,843
<TOTAL-ASSETS>	1,141,368	1,121,807	1,123,162	1,098,192
<CURRENT-LIABILITIES>	224,506	226,038	264,086	276,385
<BONDS>	746,605	738,774	694,606	666,779
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<COMMON>	8,355	8,355	8,355	8,355
<OTHER-SE>	(245,550)	(250,598)	(237,028)	(230,624)
<TOTAL-LIABILITY-AND-EQUITY>	1,141,368	1,121,807	1,123,162	1,098,192
<SALES>	204,389	418,743	629,086	837,240
<TOTAL-REVENUES>	206,812	427,505	640,804	856,607
<CGS>	167,175	339,854	502,353	649,945
<TOTAL-COSTS>	167,175	339,854	502,353	649,945
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<LOSS-PROVISION>	0	118	0	382
<INTEREST-EXPENSE>	16,175	32,715	49,160	65,759
<INCOME-PRETAX>	(40,571)	(44,665)	(41,303)	(27,689)
<INCOME-TAX>	(404)	(1,106)	(1,714)	2,244
<INCOME-CONTINUING>	(40,180)	(43,608)	(39,661)	(29,875)
<DISCONTINUED>	4,459	10,142	15,956	20,402
<EXTRAORDINARY>	0	0	0	0
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<NET-INCOME>	(35,721)	(33,466)	(23,705)	(9,473)
<EPS-PRIMARY>	(0.70)	(0.65)	(0.46)	(0.19)
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