

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - For the fiscal year ended December 31, 1996

OR

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

Commission file number 1-640

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

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

13-5267260  
(IRS Employer  
Identification No.)

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

77060-2544  
(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 Stock Exchange

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

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

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

As of March 20, 1997, 51,144,014 shares of common stock were outstanding. The aggregate market value of the 13,662,324 shares of voting stock held by nonaffiliates as of such date approximated \$149 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-Products and operations," "Rheox-Manufacturing process and raw materials," "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 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 operations through its principal wholly-owned subsidiaries, Kronos, Inc. and Rheox, Inc. Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, hold 56% and 18%, respectively, of NL's outstanding common stock. Contran holds, directly or through subsidiaries, approximately 91% of Valhi's and 44% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board, President and Chief Executive Officer of each of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies. NL and its consolidated subsidiaries are sometimes referred to herein collectively as the "Company."

Kronos is the world's fourth largest producer of titanium dioxide pigments ("TiO<sub>2</sub>") with an estimated 11% share of worldwide TiO<sub>2</sub> sales volume in 1996. Approximately one-half of Kronos' 1996 sales volume was in Europe, where Kronos is the second largest producer of TiO<sub>2</sub>. In 1996, Kronos accounted for 86% of the Company's sales and 63% of its operating income. Rheox is the world's largest producer of rheological additives for solvent-based systems.

The Company's objective is to maximize total shareholder returns by (i) focusing on continued cost control, (ii) investing in certain cost effective debottlenecking projects to increase TiO<sub>2</sub> production capacity and productivity, and (iii) deleveraging as excess liquidity becomes available.

#### 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. TiO<sub>2</sub> is considered to be a "quality-of-life" product with demand affected by the gross domestic product in various regions of the world.

Demand, supply and pricing within the TiO<sub>2</sub> industry is cyclical, and changes in industry economic conditions can significantly impact the Company's earnings and operating cash flow. The Company's average TiO<sub>2</sub> selling prices have been declining since the last half of 1995, which followed an upturn in TiO<sub>2</sub> prices that began in the third quarter of 1993. The Company expects TiO<sub>2</sub> prices will begin to increase during the second quarter of 1997 as the impact of recently-announced price increases begin to take effect. Despite the recent decline in TiO<sub>2</sub> average selling prices, industry-wide demand for TiO<sub>2</sub> grew in 1996, and Kronos' record 1996 sales volume was about 6% higher than 1995. The

Company's expectations as to the future prospects of the TiO2 industry are based upon several factors beyond the Company's control, principally continued worldwide growth of gross domestic product and the absence of technological advancements in or modifications to TiO2 processes that would result in material and unanticipated increases in production efficiencies. To the extent that actual developments differ from the Company's expectations, the Company's and the TiO2 industry's future performance could be unfavorably affected.

Kronos has an estimated 18% share of European TiO2 sales volume and an estimated 12% 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 market for TiO2 could emerge in Eastern Europe, the Far East and 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 the Eastern European market. Geographic segment information is contained in Note 3 to the Consolidated Financial Statements.

#### Products and operations

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

Kronos currently produces over 40 different TiO2 grades, sold under the Kronos and Titanox trademarks, which provide a variety of performance properties to meet customers' specific requirements. Kronos' major customers include 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' 1996 TiO2 sales were to Europe, with 37% to North America and the balance to export markets.

Kronos is also engaged in the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the

pigment production processes). Water treatment chemicals are used as treatment and conditioning agents for industrial effluents and municipal wastewater and in the manufacture of iron pigments.

#### Manufacturing process and raw materials

TiO<sub>2</sub> 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 TiO<sub>2</sub> 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 1996 represented approximately 56% of industry capacity.

Kronos produced 373,000 metric tons of TiO<sub>2</sub> in 1996, compared to the record 393,000 metric tons produced in 1995 and 357,000 metric tons in 1994. Kronos reduced its production rates in early 1996 in response to softening demand and its high inventory levels at the end of 1995. As demand increased during 1996 and inventories declined, Kronos' production rates were increased to near full capacity in late 1996. Kronos believes its annual attainable production capacity is approximately 400,000 metric tons, including its one-half interest in the joint venture-owned Louisiana plant (see "TiO<sub>2</sub> manufacturing joint venture"). Following the completion of the \$35 million debottlenecking expansion of its Leverkusen, Germany chloride-process plant in late 1997, the Company expects its worldwide annual attainable production capacity to increase to approximately 410,000 metric tons.

The primary raw materials used in the TiO<sub>2</sub> 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, 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), approximately 50% of which is owned by RTZ Iron and Titanium Inc. ("RTZ"), an indirect subsidiary of RTZ Corp., 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 expires in 2000. Raw materials 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 new long-term supply contracts prior to the expiration of its existing contracts.

The primary raw materials used in the TiO<sub>2</sub> 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 Norwegian rock ilmenite mine which provided all of Kronos' feedstock for its European sulfate-process pigment plants in 1996. Kronos also purchases sulfate grade slag under contracts negotiated annually with RTZ and, through 1997, with Tinfos Titanium and Iron K/S.

Kronos believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate through the remainder of the decade. 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 the countries from which the Company purchases its raw material supplies could adversely affect the availability of such feedstock.

#### TiO<sub>2</sub> manufacturing joint venture

Subsidiaries of Kronos and Tioxide Group, Ltd., a wholly-owned subsidiary of Imperial Chemicals Industries PLC ("Tioxide"), each own a 50%-interest in a manufacturing joint venture. The joint venture owns and operates a chloride-process TiO<sub>2</sub> plant located in Lake Charles, Louisiana. Production from the plant is shared equally by Kronos and Tioxide (the "Partners") pursuant to separate offtake agreements.

A supervisory committee, composed of four members, two of whom are appointed by each Partner, directs the business and affairs of the joint venture, including production and output decisions. Two general managers, one appointed and compensated by each Partner, manage the daily 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 TiO<sub>2</sub> 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 TiO<sub>2</sub> 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 TiO<sub>2</sub> industry is highly competitive. During the early 1990s, supply exceeded demand, primarily due to new chloride-process capacity coming on-stream. Relative supply/demand relationships, which had a favorable impact on industry-wide prices during the late 1980s, had a negative impact during the subsequent downturn. During 1994 and the first half of 1995, strong demand growth improved industry capacity utilization and resulted in increases in worldwide TiO<sub>2</sub> 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, indicating, Kronos believes, that customer inventories had returned to more-normal levels. Price increases were announced in late 1996 by most major TiO<sub>2</sub> producers, including Kronos, and the results of such announcements are expected to impact second-quarter 1997 operating results.

No assurance can be given that price trends will conform to the Company's expectations.

Capacity additions that are the result of construction of grassroots 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 grassroots 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 few 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. Kronos has an estimated 11% share of worldwide TiO2 sales volume, and believes that it is the leading marketer of TiO2 in a number of countries, including Germany and Canada.

Kronos' principal competitors are E.I. du Pont de Nemours & Co. ("Du Pont"); Imperial Chemical Industries PLC (Tioxide) ("ICI"); Millennium Chemicals, Inc. (Millennium Inorganic Chemicals, Inc.), formerly a unit of Hanson PLC; Kemira Oy; Kerr-McGee Corporation; Ishihara Sangyo Kaisha, Ltd.; Bayer AG; and Thann et Mulhouse. In January 1997, ICI announced its intention to spin off to its shareholders its Tioxide unit in the next six to eighteen months. These eight competitors have estimated individual worldwide shares of TiO2 sales volume ranging from 3% to 21%, and an estimated aggregate 75% share of TiO2 sales volume. Du Pont has about one-half of total U.S. TiO2 production capacity and is Kronos' principal North American competitor.

Rheox

#### Products and operations

Rheological additives control the flow and leveling characteristics for a variety of products, including paints, inks, lubricants, sealants, adhesives and cosmetics. Organoclay rheological additives are clays which have been chemically reacted with organic chemicals and compounds. Rheox produces rheological additives for both solvent-based and water-based systems. Rheox is the world's largest producer of rheological additives for solvent-based systems and is also a supplier of rheological additives used in water-based systems. Rheological additives for solvent-based systems accounted for about 80% of Rheox's sales in 1996, with the remainder being principally rheological additives for water-based systems. Rheox introduced a number of new products during the past few years, the majority of which are for water-based systems, which are sold into a larger market than solvent-based systems. The Company believes water-based additives will account for an increasing portion of its sales in the long term.

Sales of rheological additives generally follow gross domestic product growth in Rheox's principal markets and are influenced by the volume of shipments of the worldwide coatings industry. Since a portion of Rheox's rheological additives are used in industrial coatings, plant and equipment spending has an influence on demand for this product line.

#### Manufacturing process and raw materials

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

#### Competition

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

#### Research and Development

The Company's expenditures for research and development and certain technical support programs have averaged approximately \$11 million annually during the past three years with Kronos accounting for approximately three-quarters of the annual spending. Research and development activities related to TiO<sub>2</sub> are conducted principally at the Leverkusen, Germany facility. Such activities are directed primarily toward improving both the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications. Activities relating to rheological additives are conducted primarily in the United States and are directed towards the development of new products for water-based systems, environmental applications and new end-use applications for existing product lines.

## Patents and Trademarks

Patents held for products and production processes are believed to be important to the Company and contribute to the continuing business activities of Kronos and Rheox. The Company continually seeks patent protection for its technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties. In connection with the formation of the manufacturing joint venture with Tioxide, Kronos and certain of its subsidiaries exchanged proprietary chloride process and product technologies with Tioxide and certain of its affiliates. Use by each recipient of the other's technology in Europe was restricted through October 1996. The Company does not expect that the technology sharing arrangement with Tioxide will materially impact the Company's competitive position within the TiO2 industry. See "Kronos - TiO2 manufacturing joint venture."

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

## Foreign Operations

The Company's chemical businesses have operated in international markets since the 1920s. Most of Kronos' current production capacity is located in Europe and Canada, and approximately one-third of Rheox's sales in each of the past three years have been from European production. Approximately three-quarters of the Company's 1996 consolidated sales were to non-U.S. customers, including 13% to customers in areas other than Europe and Canada. Foreign operations are subject to, among other things, currency exchange rate fluctuations and the Company's results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. Effects of fluctuations in currency exchange rates on the Company's results of operations are discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

## Customer Base and Seasonality

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



generally higher in the second and third calendar quarters than in the first and fourth calendar quarters. Sales of rheological additives are influenced by the worldwide industrial protective coatings industry, where second calendar quarter sales are generally the strongest.

#### Employees

As of December 31, 1996, the Company employed approximately 3,100 persons, excluding the joint venture employees, with approximately 400 employees in the United States and approximately 2,700 at sites outside the United States. Hourly employees in production facilities worldwide, including the TiO2 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 that all of its U.S. plants and the Louisiana plant owned and operated by the joint venture are in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. 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 also believes that Rheox is in substantial compliance with the environmental regulations in Germany and the United Kingdom.

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 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 regard to the Leverkusen plant.

In order to reduce sulfur dioxide emissions into the atmosphere consistent with applicable environmental regulations, Kronos is completing the installation of off-gas desulfurization systems at its Norwegian and German plants at an estimated cost of \$30 million. The manufacturing joint venture installed a \$16 million off-gas desulfurization system at the Louisiana plant and Kronos completed an \$11 million water treatment chemical purification project at its Leverkusen, Germany facility in 1996.

The Quebec provincial government has environmental regulatory authority over Kronos' Canadian chloride and sulfate-process TiO2 production facility in Varennes, Quebec. The provincial government regulates discharges into the St. Lawrence River. In May 1992, the Quebec provincial government extended Kronos' right to discharge effluents from its Canadian sulfate-process TiO2 plant into the St. Lawrence River until June 1994. Kronos completed a waste acid neutralization facility and discontinued discharging untreated waste acid effluents into the St. Lawrence River in June 1994. Notwithstanding the foregoing, in March 1993, Kronos' Canadian subsidiary and two of its directors were charged by the Canadian federal government with five violations of the Canadian Fisheries Act relating to discharges into the St. Lawrence River from the Varennes sulfate-process TiO2 plant. The monetary penalty for these violations, if proven, could be up to Canadian \$15 million. Additional charges, if brought, could involve additional penalties. The Company believes that this charge is inconsistent with the extension granted by provincial authorities, referred to above, and is vigorously contesting the charge. A trial date has been set for May 1997.

The Company's capital expenditures related to its ongoing environmental protection and improvement programs are currently expected to be approximately \$3 million in 1997 and \$5 million in 1998.

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 TiO<sub>2</sub> 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 TiO<sub>2</sub> plant has a lien that secures the German 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 TiO<sub>2</sub> production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with about one-third of Kronos' current TiO<sub>2</sub> production capacity, is located within an extensive manufacturing complex owned by Bayer AG, and 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.

Specialty chemicals are produced by Rheox at facilities in Charleston, West Virginia; Newberry Springs, California; St. Louis, Missouri; Livingston, Scotland and Nordenham, Germany. A portion of the land under the Livingston, Scotland facility is leased from an unrelated party; all of the remaining production facilities are owned.

#### ITEM 3. LEGAL PROCEEDINGS

##### Lead pigment litigation

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

time, been enacted or proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn court decisions in which the Company and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share. No legislation or regulations have been enacted to date which are expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. The Company has not accrued any amounts for the pending lead pigment 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.

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

In March 1992, the Company was served with a complaint in *Skipworth v. Sherwin-Williams Co., et al.* (No. 92-3069), Court of Common Pleas, Philadelphia County. Plaintiffs are a minor and her legal guardians seeking damages from lead paint and pigment producers, the LIA, the Philadelphia Housing Authority and the owners of the plaintiffs' premises for bodily injuries allegedly suffered by the minor from lead-based paint. Plaintiffs' counsel has asserted that approximately 200 similar complaints would be served shortly, but no such complaints have yet been served. In April 1994, the court granted defendants' motion for summary judgment and the dismissal was affirmed by the Superior Court in October 1995. In February 1997, the Pennsylvania Supreme Court unanimously affirmed the Superior Court's decision.

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 judgment 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. Plaintiffs have appealed as to all defendants.

In November 1995, the Company was served with the complaint in Jefferson v. Lead Industry Association, et. al. (No. 95-2835), filed in the U.S. District Court for the Eastern District of Louisiana. The complaint asserts claims against the LIA and the lead pigment defendants on behalf of a putative class of allegedly injured children in Louisiana. The complaint purports to allege claims for strict liability, negligence, failure to warn, breach of alleged warranties, fraud and misrepresentation, and conspiracy, and seeks actual and punitive damages. The complaint asserts several theories of liability, including joint and several and market share liability. In June 1996, the trial court granted defendants' motions to dismiss the complaint and entered judgment in favor of all defendants. Plaintiffs appealed to the Fifth Circuit Court of Appeals, which affirmed the judgment in favor of all defendants in March 1997.

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 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. Class discovery is proceeding.

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, an action 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. Discovery is proceeding.

In September 1996, the Company was served with a complaint in Ritchie v. NL Industries, et al. (U.S. District Court, Northern District of West Virginia, Civil Action No. 5:96-CV-166), an action originally filed in West Virginia state court on behalf of a minor allegedly injured as a result of exposure to lead pigment. Plaintiffs seeks compensatory and punitive damages from the Company and five other former manufacturers of lead pigment based on claims of negligence, strict liability, breach of warranty, fraud, conspiracy, market share liability and alternative liability. In October 1996, the defendants removed the case to federal court and filed motions to dismiss. Plaintiffs has filed a motion to remand the case to state court. The motions are pending.

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. 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. The Court has not 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, or both. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who 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, 1996, the Company had accrued \$113 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 will be increased 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 \$160 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.

At Pedricktown, the U.S. EPA 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 addition, the U.S. EPA incurred past costs in the estimated amount of \$5 million. 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.

At Granite City, the RIFS is complete, and in 1990 the U.S. EPA selected a remedy estimated at that time to cost approximately \$28 million. In July 1991, the United States filed an action in the U.S. District Court for the Southern District of Illinois against the Company and others (United States of America v. NL Industries, Inc., et al., Civ. No. 91-CV 00578) with respect to the Granite City smelter. The complaint seeks injunctive relief to compel the defendants to comply with an administrative order issued pursuant to CERCLA, and fines and treble damages for the alleged failure to comply with the order. The Company and the other parties did not 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. At that time, the cost of the remedies selected by the U.S. EPA aggregated, in its estimation, \$40.8 million to \$67.8 million, although its decision stated that the higher amount was not considered to be representative of expected costs. The Company presently is challenging portions of the U.S. EPA's selection of the remedy. The U.S. EPA's current estimate for completion of the cleanup is \$24.3 million, and in January 1997, the Company was informed that the U.S. EPA incurred

cleanup and other past costs approximating \$30 million. There is currently no allocation among the PRPs for these costs.

Having completed the RIFS at Portland, the Company conducted predesign studies to explore the viability of the U.S. EPA's selected remedy pursuant to a June 1989 consent decree captioned U.S. v. NL Industries, Inc., Civ. No. 89-408, United States District Court for the District of Oregon. Subsequent to the completion of the predesign studies, the U.S. EPA issued notices of potential liability to approximately 20 PRPs, including the Company, directing them to perform the remedy, which was initially estimated to cost approximately \$17 million, exclusive of administrative and overhead costs and any additional costs, for the disposition of recycled materials from the site. In January 1992, the U.S. EPA issued unilateral administrative orders 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. The U.S. EPA has issued a proposed Record of Decision Amendment changing portions of the cleanup remedy selected for the site. The U.S. EPA currently estimates the cost of the proposed remedy to be from \$10 million to \$13 million. Pursuant to an interim allocation, the Company's share of remedial costs is approximately 50%. In November 1991, Gould, Inc., the current owner of the site, filed an action, Gould Inc. v. NL Industries, Inc., No. 91-1091, United States District Court for the District of Oregon, against the Company for damages for alleged fraud in the sale of the smelter, rescission of the sale, past CERCLA response costs and a declaratory judgment allocating future response costs and punitive damages. The court granted Gould's motion to amend the complaint to add additional defendants (adjoining current and former landowners and generators). The amended complaint deletes the fraud and punitive damages claims asserted against NL; thus, the pending action is essentially one for reallocation of past and future cleanup costs. Discovery is proceeding. A trial date has been set for September 1997. The Company and the other PRPs performing the cleanup have reached settlement in principle with many of the generators and adjoining landowner defendants.

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. The final RIFS was submitted to the U.S. EPA in May 1993. In August 1994, the U.S. EPA issued its proposed plan for the cleanup of the Baxter Springs and Treece sites in Cherokee County. The proposed remedy is estimated by U.S. EPA to cost \$6 million.

In January 1989, the State of Illinois brought an action against the Company and several other subsequent owners and operators of the former 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. 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.

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

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, requesting a new trial 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. Plaintiffs' petition is pending. 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 \$1.75 million in penalties for the Company's alleged failure to comply with the U.S. EPA's administrative order No. 88-13. The order, which alleged that the Company arranged for the treatment or disposal of materials at the Norco site, directed the immediate removal of hazardous substances from the site. The Company carried out a portion of the remedy at the Norco site, but did not complete the ordered activities because it believed they were in conflict with California law. The 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 August 1994, this matter was referred to mediation, which is pending.

At a municipal and industrial waste disposal site in Batavia, New York, the Company and six others have been identified as PRPs. The U.S. EPA has divided the site into two operable units. Pursuant to an administrative consent order entered into with the U.S. EPA, the Company 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. With respect to the second operable unit, the extension of the municipal water supply, the U.S. EPA estimated the costs at \$1.2 million plus annual operation and maintenance costs. The Company and the other PRPs are performing the work comprising operable unit two. The U.S. EPA has also demanded approximately \$.9 million in past costs from the PRPs.

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

#### Other litigation

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. The Company has filed an answer denying plaintiffs' allegations. Discovery is proceeding.

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 intends to defend these matters vigorously.

Plaintiff brought the complaint in Frank D. Seinfeld v. Harold C. Simmons, et al. (Superior Court of New York, Bergen County, Chancery Division, No. C-336-96) in September 1996 on behalf of himself and derivatively, on behalf of NL, 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. The Company believes, and understands that each of the other defendants believes, that the complaint is without merit. The Company intends, and believes that each of the other defendants intends, to defend the action vigorously. Trial is scheduled to begin in November 1997.

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, 1996.

PART II

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

NL's common stock is listed and traded on the New York and Pacific Stock Exchanges under the symbol "NL." As of March 20, 1997, there were approximately 9,000 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 20, 1997, the closing price of NL common stock according to the NYSE Composite Tape was \$10-7/8.

	High -----	Low -----
Year ended December 31, 1995:		
First quarter .....	\$13-1/2	\$11-3/4
Second quarter .....	16-5/8	11-7/8
Third quarter .....	17-1/2	13-1/2
Fourth quarter .....	16-5/8	10-7/8
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

The Company's Senior Notes generally limit the ability of the Company to pay dividends to 50% of consolidated net income, as defined in the indenture governing the Notes, subsequent to October 1993. At December 31, 1996, 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 1994 or 1995. 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."

	Years ended December 31,				
	1992	1993	1994	1995	1996
	(In millions, except per share amounts)				
<b>INCOME STATEMENT DATA:</b>					
Net sales .....	\$ 893.5	\$ 805.3	\$ 888.0	\$ 1,023.9	\$ 986.1
Operating income .....	110.7	62.4	111.4	199.7	113.4
Income (loss) from continuing operations .....	(44.6)	(83.2)	(24.0)	85.6	10.8
Net income (loss) .....	(76.4)	(109.8)	(24.0)	85.6	10.8
<b>Per common share:</b>					
Income (loss) from continuing operations .....	\$ (.88)	\$ (1.63)	\$ (.47)	\$ 1.66	\$ .21
Net income (loss) .....	(1.50)	(2.16)	(.47)	1.66	.21
Cash dividends .....	\$ .35	\$ --	\$ --	\$ --	\$ .30
<b>BALANCE SHEET DATA at year-end:</b>					
Cash, cash equivalents and current marketable securities, including restricted cash .....	\$ 187.9	\$ 147.6	\$ 156.3	\$ 141.3	\$ 114.1
Current assets .....	635.8	467.5	486.4	551.1	500.2
Total assets .....	1,472.1	1,206.5	1,162.4	1,271.7	1,221.4
Current liabilities .....	248.8	232.5	244.9	302.4	290.3
Long-term debt including current maturities .....	1,035.3	870.9	789.6	783.7	829.0
Shareholders' deficit .....	(146.3)	(264.8)	(293.1)	(209.4)	(203.5)
<b>CASH FLOW DATA:</b>					
Operating activities .....	\$ (44.7)	\$ (7.3)	\$ 181.8	\$ 71.6	\$ 16.5
Investing activities .....	234.9	182.0	(32.8)	(62.2)	(67.6)
Financing activities .....	(223.1)	(155.3)	(132.1)	(3.3)	26.6
<b>OTHER NON-GAAP FINANCIAL DATA:</b>					
EBITDA (1) .....	\$ 115.1	\$ 67.2	\$ 101.3	\$ 212.1	\$ 135.6
<b>OTHER DATA:</b>					
Net debt (2) .....	\$ 847.7	\$ 723.2	\$ 633.4	\$ 681.6	\$ 740.7
Interest expense, net (3) .....	104.3	95.1	78.9	75.4	70.3
Cash interest expense, net (4) .....	98.0	86.8	60.8	59.7	49.4
Capital expenditures .....	85.2	48.0	36.9	64.2	66.9
<b>TiO2 sales volumes</b>					
(metric tons in thousands) .....	336	346	376	366	388
Average TiO2 selling price index (1983=100) .....	140	128	132	152	139

- (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, generally accepted accounting principles ("GAAP") operating income or net income as an indicator of the Company's operating performance, or GAAP cash flows from operating, investing and financing activities 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 operations are conducted in two business segments - TiO2 conducted by Kronos and specialty chemicals conducted by Rheox. As discussed below, TiO2 selling prices increased during 1994 and the first half of 1995, but declined in the last half of 1995 and during 1996. Kronos' operating income and margins improved during 1995, but declined in 1996.

Many factors influence TiO2 pricing levels, including industry capacity, worldwide demand growth and customer inventory levels and purchasing decisions. Kronos believes the decline in prices in 1996 was due, in part, to the impact of recent debottlenecking projects increasing capacity, TiO2 customers reducing inventory levels in a period of declining prices, and greater competition for sales volume with more industry capacity available. 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	
	1994	1995	1996	1995-94	1996-95
	(In millions)				
Net sales:					
Kronos .....	\$ 770.1	\$ 894.1	\$ 851.2	+16%	-5%
Rheox .....	117.9	129.8	134.9	+10%	+4%
	\$ 888.0	\$1,023.9	\$ 986.1	+15%	-4%
Operating income:					
Kronos .....	\$ 80.6	\$ 161.2	\$ 71.6	+100%	-56%
Rheox .....	30.8	38.5	41.8	+25%	+8%
	\$ 111.4	\$ 199.7	\$ 113.4	+79%	-43%
Percent change in TiO2:					
Sales volume .....				-3%	+6%
Average selling prices (in billing currencies) ..				+15%	-9%

Kronos' operating income in 1996 was lower than 1995 primarily due to lower average TiO2 selling prices, partially offset by higher sales volumes. In billing currency terms, Kronos' 1996 average TiO2 selling prices were approximately 9% lower than in 1995. Average selling prices in the fourth quarter of 1996 were 17% lower than the fourth quarter of 1995 and were 3% lower than the third quarter of 1996. Selling prices at the end of 1996 were 17% below year-end 1995 levels, 8% below the average for 1996 and were 1% below the average selling prices during the fourth quarter of 1996. The improvement in Kronos' 1995 results over 1994 was primarily due to 15% higher average TiO2 selling

prices and higher TiO2 production volumes, partially offset by lower TiO2 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. Kronos' costs of sales in 1995 was higher than 1994 due to slightly higher manufacturing costs, partially offset by lower sales volumes. As a percentage of net sales, cost of sales increased in 1996 and decreased in 1995 primarily due to the impact on net sales of changes in the average selling price during the respective years.

Kronos' selling, general and administrative expenses declined in 1996 from the previous year, as a result of continuing cost containment efforts, while 1995's expense was higher than 1994 due to the unfavorable effect of changes in currency exchange rates.

Record sales volume of 388,000 metric tons of TiO2 in 1996 increased 6% compared to 1995, with improvements in all major markets, including a 10% increase in North America. Sales volumes in the second half of 1996 were 16% higher than the same period in 1995. In response to soft demand in the first half of 1996 and its high inventory levels at the end of 1995, Kronos curtailed production rates in early 1996. As demand increased during the last half of 1996 and inventories declined, Kronos' production rates were increased to near full capacity in late 1996 and the average capacity utilization was 95% for the year. Kronos' production rates were 94% of its capacity in 1994 and at full capacity in 1995. Approximately one-half of Kronos' 1996 TiO2 sales, by volume, were attributable to markets in Europe with approximately 37% attributable to North America and the balance to other regions.

Demand, supply and pricing of TiO2 have historically been cyclical. Kronos anticipates its TiO2 operating margins will begin to improve in the second quarter of 1997 as the impact of recently-announced TiO2 price increases takes effect; however, Kronos expects its 1997 operating income will be below that of 1996, primarily because of lower anticipated average TiO2 prices for 1997 compared to 1996 and lower technology fee income. Demand for TiO2 in 1996 increased over 1995 and Kronos expects demand to remain strong in 1997. Kronos believes continued growth in demand should result in significant improvement in average selling prices over the longer term.

Rheox's operating income improved in 1996 compared to 1995 due to 5% higher sales volumes, lower selling, general and administrative expenses and a \$2.7 million gain related to the curtailment of certain U.S. employee pension benefits, partially offset by slightly higher manufacturing costs. Operating income increased in 1995 over 1994 due to 5% higher sales volumes and higher average selling prices, partially offset by higher raw material costs. Rheox's cost of sales increased in 1995 and 1996 over the respective prior year primarily due to higher sales volumes, and cost of sales as a percentage of net sales were approximately the same level in 1994, 1995 and 1996. Selling, general and administrative expenses decreased slightly in 1996 compared to 1995 due to lower variable compensation expense, and selling, general and administrative expenses in 1995 approximated 1994 amounts.

The Company has substantial operations and assets located outside the United States (principally Germany, Norway, Belgium and Canada). The U.S. dollar value of the Company's foreign sales and operating costs is subject to currency exchange rate fluctuations which may slightly impact reported earnings and may affect the comparability of period-to-period operating results. A significant amount of the Company's sales are denominated in currencies other than the U.S. dollar (61% in 1996), 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 1996 sales by \$14 million compared to 1995 and increased 1995 sales by \$54 million compared to 1994.

#### General corporate

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

	Years ended December 31,			Change	
	1994	1995	1996	1995-94	1996-95
	-----	-----	-----	-----	-----
	(In millions)				
Securities earnings .....	\$ 3.9	\$ 7.4	\$ 4.7	\$ 3.5	\$ (2.7)
Corporate expenses, net .....	(44.7)	(26.6)	(17.4)	18.1	9.0
Interest expense .....	(83.9)	(81.6)	(75.0)	2.3	6.6
	-----	-----	-----	-----	-----
	\$ (124.7)	\$ (100.8)	\$ (87.7)	\$ 23.9	\$ 12.9
	=====	=====	=====	=====	=====

Securities earnings fluctuate in part based upon the amount of funds invested and yields thereon. Corporate expenses, net in 1996 were lower than 1995 due to lower provisions for environmental remediation cost. Corporate expenses, net were significantly lower in 1995 compared to 1994 due to lower provisions for environmental remediation and litigation costs. The Company expects corporate expenses, net in 1997 will exceed that of 1996, primarily due to approximately \$30 million of additional environmental remediation accruals related to the adoption of a new accounting standard. See Note 2 to the Consolidated Financial Statements.

#### Interest expense

Interest expense in 1996 declined compared to 1995 principally due to lower interest rates on variable rate debt, principally Kronos' Deutsche mark-denominated debt, partially offset by higher levels of such DM-denominated debt. Interest expense in 1995 declined compared to 1994 due to lower levels of debt, principally DM-denominated debt, and lower interest rates on such DM-denominated debt. In January 1997, the Company refinanced certain U.S. debt and prepaid certain DM-denominated debt, as discussed in "Liquidity and Capital Resources," and expects its interest expense will be higher in 1997 compared to 1996 as a result of higher anticipated interest rates and average debt levels.

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 1994 and 1996, 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's valuation allowance was reduced by approximately \$10 million due to a change in estimate of the future tax benefit of certain U.S. tax credits which the Company believes satisfies the "more-likely-than-not" recognition criteria. 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, 1996 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,		
	1994	1995	1996
	-----	-----	-----
	(In millions)		
Net cash provided (used) by:			
Operating activities .....	\$181.7	\$ 71.5	\$ 16.5
Investing activities .....	(32.8)	(62.2)	(67.6)
Financing activities .....	(132.1)	(3.3)	26.6
	-----	-----	-----
Net cash provided (used) by operating, investing and financing activities .....	\$ 16.8	\$ 6.0	\$(24.5)
	=====	=====	=====

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of the Company. During 1996, declining TiO2 selling prices unfavorably impacted Kronos' operating income and cash flows from operations compared to 1995. Average selling prices began a downward trend in the last half of 1995 and continued throughout 1996. The Company expects prices will begin to increase in the second quarter of 1997; however, no assurance can be given that price trends will conform to the Company's expectations and future cash flows will be adversely affected should price trends be lower than the Company's expectations.

Changes in the Company's inventories, receivables and payables (excluding the effect of currency translation) also contributed to the cash provided by operations in 1994 and 1996; however, such changes used cash in 1995 primarily due to increased inventory levels. In 1994 and 1995, net proceeds of \$15 million and \$26 million, respectively, from the sale of trading securities are components of the cash provided from operations. Certain German income tax refunds and

payments, discussed below, significantly increased cash flows from operating activities during 1994 and decreased cash flows from operating activities in 1996.

The Company's capital expenditures during the past three years include an aggregate of \$67 million (\$26 million in 1996) for the Company's ongoing environmental protection and compliance programs, including a Canadian waste acid neutralization facility, a Norwegian onshore tailings disposal system and German and Norwegian off-gas desulfurization systems. The Company's estimated 1997 and 1998 capital expenditures are \$35 million and \$36 million, respectively, and include \$3 million and \$5 million, respectively, in the area of environmental protection and compliance primarily related to the off-gas desulfurization systems. The Company spent \$9 million in 1995, \$18 million in 1996 and plans to spend an additional \$8 million in 1997 in capital expenditures related to a debottlenecking project at its Leverkusen, Germany chloride-process TiO<sub>2</sub> facility that is expected to increase the Company's worldwide annual attainable production to approximately 410,000 metric tons in 1998. Capital expenditures of the manufacturing joint venture are not included in the Company's capital expenditures. Rheox acquired the minority interests of certain of its non-U.S. subsidiaries for \$5.2 million in 1996.

In 1996, the Company borrowed DM 144 million (\$96 million when borrowed) under its DM credit facility and 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 \$23 million on the Rheox bank term loan, \$15 million in payments 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 \$30 million in payments on the Rheox bank term loan and \$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. In 1994, the Company borrowed DM 75 million (\$45 million when borrowed) under the DM credit facility, and repayments of indebtedness included DM 225 million (\$140 million when paid) in payments on the DM credit facility, \$15 million in payments on the Rheox bank term loan and \$15 million in payments on the joint venture term loan.

In order to improve its near-term liquidity, during January 1997, the Company refinanced its Rheox subsidiary, obtaining a net \$125 million of new long-term financing. The net proceeds, along with other available funds, were used to prepay DM 207 million (\$127 million when paid) of the Company's DM term loan and to repay DM 43 million (\$26 million when paid) of the Company's DM revolving credit facility, leaving DM 130 million (\$80 million) available for borrowing at January 31, 1997. As a result of the refinancing and prepayment, the Company's aggregate scheduled debt payments for 1997 and 1998 decreased by \$103 million (\$64 million in 1997 and \$39 million in 1998). In connection with the prepayment, the Company and its lenders modified certain financial covenants of the DM credit agreement and NL guaranteed the facility.

At December 31, 1996, the Company had cash and cash equivalents aggregating \$114 million (44% held by non-U.S. subsidiaries) including restricted cash and cash equivalents of \$11 million. At December 31, 1996, after giving pro forma

effect for the refinancing discussed above, the Company had cash and cash equivalents aggregating \$87 million and the Company's subsidiaries had \$9 million and \$102 million available for borrowing under U.S. and non-U.S. credit facilities, respectively. At December 31, 1996, the Company had complied with, or had obtained waivers for, all financial covenants governing its debt agreements.

Dividends paid during 1996 totaled \$15.3 million. No dividends were paid in 1994 or 1995. In October 1996, the Company's Board of Directors suspended the Company's quarterly dividend and the Company is currently 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 income tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies. During 1994, the German tax authorities withdrew certain proposed tax deficiencies of DM 100 million and remitted tax refunds aggregating DM 225 million (\$136 million when received), including interest, on a tentative basis while examination of the Company's German income tax returns continued. The Company subsequently reached an agreement with the German tax authorities regarding such examinations which resolved certain significant tax contingencies for years through 1990. The Company received final assessments and paid certain tax deficiencies of approximately DM 50 million (\$32 million), including interest, in settlement of these issues in 1996. The Company considers the agreement to be a favorable resolution of the contingencies and the payment was within previously-accrued amounts for such matters.

Certain other German tax contingencies remain outstanding and will continue to be litigated. Although the Company believes that it will ultimately prevail in the litigation, the Company has granted a DM 100 million (\$64 million at December 31, 1996) lien on its Nordenham, Germany TiO2 plant in favor of the German tax authorities until the litigation is resolved. No assurances can be given that this litigation will be resolved in the Company's favor in view of the inherent uncertainties involved in court rulings. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

At December 31, 1996, the Company had net deferred tax liabilities of \$152 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 \$207 million at December 31, 1996, 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 businesses conducted through Kronos and Rheox, the Company also has certain interests and associated liabilities relating to certain discontinued or divested businesses and other holdings of marketable equity securities including securities issued by Valhi and other Contran subsidiaries.

The Company has been named as a defendant, PRP, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, 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.

The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company in the past has sought and in the future may seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, issue additional securities, modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps

to manage its liquidity and capital resources. In the normal course of its business, the Company may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals industry. In the event of any 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, 1996 and thereafter through the date of this report.

October 23, 1996 - reported Items 5 and 7.  
January 30, 1997 - reported Items 5 and 7.

(c) Exhibits

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

## Item No.

## Exhibit Index

- 3.1 By-Laws, as amended on June 28, 1990 - incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990.
- 3.2 Certificate of Amended and Restated Certificate of Incorporation dated June 28, 1990 - incorporated by reference to Exhibit 1 to the Registrant's Proxy Statement on Schedule 14A for the annual meeting held on June 28, 1990.
- 4.1 Registration Rights Agreement dated October 30, 1991, by and between the Registrant and Tremont Corporation - incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
- 4.2 Indenture dated October 20, 1993 governing the Registrant's 11.75% Senior Secured Notes due 2003, including form of Senior Note incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.3 Senior Mirror Notes dated October 20, 1993 - incorporated by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.4 Senior Note Subsidiary Pledge Agreement dated October 20, 1993 between Registrant and Kronos, Inc. - incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.5 Third Party Pledge and Intercreditor Agreement dated October 20, 1993 between Registrant, Chase Manhattan Bank (National Association) and Chemical Bank - incorporated by reference to Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.6 Indenture dated October 20, 1993 governing the Registrant's 13% Senior Secured Discount Notes due 2005, including form of Discount Note - incorporated by reference to Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.7 Discount Mirror Notes dated October 20, 1993 - incorporated by reference to Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.8 Discount Note Subsidiary Pledge Agreement dated October 20, 1993 between Registrant and Kronos, Inc. - incorporated by reference to Exhibit 4.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

- 10.1 Amended and Restated Loan Agreement dated as of October 15, 1993 among Kronos International, Inc., the Banks set forth therein, Hypobank International S.A., as Agent and Banque Paribas, as Co-agent - incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 10.2 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.
- 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.
- 10.5 Guaranty dated as of January 31, 1997 made by the Registrant in favor of Hypobank International S.A., as Agent.
- 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.
- 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 beschränkter Haftung (German language version and English translation thereof) incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1985.
- 10.20 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 Amendment No. 1 to Joint Venture Agreement dated as of December 20, 1995 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.
- 10.25 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.
- 10.26 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.
- 10.27 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.
- 10.28 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.

- 10.29 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.
- 10.30 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.
- 10.31 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.
- 10.32 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.
- 10.33 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.
- 10.34\* 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.
- 10.35 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.
- 10.36\* 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.
- 10.37\* 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.

- 10.38\* NL Industries, Inc. Retirement Savings Plan, as amended and restated effective April 1, 1996.
- 10.39\* 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.
- 10.40 Intercorporate Services Agreement by and between Valhi, Inc. and the Registrant effective as of January 1, 1996.
- 10.41 Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 1996.
- 10.42 Intercorporate Services Agreement by and between Tremont Corporation and the Registrant effective as of January 1, 1996.
- 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 December 31, 1991 by and between the Registrant and J. Landis Martin - incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
- 10.47\* 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 December 28, 1995 between the Registrant and Lawrence A. Wigdor and related trust agreement incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Accountants.
- 27.1 Financial Data Schedules for the year ended December 31, 1996.
- 99.1 Annual Report of Savings Plan for Employees of NL Industries, Inc. (Form 11-K) to be filed under Form 10-K/A to the Registrant's Annual Report on Form 10-K within 180 days after December 31, 1996.

\* 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, 1997  
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, 1997  
Director, President and  
Chief Executive Officer

/s/ Harold C. Simmons  
-----  
Harold C. Simmons, March 20, 1997  
Chairman of the Board

/s/ Glenn R. Simmons  
-----  
Glenn R. Simmons, March 20, 1997  
Director

/s/ Joseph S. Compofelice  
-----  
Joseph S. Compofelice, March 20, 1997  
Director, Vice President and  
Chief Financial Officer

/s/ Kenneth R. Peak  
-----  
Kenneth R. Peak, March 20, 1997  
Director

/s/ Dr. Lawrence A. Wigdor  
-----  
Dr. Lawrence A. Wigdor, March 20, 1997  
Director, President and Chief  
Executive Officer of Kronos and Rheox

/s/ Elmo R. Zumwalt, Jr.  
-----  
Elmo R. Zumwalt, Jr., March 20, 1997  
Director

/s/ Dennis G. Newkirk  
-----  
Dennis G. Newkirk, March 20, 1997  
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

Financial Statements	Pages
Report of Independent Accountants .....	F-2
Consolidated Balance Sheets - December 31, 1995 and 1996 .....	F-3 / F-4
Consolidated Statements of Operations - Years ended December 31, 1994, 1995 and 1996 .....	F-5
Consolidated Statements of Shareholders' Deficit - Years ended December 31, 1994, 1995 and 1996 .....	F-6
Consolidated Statements of Cash Flows - Years ended December 31, 1994, 1995 and 1996 .....	F-7 / F-9
Notes to Consolidated Financial Statements .....	F-10 / F-36
Financial Statement Schedules	
Report of Independent Accountants .....	S-1
Schedule I - Condensed Financial Information of Registrant ....	S-2 / S-7
Schedule II - Valuation and qualifying accounts .....	S-8

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, 1995 and 1996, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 1996. 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, 1995 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Houston, Texas  
February 7, 1997

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1995 and 1996

(In thousands, except per share data)

ASSETS

	1995	1996
	-----	-----
Current assets:		
Cash and cash equivalents, including restricted cash of \$10,104 and \$10,895 .....	\$ 141,333	\$ 114,115
Accounts and notes receivable, less allowance of \$4,039 and \$3,813 .....	147,428	138,538
Refundable income taxes .....	4,941	9,267
Inventories .....	251,630	232,510
Prepaid expenses .....	3,217	4,219
Deferred income taxes .....	2,522	1,597
	-----	-----
Total current assets .....	551,071	500,246
	-----	-----
Other assets:		
Marketable securities .....	20,944	23,718
Investment in joint ventures .....	185,893	181,479
Prepaid pension cost .....	22,576	24,821
Deferred income taxes .....	788	223
Other .....	31,165	24,825
	-----	-----
Total other assets .....	261,366	255,066
	-----	-----
Property and equipment:		
Land .....	22,902	21,963
Buildings .....	166,349	165,479
Machinery and equipment .....	648,458	660,333
Mining properties .....	97,190	95,891
Construction in progress .....	11,187	13,231
	-----	-----
	946,086	956,897
Less accumulated depreciation and depletion ....	486,870	490,851
	-----	-----
Net property and equipment .....	459,216	466,046
	-----	-----
	\$1,271,653	\$1,221,358
	=====	=====

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

December 31, 1995 and 1996

(In thousands, except per share data)

LIABILITIES AND SHAREHOLDERS' DEFICIT	1995	1996
	-----	-----
Current liabilities:		
Notes payable .....	\$ 39,247	\$ 25,732
Current maturities of long-term debt .....	43,369	91,946
Accounts payable and accrued liabilities .....	165,985	153,904
Payable to affiliates .....	10,181	10,204
Income taxes .....	40,088	5,664
Deferred income taxes .....	3,555	2,895
	-----	-----
Total current liabilities .....	302,425	290,345
	-----	-----
Noncurrent liabilities:		
Long-term debt .....	740,334	737,100
Deferred income taxes .....	157,192	151,221
Accrued pension cost .....	69,311	57,941
Accrued postretirement benefits cost .....	60,235	55,935
Other .....	148,511	132,048
	-----	-----
Total noncurrent liabilities .....	1,175,583	1,134,245
	-----	-----
Minority interest .....	3,066	249
	-----	-----
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 .....	(126,934)	(118,629)
Pension liabilities .....	(1,908)	(1,822)
Marketable securities .....	(525)	1,278
Accumulated deficit .....	(481,432)	(485,948)
Treasury stock, at cost (15,748 and 15,721 shares) .....	(366,258)	(365,996)
	-----	-----
Total shareholders' deficit .....	(209,421)	(203,481)
	-----	-----
	\$ 1,271,653	\$ 1,221,358
	=====	=====

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, 1994, 1995 and 1996

(In thousands, except per share data)

	1994	1995	1996
	-----	-----	-----
Revenues and other income:			
Net sales .....	\$ 887,954	\$ 1,023,939	\$ 986,074
Other, net .....	44,828	22,241	30,480
	-----	-----	-----
	932,782	1,046,180	1,016,554
	-----	-----	-----
Costs and expenses:			
Cost of sales .....	649,745	676,184	738,438
Selling, general and administrative .	212,516	189,477	177,464
Interest .....	83,926	81,617	75,039
	-----	-----	-----
	946,187	947,278	990,941
	-----	-----	-----
Income (loss) before income taxes and minority interest .....	(13,405)	98,902	25,613
Income tax expense .....	9,734	12,671	14,833
	-----	-----	-----
Income (loss) before minority interest .....	(23,139)	86,231	10,780
Minority interest .....	843	622	(37)
	-----	-----	-----
Net income (loss) .....	\$ (23,982)	\$ 85,609	\$ 10,817
	=====	=====	=====
Net income (loss) per share of common stock and common stock equivalents ...	\$ (.47)	\$ 1.66	\$ .21
	=====	=====	=====
Weighted average common shares and common stock equivalents outstanding .	51,022	51,512	51,350
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 1994, 1995 and 1996

(In thousands)

	Common stock	Additional paid-in capital	Adjustments				Accumulated deficit	Treasury stock	Total
			Currency translation	Pension liabilities	Marketable securities				
Balance at December 31, 1993	\$ 8,355	\$ 759,281	\$(115,803)	\$ (3,442)	\$ (2,164)	\$(543,059)	\$(367,963)	\$(264,795)	
Net loss .....	--	--	--	--	--	(23,982)	--	(23,982)	
Treasury stock reissued ....	--	--	--	--	--	--	1,427	1,427	
Adjustments .....	--	--	(9,691)	1,807	2,152	--	--	(5,732)	
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)	

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1994, 1995 and 1996

(In thousands)

	1994	1995	1996
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss) .....	\$ (23,982)	\$ 85,609	\$ 10,817
Depreciation, depletion and amortization .....	34,592	38,989	39,664
Noncash interest expense .....	18,071	19,396	20,959
Deferred income taxes .....	11,907	(29,248)	2,802
Minority interest .....	843	622	(37)
Net (gains) losses from:			
Securities transactions .....	1,220	(1,175)	--
Disposition of property and equipment .....	1,981	2,713	2,312
Pension cost, net .....	(2,753)	(7,248)	(12,893)
Other postretirement benefits, net ....	(3,437)	(4,169)	(5,086)
Other, net .....	68	(477)	(126)
	-----	-----	-----
	38,510	105,012	58,412
Change in assets and liabilities:			
Accounts and notes receivable .....	(13,152)	(1,483)	2,798
Inventories .....	17,778	(57,378)	8,401
Prepaid expenses .....	3,221	1,148	(1,426)
Accounts payable and accrued liabilities .....	(17,343)	(17,700)	(3,311)
Income taxes .....	109,243	14,861	(39,424)
Accounts with affiliates .....	(2,024)	(4,059)	3,229
Other noncurrent assets .....	2,219	1,587	684
Other noncurrent liabilities .....	28,706	3,233	(12,825)
Marketable trading securities:			
Purchases .....	(870)	(762)	--
Dispositions .....	15,530	27,102	--
	-----	-----	-----
Net cash provided by operating activities .....	181,818	71,561	16,538
	-----	-----	-----



NL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1994, 1995 and 1996

(In thousands)

	1994	1995	1996
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures .....	\$ (36,931)	\$ (64,196)	\$ (66,906)
Purchase of minority interest .....	--	--	(5,168)
Investment in joint ventures, net .....	3,133	1,793	4,359
Proceeds from disposition of property and equipment .....	598	182	108
Other, net .....	362	--	--
	-----	-----	-----
Net cash used by investing activities .....	(32,838)	(62,221)	(67,607)
	-----	-----	-----
Cash flows from financing activities:			
Indebtedness:			
Borrowings .....	44,490	57,556	97,503
Principal payments .....	(175,886)	(61,128)	(55,403)
Dividends paid .....	--	--	(15,333)
Other, net .....	(742)	264	(202)
	-----	-----	-----
Net cash provided (used) by financing activities .....	(132,138)	(3,308)	26,565
	-----	-----	-----
Net change during the year from operating, investing and financing activities .....	\$ 16,842	\$ 6,032	\$ (24,504)
	=====	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1994, 1995 and 1996

(In thousands)

	1994	1995	1996
	-----	-----	-----
Cash and cash equivalents:			
Net change during the year from:			
Operating, investing and financing			
activities .....	\$ 16,842	\$ 6,032	\$ (24,504)
Currency translation .....	7,689	4,177	(2,714)
	-----	-----	-----
Balance at beginning of year .....	24,531	10,209	(27,218)
	106,593	131,124	141,333
	-----	-----	-----
Balance at end of year .....	\$ 131,124	\$ 141,333	\$ 114,115
	=====	=====	=====
Supplemental disclosures - cash paid			
(received) for:			
Interest, net of amounts capitalized ..	\$ 66,801	\$ 62,078	\$ 51,678
Income taxes, net .....	(111,418)	27,965	50,400

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 operations primarily through its wholly-owned subsidiaries, Kronos, Inc. (titanium dioxide pigments or "TiO<sub>2</sub>") and Rheox, Inc. (specialty chemicals).

Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, hold 56% and 18%, respectively, of NL's outstanding common stock. Contran holds, directly or through subsidiaries, approximately 91% of Valhi's and 44% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons, of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board, President, and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies.

Note 2 - Summary of significant accounting policies:

Principles of consolidation 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. 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, bank deposits, and government and commercial notes and bills with original maturities of three months or less. Restricted cash of approximately \$6 million in 1995 and 1996 is restricted under the Company's joint venture indebtedness agreement and restricted cash of approximately \$4 million in 1995 and \$5 million in 1996 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. Unrealized gains and losses on trading securities are recognized in income currently. Unrealized gains and losses on available-for-sale securities, and the related deferred income tax effects, are accumulated in the marketable securities adjustment component of shareholders' deficit. See Note 4. Realized gains or losses are computed based on specific identification of the securities sold.

#### 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, 1995 and 1996, no receivables for recoveries have been recognized.

The Company will adopt the recognition and disclosure requirements of AICPA's Statement of Position No. 96-1, "Environmental Remediation Liabilities," in the first quarter of 1997. The new rule, among other things, expands the types of costs which must be considered in determining environmental remediation accruals. As a result of adopting the new Statement of Position, the Company expects to recognize a noncash cumulative charge of approximately \$30 million in the first quarter of 1997. The charge is not expected to materially change the Company's 1997 tax expense due to existing net operating losses for which no benefit is expected to be recognized. 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. Currently, such expenditures are 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" realization criteria.

Income (loss) per share of common stock

Income (loss) per share of common stock is based on the weighted average number of common shares and equivalents outstanding. Common stock equivalents, consisting of nonqualified stock options, are excluded from the computation when their effect is antidilutive.

Note 3 - Business and geographic segments:

The Company's operations are conducted in two business segments - TiO2 conducted by Kronos and specialty chemicals conducted by Rheox. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. Specialty chemicals include rheological additives which control the flow and leveling characteristics of a variety of products, including paints, inks, lubricants, sealants, adhesives and cosmetics. General corporate assets consist principally of cash, cash equivalents and marketable securities. At December 31, 1995 and 1996, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated \$121 million and \$124 million, respectively.

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Business segments			
Net sales:			
Kronos .....	\$ 770,077	\$ 894,149	\$ 851,179
Rheox .....	117,877	129,790	134,895
	-----	-----	-----
	\$ 887,954	\$ 1,023,939	\$ 986,074
	=====	=====	=====
Operating income:			
Kronos .....	\$ 80,515	\$ 161,175	\$ 71,606
Rheox .....	30,837	38,544	41,767
	-----	-----	-----
	111,352	199,719	113,373
General corporate income (expense):			
Securities earnings .....	3,855	7,419	4,708
Expenses, net .....	(44,686)	(26,619)	(17,429)
Interest expense .....	(83,926)	(81,617)	(75,039)
	-----	-----	-----
	\$ (13,405)	\$ 98,902	\$ 25,613
	=====	=====	=====
Capital expenditures:			
Kronos .....	\$ 34,522	\$ 60,699	\$ 64,201
Rheox .....	2,283	3,464	2,665
General corporate .....	126	33	40
	-----	-----	-----
	\$ 36,931	\$ 64,196	\$ 66,906
	=====	=====	=====

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Depreciation, depletion and amortization:			
Kronos .....	\$ 31,156	\$ 35,706	\$ 36,295
Rheox .....	3,153	3,089	3,175
General corporate .....	283	194	194
	-----	-----	-----
	\$ 34,592	\$ 38,989	\$ 39,664
	=====	=====	=====

#### Geographic areas

Net sales - point of origin:			
United States .....	\$ 303,475	\$ 339,568	\$ 348,071
Europe .....	587,291	703,206	653,828
Canada .....	122,957	139,341	139,346
Eliminations .....	(125,769)	(158,176)	(155,171)
	-----	-----	-----
	\$ 887,954	\$ 1,023,939	\$ 986,074
	=====	=====	=====

Net sales - point of destination:			
United States .....	\$ 238,568	\$ 258,850	\$ 273,110
Europe .....	468,915	580,794	523,667
Canada .....	64,374	60,472	56,436
Other .....	116,097	123,823	132,861
	-----	-----	-----
	\$ 887,954	\$ 1,023,939	\$ 986,074
	=====	=====	=====

Operating income:			
United States .....	\$ 49,358	\$ 75,650	\$ 71,914
Europe .....	50,273	103,096	27,971
Canada .....	11,721	20,973	13,488
	-----	-----	-----
	\$ 111,352	\$ 199,719	\$ 113,373
	=====	=====	=====

	December 31,		
	1994	1995	1996
	(In thousands)		

#### Identifiable assets

Business segments:			
Kronos .....	\$ 950,200	\$1,063,369	\$1,064,285
Rheox .....	83,176	83,620	90,095
General corporate .....	129,034	124,664	66,978
	-----	-----	-----
	\$1,162,410	\$1,271,653	\$1,221,358
	=====	=====	=====

Geographic segments:			
United States .....	\$ 308,017	\$ 311,374	\$ 303,547
Europe .....	594,921	690,353	718,626
Canada .....	130,438	145,262	132,207
General corporate .....	129,034	124,664	66,978
	-----	-----	-----
	\$1,162,410	\$1,271,653	\$1,221,358
	=====	=====	=====

Note 4 - Marketable securities and securities transactions:

	December 31,	
	1995	1996
	(In thousands)	
Available-for-sale securities - noncurrent marketable equity securities:		
Unrealized gains .....	\$ 1,962	\$ 3,516
Unrealized losses .....	(2,770)	(1,550)
Cost .....	21,752	21,752
	-----	-----
Aggregate market .....	\$ 20,944	\$ 23,718
	=====	=====

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Securities transactions gains (losses) on trading securities:			
Unrealized .....	\$(1,177)	\$ 1,125	\$--
Realized .....	(43)	50	--
	-----	-----	---
	\$(1,220)	\$ 1,175	\$--
	=====	=====	===

Note 5 - Inventories:

	December 31,	
	1995	1996
	(In thousands)	
Raw materials .....	\$ 35,075	\$ 43,284
Work in process .....	9,132	10,356
Finished products .....	172,330	142,091
Supplies .....	35,093	36,779
	-----	-----
	\$251,630	\$232,510
	=====	=====

Note 6 - Investment in joint ventures:

	December 31,	
	1995	1996
	(In thousands)	
TiO2 manufacturing joint venture .....	\$183,129	\$179,195
Other .....	2,764	2,284
	-----	-----
	\$185,893	\$181,479
	=====	=====

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., a wholly-owned subsidiary of Imperial Chemicals Industries PLC ("Tioxide"). LPC owns and operates a chloride-process TiO<sub>2</sub> plant in Lake Charles, Louisiana.

LPC has long-term debt that is collateralized by the partnership interests of the partners and substantially all of the assets of LPC. The long-term debt consists of two tranches, one attributable to each partner, and each tranche is serviced through (i) the purchase of the plant's TiO2 output in equal quantities by the partners and (ii) cash capital contributions. KLA is required to purchase one-half of the TiO2 produced by LPC. KLA's tranche of LPC's debt is reflected as outstanding indebtedness of the Company because Kronos has guaranteed the purchase obligation relative to the debt service of its tranche. See Note 10.

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

Summary balance sheets of LPC are shown below.

	December 31,	
	----- 1995	1996 -----
ASSETS	(In thousands)	
Current assets .....	\$ 49,398	\$ 47,861
Other assets .....	1,553	1,224
Property and equipment, net .....	335,254	325,617
	-----	-----
	\$386,205	\$374,702
	=====	=====
LIABILITIES AND PARTNERS' EQUITY		
Long-term debt, including current portion:		
Kronos tranche .....	\$ 73,286	\$ 57,858
Tioxide tranche .....	59,400	16,800
Note payable to Tioxide .....	--	21,000
Other liabilities, primarily current .....	17,719	14,084
	-----	-----
	150,405	109,742
Partners' equity .....	235,800	264,960
	-----	-----
	\$386,205	\$374,702
	=====	=====

Summary income statements of LPC are shown below.

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Revenues and other income:			
Kronos .....	\$ 70,492	\$ 76,365	\$ 74,916
Tioxide .....	67,218	75,241	73,774
Interest income .....	462	653	518
	-----	-----	-----
	138,172	152,259	149,208
	-----	-----	-----
Cost and expenses:			
Cost of sales .....	126,972	140,103	140,361
General and administrative .....	572	385	377
Interest .....	10,628	11,771	8,470
	-----	-----	-----
	138,172	152,259	149,208
	-----	-----	-----
Net income .....	\$ --	\$ --	\$ --
	=====	=====	=====

Note 7 - Other noncurrent assets:

	December 31,	
	1995	1996
	(In thousands)	
Intangible assets, net of accumulated amortization of \$20,562 and \$22,207 .....	\$11,803	\$ 7,939
Deferred financing costs, net .....	13,199	9,791
Other .....	6,163	7,095
	-----	-----
	\$31,165	\$24,825
	=====	=====

Note 8 - Accounts payable and accrued liabilities:

	December 31,	
	1995	1996
	(In thousands)	
Accounts payable .....	\$ 68,734	\$ 60,648
	-----	-----
Accrued liabilities:		
Employee benefits .....	49,884	34,618
Environmental costs .....	6,000	6,000
Interest .....	6,633	9,429
Miscellaneous taxes .....	2,557	4,073
Other .....	32,177	39,136
	-----	-----
	97,251	93,256
	-----	-----
	\$165,985	\$153,904
	=====	=====



Note 9 - Other noncurrent liabilities:

	December 31,	
	1995	1996
	(In thousands)	
Environmental costs .....	\$112,827	\$106,849
Employee benefits .....	13,148	11,960
Insurance claims expense .....	12,088	11,673
Deferred technology fee income .....	8,456	--
Other .....	1,992	1,566
	-----	-----
	\$148,511	\$132,048
	=====	=====

Note 10 - Notes payable and long-term debt:

	December 31,	
	1995	1996
	(In thousands)	
Notes payable (DM 56,000 and DM 40,000, respectively) .....	\$ 39,247	\$ 25,732
	=====	=====
Long-term debt:		
NL Industries:		
11.75% Senior Secured Notes .....	\$250,000	\$250,000
13% Senior Secured Discount Notes .....	132,034	149,756
	-----	-----
	382,034	399,756
Kronos:		
DM bank credit facility (DM 397,610 and DM 539,971, respectively) .....	276,895	347,362
LPC term loan .....	73,286	57,858
Other .....	13,672	9,125
	-----	-----
	363,853	414,345
Rheox:		
Bank term loan .....	37,263	14,659
Other .....	553	286
	-----	-----
	37,816	14,945
	783,703	829,046
Less current maturities .....	43,369	91,946
	-----	-----
	\$740,334	\$737,100

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. 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, 1996, no amounts were available for payment of dividends pursuant to the terms of the indentures. The Senior Secured Discount Notes do not require cash interest payments through October 1998. The net carrying value of the Senior Secured Discount Notes per \$100 principal amount at maturity was \$70.42 and \$79.87 at December 31, 1995 and 1996, respectively. At December 31, 1996, the quoted market price of the Senior Secured Notes was \$106.08 per \$100 principal amount and the quoted market price of the Senior Secured Discount Notes was \$86.34 per \$100 principal amount (1995 - \$107.06 and \$80.95, respectively).

At December 31, 1996, the DM credit facility consists of a DM 396 million term loan and a DM 250 million revolving credit facility, of which DM 144 million is outstanding. Borrowings bear interest at DM LIBOR plus 1.625% (5.5% and 4.76% at December 31, 1995 and 1996, respectively), and are collateralized by the stock of certain KII subsidiaries. In January 1997, the Company completed an amendment to the DM credit facility in which the Company prepaid a net DM 207 million (\$127 million) of the term loan and DM 43 million (\$26 million) of the revolver, leaving DM 188 million and DM 100 million outstanding, respectively. In addition, the aggregate amount available for borrowing under the revolver was reduced to DM 230 million. The majority of the cash generated from a refinancing of the Rheox term loan, discussed below, was used for a portion of such prepayments. As amended, the term loan is due in 1998 and 1999 and the revolver is due in 2000, borrowings bear interest at DM LIBOR plus 2.75%, additional collateral in the form of pledges of certain Canadian and German assets was granted and NL has guaranteed the facility.

At December 31, 1996, Rheox's term loan is due in quarterly installments through December 1997, and is collateralized principally by the stock of Rheox and its U.S. subsidiaries. The term loan bears interest, at Rheox's option, at the prime rate plus 1.5% or LIBOR plus 2.5% (1995 - 8.3% with LIBOR rate borrowings; 1996 - 9.8% with prime rate borrowings). In January 1997, the Company completed a refinancing of this facility which increased the term loan to \$125 million and provided for a \$25 million revolving facility, generating a net \$135 million in cash proceeds and credit availability. As amended, the term

loan is due in quarterly installments commencing in September 1997 through January 2004 and the revolver is due no later than January 2004. The margin on LIBOR-based borrowings will range from .75% to 1.75%, depending upon the level of a certain Rheox financial ratio.

After giving effect for the Rheox term loan and the amendment to the DM credit facility, unused lines of credit available for borrowing under the Rheox U.S. facility and under the Company's non-U.S. credit facilities, including the DM facility, approximated \$9 million and \$102 million, respectively, at December 31, 1996.

Borrowings under KLA's tranche of LPC's term loan bear interest at U.S. LIBOR plus 1.625% (7.315% and 7.245% at December 31, 1995 and 1996, respectively) and are repayable in quarterly installments through September 2000. See Note 6.

Notes payable at December 31, 1995 and 1996 consists of DM 56 million and DM 40 million, respectively, of short-term borrowings due within one year from non-U.S. banks with interest rates ranging from 4.25% to 4.856% in 1995 and from 3.25% to 3.70% in 1996.

The aggregate maturities of long-term debt at December 31, 1996 on a historical and a pro forma basis, giving effect for the January 1997 refinancing described above, are shown in the table below.

Years ending December 31,	Historical	Pro forma
	-----	-----
	(In thousands)	
1997	\$ 91,946	\$ 28,152
1998	103,938	65,040
1999	133,295	120,609
2000	11,855	26,855
2001	215	22,715
2002 and thereafter	525,541	567,937
	-----	-----
	866,790	831,308
Less unamortized original issue discount on the Senior Secured Discount Notes	37,744	37,744
	-----	-----
	\$829,046	\$793,564
	=====	=====

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 April 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 was \$.8 million in 1994, and \$1.2 million in 1995 and \$1.3 million in 1996.

Defined pension benefits are generally based upon years of service and compensation under fixed-dollar, final pay or career average formulas, and the related expenses are based upon independent actuarial valuations. The funding policy for U.S. defined benefit plans is to contribute amounts which satisfy funding requirements of the Employee Retirement Income Security Act of 1974, as amended, and the Retirement Protection Act of 1994. 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,		
	1994	1995	1996
	-----	-----	-----
	(Percentages)		
Discount rate .....	8.5	7.0 to 8.5	6.5 to 8.5
Rate of increase in future compensation levels .....	5.0 to 6.0	3.5 to 6.0	3.5 to 6.0
Long-term rate of return on plan assets .....	8.5 to 9.0	8.0 to 9.0	7.0 to 9.0

During 1996, the Company curtailed certain U.S. employee pension benefits and recognized a \$4.6 million gain. 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.

Statement of Financial Accounting Standards ("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, 1996, 79% 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,	
	1995	1996	1995	1996
	(In thousands)			
Actuarial present value of benefit obligations:				
Vested benefits .....	\$ 47,181	\$ 48,953	\$ 156,275	\$ 167,411
Nonvested benefits .....	3,744	4,075	2,562	9,466
Accumulated benefit obligations .	50,925	53,028	158,837	176,877
Effect of projected salary increases .....	7,885	7,598	22,373	25,741
Projected benefit obligations ("PBO") .....	58,810	60,626	181,210	202,618
Plan assets at fair value .....	71,345	78,511	124,632	126,580
Plan assets over (under) PBO .....	12,535	17,885	(56,578)	(76,038)
Unrecognized net loss (gain) from experience different from actuarial assumptions .....	7,155	3,567	(20,643)	11,414
Unrecognized prior service cost (credit) .....	3,147	3,838	(2,711)	262
Unrecognized transition obligations (assets) being amortized over 15 to 18 years .....	(261)	(469)	2,517	2,043
Adjustment required to recognize minimum liability .....	--	--	(1,908)	(1,822)
Total prepaid (accrued) pension cost .....	22,576	24,821	(79,323)	(64,141)
Less current portion .....	--	--	(10,012)	(6,200)
Noncurrent prepaid (accrued) pension cost .....	\$ 22,576	\$ 24,821	\$(69,311)	\$(57,941)

The components of the net periodic defined benefit pension cost, excluding curtailment gain, are set forth below.

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Service cost benefits .....	\$ 4,905	\$ 4,325	\$ 3,482
Interest cost on PBO .....	15,371	17,853	16,577
Return on plan assets .....	(8,039)	(16,574)	(16,245)
Net amortization and deferrals .....	(5,940)	(2,399)	(39)
	\$ 6,297	\$ 3,205	\$ 3,775

Incentive bonus programs

The Company has incentive bonus programs for certain employees providing for annual payments, which may be in the form of NL common stock, based on formulas involving the profitability of Kronos and Rheox in relation to the annual operating plan of the employee's business unit and, 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, 1996, the expected rate of increase in health care costs is 8% in 1997, gradually declining to 5% in 2000. Other assumptions used to measure the liability and expense are presented below.

Years ended December 31,		
1994	1995	1996
(Percentages)		

Discount rate .....	8.5	7.5	7.5
Long-term rate for compensation increases .....	6.0	4.5	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 \$.2 million in 1996, and the actuarial present value of accumulated benefit obligations at December 31, 1996 would have increased by approximately \$2.2 million. During 1996, the Company curtailed certain Canadian employee OPEB benefits and recognized a \$1.3 million gain.

	December 31,	
	1995	1996
	(In thousands)	
Actuarial present value of accumulated benefit obligations:		
Retiree benefits .....	\$53,211	\$41,768
Other fully eligible active plan participants .....	1,228	840
Other active plan participants .....	2,322	2,152
	56,761	44,760
Plan assets at fair value .....	7,103	6,689
Accumulated postretirement benefit obligations in excess of plan assets .....	49,658	38,071
Unrecognized net gain from experience different from actuarial assumptions .....	4,676	7,083
Unrecognized prior service credit .....	12,199	16,259
Total accrued postretirement benefits cost .....	66,533	61,413
Less current portion .....	6,298	5,478
Noncurrent accrued postretirement benefits cost .....	\$60,235	\$55,935

The components of the Company's net periodic postretirement benefit cost, excluding curtailment gain, are set forth below.

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Interest cost on accumulated benefit obligations .....	\$ 4,338	\$ 4,415	\$ 3,995
Service cost benefits earned during the year ..	99	101	112
Return on plan assets .....	(688)	(637)	(596)
Net amortization and deferrals .....	(1,495)	(1,870)	(1,473)
	\$ 2,254	\$ 2,009	\$ 2,038

Note 12 - Shareholders' deficit:

Common stock

	Shares of common stock		
	Issued	Treasury stock	Outstanding
	(In thousands)		
Balance at December 31, 1993 .....	66,839	15,949	50,890
Treasury shares reissued .....	--	(162)	162
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
	=====	=====	=====

## 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, 1996, 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, 1996, an aggregate of 2.5 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, 1996, there were options to acquire 10,000 shares of common stock outstanding of which 8,000 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, 1993 .....	1,718	\$ 4.81	\$24.19	\$ 20,624
Granted .....	675	8.69	10.69	6,315
Exercised .....	(13)	9.31	10.50	(120)
Forfeited .....	(6)	5.00	9.31	(46)
-----	-----	-----	-----	-----
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	(282)
Forfeited .....	(36)	5.00	11.81	(320)
-----	-----	-----	-----	-----
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
=====	=====	=====	=====	=====

At December 31, 1994, 1995 and 1996, options to purchase 850,582, 1,189,907 and 1,660,068 shares, respectively, were exercisable and options to purchase 298,698 shares become exercisable in 1997. Of the exercisable options at December 31, 1996, options to purchase 1,161,398 shares had exercise prices less than the Company's December 31, 1996 quoted market price of \$10.875 per share. Outstanding options at December 31, 1996 expire at various dates through 2006, with a weighted-average remaining life of six 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 and 1996. The weighted average fair values of options granted during 1995 and 1996 were \$6.02 and \$8.38 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 and 1996: stock price volatility of 31% and 42% in 1995 and 1996, respectively; risk-free rate of return of 5%; no dividend yield; and an expected term of 9 years. If the fair value-based method of accounting in SFAS No. 123 had been applied, the Company's earnings per share would not have changed in 1995 and would have been reduced by \$.01 per share in 1996. The pro forma impact on earnings per share for 1996 is not necessarily indicative of future effects on earnings per share.

#### 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) 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,		
	1994	1995	1996
	(In thousands)		
Pretax income (loss):			
U.S .....	\$ (6,241)	\$ 43,125	\$ 50,430
Non-U.S .....	(7,164)	55,777	(24,817)
	-----	-----	-----
	\$ (13,405)	\$ 98,902	\$ 25,613
	=====	=====	=====
Expected tax expense (benefit) .....	\$ (4,692)	\$ 34,616	\$ 8,965
Non-U.S. tax rates .....	(7,108)	(7,016)	(206)
Rate change adjustment of deferred taxes ...	--	(6,593)	--
Valuation allowance .....	24,309	(9,588)	3,013
Settlement of U.S. tax audits .....	(5,437)	--	--
Incremental tax on income of companies not included in the NL Tax Group .....	790	499	3,132
U.S. state income taxes .....	534	721	468
Other, net .....	1,338	32	(539)
	-----	-----	-----
	\$ 9,734	\$ 12,671	\$ 14,833
	=====	=====	=====
Provision for income taxes:			
Current income tax expense (benefit):			
U.S. federal .....	\$ (5,222)	\$ 249	\$ 4,934
U.S. state .....	475	2,135	1,136
Non-U.S .....	2,574	39,535	5,961
	-----	-----	-----
	(2,173)	41,919	12,031
	-----	-----	-----
Deferred income tax expense (benefit):			
U.S. federal .....	4,058	(9,005)	(4,764)
U.S. state .....	347	(1,026)	(668)
Non-U.S .....	7,502	(19,217)	8,234
	-----	-----	-----
	11,907	(29,248)	2,802
	-----	-----	-----
	\$ 9,734	\$ 12,671	\$ 14,833
	=====	=====	=====
Comprehensive tax provision allocable to:			
Pretax income (loss) .....	\$ 9,734	\$ 12,671	\$ 14,833
Shareholders' deficit, principally deferred income taxes allocable to currency translation and marketable securities adjustments .....	7	10	971
	-----	-----	-----
	\$ 9,741	\$ 12,681	\$ 15,804
	=====	=====	=====

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

	December 31,			
	1995		1996	
	Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities
	(In thousands)			
Tax effect of temporary differences relating to:				
Inventories .....	\$ 5,277	\$ (5,644)	\$ 4,130	\$ (4,967)
Property and equipment ...	574	(109,418)	512	(109,963)
Accrued postretirement benefits cost .....	23,200	--	21,396	--
Accrued (prepaid) pension cost .....	8,978	(14,942)	6,308	(17,579)
Accrued environmental costs .....	38,214	--	36,670	--
Other accrued liabilities and deductible differences .....	26,496	--	33,464	--
Other taxable differences	--	(101,621)	--	(102,578)
Tax on unremitted earnings of non-U.S. subsidiaries ..	281	(22,526)	--	(18,048)
Tax loss and tax credit carryforwards .....	189,263	--	205,476	--
Valuation allowance .....	(195,569)	--	(207,117)	--
	-----	-----	-----	-----
Gross deferred tax assets (liabilities) .....	96,714	(254,151)	100,839	(253,135)
Reclassification, principally netting by tax jurisdiction .....	(93,404)	93,404	(99,019)	99,019
	-----	-----	-----	-----
Net total deferred tax assets (liabilities) ....	3,310	(160,747)	1,820	(154,116)
Net current deferred tax assets (liabilities) ....	2,522	(3,555)	1,597	(2,895)
	-----	-----	-----	-----
Net noncurrent deferred tax assets (liabilities)	\$ 788	\$(157,192)	\$ 223	\$(151,221)
	=====	=====	=====	=====

The Company's valuation allowance increased in the aggregate by \$31 million in each of 1994 and 1995 and \$12 million in 1996. During 1995, both the Company's gross deferred tax assets and the offsetting valuation allowance were increased by \$34 million as a result of recharacterizations of certain tax attributes primarily due to changes in certain tax return elections. In addition, the valuation allowance increased during 1995 by \$6 million due to foreign currency translation and was reduced by approximately \$10 million due to a change in estimate of the future tax benefit of certain tax credits which the Company believes satisfies the "more-likely-than-not" recognition criteria. In 1996, both the Company's gross deferred tax assets and the offsetting valuation allowance were increased by \$14 million due to certain non-U.S. tax losses of its dual resident subsidiary. In addition, the valuation allowance decreased during



1996 by \$6 million due to foreign currency translation and was increased by \$3 million as a result of increases in certain other deductible temporary differences during the year which the Company believes do not currently satisfy the "more-likely-than-not" recognition criteria.

Certain of the Company's income tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies. During 1994, the German tax authorities withdrew certain proposed tax deficiencies of DM 100 million and remitted tax refunds aggregating DM 225 million (\$136 million), including interest, on a tentative basis while examination of the Company's German income tax returns continued. The Company subsequently reached an agreement with the German tax authorities regarding such examinations which resolved certain significant tax contingencies for years through 1990. The Company received final assessments and paid certain tax deficiencies of approximately DM 50 million (\$32 million when paid), including interest, in settlement of these issues in 1996. The Company considers the agreement to be a favorable resolution of the contingencies and the payment was within previously-accrued amounts for such matters.

Certain other German tax contingencies remain outstanding and will continue to be litigated. Although the Company believes that it will ultimately prevail in the litigation, the Company has granted a DM 100 million (\$64 million at December 31, 1996) lien on its Nordenham, Germany Ti02 plant in favor of the German tax authorities until the litigation is resolved. No assurances can be given that this litigation will be resolved in the Company's favor in view of the inherent uncertainties involved in court rulings. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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.

During 1995, the Company utilized \$14 million of foreign tax credit carryforwards and U.S. net operating loss carryforwards from prior years to reduce its 1995 U.S. federal income tax expense. At December 31, 1996, for U.S. federal income tax purposes, the Company had approximately \$27 million of foreign tax credit carryforwards expiring during 1997 through 2001 and approximately \$10 million of alternative minimum tax credit carryforwards with no expiration date. The Company also had approximately \$400 million of income tax loss carryforwards in Germany with no expiration date.

Note 14 - Other income, net:

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Securities earnings:			
Interest and dividends .....	\$ 5,075	\$ 6,244	\$ 4,708
Securities transactions .....	(1,220)	1,175	--
	3,855	7,419	4,708
Litigation settlement gains .....	22,978	--	2,756
Technology fee income .....	10,344	10,660	8,743
Currency transaction gains, net .....	1,735	561	5,637
Pension and OPEB curtailment gains .....	--	--	5,900
Royalty income .....	1,508	--	--
Disposition of property and equipment .....	(1,981)	(2,713)	(2,312)
Other, net .....	6,389	6,314	5,048
	\$ 44,828	\$ 22,241	\$ 30,480

Litigation settlement gains includes \$20 million related to the Company's 1994 settlement of its lawsuit against Lockheed Corporation. Technology fee income was amortized by the straight-line method over a three-year period ending October 1996.

Note 15 - Other items:

Advertising costs, expensed as incurred, were \$2 million in each of 1994, 1995 and 1996.

Research, development and certain sales technical support costs, expensed as incurred, approximated \$10 million in 1994, and \$11 million in each of 1995 and 1996.

Interest capitalized in connection with long-term capital projects was \$1 million in each of 1994 and 1995, and \$2 million in 1996.

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 1994, 1995 and 1996.

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 related to the Valhi ISA was \$.2 million in 1994, and \$.1 million in each of 1995 and 1996.

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 nil in 1994, and \$.1 million in each of 1995 and 1996.

Baroid Corporation, a former wholly-owned subsidiary of the Company and currently a subsidiary of Dresser Industries, Inc., and the Company were parties to an intercorporate services agreement (the "Baroid ISA") pursuant to which, as amended, Baroid agreed to make certain services available to the Company on a fee basis. The agreement was terminated in 1994. Management services fee expense pursuant to the Baroid ISA approximated \$.2 million in 1994.

Sales to Baroid in the ordinary course of business were \$1.8 million in 1994, \$1.6 million in 1995 and \$1.1 million in 1996.

Purchases in the ordinary course of business from unconsolidated joint ventures, including LPC, were approximately \$74 million in 1994, \$79 million in 1995 and \$81 million in 1996.

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) (\$64,000 in 1994, \$(25,000) in 1995 and \$1,000 in 1996) in a manner similar to accounting for SARs. At December 31, 1996, employees of the Company held options to purchase 365,000 shares of Valhi common stock at exercise prices ranging from \$4.76 to \$14.66 per share. At December 31, 1996, 30,000 of the vested options were exercisable at prices less than Valhi's quoted market price per share of \$6.375.

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,	
	----- 1995 -----	1996 -----
	(In thousands)	
Tremont Corporation .....	\$ 3,525	\$ 3,529
LPC .....	6,677	6,677
Other .....	(21)	(2)
	-----	-----
	\$ 10,181	\$ 10,204

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 aggregated \$8 million in 1994, \$9 million in 1995 and \$12 million in 1996. At December 31, 1996, minimum rental commitments under the terms of noncancellable operating leases were as follows:

Years ending December 31,	Real Estate (In thousands)	Equipment (In thousands)
1997	\$ 2,219	\$ 2,721
1998	2,086	2,179
1999	2,102	1,197
2000	1,777	119
2001	1,415	17
2002 and thereafter	24,752	-
	-----	-----
	\$34,351	\$ 6,233
	=====	=====

#### Capital expenditures

At December 31, 1996, the estimated cost to complete capital projects in process approximated \$16 million, including a \$8 million debottlenecking expansion project at the Company's Leverkusen, Germany chloride-process TiO2 facility and \$2 million related to environmental protection and compliance programs.

#### 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 \$115 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 and/or damages for personal injury or property damage. While the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who are also jointly and severally liable. In addition, the Company is a party to a number of lawsuits filed in various jurisdictions alleging CERCLA or other environmental claims. At December 31, 1996, the Company had accrued \$113 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 \$160 million. The Company's estimates of such liabilities have not been discounted to present value, and the Company has not recognized any potential insurance recoveries. 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 will adopt the AICPA's Statement of Position 96-1, "Environmental Remediation Liabilities," during the first quarter of 1997, increasing its environmental liability by approximately \$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 almost 90% of net sales during 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 both 1994 and 1995 and 37% in 1996 of sales were attributable to North America.

Consolidated cash, cash equivalents and restricted cash includes \$103 million and \$53 million invested in U.S. Treasury securities purchased under short-term agreements to resell at December 31, 1995 and 1996, respectively, of which \$88 million and \$41 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, 1995		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash and cash equivalents, including restricted cash .....	\$141.3	\$141.3	\$114.1	\$114.1
Marketable securities - classified as available-for-sale .....	20.9	20.9	23.7	23.7
Notes payable and long-term debt:				
Fixed rate with market quotes:				
Senior Secured Notes .....	\$250.0	\$267.7	\$250.0	\$265.2
Senior Secured Discount Notes .....	132.0	151.8	149.8	161.9
Variable rate debt .....	440.9	440.9	455.0	455.0
Common shareholders' equity (deficit) ...	\$(209.4)	\$619.5	\$(203.5)	\$555.9

Fair value of the Company's marketable securities and Notes are based upon quoted market prices and the fair value of the Company's common shareholder's equity (deficit) is based upon quoted market prices for NL's common stock. The Company held no derivative financial instruments at December 31, 1995 and 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, 1995:

Net sales .....	\$ 250,875	\$ 283,474	\$ 255,339	\$ 234,251
Cost of sales .....	169,768	187,896	169,058	149,462
Operating income .....	41,968	57,549	50,590	49,612
Net income .....	\$ 13,062	\$ 21,002	\$ 17,426	\$ 34,119(a)

=====

Net income per share of common stock .....	\$ .26	\$ .41	\$ .34	\$ .66(a)
	=====	=====	=====	=====

Weighted average shares and common stock equivalents outstanding ..	51,176	51,552	51,628	51,486
	=====	=====	=====	=====

Year ended December 31, 1996:

Net sales .....	\$ 240,440	\$ 263,162	\$ 248,462	\$ 234,010
Cost of sales .....	169,816	194,794	193,271	180,557
Operating income .....	41,938	36,098	19,471	15,866

Net income (loss) .....	\$ 13,444	\$ 11,919	\$ (4,249)	\$ (10,297)
	=====	=====	=====	=====

Net income (loss) per share of common stock ....	\$ .26	\$ .23	\$ (.08)	\$ (.20)
	=====	=====	=====	=====

Weighted average shares and common stock equivalents outstanding ..	51,510	51,493	51,118	51,118
	=====	=====	=====	=====

(a) Income tax benefits in the fourth quarter of 1995 include the recognition of \$10 million of deferred tax assets related to a change in estimate of the future tax benefit of certain tax credits which the Company believes satisfies the "more-likely-than-not" recognition criteria and \$6.6 million related to the reduction in U.S./Canada dividend withholding tax rates. See Note 13.



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.

COOPERS & LYBRAND L.L.P.

Houston, Texas  
February 7, 1997

S-1

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheets

December 31, 1995 and 1996

(In thousands)

	1995	1996
	-----	-----
Current assets:		
Cash and cash equivalents, including		
restricted cash of \$4,349 and \$4,833 .....	\$ 40,080	\$ 12,135
Accounts and notes receivable .....	203	356
Receivable from subsidiaries .....	4,273	9,542
Refundable income taxes .....	1,662	--
Prepaid expenses .....	729	445
	-----	-----
Total current assets .....	46,947	22,478
	-----	-----
Other assets:		
Marketable securities .....	20,944	23,718
Notes receivable from subsidiary .....	382,034	505,557
Investment in subsidiaries .....	(89,395)	(175,063)
Other .....	7,582	6,680
	-----	-----
Total other assets .....	321,165	360,892
	-----	-----
Property and equipment, net .....	3,562	3,396
	-----	-----
	\$ 371,674	\$ 386,766
	=====	=====
Current liabilities:		
Accounts payable and accrued liabilities .....	\$ 28,116	\$ 24,929
Payable to affiliates .....	3,498	2,813
Income taxes .....	--	3,024
Deferred income taxes .....	1,905	1,908
	-----	-----
Total current liabilities .....	33,519	32,674
	-----	-----
Noncurrent liabilities:		
Long-term debt .....	382,034	399,756
Deferred income taxes .....	10,211	9,736
Accrued pension cost .....	10,835	10,974
Accrued postretirement benefits cost .....	37,430	34,396
Other .....	107,066	102,711
	-----	-----
Total noncurrent liabilities .....	547,576	557,573
	-----	-----
Shareholders' deficit .....	(209,421)	(203,481)
	-----	-----
	\$ 371,674	\$ 386,766
	=====	=====

Contingencies (Note 4)

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Operations

Years ended December 31, 1994, 1995 and 1996

(In thousands)

	1994	1995	1996
	-----	-----	-----
Revenues and other income:			
Equity in income of subsidiaries .....	\$ 7,925	\$ 99,734	\$ 18,236
Interest and dividends .....	2,538	2,739	1,461
Interest income from subsidiary .....	43,157	45,551	49,738
Securities transactions .....	(1,220)	1,175	--
Other income, net .....	3,135	460	1,873
	-----	-----	-----
	55,535	149,659	71,308
	-----	-----	-----
Costs and expenses:			
General and administrative .....	69,875	27,079	18,094
Interest .....	44,003	45,842	47,940
	-----	-----	-----
	113,878	72,921	66,034
	-----	-----	-----
Income (loss) before income taxes .....	(58,343)	76,738	5,274
Income tax benefit .....	34,361	8,871	5,543
	-----	-----	-----
Net income (loss) .....	\$ (23,982)	\$ 85,609	\$ 10,817
	=====	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows

Years ended December 31, 1994, 1995 and 1996

(In thousands)

	1994	1995	1996
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss) .....	\$(23,982)	\$ 85,609	\$ 10,817
Equity in income of subsidiaries .....	(7,925)	(99,734)	(18,236)
Distributions from subsidiaries .....	30,000	15,000	20,000
Noncash interest expense .....	845	842	842
Deferred income taxes .....	(20,577)	1,411	(1,443)
Securities transactions .....	1,220	(1,175)	--
Other, net .....	(3,836)	(5,819)	(3,291)
	-----	-----	-----
	(24,255)	(3,866)	8,689
Change in assets and liabilities, net ....	23,263	8,042	(8,593)
Marketable trading securities:			
Purchases .....	(870)	(762)	--
Dispositions .....	15,530	27,102	--
	-----	-----	-----
Net cash provided by operating activities .....	13,668	30,516	96
	-----	-----	-----
Cash flows from investing activities:			
Investments in and loans to subsidiaries .	(6,630)	(9,062)	(12,941)
Capital expenditures .....	(126)	(33)	(40)
Other, net .....	402	10	11
	-----	-----	-----
Net cash used by investing activities .....	(6,354)	(9,085)	(12,970)
	-----	-----	-----

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows (Continued)

Years ended December 31, 1994, 1995 and 1996

(In thousands)

	1994	1995	1996
	-----	-----	-----
Cash flows from financing activities:			
Dividends .....	\$ --	\$ --	\$(15,333)
Principal payments of borrowings .....	(170)	--	--
Other, net .....	120	278	262
	-----	-----	-----
Net cash provided (used) by financing activities .....	(50)	278	(15,071)
	-----	-----	-----
Cash and cash equivalents:			
Increase (decrease) from:			
Operating activities .....	13,668	30,516	96
Investing activities .....	(6,354)	(9,085)	(12,970)
Financing activities .....	(50)	278	(15,071)
	-----	-----	-----
Net change from operating, investing and financing activities .....	7,264	21,709	(27,945)
Balance at beginning of year .....	11,107	18,371	40,080
	-----	-----	-----
Balance at end of year .....	\$ 18,371	\$ 40,080	\$ 12,135
	=====	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Notes to Condensed Financial Information

Note 1 - Basis of presentation:

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

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

	December 31,	
	----- 1995	1996 -----
	(In thousands)	
Current:		
Tremont Corporation .....	\$ (3,525)	\$ (3,529)
Other .....	27	(2)
Kronos and Rheox:		
Income taxes .....	567	(836)
Other, net .....	3,706	11,096
	-----	-----
	\$ 775	\$ 6,729
	=====	=====
Noncurrent - notes receivable from:		
Kronos .....	\$ 382,034	\$ 399,756
Rheox .....	--	105,801
	-----	-----
	\$ 382,034	\$ 505,557

Note 3 - Long-term debt:

	December 31,	
	----- 1995	1996 -----
	(In thousands)	
11.75% Senior Secured Notes .....	\$250,000	\$250,000
13% Senior Secured Discount Notes .....	132,034	149,756
	-----	-----
	\$382,034	\$399,756

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, 1996 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 .....	37,744
	\$399,756
	=====

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, 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 =====
Valuation allowance for deferred income taxes .....	\$195,569 =====	\$ 3,013 =====	\$ -- =====	\$ (5,937) =====	\$14,472(c) =====	\$207,117 =====
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 =====
Valuation allowance for deferred income taxes .....	\$164,500 =====	\$ (9,588) =====	\$ -- =====	\$ 6,451 =====	\$ 34,206(b) =====	\$195,569 =====
Year ended December 31, 1994:						
Allowance for doubtful accounts and notes receivable .....	\$ 3,008 =====	\$ 1,141 =====	\$ (616)(a) =====	\$ 216 =====	\$ -- =====	\$ 3,749 =====
Amortization of intangibles ....	\$ 11,941 =====	\$ 2,901 =====	\$ -- =====	\$ 1,307 =====	\$ -- =====	\$ 16,149 =====
Valuation allowance for deferred income taxes .....	\$133,377 =====	\$ 24,309 =====	\$ -- =====	\$ 6,814 =====	\$ -- =====	\$164,500 =====

(a) Amounts written off, less recoveries.

(b) Direct offset to the increase in gross deferred income tax assets resulting from recharacterization of certain tax attributes due primarily to changes in certain income tax return elections.

(c) Direct offset to the increase in non-U.S. gross deferred income tax assets due to dual residency status of a Company subsidiary.



KRONOS INTERNATIONAL, INC.

SECOND AMENDED AND RESTATED LOAN AGREEMENT

Dated as of January 31, 1997

DM 418,249,878

HYPOBANK INTERNATIONAL S.A.

as Agent

and the

BANKS NAMED HEREIN

TABLE OF CONTENTS

Page

ARTICLE 1. DEFINITIONS.....4

ARTICLE 2. THE FACILITY.....38

    2.01 .....38

    2.02 .....40

    2.03 .....40

    2.04 .....40

    2.05 .....42

    2.06 .....42

ARTICLE 3. PURPOSE OF THE LOAN.....45

ARTICLE 4. CONDITIONS PRECEDENT AND NOTICE OF BORROWING.....45

    4.01 .....45

    4.02 .....49

    4.03 .....50

    4.04 .....50

ARTICLE 5. INTEREST PERIODS.....50

    5.01 .....50

    5.02 .....50

    5.03 .....50

    5.04 .....51

ARTICLE 6. INTEREST.....51

    6.01 .....51

    6.02 .....51

    6.03 .....51

    6.04 .....51

    6.05 .....51

ARTICLE 7. SUBSTITUTE BASIS.....52

    7.01 .....52

    7.02 .....52

    7.03 .....53

    7.04 .....54

ARTICLE 8. PREPAYMENT.....54

    8.01 .....54

    8.02 .....58

8.03	.....	59
ARTICLE 9.	REPAYMENT.....	59
ARTICLE 10.	EVIDENCE OF DEBT.....	60
10.01	.....	60
10.02	.....	60
10.03	.....	61
ARTICLE 11.	PAYMENTS.....	61
11.01	.....	61
11.02	.....	62
11.03	.....	63
11.04	.....	63
11.05	.....	63
11.06	.....	64
11.07	.....	64
11.08	.....	64
11.09	.....	65
ARTICLE 12.	DEFAULT INTEREST AND INDEMNITY.....	65
12.01	.....	65
12.02	.....	66
12.03	.....	66
12.04	.....	67
ARTICLE 13.	SET-OFF AND REDISTRIBUTION OF PAYMENTS.....	67
13.01	.....	67
13.02	.....	68
13.03	.....	68
13.04	.....	68
13.05	.....	68
ARTICLE 14.	CHANGE OF CIRCUMSTANCES; ILLEGALITY; RESERVE REQUIREMENTS.....	69
14.01	Change of Circumstances.....	69
14.02	Illegality.....	70
14.03	Reserve Requirements.....	71
ARTICLE 15.	REPRESENTATIONS AND WARRANTIES.....	72
15.01	Corporate Existence of Borrower and Subsidiaries.....	72
15.02	Power and Authority of Borrower.....	72
15.03	Power and Authority of Pledgors and Guarantors.....	72

15.04	Rank of Indebtedness.....	73
15.05	No Conditions to Performance and Enforceability.....	73
15.06	No Filings; No Stamp Taxes.....	73
15.07	Legal, Valid and Enforceable Obligations.....	74
15.08	Bankruptcy.....	74
15.09	No Defaults; No Litigation.....	74
15.10	Environmental Compliance.....	75
15.11	Financial Statements.....	76
15.12	No Material Adverse Change.....	76
15.13	Accurate Information.....	76
15.14	No Violation, Defaults or Liens.....	76
15.15	ERISA.....	77
15.16	Non-U.S. Employee Plans.....	79
15.17	Investment Company.....	79
15.18	Subsidiaries.....	79
15.19	Margin Stock.....	80
15.20	Taxes.....	81
15.21	Intellectual Property Rights.....	81
15.22	Key Contracts.....	82
15.23	Affiliate Transactions.....	82
15.24	NL Debt Offering; Mirror Notes; Subordinated Loans; Consideration for Prepayments.....	83
15.25	Taxes relating to Mirror Notes.....	83
15.26	Ownership of Material Assets.....	83
15.27	Optional Prepayments.....	84
15.28	Certain Adjusted Restricted Payments.....	84
ARTICLE 16.	UNDERTAKINGS AND COVENANTS.....	84
16.01	Delivery of Financial Statements, etc.....	84
16.02	Operating Permits.....	86
16.03	Environmental Compliance.....	86
16.04	Compliance with Applicable Law.....	86
16.05	Books and Records.....	87
16.06	Environmental Reports.....	87
16.07	Intellectual Property Rights.....	87
16.08	Liens.....	88
16.09	Dispositions.....	88
16.10	Merger; Consolidation.....	89
16.11	Employee Matters.....	90
16.12	Interest Rate Protection Agreements.....	92
16.13	Indebtedness to Subsidiaries.....	92
16.14	Maintenance of Separate Corporate Identities.....	92
16.15	Affiliate Transactions.....	92

16.16	Transactions with Subsidiaries.....	93
16.17	Notice of Default; Change of Law.....	94
16.18	Limitation of Indebtedness.....	94
16.19	Subsidiary Indebtedness.....	94
16.20	Restricted Payments.....	94
16.21	Maximum Funded Debt Ratio; Maximum Indebtedness.....	95
16.22	Minimum Consolidated Equity.....	96
16.23	Current Assets to Current Liabilities Ratio.....	96
16.24	Interest Coverage Ratio.....	96
16.25	Minimum EBITDA.....	97
16.26	Registered Office in Germany.....	97
16.27	Service Contract of Kronos Titan.....	97
16.28	Restriction on Dividends from Subsidiaries.....	97
16.29	Investments.....	98
16.30	Limitation on Restricted Payments.....	98
16.31	Maintenance of Property; Insurance.....	99
16.32	Continuation of Business.....	99
16.33	Taxes.....	99
16.34	Additional Guaranties, Pledged Subsidiaries.....	99
16.35	Pledged Stock.....	100
16.36	Principal Shareholder Waiver.....	101
16.37	Maximum Capital Expenditures.....	101
16.38	Mirror Notes; Subordinated Loans.....	102
16.39	Notification of Indenture Defaults.....	102
16.40	Bank Accounts.....	102
ARTICLE 17. COLLATERAL.....		103
17.01	.....	103
17.02	.....	104
17.03	.....	104
17.04	.....	105
17.05	.....	106
ARTICLE 18. EVENTS OF DEFAULT.....		107
18.01	.....	107
18.02	.....	107
18.03	.....	107
18.04	.....	107
18.05	.....	107
18.06	.....	107
18.07	.....	108
18.08	.....	108
18.09	.....	108

18.10	108
18.11	108
18.12	108
18.13	109
18.14	109
18.15	109
18.16	109
18.17	109
ARTICLE 19. FEES	110
19.01	110
19.02	111
19.03	111
19.04	111
ARTICLE 20. EXPENSES AND DUTIES	111
20.01	111
20.02	111
20.03	112
20.04	112
ARTICLE 21. THE AGENT AND THE BANKS	112
21.01	112
21.02	112
21.03	113
21.04	113
21.05	114
21.06	114
21.08	115
21.09	115
21.10	116
21.11	116
ARTICLE 22. NO WAIVER	116
ARTICLE 23. PARTIAL INVALIDITY; CHANGE IN ACCOUNTING PRINCIPLES	117
23.01	117
23.02	117
ARTICLE 24. ASSIGNMENTS, PARTICIPATION	117
24.01	117
24.02	118
24.03	119

24.04	.....	120
24.05	.....	120
24.06	.....	120
24.07	.....	121
ARTICLE 25.	LANGUAGE.....	121
ARTICLE 26.	NOTICES.....	121
ARTICLE 27.	LIMITATION ON SPECIAL DAMAGES.....	121
ARTICLE 28.	APPLICABLE LAW; JURISDICTION; SERVICE OF PROCESS.....	122
ARTICLE 29.	COUNTERPARTS.....	122
ARTICLE 30.	FURTHER ASSURANCES.....	122
ARTICLE 31.	CONSTRUCTION.....	123
ARTICLE 32.	ENTIRE AGREEMENT.....	123
ARTICLE 33.	SURVIVAL OF WARRANTIES AND AGREEMENTS.....	123
ARTICLE 34.	NO THIRD PARTY BENEFICIARIES.....	123
ARTICLE 35.	NO NOVATION.....	124
ARTICLE 36.	MISCELLANEOUS.....	124
36.01	.....	124
36.02	.....	124
36.03	.....	124
36.04	.....	125

## SCHEDULES

Schedule 1	List of Banks
Schedule 2	Indebtedness
Schedule 3	Liens
Schedule 4	Certain Legal Matters
Schedule 5	Litigation
Schedule 6	ERISA and Non-U.S. Employee Plans
	A Erisa Disclosure
	B Termination
	C Plan Description
	D Withdrawal
	E Claims
	F Non-U.S. Employee Plans
Schedule 7	Subsidiaries
Schedule 8	License Agreements and Intellectual Property Rights
	A Exceptions to Ownership of Intellectual Property Rights
	B Affiliate License Agreements
	C Third Party License Agreements
	D Other Agreements
	E Patents
	F Trademarks
	G Infringements Claims
Schedule 9	Affiliate Transactions
Schedule 10	Insurance
Schedule 11	Tax Information
Schedule 12	Certain Loan Agreements
Schedule 13	Certain Material Assets

## EXHIBITS

Exhibit A	Form of Assignment and Acceptance
Exhibit B	Form of Mirror Notes
Exhibit C	Subordinated Loan Documents
Exhibit D	Forms of Amendments and/or Reaffirmations of Pledge Agreements
Exhibit E	Forms of Amendments and/or Reaffirmations of Guaranties
Exhibit F	Form of Second Amended and Restated Technology and Trademark Undertaking
Exhibit G	Form of Amendment and/or Reaffirmation of Subordination and Contribution Agreement
Exhibit H	Form of Second Amended and Restated Liquidity Undertaking
Exhibit I	Form of Acknowledgment of Limitation of Special Damages
Exhibit J	Form of NL Guaranty
Exhibit K	Form of Canadian Security Documents
Exhibit L	Form of Nordenham Mortgage
Exhibit M	Forms of Cash Pledge Agreements of the Borrower
Exhibit N	Forms of Cash Pledge Agreements of the Canadian Subsidiaries
Exhibit O	Form of Solvency Certificate
Exhibit P	Form of Notice of Borrowing
Exhibit Q	Form of Certificate of Chief Financial Officer of Borrower as to Annual Financial Statements
Exhibit R	Form of Certificate of Chief Financial Officer of Borrower as to Quarterly Financial Statements
Exhibit S	Form of Confidentiality Agreement



SECOND AMENDED AND RESTATED LOAN AGREEMENT

THIS SECOND AMENDED AND RESTATED LOAN AGREEMENT, dated as of January 31, 1997, is executed and delivered by and among KRONOS INTERNATIONAL, INC., a Delaware corporation (the "BORROWER"), KRONOS TITAN - GMBH, a German corporation ("KRONOS TITAN") (for the limited purposes specified herein), the BANKS (as hereinafter defined), HYPOBANK INTERNATIONAL S.A., as Agent for the Banks.

The Borrower has a registered office in Leverkusen, Germany, and is an indirect wholly-owned subsidiary of NL Industries, Inc., a New Jersey corporation ("NL INDUSTRIES"). As of May 30, 1990, and prior to January 1, 1992, the Borrower was a wholly-owned subsidiary of Kronos (US), Inc., a Delaware corporation formerly and then known as Kronos, Inc. ("KRONOS (US)"). Effective as of January 1, 1992, Kronos (US) assigned the Stock of the Borrower to Kronos, Inc., a Delaware corporation formerly (prior to such assignment) known as Kronos (USA), Inc. ("KRONOS") and a subsidiary of Kronos (US), whereupon the Borrower became (and is now) a wholly-owned subsidiary of Kronos.

The Borrower, the Banks (or their predecessors in interest), the Agent and Banque Paribas, Co-Agent for the Banks (the "CO-AGENT") were parties to that certain Loan Agreement dated as of May 30, 1990, as amended by that certain (a) First Amendment Agreement (herein so called) dated as of December 31, 1990, (b) Second Amendment Agreement (herein so called) dated as of March 22, 1991, and (c) Third Amendment Agreement (herein so called) dated as of June 15, 1992 (as amended thereby, the "ORIGINAL AGREEMENT"). Pursuant to the Original Agreement, the Borrower requested that the Banks (and/or their predecessors in interest) make, and the Banks (and/or their predecessors in interest) made, advances to the Borrower in Deutsche Mark in the aggregate principal amount of DM 1,600,000,000 on the terms and subject to the conditions and for the purposes set forth in the Original Agreement.

Pursuant to the First Amendment Agreement, certain financial covenants in the Original Agreement were amended for the year 1990.

Pursuant to the Second Amendment Agreement, INTER ALIA, certain financial covenants in the Original Agreement were amended, the repayment schedule for the Loan was amended and the NL/Kronos Guaranty and the Investment Account Agreement (as defined in the Original Agreement) were executed.

Pursuant to the Third Amendment Agreement, INTER ALIA, certain financial covenants in the Original Agreement were amended, the repayment schedule for the Loan was amended, certain U.S. Dollar denominated tranches of the Loan were permitted, the Borrower was given the right to reborrow certain prepayments of the final repayment installment of the Loan and a Liquidity Undertaking was executed by NL Industries and Kronos (US).

Effective as of January 1, 1992, the Borrower became a wholly-owned subsidiary of Kronos as explained in the second paragraph of the preamble of this Agreement.

During February 1993, the Borrower notified the Agent and the Co-Agent of certain proposed transactions involving its Subsidiaries, certain of which transactions were required to be approved by the requisite Banks. As a result, the First Approval Agreement was executed and the transactions described in the First Approval Agreement have been consummated (except for the transactions referred to in Step 10 of Schedule 1 to the First Approval Agreement, which transactions have not been, and need not be, consummated).

The Borrower, the Banks, the Agent and the Co-Agent are parties to that certain Amended and Restated Loan Agreement dated as of October 15, 1993 (the "FIRST RESTATED AGREEMENT"), which amends and restates the Original Agreement. Pursuant to or in connection with the First Restated Agreement, (a) the Agent and the Banks (or their predecessors in interest) were requested by NL Industries, Kronos (US) and Kronos to approve, and did approve, certain transactions pursuant to which NL Industries assigned, contributed or otherwise transferred the Stock of Kronos (US) to Kronos and Kronos (US) assigned or otherwise transferred the Stock of Kronos to NL Industries, (b) a substantial prepayment of the Loan was made from proceeds of a public debt offering made by NL Industries and the maturity of the principal amount of the Loan that remained outstanding after giving effect to such prepayment was extended, and (c) the Original Agreement was amended in certain other respects.

During 1994, the Borrower notified the Agent of (a) the Borrower's receipt of the Tentative Tax Refund (as hereinafter defined) relating to German income taxes for the calendar year 1990 and (b) the Borrower's position that the Tentative Tax Refund did not constitute the Tax Refund for purposes of the First Restated Agreement. In addition, in consideration of the Agent, the Co-Agent and the Banks not challenging that position and in accordance with the terms and provisions of the Tentative Tax Refund Letter (as hereinafter defined), the Borrower agreed to apply the amount of the Tentative Tax Refund as an optional prepayment of the Revolving Portion and, notwithstanding Section 2.04 of the First Restated Agreement, further agreed to not borrow all or any portion of the Tentative Tax Refund Availability Amount (as hereinafter defined) except for the purpose of (i) prior to the Final Determination Date (as defined in the Tentative Tax Refund Letter), repaying amounts constituting the Tentative Tax Refund which the Borrower became obligated to repay to the German tax authorities in respect of German tax assessments or liabilities of the Borrower and certain of its Consolidated Subsidiaries for calendar years 1989 and 1990 or (ii) at the Borrower's election, treating the amount so borrowed as a portion of the Tax Refund and prepaying the Loan pursuant to SECTION 8.01(D) of the First Restated Agreement. During 1994, the Borrower paid DM 175,000,000 to the Agent for application against the Revolving Portion in accordance with the Tentative Tax Refund Letter.

On October 31, 1994, the Borrower drew down DM 50,000,000 of the Revolving Portion from the Banks under the Tentative Tax Refund Availability Amount and applied such amount (which constituted part of the Tax Refund) as a prepayment of the Term Portion in accordance with SECTION 8.01(D) of the First Restated Agreement.

During 1996, the Borrower notified the Agent of certain proposed transactions involving its Subsidiaries, certain of which transactions were required to be approved by the requisite Banks. As a result, the Second Approval Agreement (as hereinafter defined) was executed and the transactions described in the Second Approval Agreement have been or are in the process of being consummated.

On October 22, 1996, the Borrower drew down DM 49,361,653 of the Revolving Portion from the Banks under the Tentative Tax Refund Availability Amount to pay German income taxes in accordance with the Tentative Tax Refund Letter. On January 22, 1997, the Borrower repaid DM 1,649,238 of such amount drawn on October 22, 1996, which DM 1,649,238 amount was applied to the Revolving Portion and thereby increased the Tentative Tax Refund Availability Amount by DM 1,649,238.

Immediately prior to the Second Restatement Date, (a) the outstanding principal amount of the Term Portion was DM 395,537,463 and (b) the outstanding principal amount of the Revolving Portion was DM 142,784,415. In addition, immediately prior to the Second Restatement Date, the undrawn portion of the Revolving Portion was DM 107,215,585, DM 77,287,585 of which constituted the Tentative Tax Refund Availability Amount, the reborrowing of which was restricted in accordance with the terms and provisions of the Tentative Tax Refund Letter.

Notwithstanding that the Final Determination Date may not have occurred, the Borrower, in consideration of the agreements of the Banks set forth in this Agreement, is willing and desires to treat the amount of DM 77,287,585 as a portion of the Tax Refund as of the Second Restatement Date subject to the terms and conditions of this Agreement. Accordingly, in accordance with SECTION 8.01(D) of the First Restated Agreement and this Agreement, the Borrower shall, on the Second Restatement Date, make a DM 77,287,585 prepayment of the Term Portion, all of which shall be applied, on a pro rata basis as provided in SECTION 8.01(D), to reduce the remaining Repayment Installments of the Term Portion, with the proceeds of a drawdown of the Revolving Portion (in accordance with the Tentative Tax Refund Letter) in the amount of DM 57,287,585 and with DM 20,000,000 of the proceeds of the NL Subordinated Loan referred to in the immediately succeeding paragraph.

The Borrower, the Agent and the Banks have discussed, and desire to provide for, (a) a DM 150,000,000 prepayment of the Term Portion of the Loan to be made on the Second Restatement Date from a subordinated loan in the principal amount of DM 260,000,000 to be made by NL Industries to the Borrower and (b) certain other amendments to the First Restated Agreement. DM 20,000,000 of such prepayment will be (as stated in the immediately preceding paragraph) applied, on a pro rata basis, to reduce the remaining Repayment Installments of the Term Portion as a mandatory prepayment of part of the Tax Refund in accordance with SECTION 8.01(D) of the First Restated Agreement and this Agreement and the remaining DM 130,000,000 of such prepayment will be applied as a mandatory prepayment of the Term Portion in accordance with SECTION 8.01(H) of this Agreement and will be applied to the outstanding Repayment

Installments of the Term Portion in the direct order of the maturities of such installments. In order to accomplish the foregoing and to address additional matters relating thereto, the Borrower, the Banks and the Agent now desire to amend and restate the First Restated Agreement as provided in this Agreement.

NOW, THEREFORE, in consideration of the Original Agreement, the First Restated Agreement, this Agreement and the mutual covenants and agreements contained therein and herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed, the First Restated Agreement is hereby amended and restated in its entirety, and the parties hereto hereby agree, as follows:

#### ARTICLE 1. DEFINITIONS

In this Agreement, unless the context otherwise requires:

"Adjusted Restricted Payments"	means, without duplication (a) the aggregate of all Restricted Payments, plus (b) the aggregate of all Deemed Restricted Payments.
"Affiliate"	means any individual, corporation, partnership, joint venture, trust, unincorporated organization or association, mutual company, joint stock company, estate, trust or other organization, whether or not a legal entity, which directly or indirectly is in Control of, is Controlled by, or is under common Control with respect to, any Person.
"Affiliate License Agreements"	means as set forth in SECTION 15.21.
"Agent"	means Hypobank International S.A., its corporate successors or any successor agent appointed pursuant to ARTICLE 21.
"Agreement"	means this Second Amended and Restated Loan Agreement, including all of the Schedules and the Exhibits hereto, as amended or supplemented from time to time.
"Assignment and Acceptance"	means an assignment and acceptance of a Bank's rights and obligations with respect to a Loan (or a Commitment relating thereto) or a portion thereof in the form attached hereto as EXHIBIT A.

"Assignment of Dividends" means an assignment of dividends from Societe Industrielle du Titane S.A. in the form delivered in connection with the Original Agreement, the First Restated Agreement or this Agreement, as amended or supplemented from time to time.

"Bank" and "Banks" means any bank or financial institution or all banks or financial institutions as listed on the signature pages of this Agreement and on SCHEDULE 1 and any bank(s) or financial institution(s) which become(s) a Bank or Banks in accordance with ARTICLE 24 of this Agreement.

"Base Deutsche Mark Amount" means (a) with respect to any advance of the Loan originally borrowed in U.S. Dollars, the amount of Deutsche Mark specified in the Notice of Borrowing of which the U.S. Dollar amount advanced is the Equivalent Amount on the Drawdown Date of such advance, and (b) with respect to any advance of the Loan or portion thereof to be redenominated from Deutsche Mark to U.S. Dollars, the amount of Deutsche Mark specified in the Borrower's request for redenomination pursuant to SECTION 2.05 of which the U.S. Dollar amount to be redenominated is the Equivalent Amount as of the date of redenomination.

"Borrower" means as set forth in the first paragraph of the preamble of this Agreement.

"Business Day" means a day on which banks are required to be open for business in London, Luxembourg, New York and Munich.

"Canadian Dollars or Can. \$" means lawful currency of Canada.

"Canadian Security Documents" mean a Deed of Collateral Hypothec executed by Kronos Canada, Inc. pursuant to which a Lien affecting the real and personal property of Kronos Canada Inc. (including the plant located at Varennes, Quebec, Canada, and bank accounts but excluding stock of Kronos World Services S.A./N.V. and certain immaterial assets) is created in favor of the

Agent, a Deed of Hypothec executed by 2927527 Canada Inc. pursuant to which a Lien affecting the personal property of 2927527 Canada Inc. (including bank accounts but excluding certain immaterial assets) is created in favor of the Agent, a Deed of Hypothec executed by 2969157 Canada Inc. pursuant to which a Lien affecting the personal property of 2969157 Canada Inc. (including the Kronos Canada Note and bank accounts but excluding certain immaterial assets) is created in favor of the Agent and other agreements, documents and instruments relating to the foregoing.

"Capital Expenditures"

means any expenditure by the Borrower or any Consolidated Subsidiary for or with respect to an asset which has a useful life of more than one year, which expenditure is properly classified, in the consolidated financial statements of the Borrower and in accordance with German GAAP, as an addition to equipment, real property or improvements or similar types of tangible fixed assets.

"Capital Leases"

means rental obligations as lessee under leases recorded as capital leases in accordance with German GAAP.

"Cash Pledge Agreements"

means such collateral assignments, security agreements, pledge agreements and/or similar agreements, in form and substance reasonably satisfactory to the Agent, pursuant to which Liens are granted in favor of the Agent affecting the cash balances of the Borrower and its Canadian Subsidiaries.

"Co-Agent"

means Banque Paribas in its capacity as Co-Agent for the Banks under the Original Agreement and the First Restated Agreement.

"Code"

means the United States Internal Revenue Code of 1986, as amended and in effect from time to time.

"Collateral"

means the Pledge Agreements, the Canadian Security Documents, the Nordenham Mortgage, the Cash Pledge Agreements, the Guaranties and other documents delivered or to be delivered pursuant to SECTIONS 16.34, 17.01, 17.02, 17.03 and 17.04 of this Agreement, the Liens and guaranties created thereby and any and all property, real, personal, tangible or intangible, which secures the Borrower's obligations under this Agreement.

"Commitment" or "Commitments"

means, in relation to each Bank, the several obligations of such Bank, and in relation to all Banks, the aggregate obligations of such Banks, subject to the terms of this Agreement, to make available its portion of the Loans (including, without limitation, the Revolving Portion) to be made under this Agreement up to the aggregate principal amount specified in SCHEDULE 1, to the extent not reduced or canceled under this Agreement, and includes, without limitation, the "Revolving Commitment" or "Revolving Commitments", respectively.

"Company" or "Companies"

means, individually, any of the Borrower or any Major Subsidiary and, collectively, the Borrower and all Major Subsidiaries.

"Consolidated Equity"

means, as of the date of determination for the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP, (a) consolidated stockholder's equity determined in accordance with German GAAP, (b) plus any deductions made for currency translation adjustments and minus any additions made for currency translation adjustments, (c) plus an amount equal to the outstanding principal of and accrued and unpaid interest on the Subordinated Debt, if any, described in CLAUSES (A), (B) and (C) of the definition of the term "Subordinated Debt" in this Agreement, (d) minus any increase, or plus any decrease, in Net Income resulting from the foreign currency translation amount arising from the translation of the Mirror Notes from U.S. Dollars to Deutsche Mark since the issuance of the Mirror Notes, (e) minus the

Restricted Capital Amount, plus (f) any deductions made for adjustments to goodwill if and to the extent that such adjustments have reduced Net Income.

"Consolidated Subsidiary"

means any Subsidiary the accounts of which would be consolidated with those of the Borrower in its consolidated financial statements.

"Contaminant"

means any waste, pollutant, hazardous substance, toxic substance, hazardous waste or material, special or toxic waste, petroleum or petroleum derived substance or waste, or any constituent of any such substance or waste, including, without limitation, any such substance defined in or pursuant to any Environmental Law.

"Control" or "Controlled"

means, with respect to any Person, the power, directly or indirectly:

- (a) to vote more than fifty percent (50%) of the voting securities issued by such Person for the election of the board of directors (or members of an equivalent governing body) of such Person; or
- (b) otherwise to direct or cause the direction of management and policies of such Person.

"Controlled Group"

means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b), 414(c), 414(m) or 414(o) of the Code.

"Current Assets"

means, for the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP, consolidated assets, excluding intangibles and tangible fixed assets, realizable within one year of the date of determination.

"Current Liabilities"

means, for the Borrower and its Subsidiaries on a consolidated basis in conformity with German



GAAP, consolidated accruals and liabilities due within one year of the date of determination, excluding Current Maturities.

"Current Maturities"

means those portions of Funded Debt due within one year of the date of determination.

"Deemed Restricted Payments"

means, without duplication, any payments or other transfers of value (irrespective of the form of such payments or other transfers) directly or indirectly made by the Borrower or any of its Subsidiaries to Kronos, NL Industries, Kronos (US) or any other Affiliate of the Borrower (other than the Borrower or a Subsidiary of the Borrower) for less than full and fair consideration to the Borrower or its Subsidiary (as applicable) and, in any event, shall include, without limitation, (a) all license fees, royalties or other payments for the use of technology or other Intellectual Property Rights paid or payable to such Affiliates, (b) all amounts paid or payable to such Affiliates constituting cost sharing (excluding insurance expenses except to the extent that such expenses exceed the amount therefor that would be paid or payable in a comparable arm's length transaction with a non-Affiliate), personnel costs and other overhead, (c) transfers of value resulting from the sale or transfer of product or other assets by the Borrower or any of its Subsidiaries to such Affiliates for consideration that is less than the consideration (net of reasonable transaction costs incurred in the ordinary course of business) that is obtained by such Affiliates in connection with the resale or subsequent transfer of such product or other assets, (d) transfers of value resulting from the sale or transfer of product or other assets by such Affiliates to the Borrower or any of its Subsidiaries for consideration that is more than the cost of such product or other assets to such Affiliates (provided, however, that such sales or other transfers by such Affiliates of product in the ordinary course of business shall be excluded from this CLAUSE (D) except to the extent that the consideration received therefor is more than would be paid or payable in a comparable arm's

length transaction with a non-Affiliate), and (e) payments in the form of service charges to compensate such Affiliates for purchases of titanium ore and other product or assets.

"Default" means an Event of Default or any event, act or occurrence which, with the giving of notice or passage of time or both, unless cured or waived, would become an Event of Default.

"Deutsche Mark" or "DM" means the lawful currency of Germany.

"Deutsche Mark Amount" means (a) in the case of any amount denominated in Deutsche Mark, the amount of Deutsche Mark from time to time outstanding, and (b) in the case of any amount denominated or to be denominated in U.S. Dollars, the amount of Deutsche Mark which is equivalent to a given amount of U.S. Dollars as of the Relevant Date, determined by using the Spot Rate on the date two Business Days prior to the Relevant Date (unless another date is specified in this Agreement).

"Disposition" means, with respect to any asset, to sell, assign, lease, exchange, transfer or otherwise dispose of such asset.

"Drawdown Date" means (a) with respect to each advance of the Loan prior to any reborrowing pursuant to SECTION 2.04, the date set forth in the Notice of Borrowing relating to such advance (which date was a Business Day on or before June 19, 1990), and (b) with respect to any reborrowing under the Revolving Portion pursuant to SECTION 2.04, the date set forth in the Notice of Borrowing relating to such reborrowing, which date shall be a Business Day on or before August 15, 2000.

"Earnings Available for Fixed Charges" means, for the preceding four fiscal quarters and for the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP, Net Income plus Income Taxes plus depreciation, depletion and amortization plus Interest Expense plus

rentals payable under leases (other than Capital Leases) having an initial non-cancelable lease term in excess of one year plus, to the extent included in determining Net Income, the decrease resulting from the foreign currency translation amount arising from the translation of the Mirror Notes from U.S. Dollars to Deutsche Mark or minus, to the extent included in determining Net Income, the increase resulting from the foreign currency translation amount arising from the translation of the Mirror Notes from U.S. Dollars to Deutsche Mark.

"EBITDA"

means, with respect to any fiscal period, for the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP or, with respect to the third sentence of SECTION 8.01(C) only, NL Industries and its subsidiaries on a consolidated basis in conformity with generally accepted accounting principles in the United States of America, the sum of (a) net income, excluding extraordinary gains and losses, plus (b) interest expense (including imputed interest expense in respect of obligations under capital leases, if any), income taxes, depreciation, amortization and other non-cash expenses to the extent that any of such expenses are deducted in determining net income, minus (c) non-cash income to the extent that such income is included in determining net income.

"Employee Plan"

means an employee benefit plan within the meaning of Section 3(3) of ERISA.

"Environmental Claim"

means any written notice by any state, federal, territorial, provincial, local or other court or governmental authority, entity or instrumentality alleging potential liability for damage to the environment, or by any Person alleging potential liability for personal injury (including sickness, disease or death) or property damage or damage of any other kind resulting from or based upon:

- (a) the presence or release (including, without limitation, sudden or non-sudden, accidental

or non-accidental, leaks or spills) of any Contaminant at, in or from property, whether or not owned by the Borrower and/or any of its Subsidiaries; or

(b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

"Environmental Law"

means any law, rule or regulation pertaining to land use, air, soil, surface water, ground water (including the protection, cleanup, removal, remediation or damage thereof), public or employee health or safety or any other environmental matter, including, without limitation, any of the above promulgated by the EU, together with any other non-U.S. or domestic laws (federal, state, territorial, provincial or local) relating to emissions, discharges, releases or threatened releases of any Contaminant into ambient air, land, surface water, groundwater, personal property or structures, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation, discharges or handling of any Contaminant.

"Equivalent Amount"

means the amount of U.S. Dollars which is equivalent to a given amount of Deutsche Mark as of the Relevant Date, determined by using the Spot Rate on the date two Business Days prior to the Relevant Date.

"ERISA"

means the United States Employee Retirement Income Security Act of 1974, as amended and in effect from time to time.

"EU"

means the European Union.

"Eurocurrency Liabilities"

means as that term is defined in Regulation D.

"Eurocurrency Rate Reserve Percentage"

means the reserve percentage applicable for any Bank during any Interest Period under regulations issued from time to time by the Federal Reserve for determining the maximum reserve requirement

(including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Event of Default"

means as set forth in ARTICLE 18.

"Excess Adjusted Restricted Payments"

means, without duplication, for the applicable calendar year (or portion thereof which has occurred as of any date of determination), the amount (if any) by which the aggregate amount of Adjusted Restricted Payments exceeds (a) DM 47,000,000 (Deutsche Mark Forty-Seven Million) during calendar year 1996, (b) DM 39,000,000 (Deutsche Mark Thirty-Nine Million) during calendar year 1997, (c) DM 44,000,000 (Deutsche Mark Forty-Four Million) during calendar year 1998, and (d) DM 47,000,000 (Deutsche Mark Forty-Seven Million) for any calendar year thereafter; provided, however, that if, within 30 (thirty) days after the payment or other making of any such excess amount, the entire amount thereof is contributed by NL Industries or any of its subsidiaries (other than the Borrower and its Subsidiaries) to the Borrower (or a Subsidiary of the Borrower as the Agent may approve, which approval shall not be unreasonably withheld) as a cash equity capital contribution or as Subordinated Debt (other than Subordinated Debt referred to in CLAUSE (A) of the definition of the term "Subordinated Debt") made or advanced, respectively, to the Borrower or such Subsidiary, then such excess amount previously paid or otherwise made and thereafter so contributed or advanced to the Borrower (or its Subsidiary, as applicable) shall not be deemed to constitute an Excess Adjusted Restricted Payment hereunder.

"Excess Cash Flow"

means (a) Free Cash Flow minus (b) Capital Expenditures for the preceding four fiscal quarters less any Indebtedness or Subordinated Debt specifically incurred to finance any such Capital Expenditures during such fiscal quarters minus

(c) the sum of (i) Fixed Charges and (ii) repayments of Funded Debt, exclusive of repayments of Funded Debt from proceeds of the Tax Refund, in the preceding four fiscal quarters.

"Excess EBITDA"

means, for the Borrower and its Subsidiaries on a consolidated basis and with respect to any fiscal year, the positive remainder (if any) of (a) (i) EBITDA for such fiscal year, minus (ii) Income Taxes paid in cash (exclusive of taxes paid arising from assessments received as a result of tax audits), Capital Expenditures and Interest Expense, other than non-cash Interest Expense, for such fiscal year, minus (b) the amount set forth in the table below for such fiscal year:

FISCAL YEAR ENDED	AMOUNT
1997	Negative DM 90,000,000
1998	Negative DM 7,500,000
1999	DM 60,000,000

"Excess Term Prepayment"

means DM 2,000,000 (Deutsche Mark Two Million), which amount is the positive remainder of (a) the amount of the First Prepayment applied to the Term Portion in accordance with SECTION 2.01(A) (expressed in Deutsche Mark) minus (b) DM 400,000,000 (Deutsche Mark Four Hundred Million).

"Excluded Taxes"

means as set forth in SECTION 11.01.

"Federal Reserve"

means the Board of Governors of the Federal Reserve System.

"Financial Covenants"

means as set forth in SECTION 23.02.

"First Amendment Agreement"

means as set forth in the third paragraph of the preamble of this Agreement.

"First Approval Agreement"

means the Approval Agreement dated as of April 6, 1993, among the Borrower, the requisite Banks who are signatories thereto, the Agent and the Co-Agent.

"First Prepayment" means the prepayment of the Loan in the First Prepayment Amount as referred to in SECTION 2.01(A).

"First Prepayment Amount" means DM 552,000,000 (Deutsche Mark Five Hundred Fifty-Two Million), i.e., the amount, determined as of the First Prepayment Date and expressed in Deutsche Mark, equal to the remainder of (a) the gross proceeds of the NL Debt Offering minus (b) the NL Debt Offering Expenses.

"First Prepayment Date" means October 21, 1993, the date upon which the First Prepayment was received by the Agent.

"First Restated Agreement" Means as set forth in the ninth paragraph of the preamble of this Agreement.

"First Restatement Date" means October 15, 1993, the date of the First Restated Agreement.

"Fixed Charges" means, for the preceding four fiscal quarters and for the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP, Interest Expense (excluding Interest Expense on Subordinated Debt payable in kind in the form of Subordinated Debt and excluding non-cash Interest Expense on the Mirror Notes) plus rentals payable under leases (other than Capital Leases) having an initial non-cancelable lease term in excess of one year.

"Free Cash Flow" means, for the preceding four fiscal quarters and for the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP, (a) Earnings Available for Fixed Charges minus (b) taxes paid in cash during such fiscal quarters, plus (c) tax refunds, exclusive of the Tax Refund, received in cash during such fiscal quarters, plus or minus, as the case may be (d) any non-cash additions or subtractions included in the determination of Net Income to the extent not already taken into account in the definition of Earnings Available for Fixed Charges.

"Funded Debt"

means, as of the date of any calculation, (a) all Indebtedness of the Borrower and its Subsidiaries to the extent such Indebtedness has an initial stated or final maturity of, or by its terms is renewable or extendable by the Borrower or its Subsidiaries to, a date or a period ending more than one year after the date of any such calculation, (b) plus Indebtedness of the Borrower and its Subsidiaries comprised of or liabilities in respect of unfunded vested benefits under Non-U.S. Employee Plans to the extent such liabilities exceed DM 150,000,000 (Deutsche Mark One Hundred Fifty Million), (c) minus unsecured working capital Indebtedness of the Borrower and its Subsidiaries (including the aggregate face amount of all funded and unfunded standby and documentary letters of credit), but only to the extent such unsecured working capital Indebtedness is Permitted Indebtedness, (d) minus the increase in Indebtedness resulting from the foreign currency translation amount arising from the translation of the Mirror Notes from U.S. Dollars to Deutsche Mark or plus the decrease in Indebtedness resulting from the foreign currency translation amount arising from the translation of the Mirror Notes from U.S. Dollars to Deutsche Mark, and (e) plus (without duplication) the Restricted Capital Amount.

"Funded Debt Ratio"

means, for the Borrower and its Subsidiaries on a consolidated basis, Funded Debt divided by the sum of (a) Consolidated Equity plus (b) Subordinated Debt.

"German GAAP"

means generally accepted accounting principles for the preparation of group accounts pursuant to the provisions of the relevant laws of Germany.

"Gross Proceeds"

means, with respect to the Disposition of Stock or any other asset, cash or non-cash proceeds actually received, directly or indirectly by, or for the account of, the Borrower or any Subsidiary.

"Guarantor"

means NL Industries, Kronos Canada, Inc., 2927527 Canada Inc., 2969157 Canada Inc. or any



Subsidiary, whether existing on the Second Restatement Date or at any time hereafter, which becomes a Guarantor pursuant to SECTION 16.34.

"Guaranty" or "Guaranties"

means a guaranty or the guaranties executed or to be executed by the Guarantors in accordance with the Original Agreement, the First Restated Agreement or this Agreement (including, without limitation, SECTION 16.34 and ARTICLE 17), as amended or supplemented from time to time.

"Income Taxes"

means, for the Borrower and its Subsidiaries on a consolidated basis, expense for income taxes in accordance with German GAAP.

"Indebtedness"

means, for any Person without duplication, and excluding all Subordinated Debt referred to in CLAUSES (B), (C) and (D) of the definition of the term "Subordinated Debt":

- (a) debt consisting of borrowed money, including obligations evidenced by bonds, debentures, notes or similar instruments, or the deferred purchase price of property or services (other than trade payables incurred and payable in the ordinary course of business and on customary terms);
- (b) rental obligations under Capital Leases;
- (c) obligations under direct or indirect guaranties in respect of obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss (such as, without limitation, obligations under an agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), in respect of, debt or obligations of others of the kinds referred to in CLAUSES (A) or (B) above;

- (d) obligations (contingent or otherwise) under letters of credit (funded or unfunded) not arising out of the import of goods;
- (e) liabilities in respect of unfunded vested benefits under (i) plans covered by Title IV of ERISA and (ii) any laws governing Non-U.S. Employee Plans to the extent such liabilities exceed DM 150,000,000 (Deutsche Mark One Hundred Fifty Million); and
- (f) all obligations secured by any Lien, other than Liens described in CLAUSES (D), (E) and (F) of the definition of the term "Permitted Liens" in this Agreement, to which any property or asset owned by the Borrower and/or its Subsidiaries is subject, whether or not the obligations secured thereby shall have been assumed by the Borrower or its Subsidiaries.

"Indentures"

means that certain (a) Indenture dated as of October 20, 1993, between NL Industries and Chemical Bank, as trustee, to be executed by the parties thereto relating to the senior secured notes due 2003 to be issued by NL Industries and (b) Indenture dated as of October 20, 1993, between NL Industries and State Street Bank and Trust Company, as trustee, to be executed by the parties thereto relating to the senior secured discount notes due 2005 to be issued by NL Industries.

"Intellectual Property Rights"

shall mean all material patents and patent applications, technical information, know-how and processes necessary for or used in the current manufacturing operations and all material trade names, trademarks, trademark registrations and applications used in the marketing and sales operations of the Borrower and its Subsidiaries as of the Second Restatement Date.

"Interbank Rate"

means the rate per annum determined by the Agent on the Interest Determination Date to be the

arithmetic mean (rounded upwards, if necessary, to the nearest four decimal places) of the rates notified to the Agent by the Reference Banks to be those at which each Reference Bank, in accordance with its normal practice, is able to obtain deposits in Deutsche Mark, with respect to that portion of the Loan denominated in Deutsche Mark, or deposits in U.S. Dollars, with respect to that portion of the Loan denominated in U.S. Dollars (or other substitute currency agreed to in accordance with the provisions of ARTICLE 7) at or about 11:00 a.m. London time in the London interbank Euro-currency market for delivery on the first day of the Interest Period for the number of days comprised therein, provided that, if a Reference Bank shall fail to notify the Agent of its rate, the Interbank Rate shall be determined on the basis of the quotation(s) of the remaining Reference Bank(s).

"Interest Coverage Ratio"

means, for the preceding four fiscal quarters and for the Borrower and its Subsidiaries on a consolidated basis, (a) the sum of (i) EBITDA, plus (ii) the sum of (A) the amount, if any, of contributions to the equity of the Borrower in the form of cash (as distinguished from the conversion of debt to equity) made by NL Industries or Kronos during such period, plus (B) the amount, if any, of loans made by NL Industries or Kronos as Subordinated Debt during such period, minus (iii) the sum of (A) the increase in the Restricted Capital Amount during such period, plus (B) the aggregate amount of Restricted Payments made during such period pursuant to SECTION 16.20(B), divided by (b) Interest Expense (exclusive of non-cash Interest Expense); provided, however, that the amounts referred to in clause (ii) preceding that shall be counted for purposes of the definition of "Interest Coverage Ratio" shall be made during no more than two separate fiscal years of the Borrower during the term of this Agreement and any such amounts contributed or made during any fiscal year shall be wholly excluded for purposes of determining the "Interest Coverage Ratio" during any other fiscal year.

"Interest Determination Date" means, with respect to any Interest Period, the Business Day which is 2 (two) Business Days prior to the first day of such Interest Period.

"Interest Expense" means interest expense of the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP, and shall include imputed interest expense in respect of obligations under Capital Leases, if any.

"Interest Payment Date" means the last day of any Interest Period.

"Interest Period" means each of the successive periods, determined in accordance with this Agreement, into which the period for which the Loan is outstanding is divided and for which a rate of interest is to be established under this Agreement.

"Interest Rate Protection Agreement" means any agreement evidencing an arrangement designed to protect the Borrower against fluctuations in interest rates.

"Investment" means any investment of cash or cash equivalents in any Person, whether by means of share purchase, loan, capital contribution or otherwise.

"Kroner" means the lawful currency of Norway.

"Kronos" means as set forth in the second paragraph of the preamble of this Agreement.

"Kronos Canada Note" means that certain Amended Promissory Note dated December 20, 1996, in the original principal amount of Cdn. \$89,000,000 made by Kronos Canada, Inc. payable to the order of 2969157 Canada Inc., which promissory note amends and replaces that certain Subordinated Promissory Note dated May 28, 1993, in the original principal amount of Cdn. \$123,000,000 made by Kronos Canada, Inc. payable to the order of Kronos S.A./N.V. and subsequently assigned to 2969157 Canada Inc.

"Kronos Subordinated Loan" means the unsecured and subordinated loan in the principal amount of DM 25,000,000 (Deutsche Mark Twenty-Five Million) made by Kronos to the Borrower on December 31, 1996, pursuant to the Kronos Subordinated Note and the Subordination Agreement.

"Kronos Subordinated Note" means that certain Zero Coupon Subordinated Promissory Note dated December 31, 1996, in the original principal amount of DM 25,000,000 (Deutsche Mark Twenty-Five Million) made by the Borrower payable to the order of Kronos which evidences the Kronos Subordinated Loan.

"Kronos Titan" means Kronos Titan - GmbH, a German corporation and an indirect wholly-owned Subsidiary of the Borrower.

"Kronos Titan Revolving Portion" means as set forth in SECTION 2.04(C).

"Kronos (US)" means as set forth in the second paragraph of the preamble of this Agreement.

"Kronos(US)/Kronos Flip" means the transactions pursuant to which NL Industries has assigned, contributed or otherwise transferred the Stock of Kronos (US) to Kronos and Kronos (US) assigned or otherwise transferred the Stock of Kronos to NL Industries.

"Lending Office" means, as to each Bank, the office(s) or branch(es) located at the address(es) set forth on the signature page(s) below or such other office(s) or branch(es) of such Bank as it may from time to time designate pursuant to this Agreement.

"Leverkusen Lease" means the lease agreement (Erbbaurechtsvertrag zum Grundstueck Gemarkung Wiesdorf, Flur 18, Parzelle 108/2 mit Ergaenzungsabrede zum Erbbaurechtsvertrag und Errechnung des Erbbauzinses) between Titangesellschaft GmbH and I.G. Farbenindustrie Aktiengesellschaft i.L. dated June 21, 1952, as amended by Supplementary Agreement dated June 21, 1952.

"Lien" means, with respect to the Borrower or any Subsidiary (in each case, whether the same is consensual or nonconsensual or arises by contractual obligation, operation of law, legal process or otherwise, existing on the Second Restatement Date or at any time thereafter): any mortgage, deed of trust, lien, pledge, attachment, levy, charge or other security interest or encumbrance of any kind in respect of any property now or hereafter owned by the Borrower or any Subsidiary, personal, real or otherwise, or upon the proceeds, income or profits therefrom. For this purpose, the Borrower or any Subsidiary shall be deemed to own, subject to a Lien, any asset that it has acquired or hereafter holds subject to the interest of a vendor or lessor under any conditional sales agreement, Capital Lease, reservation of title or other title retention agreement relating to such asset.

"Liquidity Undertaking" means the Second Amended and Restated Liquidity Undertaking dated as of the Second Restatement Date among NL Industries, Kronos, the Borrower and the Agent.

"Liquidity Undertaking Credit" means, as of the date of determination, an amount equal to the aggregate amount, if any, of the credits against the "Maximum Required Investment Amount", as such term is defined in the Liquidity Undertaking, designated by the Borrower by its giving of written notice to the Agent, at any time or from time to time, provided, however, that the Liquidity Undertaking Credit (a) shall be zero prior to January 1, 2000, may not exceed DM 50,000,000 (Deutsche Mark Fifty Million) at any time prior to July 1, 2000 and may not exceed DM 75,000,000 (Deutsche Mark Seventy-Five Million) at any time after July 30, 2000, (b) shall not, at any time, exceed the aggregate amount of Restricted Payments then permitted to be made by the Borrower pursuant to Section 16.20(a) in the absence of any Liquidity Undertaking Credit and (c) once designated, may not thereafter be reduced.

"Loan" or "Loans"

means, with respect to each Bank, at any time, the total of all monies advanced by or owing to each such Bank under the Original Agreement, the First Restated Agreement or this Agreement and outstanding at any time, or the aggregate of all monies so advanced by or owing to all Banks and outstanding at any time.

"Loan Documents"

means the Original Agreement, the First Restated Agreement, this Agreement, the Guaranties, the Pledge Agreements, the Canadian Security Documents, the Nordenham Mortgage, the Cash Pledge Agreements, the Assignment of Dividends, the Subordination Agreement, the Technology Undertaking, the Special Purpose Account Agreement, the Liquidity Undertaking, the First Approval Agreement, the Second Approval Agreement, the documents executed pursuant to or specified or referred to in CLAUSES (I)(A) through (I) of SECTION 4.01(A) of the First Restated Agreement, CLAUSES (I)(A) through (N) of SECTION 4.01(B) and SECTIONS 16.40, 17.01 (other than 17.01(J)), 17.02, 17.03, and 17.04, any and all amendments to or restatements of the foregoing Loan Documents and any and all other documents, instruments and certificates executed and delivered or to be executed and delivered by the Borrower or any Affiliate pursuant to the terms of this Agreement or any amendment to this Agreement (including, without limitation, the documents, instruments and certificates in the forms attached as Exhibits to the Original Agreement, the First Restated Agreement or this Agreement).

"Majority Banks"

means, at any time when no Loans are outstanding, the Banks whose aggregate Commitments at any time exceed 50% (fifty percent) of the total aggregate Commitments of all Banks and, at any time when Loans are outstanding, the Banks holding more than 50% (fifty percent) of the aggregate unpaid principal amount of the Loans.

"Majority Banks (66 2/3%)"

means, at any time when no Loans are outstanding, the Banks whose aggregate Commitments at any time exceed 66 2/3% (sixty-six and two-thirds percent) of the total aggregate Commitments of all Banks and, at any time when Loans are outstanding, the Banks holding more than 66 2/3% (sixty-six and two thirds percent) of the aggregate unpaid principal amount of the Loans.

"Major Subsidiaries"

means the following Subsidiaries (unless amended with the consent of the Majority Banks):

- (a) NL Industries (Deutschland) GmbH;
- (b) Kronos Titan - GmbH;
- (c) Societe Industrielle du Titane, S.A.;
- (d) Kronos Europe S.A./N.V.;
- (e) Kronos World Services S.A./N.V.;
- (f) Kronos Norge A/S;
- (g) Kronos Titan A/S;
- (h) Titania A/S;
- (i) Kronos Limited;
- (j) Kronos Canada, Inc.;
- (k) 2969157 Canada Inc.;

and other Subsidiaries, whether existing on the Second Restatement Date or at any time thereafter, with Total Assets for any such Subsidiary, determined at the date of presentation of its respective quarterly unaudited or annual audited financial statements, in excess of DM 35,000,000 (Deutsche Mark Thirty-Five Million).



"Margin" means, with respect to that portion of the Loan that is denominated in Deutsche Mark, 2.75% (two and three-quarters of one percent) per annum and, with respect to that portion of the Loan that is denominated in U.S. Dollars, 2.875% (two and seven-eighths of one percent) per annum.

"Material Adverse Effect" means a material adverse effect on:

- (a) the financial condition, business, operations or properties of any specified Person or a specified group of Persons, taken as a whole; or
- (b) the ability of the Borrower to meet its payment, Collateral or Lien obligations under this Agreement or any other Loan Document.

"Mirror Notes" means that certain (a) Second-Tier Senior Mirror Note dated as of October 20, 1993, in the original principal amount of \$250,000,000 executed by the Borrower payable to the order of Kronos and (b) Second-Tier Discount Mirror Note dated as of October 20, 1993, in the original principal amount of \$187,500,000 executed by the Borrower payable to the order of Kronos, in the forms attached hereto as EXHIBIT B.

"Multiemployer Plan" means a multiemployer plan as such term is defined in Section 4001(a)(3) of ERISA.

"Net Income" means net income of the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP.

"Net Proceeds" means, with respect to the Disposition of Stock or any other asset by any Person, Gross Proceeds of such Disposition less (i) all reasonable fees and expenses actually incurred pursuant to an arm's length agreement or arrangement, including, without limitation, customary brokerage commissions, charges or fees, and (ii) all taxes, excluding income taxes.

"NL Debt Offering" means the offering of the NL Notes.

"NL Debt Offering Expenses" means the reasonable fees and expenses incurred relating to the NL Debt Offering.

"NL Guaranty" means the Guaranty dated as of the Second Restatement Date executed by NL Industries to and in favor of the Agent, as amended or supplemented from time to time.

"NL Industries" means as set forth in the second paragraph of the preamble of this Agreement.

"NL/Kronos Guaranty" means the Guaranty dated as of March 22, 1991, executed by NL Industries and Kronos (US) (then known as Kronos, Inc.) to and in favor of the Agent.

"NL Notes" means the senior secured notes due 2003 and the senior secured discount notes due 2005 issued by NL Industries pursuant to the Indentures.

"NL Subordinated Loan" means the unsecured and subordinated loan in the principal amount of DM 260,000,000 (Deutsche Mark Two Hundred Sixty Million) made by NL Industries to the Borrower on or before the Second Restatement Date pursuant to the NL Subordinated Note and the Subordination Agreement.

"NL Subordinated Note" means that certain Zero Coupon Subordinated Promissory Note dated January 31, 1997, in the original principal amount of DM 260,000,000 (Deutsche Mark Two Hundred Sixty Million) made by the Borrower payable to the order of NL Industries which evidences the NL Subordinated Loan.

"NL Undertaking" means the Amended and Restated Undertaking of NL Industries, Inc. dated as of First Restatement Date among NL Industries, the Agent and the Banks, as amended or supplemented from time to time.

"Non-U.S. Employee Plans" means all employee pension benefit and welfare benefit plans of the Borrower or any of its

Subsidiaries including, without limitation, severance pay, plans, policies, agreements or programs, governed by laws other than the laws of the United States applicable to or covering current or former employees or directors of the Borrower or any Subsidiaries.

"Nordenham Mortgage"

means Land Charges executed by Kronos Titan pursuant to which Liens affecting the real properties (and plant) of Kronos Titan located in Nordenham, Germany are created in favor of the Agent and other agreements, documents and instruments relating thereto.

"Notice of Borrowing"

means as set forth in SECTION 4.02(C).

"Operating Subsidiaries"

means as set forth in SECTION 16.09(F).

"Original Agreement"

means as set forth in the third paragraph of the preamble of this Agreement.

"Original Currency"

means as set forth in SECTION 12.03.

"Other Currency"

means as set forth in SECTION 12.03.

"PBGC"

means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Pension Benefit Plan"

means an employee pension benefit plan within the meaning of Section 3(2) of ERISA.

"Permitted Indebtedness"

means, with respect to the Borrower and any Subsidiary:

- (a) Indebtedness described on SCHEDULE 2 attached hereto (other than working capital indebtedness of the Borrower and any Subsidiary set forth in CLAUSE (D) below and other than Subordinated Debt);
- (b) trade payables incurred and payable in the ordinary course of business and on customary terms and rental obligations under Capital

Leases relating solely to personal property acquired by the Borrower or any Subsidiary in the ordinary course of business;

- (c) Indebtedness arising or existing pursuant to this Agreement;
- (d) unsecured (except as provided in this CLAUSE (D) below) working capital Indebtedness of the Borrower and its Subsidiaries maturing in all cases no more than 3 (three) years from the date incurred or issued, including, without limitation, the aggregate face amounts (funded or unfunded) of all standby and documentary letters of credit; provided, however, that such unsecured working capital Indebtedness shall not exceed in the aggregate DM 80,000,000 (Deutsche Mark Eighty Million) at any time outstanding; and provided, further, however, that any such working capital Indebtedness incurred by Kronos Canada, Inc. shall not exceed Cdn. \$10,000,000 in aggregate principal amount at any time outstanding and may be secured by the Lien referred to in CLAUSE (H) of the definition of the term "Permitted Liens";
- (e) any refinancing of the Indebtedness in the foregoing CLAUSES (A) through (D), provided, however, that, with respect to Indebtedness described in CLAUSE (A) such refinancing shall not: (i) (A) include an increase in Indebtedness, (B) include any decrease, reduction or shortening of the then remaining term over which such Indebtedness is amortized, (C) include any increase in the amount or frequency of principal payments of such Indebtedness, and (ii) result in a Default under this Agreement, unless otherwise approved in writing by the Majority Banks in their reasonable discretion;

- (f) Indebtedness between or among any of the Borrower and/or its Subsidiaries;
- (g) Indebtedness of the Borrower evidenced by the Mirror Notes; and
- (h) Subordinated Debt as defined in CLAUSE (A) of the definition of the term "Subordinated Debt."

"Permitted Liens"

means:

- (a) Liens existing on the Second Restatement Date and set forth in SCHEDULE 3;
- (b) Liens existing on property at the time of its acquisition (other than any such Lien created in contemplation of or connection with such acquisition);
- (c) extensions, renewals and replacements of Liens referred to in CLAUSES (A) and (B) above, provided that any such extension, renewal or replacement is limited to the property or assets covered by the Lien extended, renewed or replaced and does not secure any Indebtedness in addition to that originally secured, in the case of Liens referred to in CLAUSE (A) above, as of May 30, 1990 and, in the case of Liens referred to in CLAUSE (B) above, at the time when such Liens are or were originally created or incurred;
- (d) Liens imposed by law, such as carriers', warehousemen's, materialmen's, landlords', and mechanics' Liens; zoning restrictions; easements; survey exceptions; reservations; rights-of-way; restrictions on use; and other similar Liens that were not incurred in connection with the borrowing of monies or obtaining credit and that:

- (i) do not in the aggregate materially detract from the value, or materially impair the use, of the property or assets to which such Liens attach; or
  - (ii) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to such Lien;
- (e) Liens securing taxes not yet due or being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to such Liens and where adequate reserves are established and maintained if required in accordance with German GAAP; provided, however, that none of the Liens referred to in this CLAUSE (E) may, at any time, attach or relate to any property or assets of any Subsidiary of the Borrower except to the extent that the taxes secured thereby are attributable to and owed by such Subsidiary or are owed to the taxing authorities of the country in which such Subsidiary is organized;
- (f) Liens arising in connection with workman's compensation laws or similar legislation or progress payments under government contracts, deposits to secure public or statutory obligations of the Borrower or any of its Subsidiaries, or deposits as security for contested import duties;
- (g) obligations under conditional sale agreements, Capital Leases or reservation of title or other title retention agreements relating solely to personal property acquired by the Borrower or any Subsidiary in the ordinary course of business;

- (h) Liens affecting the property of Kronos Canada, Inc. securing working capital Indebtedness not to exceed Cdn. \$10,000,000 in aggregate principal amount at any time outstanding;
- (i) other Liens if approved by the Majority Banks, in their sole discretion; and
- (j) Liens in favor of the Agent and the Banks under the Loan Documents.

"Person"

means an individual, a corporation, a partnership, joint venture, or a trust, unincorporated organization or association or mutual company, joint stock company, estate, trust or other organization, whether or not a legal entity, including a government or political subdivision or an agency or instrumentality thereof.

"Pledge Agreement"  
or "Pledge Agreements"

means the pledge agreement or pledge agreements executed or to be executed by NL Industries and the Pledgors in accordance with the Original Agreement, the First Approval Agreement, the First Restated Agreement, the Second Approval Agreement or this Agreement (including, without limitation, SECTION 16.34 and ARTICLE 17), as amended or supplemented from time to time.

"Pledged Subsidiary"  
or "Pledged Subsidiaries"

means,  
individually or collectively, each of the following Subsidiaries of the Borrower (unless amended with the consent of the Majority Banks):

- (a) NL Industries (Deutschland) GmbH;
- (b) Kronos Chemie GmbH;
- (c) Societe Industrielle du Titane, S.A.;
- (d) Kronos Europe S.A./N.V.;

- (e) Kronos Norge A/S;
- (f) Kronos Limited;
- (g) Kronos Canada, Inc.;
- (h) 2927527 Canada Inc.;
- (i) 2969157 Canada Inc.;

and any Subsidiaries, whether existing on the Second Restatement Date or at any time thereafter, which become Pledged Subsidiaries pursuant to SECTION 16.34.

"Pledgors"

means the Borrower and those Subsidiaries which have delivered or will deliver a pledge of the Stock of any of the Pledged Subsidiaries pursuant to SECTION 16.34 and ARTICLE 17.

"Primary Syndication Completion Date"

means the Primary Syndication Completion Date as such term is defined in the Original Agreement.

"Principal Shareholder"

means, with respect to the Borrower, any Person who owns directly more than 50% (fifty percent) of the voting Stock of the Borrower (whether such Stock is held in the name of such Person or is held in the name of another Person for the benefit of such Person), or if no Person owns such percentage of voting Stock, that Person who directly owns an amount of the Borrower's voting Stock which exceeds the amount of such Stock owned directly by any other stockholder (whether such Stock is held in the name of such Person or is held in the name of another Person for the benefit of such Person).

"Reference Banks"

means the principal London or Luxembourg office of:

- (a) Hypobank International S.A.;
- (b) Bankers Trust Company; and



(c) Arab Banking Corporation;

provided that, if the Commitment of any Reference Bank is terminated pursuant to this Agreement or any Reference Bank ceases to be a Bank or ceases to act as a Reference Bank, the Agent, with the consent of the Borrower, which consent shall not be unreasonably withheld or delayed, shall select another Bank to serve as a Reference Bank hereunder.

"Regulation D"

means Regulation D of the Federal Reserve.

"Relevant Date"

means, with respect to any amounts denominated or to be denominated in U.S. Dollars, a Drawdown Date or the date of any redenomination or payment pursuant to this Agreement in U.S. Dollars or the date of any other calculation with respect to U.S. Dollars, as applicable.

"Repayment Date"

means each of the days for repayment of the Loan or any portion thereof referred to in ARTICLE 9, provided that if any such day is not a Business Day, the relevant Repayment Date shall be the next succeeding Business Day.

"Repayment Installment"

means each installment for repayment or amount of repayment of the Loan or any portion thereof required pursuant to or described in ARTICLE 9.

"Restricted Capital Amount"

means, as of the date of determination, the aggregate amount of Restricted Payments permitted to be paid by the Borrower on or after the date of determination as Restricted Payments pursuant to SECTION 16.20(B).

"Restricted Payments"

means:

- (a) with respect to any Stock issued by any Person,
  - (i) the retirement, redemption, purchase or other acquisition for value

(directly or indirectly) of any such Stock (except Stock acquired upon conversion into other shares of such Stock); and

- (ii) the declaration or payment of any dividend or other distribution, including any distribution of assets, properties, cash, rights, obligations or securities, but other than dividends or distributions payable solely in shares of such Stock, on or with respect to any such Stock;
- (b) payments of principal or interest on or with respect to any Subordinated Debt;
- (c) Investments by the Borrower or any Subsidiary in an Affiliate, other than the Borrower or any Subsidiary, consisting of investments in the capital stock of such Affiliate or loans to such Affiliate (exclusive of trade payables and contractual obligations not for borrowed money incurred by such Affiliate in the ordinary course of business); and
- (d) for purposes of SECTION 16.20(A) only, the Liquidity Undertaking Credit.

"Revolving Commitment"  
or "Revolving Commitments"

means, in relation to each Bank, the several obligations of such Bank, and in relation to all Banks, the aggregate obligations of such Banks, subject to the terms of this Agreement, to make available its portion of the Revolving Portion to be made under this Agreement up to the aggregate principal amount specified in SCHEDULE 1, to the extent not reduced or canceled under this Agreement.

"Revolving Portion"

means that portion of the principal of the Loan in the maximum amount of (a) DM 230,000,000 (Deutsche

Mark Two Hundred Thirty Million) for the period from the Second Restatement Date through March 14, 2000 or (b) DM 105,000,000 (Deutsche Mark One Hundred Five Million) for the period from March 15, 2000 through September 14, 2000, which portion includes the Kronos Titan Revolving Portion and may be, from time to time, prepaid pursuant to SECTION 8.02 and reborrowed pursuant to SECTION 2.04; provided, however, that each of the amounts set forth in CLAUSES (A) and (B) preceding shall be automatically reduced by an aggregate amount equal to 300% (three hundred percent) of the cumulative total of the Excess Adjusted Restricted Payments which have been, as of any date but subject to the 30 (thirty) day cure period specified in the definition of "Excess Adjusted Restricted Payments", paid or made or have otherwise arisen or existed on or after January 1, 1996, which reduction in the Revolving Portion shall occur automatically upon expiration of the 30 (thirty) day cure period applicable to the payment, making, arising or other existence of each such Excess Adjusted Restricted Payment.

"Revolving Portion Availability"

means, at any time, the principal amount of the Revolving Portion that has been prepaid pursuant to SECTION 2.04 and is not then outstanding.

"Second Amendment Agreement"

means as set forth in the third paragraph of the preamble of this Agreement.

"Second Approval Agreement"

means the Approval Agreement dated as of June 21, 1996, among the Borrower, the requisite Banks who are signatories thereto, the Agent and the Co-Agent.

"Second Prepayment"

means the prepayment of the Loan in the Second Prepayment Amount pursuant to SECTION 2.01(B).

"Second Prepayment Amount"

means DM 150,000,000 (Deutsche Mark One Hundred Fifty Million).

"Second Restatement Date"

means January 31, 1997, the date of this Agreement (as unamended).

"Service Contract" means the agreement between Bayer AG, Leverkusen and Kronos Titan - GmbH, Leverkusen, dated June 21, 1952, as amended on September 9, 1971 and as supplemented on December 29, 1983, and as supplemented on June 30, 1995.

"Special Purpose Account" has the meaning set forth in the Special Purpose Account Agreement.

"Special Purpose Account Agreement" means the Amended and Restated Special Purpose Account Agreement dated as of the First Restatement Date among NL Industries, Kronos, the Borrower and the Agent, as amended or supplemented from time to time.

"Spot Rate" means, with respect to any day, the rate determined on such date on the basis of the offered rates, as reflected on the appropriate BHFx display of the Reuter Monitor Money Rates Service at or about 1:00 p.m. Frankfurt time (a) with respect to the determination of the Deutsche Mark Amount, to purchase Deutsche Mark with U.S. Dollars and (b) with respect to the determination of the Equivalent Amount, to purchase U.S. Dollars with Deutsche Mark, provided that, if at least two such offered rates appear on such display, the rate shall be the arithmetic mean of such offered rates and, if no such offered rates are so displayed, the Spot Rate shall be determined by the Agent on the basis of the arithmetic mean of such offered rates notified to the Agent by the Reference Banks in accordance with their normal practice.

"Stock" means, with respect to any Person, any capital stock or other equity rights, bonds, notes or other instruments convertible into capital stock or other equity interests, and options, warrants or other rights to acquire capital stock or other equity interests.

"Subordinated Debt" means the following Indebtedness (exclusive of the Indebtedness of the Borrower to Kronos evidenced by the Mirror Notes):

- (a) Indebtedness (if any) owed by the Borrower to Kronos and/or NL Industries in respect of loans to the Borrower from Kronos and/or NL Industries made after the First Prepayment Date if and to the extent that (i) the proceeds of such loans are deposited by Kronos and/or NL Industries into the Special Purpose Account (or, if so agreed by the Agent, into another special, restricted account of the Borrower maintained at, and acceptable to, the Agent from which the Borrower may not make withdrawals or otherwise direct distributions except with respect to any interest to accrue thereon), and (ii) such proceeds are applied to the Loans in accordance with the Special Purpose Account Agreement;
- (b) Indebtedness (if any) owed by the Borrower to Kronos and/or NL Industries in respect of loans to the Borrower from Kronos and/or NL Industries made after the First Prepayment Date obtained for general corporate purposes or made to comply with the obligations of Kronos and/or NL Industries under the Liquidity Undertaking, which Indebtedness is not otherwise permitted under the definition of "Permitted Indebtedness" or described in CLAUSE (A) of this definition of "Subordinated Debt";
- (c) the Kronos Subordinated Loan and the NL Subordinated Loan; and
- (d) other Indebtedness approved by the Majority Banks as Subordinated Debt.

"Subordinated Loan Documents"

means the Subordination Agreement, the NL Subordinated Note and the Kronos Subordinated Note, true, correct and complete photocopies of which (other than the Subordination Agreement) are attached hereto as EXHIBIT C.

"Subordination Agreement" means the Amended and Restated Subordination and Contribution Agreement dated as of the First Restatement Date among NL Industries, Kronos, the Borrower and the Agent, as amended or supplemented from time to time.

"Subsidiary" means any Person Controlled directly or indirectly by the Borrower.

"Tax Refund" means the German income taxes to be refunded to the Borrower, if any, pursuant to its 1990 German federal corporate income tax returns for calendar year 1990 claiming refunds aggregating more than DM 150,000,000 of German income taxes previously paid by the Borrower and certain Consolidated Subsidiaries for calendar years 1988, 1989 and 1990.

"Taxes" shall have the meaning set forth in SECTION 11.01.

"Technology Undertaking" means the Amended and Restated Technology and Trademark Undertaking dated as of the First Restatement Date among Kronos, Kronos (US) and the Agent, as amended or supplemented from time to time.

"Temporary Cash Investment" means any Investment in (i) direct obligations of, or obligations guaranteed by, the governments of Belgium, Canada, Germany, France, Norway, the United Kingdom or the United States or any agency of any of the foregoing, (ii) commercial paper (including, without limitation, Eurocommercial paper) rated in the highest grade by an internationally recognized credit rating agency, (iii) time deposits (including, without limitation, Euro-deposits and certificates of deposit), with prime commercial banks of international standing, and (iv) bonds issued by corporations and financial institutions with obligations rated at least "AA" by an internationally recognized credit rating agency; provided, however, in each case, that such Investment matures within one year from the date of

	acquisition thereof by the Borrower or its Subsidiary.
"Tentative Tax Refund"	means as set forth in the Tentative Tax Refund Letter.
"Tentative Tax Refund Availability Amount"	means as set forth in the Tentative Tax Refund Letter.
"Tentative Tax Refund Letter"	means that certain letter dated May 27, 1994, from the Borrower to the Agent.
"Term Portion"	means that portion of the principal of the Loan other than the Revolving Portion.
"Third Amendment Agreement"	means as set forth in the third paragraph of the preamble of this Agreement.
"Third Party License Agreements"	shall have the meaning set forth in SECTION 15.21.
"Total Assets"	means total assets of the Borrower and its Subsidiaries on a consolidated basis in conformity with German GAAP.
"Underwriting Agreement"	means the Underwriting Agreement dated as of October 13, 1993, between NL Industries and Salomon Brothers Inc. executed by the parties thereto in connection with the underwriting of the NL Notes.
"U.S. Dollars or U.S. \$"	means lawful currency of the United States of America.

When used in this Agreement:

- (a) A reference to a law, rule or regulation includes any amendment, supplement or modification to such law, rule or regulation and any successor to such law, rule or regulation;
- (b) A reference to an agreement, instrument or document shall include such agreement, instrument or document as the same may be amended, modified, supplemented or restated from time to time in accordance with its terms and as permitted by this

Agreement or has been amended, modified, supplemented or restated in accordance with its terms;

- (c) All article and section headings in this Agreement are for ease of reference only and shall be disregarded in the construction of this Agreement; and
- (d) A reference to a Person shall, unless otherwise provided, include its successors.

#### ARTICLE 2. THE FACILITY

- 2.01 (a) The Banks (or their predecessors in interest) previously granted, through their respective Lending Offices, to the Borrower, upon the terms and subject to the conditions of the Original Agreement (as and to the extent amended by this Agreement), the Loan in the maximum aggregate principal amount of DM 1,600,000,000 (Deutsche Mark One Billion Six Hundred Million), of which DM 1,100,000,000 (Deutsche Mark One Billion One Hundred Million) was outstanding as of the First Restatement Date (prior to giving effect to the First Prepayment). On the First Prepayment Date and in accordance with SECTION 2.01 of the First Restated Agreement, but immediately prior to the making of the First Prepayment, the Loan was deemed to be divided into two portions, the Term Portion in the outstanding principal amount of DM 850,000,000 (Deutsche Mark Eight Hundred Fifty Million) and the Revolving Portion in the outstanding principal amount of DM 250,000,000 (Deutsche Mark Two Hundred Fifty Million). On the First Prepayment Date and in accordance with SECTION 2.01 of the First Restated Agreement, and promptly upon the consummation of the NL Debt Offering, NL Industries or Kronos wire transferred to the Agent (to the Agent's account specified in SECTION 11.04) immediately available funds in the amount equal to the First Prepayment Amount. The Borrower agreed that it had absolutely no control over such funds used to make the First Prepayment and that its estate was not, in any way, diminished as a result of such transfer of funds or the First Prepayment. Immediately upon the Agent's receipt of the First Prepayment, the First Prepayment was applied in accordance with SECTION 2.1 of the First Restated Agreement as a prepayment of the principal of the Loan, as follows:
- (i) first, DM 400,000,000 (Deutsche Mark Four Hundred Million) of the First Prepayment Amount was applied to the Term Portion;
  - (ii) second, DM 150,000,000 (Deutsche Mark One Hundred Fifty Million) of the First Prepayment Amount was applied to the Revolving Portion as a prepayment of the Loans pursuant to SECTION 8.02; and
  - (iii) third, an amount equal to DM 2,000,000 (Deutsche Mark Two Million) of the First Prepayment Amount was applied to the Term Portion.



After giving effect to such application of the First Prepayment and other prepayments made in accordance with the First Restated Agreement, the outstanding principal balance of the Term Portion was, immediately prior to the Second Restatement Date, DM 395,537,463 (Deutsche Mark Three Hundred Ninety-Five Million Five Hundred Thirty-Seven Thousand Four Hundred Sixty-Three).

- (b) The Banks shall continue to maintain the Loan in accordance with and subject to the terms and provisions of this Agreement. On or before the Second Restatement Date, NL Industries shall wire transfer to the Agent's account with respect to payments in Deutsche Mark specified in SECTION 11.04, in immediately available funds, proceeds of the NL Subordinated Loan in the amount equal to the Second Prepayment Amount. The Borrower agrees that it shall have absolutely no control over such funds used to make the Second Prepayment and that its estate shall not be, in any way, diminished as a result of such transfer of funds or the Second Prepayment. Immediately upon the Agent's receipt of the Second Prepayment, the Second Prepayment shall be promptly and automatically applied by the Agent as a prepayment of the principal of the Term Portion of the Loan as follows: first, DM 20,000,000 (Deutsche Mark Twenty Million) of the Second Prepayment Amount shall be applied as a mandatory prepayment of a portion of the amount equal to the Tax Refund in accordance with SECTION 8.01(D) and, second, DM 130,000,000 (Deutsche Mark One Hundred Thirty Million) of the Second Prepayment Amount shall be applied as a mandatory prepayment pursuant to SECTION 8.01(H). Also concurrently herewith, the Borrower shall cause NL Industries to wire transfer to the Borrower's account number 5803610284 maintained at Bayerische Hypotheken-und Wechselbank AG, Munich, in immediately available funds, the remainder of the proceeds of the NL Subordinated Loan in the amount of DM 110,000,000 (Deutsche Mark One Hundred Ten Million), which proceeds shall be available for general corporate purposes of the Borrower without any restriction on use of proceeds imposed by any Affiliate of the Borrower. The proceeds of the Kronos Subordinated Loan in the amount of DM 25,000,000 (Deutsche Mark Twenty-Five Million) also shall be available for working capital purposes of the Borrower without any restriction on use of proceeds imposed by any Affiliate of the Borrower.

2.02 Upon the terms and subject to the conditions of this Agreement, the Revolving Portion shall be made available to the Borrower severally by each Bank in the amount of such Bank's Revolving Commitment under this Agreement.

2.03 The failure of any Bank to perform its obligations under this Agreement shall not affect the obligations of the Borrower toward the Agent or any other Bank or the obligations of any other Bank toward the Borrower, nor shall the Agent or any other Bank be liable for the failure of such Bank to perform its obligation under this Agreement.

- 2.04 (a) The Revolving Portion may be, from time to time, prepaid in whole or in part at the option of the Borrower pursuant to SECTION 8.02 and thereafter the amounts so prepaid may be reborrowed pursuant to, and in compliance with all terms and conditions of, SECTION 2.04 and the other provisions of this Agreement. Notwithstanding anything to the contrary contained in SECTION 2.04 or elsewhere in this Agreement, the amount of the Loan that may be reborrowed by the Borrower pursuant to SECTION 2.04 at any time shall not exceed the Revolving Portion Availability at such time. The Borrower may not reborrow any amounts prepaid pursuant to SECTION 8.01 or any other provision of this Agreement (other than SECTION 8.02, to the extent permitted in the immediately preceding sentences). The Borrower and the Banks hereby acknowledge and agree that, as of the Second Restatement Date and after giving effect to the prepayment in an amount equal to the Tax Refund as referred to in SECTION 8.01(D), the Revolving Portion Availability is DM 29,928,000 (Deutsche Mark Twenty-Nine Million Nine Hundred Twenty-Eight Thousand) (i.e., the remainder of DM 230,000,000, the maximum principal amount of the Revolving Portion as of the Second Restatement Date, minus DM 200,072,000, the outstanding principal amount of the Revolving Portion as of the Second Restatement Date).
- (b) Upon the terms and subject to the conditions set forth in this SECTION 2.04 and elsewhere in this Agreement (including, without limitation, the Borrower's satisfaction of all conditions precedent to such reborrowing), and upon request of the Borrower made pursuant to a Notice of Borrowing delivered to the Agent in compliance with SECTION 4.02(C), each Bank agrees, severally and not jointly, to make advances of the Revolving Portion (including the Kronos Titan Revolving Portion) to or for the account of the Borrower from the First Prepayment Date to August 15, 2000, by making such amounts available to the Agent on the respective Drawdown Dates therefor pursuant to SECTION 11.06; provided, however, that (i) the principal amount of each advance of the Revolving Portion made by each Bank pursuant to this SECTION 2.04 at any time may not exceed such Bank's pro rata share (based upon its Revolving Commitment as a percentage of the aggregate Revolving Commitments of all Banks) of the Revolving Portion Availability at such time and the aggregate principal amount of all advances of the Revolving Portion made by each Bank pursuant to this SECTION 2.04 and outstanding from time to time may not exceed such Bank's pro rata share (based upon its Revolving Commitment as a percentage of the aggregate Revolving Commitments of all Banks) of the Revolving Portion and (ii) the aggregate principal amount of all advances of the Revolving Portion made by all Banks pursuant to this SECTION 2.04 at any time may not exceed the Revolving Portion Availability at such time and the aggregate principal amount of all advances of the Revolving Portion made by all Banks pursuant to this SECTION 2.04 and outstanding from time to time may not exceed the aggregate Revolving Commitments of all Banks. Unless the Agent

determines that any applicable condition precedent to any such reborrowing has not been satisfied, the Agent shall make the funds so received from the Banks available to the Borrower pursuant to SECTION 11.05; provided, however, that such funds consisting of drawdowns under the Kronos Titan Revolving Portion requested by Kronos Titan (together with the Borrower) shall be made available directly to Kronos Titan in accordance with SECTION 2.04(C). Each advance of the Revolving Portion made pursuant to this SECTION 2.04 shall be made as a part of a borrowing consisting of advances made by the Banks in accordance with their respective pro rata shares thereof; provided, however, that the failure of any Bank to advance its pro rata share of any such advance shall not in itself relieve any other Bank of its obligation under this SECTION 2.04 (it being agreed, however, that no Bank shall be responsible for the failure of any other Bank to do so). Prior to August 15, 2000, the Borrower may repay and reborrow under this SECTION 2.04 and the Banks shall make advances in accordance with the terms of this Agreement. The Banks shall not be obligated to make any advances of the Revolving Portion under this SECTION 2.04 subsequent to the August 15, 2000.

- (c) It is acknowledged and agreed by the parties hereto that Kronos Titan may utilize certain proceeds of drawdowns under the Revolving Portion. Accordingly, as of the Second Restatement Date, an amount of the Revolving Portion not to exceed DM 20,000,000 (Deutsche Mark Twenty Million) shall be designated as the "Kronos Titan Revolving Portion". The Kronos Titan Revolving Portion is, and shall be deemed to be for all purposes of this Agreement, a part of the Revolving Portion and is available to be drawn down by the Borrower in accordance with this Agreement. The Borrower and Kronos Titan agree that, notwithstanding anything to the contrary contained in this SECTION 2.04, the Borrower shall use its best efforts to ensure that the proceeds of all drawdowns under the Revolving Portion that are to be utilized by Kronos Titan, unless the Kronos Titan Revolving Portion is then fully drawn, shall be requested by Kronos Titan (together with the Borrower) to be advanced by the Agent directly to Kronos Titan. Notwithstanding anything to the contrary contained in this Agreement or any other Loan Document, each of the Borrower and Kronos Titan hereby jointly and severally agrees to repay the principal of the Kronos Titan Revolving Portion, to pay all interest accrued on such principal that is outstanding from time to time and to pay all fees accrued with respect to the Kronos Titan Revolving Portion from time to time, all in accordance with the terms and provisions of this Agreement; provided, however, that Kronos Titan so agrees only if and to the extent that such indebtedness, liabilities and obligations relate to advances under the Kronos Titan Revolving Portion advanced directly to Kronos Titan. Furthermore, the Borrower acknowledges and agrees that advances of the Kronos Titan Revolving Portion to Kronos Titan shall directly benefit the Borrower to the same extent as if such advances had been made directly to the Borrower, and that the indebtedness, liabilities and obligations of the Borrower with respect to the Kronos Titan Revolving Portion shall be identical to

the Borrower's indebtedness, liabilities and obligations with respect to the portion of the Revolving Portion that is not the Kronos Titan Revolving Portion.

- 2.05 The Borrower may, in connection with and concurrently with any Notice of Borrowing with respect to any reborrowing of the Revolving Portion pursuant to SECTION 2.04 and in connection with and concurrently with any selection of a new Interest Period pursuant to SECTION 5.02, deliver to the Agent a written request that such reborrowing or such portion of the Loan subject to such new Interest Period, as the case may be, be denominated or redenominated (as the case may be) in U.S. Dollars (as opposed to Deutsche Mark), provided, however, that the aggregate principal amount of the Loan at any time outstanding that is denominated in U.S. Dollars may not, without the prior written consent of the Banks that hold at least 80% (eighty percent) of the aggregate unpaid principal amount of the Loans, immediately upon giving effect to any such reborrowing or any such Interest Period, exceed the Base Deutsche Mark Amount of DM 350,000,000 (Deutsche Mark Three Hundred Fifty Million). Each such written request for a U.S. Dollar denominated tranche shall specify the Base Deutsche Mark Amount of such tranche. If such a written request for a U.S. Dollar denominated tranche is not received by the Agent at least five (5) Business Days prior to the proposed Drawdown Date, with respect to a Notice of Borrowing, or no later than 10:00 a.m., Luxembourg time, on the fourth (4th) Business Day prior to the beginning of the relevant Interest Period, with respect to the selection of a new Interest Period, then the tranche shall be denominated in Deutsche Mark, provided, however, that if the corresponding tranche for the Interest Period then ending is denominated in U.S. Dollars, then the tranche for the next succeeding Interest Period shall also be denominated in U.S. Dollars unless the Borrower notifies the Agent, pursuant to SECTION 5.02, that such tranche shall be redenominated in Deutsche Mark for the next succeeding Interest Period. Any agreement or obligation of the Banks to provide any portion of the Loan in Deutsche Mark or U.S. Dollars pursuant to this Agreement shall in all cases be subject to the condition that no circumstance described in SECTION 7.01 shall have occurred (as determined in good faith by the Agent) in the London interbank Euro-currency market or otherwise after request therefor by the Borrower and before the relevant Drawdown Date or the first day of the relevant Interest Period, as the case may be. If the Agent has determined that such a change has occurred, then it shall forthwith give notice thereof to the Borrower and each Bank and the procedures set forth in ARTICLE 7 shall be applicable.
- 2.06 (a) If the Borrower requests (pursuant to SECTION 2.05) that any reborrowing of the Revolving Portion (pursuant to SECTION 2.04) be denominated in U.S. Dollars, the Banks shall, subject to compliance by the Borrower with SECTION 2.05 and the other terms and conditions of this Agreement, make their advances of the reborrowing in U.S. Dollars in an aggregate amount equal to the Equivalent Amount of the Base Deutsche Mark Amount of the advances to be funded in U.S. Dollars.

- (b) In the event of any advance of the Loan being redenominated in whole or in part in U.S. Dollars for the next succeeding Interest Period and such advance having been denominated in Deutsche Mark during the Interest Period then ending, each Bank will make an amount equal to the Equivalent Amount in U.S. Dollars of the Base Deutsche Mark Amount of its advance (or the relevant portion thereof) to be denominated in U.S. Dollars during the next succeeding Interest Period available to the Agent on the first day of such next succeeding Interest Period. The Agent shall, subject to the provisions of SECTION 2.06(F), make each such amount of U.S. Dollars available to the Borrower on such date and in like currency and funds as received by the Agent from the Banks in the manner provided in SECTION 11.06, and the Borrower on the last day of the Interest Period then ending shall repay the amount of such advance (or the relevant portion thereof) outstanding in Deutsche Mark during the Interest Period then ending (with accrued interest thereon in Deutsche Mark).
- (c) In the event that (i) any advance of the Loan denominated in U.S. Dollars is to continue to be denominated in U.S. Dollars for the next succeeding Interest Period, and (ii) as of the last day of the Interest Period then ending, the aggregate Deutsche Mark Amount of all outstanding advances of the Loan then denominated in U.S. Dollars is more than one hundred and five percent (105%) of the aggregate Base Deutsche Mark Amount of all outstanding advances of the Loan then denominated in U.S. Dollars, then the Borrower shall repay to the Agent, on the last day of such Interest Period then ending, an amount of U.S. Dollars as will result in (after giving effect to such repayment) the aggregate Deutsche Mark Amount of all outstanding advances of the Loan then denominated in U.S. Dollars, as of the last day of the Interest Period then ending, being equal to one hundred percent (100%) of the aggregate Base Deutsche Mark Amount of all outstanding advances of the Loan then denominated in U.S. Dollars. The amount to be repaid by the Borrower pursuant to this SECTION 2.06(C) shall be in addition to any Repayment Installment or other amount due and payable by the Borrower on the last day of such Interest Period then ending. In the event that (A) any advance of the Loan denominated in U.S. Dollars is to continue to be denominated in U.S. Dollars for the next succeeding Interest Period, (B) as of the last day of the Interest Period then ending, the aggregate Deutsche Mark Amount of all outstanding advances of the Loan then denominated in U.S. Dollars is less than ninety-five percent (95%) of the aggregate Base Deutsche Mark Amount of all outstanding advances of the Loan then denominated in U.S. Dollars, and (C) no Default shall have occurred and be continuing as of the last day of the Interest Period then ending, then each Bank shall make available to the Agent, and the Agent shall make available to the Borrower, on the last day of such Interest Period then ending, such Bank's pro rata share (based upon its Commitment as a percentage of the aggregate Commitments of all Banks) of an amount of U.S. Dollars as will result in (after giving effect to the delivery of such amount to the Borrower) the aggregate Deutsche Mark

Amount of all outstanding advances of the Loan then denominated in U.S. Dollars, as of the last day of the Interest Period then ending, being equal to one hundred percent (100%) of the aggregate Base Deutsche Mark Amount of all outstanding advances of the Loan then denominated in U.S. Dollars. The obligation of the Banks and the Agent to make such additional amounts available to the Agent and the Borrower, respectively, shall be subject, in all respects, to the condition precedent that no circumstances described in SECTION 7.01, as determined in good faith by the Agent, shall have occurred in the London interbank Euro-currency market or otherwise on or about the last day of such Interest Period then ending.

- (d) In the event of any advance of the Loan being redenominated in whole or in part in Deutsche Mark for the next succeeding Interest Period and such advance having been denominated in U.S. Dollars during the Interest Period then ending, each Bank will make its advance in Deutsche Mark in an amount equal to such Bank's pro rata share of the Base Deutsche Mark Amount of the aggregate advance to commence on the first day of such next succeeding Interest Period. The Agent shall, subject to the provisions of SECTION 2.06(F), make each such amount of Deutsche Mark available to the Borrower on such date and in like currency and funds as received by the Agent in the manner provided in SECTION 11.06, and the Borrower on the last day of the Interest Period then ending shall repay the amount of such advance (or the relevant portion thereof) outstanding in U.S. Dollars during the Interest Period then ending (with accrued interest therein on U.S. Dollars).
- (e) In the event that, with respect to any tranche requested to be denominated in U.S. Dollars, any of the events specified in SECTION 7.01 shall occur relating to U.S. Dollar deposits, then the Agent, with the consent of Majority Banks and by the giving of notice to the Borrower, may require that (i) each advance shall be made to the Borrower in Deutsche Mark in an amount equal to such Bank's pro rata share of the Base Deutsche Mark Amount of the aggregate advance requested to be made in U.S. Dollars, (ii) each advance which shall have been denominated in Deutsche Mark during the Interest Period then ending shall continue to be denominated in Deutsche Mark and (iii) each Bank shall make available to the Agent in Deutsche Mark the Base Deutsche Mark Amount of its advance which shall have been outstanding in U.S. Dollars during the Interest Period then ending on the first day of the next succeeding Interest Period. The Agent shall, subject to the provisions of SECTION 2.06(F), make such Base Deutsche Mark Amount available to the Borrower on the same date and in like currency and funds as received by the Agent from such Bank in the manner provided in SECTION 11.06 and the Borrower on the last day of the Interest Period then ending shall repay the amount of such advance denominated in U.S. Dollars during the Interest Period then ending (with accrued interest thereon in U.S. Dollars).

- (f) In the event the Borrower is required to repay any amounts on the last day of any Interest Period pursuant to this SECTION 2.06, the Agent shall make any amounts to be advanced by the Banks available to the Borrower on the first day of the next succeeding Interest Period only if the Agent receives, concurrently therewith in accordance with this Agreement, the relevant amounts to be repaid by the Borrower pursuant to this SECTION 2.06. The Borrower hereby agrees that it shall indemnify the Agent and each Bank, and hold the Agent and each Bank harmless from and against, any and all funding or foreign exchange costs, losses or expenses that the Agent and the Banks may suffer, sustain or incur as a consequence of a failure by the Borrower to promptly pay, when due, any amounts required to be paid by the Borrower.

#### ARTICLE 3. PURPOSE OF THE LOAN

The Borrower represents and warrants that the proceeds of the Loan initially were used to refinance all of its then outstanding bank indebtedness and certain of its then existing indebtedness (including principal and accrued interest) to Kronos (US) (then known as Kronos, Inc.), and that the remaining proceeds of the Loan in excess of the amount needed to refinance such indebtedness were used exclusively for its general corporate purposes. The Borrower shall use the entire proceeds of each reborrowing under the Revolving Portion exclusively for its general corporate purposes (including, without limitation, to make Restricted Payments permitted under SECTION 16.20).

#### ARTICLE 4. CONDITIONS PRECEDENT AND NOTICE OF BORROWING

- 4.01 (a) Reference is hereby made to Sections 4.01(a), 4.01(b) and 4.01(c) of the First Restated Agreement, which Section 4.01(a) contains certain conditions of the First Restated Agreement, and which Sections 4.01(a), 4.01(b) and 4.01(c) are incorporated herein by reference.
- (b) Notwithstanding anything to the contrary contained in this Agreement or in any other Loan Document, this Agreement shall become effective when (and shall not become effective unless and until) each of the following conditions precedent are satisfied to the reasonable satisfaction of the Agent:
- (i) The Agent shall have received the following documents, as appropriately executed, delivered and (where applicable) completed to its reasonable satisfaction (except that any such condition precedent set forth in this CLAUSE (I) may be waived by the Agent, subject to any post-closing documentation requirements imposed by the Agent):
- (A) amendment and restatement, amendment and/or reaffirmation of each of the Pledge Agreements executed by

- the Borrower or, with respect to the Pledge Agreement relating to the Stock of NL Industries (Deutschland) GmbH pledged by NL Industries, executed by NL Industries, each of which amendments and restatements, amendments and/or reaffirmations shall be in the applicable form attached hereto as EXHIBIT D, together with such agreements, documents and instruments as may reasonably be required by the Agent in connection with the Pledge Agreements;
- (B) amendment and/or reaffirmation of each of the Guaranties (other than the NL/Kronos Guaranty which has been fully performed) executed by Kronos Canada, Inc., 2927527 Canada Inc. and 2969157 Canada Inc., each of which amendments and/or reaffirmations shall be in the applicable form attached hereto as EXHIBIT E;
  - (C) Second Amended and Restated Technology and Trademark Undertaking executed by Kronos and Kronos (US), which agreement shall be in the form attached hereto as EXHIBIT F;
  - (D) amendment and restatement, amendment and/or reaffirmation of the Amended and Restated Subordination and Contribution Agreement executed by NL Industries, Kronos and the Borrower, which amendment and restatement, amendment and/or reaffirmation shall be in the form attached hereto as EXHIBIT G;
  - (E) amendment and restatement, amendment and/or reaffirmation of the Amended and Restated Liquidity Undertaking executed by NL Industries, Kronos and the Borrower, which amendment and restatement, amendment and/or reaffirmation shall be in the form attached hereto as EXHIBIT H;
  - (F) amendment and restatement, amendment and/or reaffirmation of (i) each of the agreements executed by the Borrower, NL Industries and Kronos pursuant to which it appoints Dr. Wienand Meilicke to accept service of process in Germany pursuant to the applicable Loan Documents, and (ii) each of the agreements executed by Prentice-Hall Corporation System, Inc. pursuant to which it agrees to act as agent for the Borrower, NL Industries and Kronos to accept service of process in New York pursuant to the



- applicable Loan Documents, which amendments and restatements, amendments and/or reaffirmations shall be in form and substance reasonably satisfactory to the Agent;
- (G) an Acknowledgment of Limitation of Special Damages executed by Kronos World Services S.A./N.V., which acknowledgment shall be in the form attached hereto as EXHIBIT I;
  - (H) the NL Guaranty, which Guaranty shall be in the form attached hereto as EXHIBIT J;
  - (I) the Canadian Security Documents executed by Kronos Canada, Inc., 2927527 Canada Inc. and 2969157 Canada Inc., which Canadian Security Documents shall be in the forms attached hereto as EXHIBIT K;
  - (J) the Nordenham Mortgage executed by Kronos Titan, which Nordenham Mortgage shall secure only the indebtedness, liabilities and obligations of Kronos Titan relating to the Kronos Titan Revolving Portion and shall be in the form attached hereto as EXHIBIT L;
  - (K) the Cash Pledge Agreements executed by the Borrower, which Cash Pledge Agreements shall be in the forms attached hereto as EXHIBIT M;
  - (L) the Cash Pledge Agreements executed by Kronos Canada, Inc., 2927527 Canada Inc. and 2969157 Canada Inc., which Cash Pledge Agreements shall be in the forms attached hereto as EXHIBIT N;
  - (M) a certificate of the Secretary, Assistant Secretary or other appropriate officer, director or other representative of each of the Borrower, its Subsidiaries, NL Industries, Kronos and Kronos (US) (as applicable) as to the authorization of the Loan Documents to be executed by such Person pursuant to this Agreement and as to other corporate matters;
  - (N) a true and correct photocopy of each of the Subordinated Loan Documents as executed by all parties thereto, which photocopies shall be certified by the Secretary or an Assistant Secretary of each of the parties thereto as being

true, correct and complete photocopies thereof, all of which Subordinated Loan Documents shall be in form and substance satisfactory to the Agent;

- (O) such legal opinions of counsel to the Borrower and its Subsidiaries and counsel to the Agent as the Agent may require, all of which opinions shall be in form and substance reasonably satisfactory to the Agent;
  - (P) such other agreements, documents and instruments relating to the Loan Documents and/or the parties thereto as the Agent may reasonably request.
- (ii) Any and all invoiced fees, costs or expenses to be paid or reimbursed, as of the Second Restatement Date, by the Borrower to the Agent or any Bank with respect to this Agreement or any other Loan Document or any transaction contemplated hereby or thereby (including, without limitation, charges and expenses for which the Borrower is obligated pursuant to the Original Agreement, the First Restated Agreement and/or this Agreement), shall have been paid in full.
  - (iii) All corporate proceedings taken in connection with the transactions contemplated by this Agreement, and all legal matters incident to this Agreement, shall be reasonably satisfactory to the Agent.
  - (iv) The Borrower shall have paid to the Agent all fees required to be paid to the Agent or any Bank on or before the Second Restatement Date pursuant to SECTION 19.01 and SECTION 19.02.
  - (v) The NL Subordinated Loan shall have been made in accordance with the terms and provisions of the Subordinated Loan Documents.
  - (vi) DM 57,287,585 (Deutsche Mark Fifty-Seven Million Two Hundred Eighty-Seven Thousand Five Hundred Eighty-Five) of the Tax Refund shall have been drawn under the Tentative Tax Refund Availability Amount of the Revolving Portion Availability and paid to the Agent to be applied to the Term Portion in accordance with SECTION 8.01(D).
  - (vii) The Agent shall have received (A) from NL Industries and for the account of the Banks ratably in proportion to their portion of the Loan and for application against the outstanding principal amount of the Term Portion of the Loan in accordance with SECTION 2.01(B), the Second Prepayment from the proceeds of the NL Subordinated Loan, and (B) a Solvency Certificate

executed by NL Industries and Kronos, which certificate shall be in the form attached hereto as EXHIBIT O.

(viii) The Borrower shall have received DM 110,000,000 (Deutsche Mark One Hundred Ten Million) of the proceeds of the NL Subordinated Loan (i.e., the entirety of the proceeds of the NL Subordinated Loan in excess of the Second Prepayment Amount) in accordance with SECTION 2.01(B).

(c) The Borrower shall (except to the extent waived as permitted by this Agreement) cause the conditions precedent set forth in SECTION 4.01(B) to be satisfied concurrently with the Borrower's execution of this Agreement, and the Borrower shall, concurrently with its execution of this Agreement, so certify to the Agent and the Banks.

4.02 Each Drawdown of the Revolving Portion (including, without limitation, the Kronos Titan Revolving Portion) is subject to:

- (a) no Default having occurred;
- (b) all representations and warranties made by the Borrower and/or any Affiliate in the Loan Documents being true and correct as of the Drawdown Date (other than the representations and the warranties that are expressly made only in reference to another specific date);
- (c) the receipt by the Agent of a notice of borrowing in the form set forth in EXHIBIT P ("Notice of Borrowing"), duly completed, not less than 5 (five) Business Days prior to the proposed Drawdown Date;
- (d) the conditions that (i) immediately prior to giving effect to such drawdown, the outstanding principal amount of the Loan is not less than DM 100,000 (Deutsche Mark One Hundred Thousand), (ii) the Agent, as Agent for the Banks, shall have a first priority perfected security interest in the Stock of the respective Subsidiaries pledged under the Pledge Agreements as security for the Loan (including, without limitation, the Revolving Portion and any reborrowings of the Revolving Portion to be advanced on the date of any drawdown thereof), which Stock shall be free and clear of all Liens (other than such security interest securing the Loan) except for any Permitted Liens referred to in CLAUSE (D), (E), (F) OR (I) of the definition of such term in this Agreement, and (iii) the Agent, as Agent for the Banks, shall have the additional Liens as security for the Loans (including, without limitation, the Revolving Portion and any reborrowings of the Revolving Portion to be advanced on the date of any drawdown thereof) provided in SECTION 17.05, which Liens shall have the priority specified in such SECTION 17.05; and

(e) the condition that no Excess Adjusted Restricted Payments have been directly or indirectly paid or made by the Borrower or any of its Subsidiaries to any Affiliate of the Borrower (other than the Borrower or Subsidiaries of the Borrower) from and after January 1, 1996 (subject to the 30 (thirty) day cure period specified in the definition of "Excess Adjusted Restricted Payments").

4.03 Each Notice of Borrowing shall be irrevocable and the Borrower shall be bound to borrow in accordance with such notice.

4.04 Upon the Agent's receipt of each (a) Notice of Borrowing, (b) notice of selection of a new Interest Period pursuant to SECTION 5.02 or (c) request that any tranche be denominated (or redenominated) in U.S. Dollars pursuant to SECTION 2.05, the Agent shall promptly notify each Bank of the contents thereof and, if applicable, of such Bank's pro rata share of any advance of the Loan to be made. Furthermore, upon the determination of the interest rate applicable to any tranche, the Agent shall promptly notify each Bank of such interest rate.

#### ARTICLE 5. INTEREST PERIODS

5.01 The Loan proceeds shall be made available to the Borrower in no more than 4 (four) tranches for Interest Periods of 1 (one), 3 (three), 6 (six) or 12 (twelve) months with respect to each such tranche, except as provided in SECTION 5.04 and provided that the Borrower may select Interest Periods of 1 (one) month or 3 (three) months only with respect to any tranche denominated or to be denominated in U.S. Dollars. Each tranche shall be in a minimum principal amount of DM 100,000,000 (Deutsche Mark One Hundred Million) and integral multiples of DM 10,000,000 (Deutsche Mark Ten Million) in excess thereof (or the Equivalent Amount thereof in U.S. Dollars); provided, however, that any tranche evidencing a reborrowing of the Revolving Portion pursuant to SECTION 2.04 shall be in a minimum principal amount of DM 5,000,000 (Deutsche Mark Five Million) and integral multiples of DM 1,000,000 (Deutsche Mark One Million) in excess thereof (or the Equivalent Amount thereof in U.S. Dollars) and provided, further, however, that any concurrent reborrowing under the Kronos Titan Revolving Portion and reborrowing under the Revolving Portion that does not constitute the Kronos Titan Revolving Portion shall be aggregated for purposes of the immediately preceding proviso. Each tranche shall be denominated in Deutsche Mark or, if permitted by SECTION 2.05 and upon compliance by the Borrower with SECTION 2.05, U.S. Dollars, provided, however, that each tranche shall be entirely denominated in either Deutsche Mark or U.S. Dollars.

5.02 The Borrower shall inform the Agent no later than 10:00 a.m., Luxembourg time, on the 4th (fourth) Business Day prior to the beginning of the relevant Interest Period of the tenor of the next Interest Period, including, without limitation, the duration of such Interest Period and the currency (whether Deutsche Mark or U.S. Dollars) in which the tranche to be outstanding during such Interest Period is to be denominated. Unless the Agent is notified to the contrary by such time, the relevant Interest Period shall have a duration of

1 (one) month and the currency in which the tranche to be outstanding during such Interest Period is to be denominated shall be the same currency in which the corresponding tranche was denominated for the Interest Period then ending.

5.03 Each Interest Period for any tranche, other than the initial Interest Period, shall commence on the expiration of the immediately preceding Interest Period for such tranche. If an Interest Period would end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such day falls into the next calendar month, in which event such Interest Period shall end on the immediately preceding Business Day. If any other date on which interest is payable under this Agreement is not a Business Day, then payment shall be due on the next succeeding Business Day unless such day falls into the next calendar month, in which event payment shall be due on the immediately preceding Business Day.

5.04 The Borrower may not select an Interest Period which begins prior to a Repayment Date and ends after such Repayment Date unless the aggregate amount of the tranches which have Interest Periods ending on or prior to such Repayment Date shall at least equal the principal amount of the Loan required to be paid on such Repayment Date. Notwithstanding anything herein to the contrary, the Borrower may select an Interest Period other than one, three or six months, but not to exceed six months (subject to the ability of the Reference Banks to determine the Interbank Rate for such period), for that portion of the Loan not in excess of the amount of the Loan which is scheduled to come due pursuant to ARTICLE 9 within six months of the first day of such Interest Period and which Interest Period shall end on such scheduled Repayment Date.

#### ARTICLE 6. INTEREST

6.01 On each Interest Payment Date, the Borrower shall pay to the Agent for the account of the Banks for the Interest Period ending thereon, accrued interest, on the applicable tranche as provided in this Agreement, provided, however, that if any Interest Period is longer than 3 (three) months, accrued interest shall be payable (a) on the date in the third succeeding calendar month numerically corresponding to the commencement date of such Interest Period, or, if there exists no date numerically corresponding to the commencement date of such Interest Period in any such third succeeding month, such accrued interest shall be payable on the last Business Day of such third succeeding calendar month after the first day of such Interest Period and (b) on the Interest Payment Date. Interest shall be paid in the currency in which the applicable tranche is denominated on the applicable Interest Payment Date.

6.02 The rate of interest applicable to each tranche of the Loan during any Interest Period relating thereto shall be the Interbank Rate plus the Margin.

- 6.03 Interest payable pursuant to this Agreement shall be calculated for the actual number of days elapsed on the basis of a 360 (three hundred sixty) day year.
- 6.04 The Agent shall promptly notify the Borrower and each Bank of each determination of an interest rate made by the Agent under this Agreement.
- 6.05 All agreements between the Borrower, the Agent and the Banks, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of acceleration of the maturity of the Loan or otherwise, shall the interest contracted for, charged or received by the Agent, the Banks or any of them from the Borrower exceed the maximum amount permissible under applicable law. If, from any circumstance whatsoever, interest would otherwise be payable to the Agent, the Banks or any of them in excess of the maximum lawful amount, the interest payable to the Agent, the Banks or any of them shall be reduced to the maximum amount permitted under applicable law; and if from any circumstance the Agent, the Banks or any of them shall ever receive anything of value deemed interest by applicable law in excess of the maximum lawful amount, an amount equal to any excessive interest shall be applied to the reduction of the principal of the Loan and to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of the Loan, such excess shall be refunded to the Borrower. All interest paid or agreed to be paid to the Agent, the Banks or any of them shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full period until payment in full of the principal (including the period of any renewal or extension hereof) so that the interest on the Loan for such full period shall not exceed the maximum amount permitted by applicable law. This paragraph shall control all agreements between the Borrower, the Agent, the Banks or any of them.

#### ARTICLE 7. SUBSTITUTE BASIS

- 7.01 If any of the following should occur:
- (a) the Reference Banks determine and notify the Agent that, at or about 11:00 a.m. (London time) on the Interest Determination Date for an Interest Period, no Deutsche Mark deposits (as to the portion of the Loan proposed to be denominated in Deutsche Mark) or no U.S. Dollar deposits (as to the portion of the proposed Loan to be denominated in U.S. Dollars) in the required amount for the required Interest Period are being offered to the Reference Banks by prime banks in the London interbank Euro-currency market;
  - (b) before the close of business in Luxembourg on the Interest Determination Date for an Interest Period, the Majority Banks determine and notify the Agent that the rate at which such deposits were being so offered does not accurately reflect the cost to them of obtaining such deposits; or

- (c) the Reference Banks shall determine and notify the Agent that, by reason of circumstances affecting the London interbank Euro-currency market generally, such deposits are not available to banks in such market or that adequate and reasonable means do not or will not exist for ascertaining the interest rate applicable to the next succeeding Interest Period;

then, notwithstanding the provisions of ARTICLES 5 and 6, the Agent shall forthwith give notice of any such event to the Borrower and each Bank.

7.02 With respect to the circumstances described in SECTIONS 7.01(A) or 7.01(B) above, the Borrower may, subject to the rights of the Agent and the Banks pursuant to SECTION 2.06(E):

- (a) elect to prepay the applicable portion of the Loan, without premium or penalty, at the end of the then current Interest Period; or
- (b) select an alternative Interest Period, to the extent available as determined by the Reference Banks 2 (two) Business Days prior to the first day of the next succeeding Interest Period, during which Interest Period the applicable interest rate for the applicable portion of the Loan shall be the Interbank Rate, if available for such alternative Interest Period, plus the applicable Margin; or
- (c) request that the Agent, on behalf of the Banks, enter into negotiations regarding the applicable interest rate, in which event the Interest Period for the applicable portion of the Loan shall be one month and during such Interest Period the Agent, on behalf of the Banks, and the Borrower shall negotiate in good faith to agree upon an interest rate that will adequately reflect the cost to the Banks of maintaining or funding the applicable portion of the Loan for such Interest Period, and if the Borrower and the Majority Banks (662/3%) are able to agree on such interest rate, the interest rate that shall apply to the applicable portion of the Loan for such Interest Period shall be the sum of the applicable Margin and the interest rate so agreed. If the Borrower and the Agent, on behalf of the Banks, are unable to agree upon an interest rate by the day which is 2 (two) Business Days before the end of the one-month Interest Period referred to above, the interest rate that shall apply to the Loan for such Interest Period shall be (i) the rate determined by the Agent to be the arithmetic mean (rounded upwards, if necessary, to the nearest four decimal places) per annum of the respective rates notified to the Agent by each Reference Bank as that which expresses as a percentage rate per annum the cost to such Reference Bank of obtaining such deposits from such sources as it may select having reasonable regard to the interests of the Borrower, plus (ii) the applicable Margin.

7.03 With respect to circumstances described in SECTION 7.01(C) above, the duration of such next succeeding Interest Period shall be one month or, if the period until the next Repayment Date is less than one month, shall end on the next Repayment Date and, during such Interest Period, the Borrower and the Agent, on behalf of the Banks and subject to the consent of the Majority Banks (662/3%), shall negotiate in good faith in order to redenominate the applicable portion of the Loan in an alternative currency which is freely convertible into Deutsche Mark (which alternative currency may include, without limitation, Deutsche Mark as to the portion of the Loan proposed to be denominated in U.S. Dollars) and in which deposits are available to the Reference Banks for determining the interest rate from time to time applicable thereto (but excluding any such currency for which any central bank or other governmental authorization in the country of issue is required to permit use of such currency by a Bank for lending hereunder, if such authorization has not been obtained and any currency the use of which as contemplated hereunder is restricted or prohibited pursuant to any request, directive, regulation or guideline of any governmental authority (whether or not having the force of law) with which any Bank is accustomed to act), and the interest rate that shall apply to the applicable portion of the Loan for such Interest Period shall be the sum of the applicable Margin and the interest rate for the alternative currency so agreed. If the Borrower and the Agent, on behalf of the Banks and with the consent of the Majority Banks (662/3%), are unable to agree on such alternative currency or an interest rate for such alternative currency by the day which is 2 (two) Business Days before the end of the Interest Period referred to above, the Borrower shall repay the applicable portion of the Loan together with accrued interest thereon at the rate determined by the Agent to be the arithmetic mean (rounded upwards, if necessary to the nearest four decimal places) of the respective rates notified to the Agent by each Reference Bank as being that which expresses as a percentage rate per annum the cost to such Reference Bank of obtaining such deposits from such sources as it may select having reasonable regard to the interests of the Borrower, plus the applicable Margin, on the next Interest Payment Date, without premium or penalty except as otherwise provided in SECTION 12.04.

7.04 During the period when any alternative interest rate or Interest Period or redenomination of the Loan or any applicable portion thereof is in force pursuant to SECTION 7.02 or 7.03 above, the Agent, in consultation with the Banks, shall periodically review whether circumstances are such that an Interbank Rate may again be determined in accordance with ARTICLES 5 and 6. If such a determination may again be made, the Agent shall forthwith give written notice thereof to the Borrower and each Bank and the Interbank Rate, plus the applicable Margin, shall be the applicable interest rate commencing with the beginning of the next Interest Period for the Loan or the applicable portion thereof.

#### ARTICLE 8. PREPAYMENT

8.01 From and after the Prepayment Date, the Borrower shall make mandatory prepayments of the Loan as follows:



- (a) An amount equal to the Net Proceeds (with respect to CLAUSES (2) and (3) below, only to the extent that the aggregate Net Proceeds exceed DM 15,000,000 (Deutsche Mark Fifteen Million) during any calendar year, from:
- (1) the Disposition by the Borrower or any of its Subsidiaries of any Stock of any Subsidiary, other than:
    - (i) Dispositions of Stock of any of the Subsidiaries from the Borrower to any Subsidiary, from a Subsidiary to the Borrower, or between Subsidiaries; or
    - (ii) Dispositions which constitute Restricted Payments permitted in accordance with SECTION 16.20 or Dispositions permitted in accordance with SECTION 16.15(C);
  - (2) the Disposition by the Borrower or any of its Subsidiaries of any assets, individually or in the aggregate, or of any Stock of any Subsidiary (other than a Major Subsidiary or a Pledged Subsidiary), other than:
    - (i) Dispositions of assets in the ordinary course of business;
    - (ii) Dispositions from the Borrower to any Subsidiary, from a Subsidiary to the Borrower or between Subsidiaries;
    - (iii) Dispositions which constitute Restricted Payments permitted in accordance with SECTION 16.20 or Dispositions permitted in accordance with SECTION 16.15(C);
    - (iv) Dispositions which constitute interest payments on Subordinated Debt permitted in accordance with SECTION 16.09(D);
    - (v) Dispositions or other events described in CLAUSES (1) or (3) of SECTION 8.01(A); or
    - (vi) Dispositions prior to the Second Restatement Date of the distributorship/marketing arrangements existing as of the First Restatement Date between Rheox, Inc. and/or its subsidiaries and certain Subsidiaries of the Borrower; and/or
  - (3) the Disposition, termination, shortening or other modification of the Leverkusen Lease or any agreement providing for the Disposition, termination, shortening or other modification of the Leverkusen Lease;

shall be used, to the extent permitted by law, to prepay the Loan, without premium or penalty except as set forth in SECTION 12.04, on the Interest Payment Date(s) immediately following the receipt by the Borrower or any Subsidiary of such Net Proceeds, in accordance with SECTION 8.01(B). If the Net Proceeds from the aforementioned Dispositions described in CLAUSES (2) or (3) of this SECTION 8.01(A) or from other transactions described in CLAUSE (3) of this SECTION 8.01(A) exceed DM 15,000,000 (Deutsche Mark Fifteen Million) in any calendar year, or, if there are any Net Proceeds from the aforementioned Dispositions described in CLAUSE (1) of this SECTION 8.01(A), then the Borrower shall in accordance with SECTION 8.01(B) make a mandatory prepayment in cash equal to the amount of such excess in the case of CLAUSES (2) and (3) or equal to the amount of such Net Proceeds in the case of CLAUSE (1), in each case whether or not the Net Proceeds are comprised of cash or non-cash proceeds. For purposes of this SECTION 8.01(A), the value of the non-cash proceeds received shall be determined in good faith by the chief financial officer of the Borrower.

- (b) Amounts payable under SECTION 8.01(A) shall be deposited promptly into an interest bearing account maintained in the name of the Banks with the Agent for the benefit of the Banks and shall remain on deposit with the Agent until the next Interest Payment Date(s), at which time such amounts together with interest thereon shall be applied at the Borrower's request to interest or, on a pro-rata basis, to reduce the remaining Repayment Installments of the Term Portion or, after such installments are paid in full, to permanently reduce the Revolving Portion.
- (c) On the Interest Payment Date(s) immediately following delivery of the financial statements in accordance with SECTION 16.01(A), the Borrower shall prepay the Loan, without premium or penalty except as set forth in SECTION 12.04, in an amount equal to 70% (seventy percent) of the amount by which Excess Cash Flow for the immediately preceding fiscal year exceeds DM 20,000,000 (Deutsche Mark Twenty Million); provided, however, that this sentence shall apply only to Excess Cash Flow for fiscal year 1996 and fiscal years prior thereto. On the earlier to occur of (a) 5 (five) days after the date upon which EBITDA for the immediately preceding fiscal year (commencing with the fiscal year 1997) has been finally determined or (b) 90 (ninety) days after the immediately preceding fiscal year end, the Borrower shall prepay the Loan, without premium or penalty except as set forth in SECTION 12.04, in an amount equal to 70% (seventy percent) of Excess EBITDA for the immediately preceding fiscal year. In addition, on or before March 31, 1997, the Borrower shall prepay the Loan, without premium or penalty except as set forth in SECTION 12.04, in an amount equal to the amount (if any) by which EBITDA of NL Industries and its subsidiaries for fiscal year 1996 exceeds \$140,000,000 (One Hundred Forty Million Dollars). All such prepayments shall be applied to the Repayment Installments of the Term Portion in the inverse order

of the maturities of such installments or, after such installments are paid in full, to permanently reduce the Revolving Portion.

- (d) An amount equal to the amount of each payment received by the Borrower with respect to the Tax Refund at any time shall be used by the Borrower to prepay the Loan, without premium or penalty except as set forth in SECTION 12.04, on the Interest Payment Date(s) immediately following the date(s) upon which such payment(s) is (are) received by the Borrower. Amounts payable under this SECTION 8.01(D) shall be deposited promptly into an interest bearing account maintained in the name of the Banks with the Agent for the benefit of the Banks and shall remain on deposit until the next Interest Payment Date(s), at which time such amounts together with interest thereon shall be applied, on a pro-rata basis, to reduce the remaining Repayment Installments of the Term Portion or, after such installments are paid in full, to permanently reduce the Revolving Portion. The Borrower represents and warrants to the Agent and the Banks that all amounts drawn under the Tentative Tax Refund Availability Amount prior to the Second Restatement Date have been used to pay German income taxes or have been paid to the Agent and applied to reduce the Revolving Portion in accordance with paragraph 2 of the Tentative Tax Refund Letter. Accordingly, the Borrower, the Agent and the Banks hereby agree that (although the Final Determination Date may not yet have occurred) DM 77,287,585 (Deutsche Mark Seventy-Seven Million Two Hundred Eighty-Seven Thousand Five Hundred Eighty-Five) shall be deemed to be the remaining amount of the Tax Refund received by the Borrower as of the Second Restatement Date and not previously applied to prepay the Term Portion and that, on the Second Restatement Date, DM 57,287,585 (Deutsche Mark Fifty-Seven Million Two Hundred Eighty-Seven Thousand Five Hundred Eighty-Five) of the Tax Refund shall be drawn under the Tentative Tax Refund Availability Amount of the Revolving Portion Availability and applied to the Term Portion in accordance with this SECTION 8.01(D) and DM 20,000,000 (Deutsche Mark Twenty Million) of the proceeds of the Second Prepayment shall be applied to the Term Portion in accordance with this SECTION 8.01(D). As of the Second Restatement Date, DM 20,000,000 (Deutsche Mark Twenty Million) of the Tentative Tax Refund Availability Amount shall be deemed to have been cancelled by virtue of the reduction in the maximum principal amount of the Revolving Portion from DM 250,000,000 (Deutsche Mark Two Hundred Fifty Million) to DM 230,000,000 (Deutsche Mark Two Hundred Thirty Million).
- (e) On March 15, 2000, the Borrower shall prepay, and permanently reduce, the Revolving Portion in an amount equal to the positive remainder (if any) of (i) the then outstanding principal amount of the Revolving Portion minus (ii) DM 125,000,000 (Deutsche Mark One Hundred Twenty-Five Million).

- (f) Upon the occurrence of a "Change of Control", as such term is defined in either of the Indentures, the Borrower shall promptly so notify the Agent and each of the Banks of such occurrence and shall (whether or not the Borrower complies with its obligation to give such notice) prepay the Loans, and all accrued and unpaid interest thereon to the date of the prepayment, in full on the date upon which the holders of any of the NL Notes may receive prepayment of any of the NL Notes as a result of such Change of Control (assuming such holders elect to receive such prepayment but whether or not such holders so elect) unless the Majority Banks (662/3%) shall have expressly waived such right of prepayment on or before the date upon which such prepayment is required to be made.
- (g) On or before 2 (two) Business Days after the last day of each calendar month upon which the aggregate cash balances of the Borrower and its Subsidiaries (excluding any cash balances of the Borrower and its Canadian Subsidiaries which are pledged to the Agent as security for the Loans and excluding U.S. Dollar cash balances held in the ordinary course of business) exceed DM 40,000,000 (Deutsche Mark Forty Million) (or the equivalent amount in any currency), the Borrower shall prepay, without premium or penalty except as set forth in SECTION 12.04, the outstanding principal amount of the Revolving Portion by the entire amount of such excess; provided, however, that the cash balances held by the Borrower immediately prior to a Repayment Date or a date upon which payments are required to be made on the Mirror Notes which are to be applied and are actually applied to make repayments of the Loan or such required payments on the Mirror Notes, respectively, shall be excluded for purposes of determining the cash balances of the Borrower and its Subsidiaries pursuant to this SECTION 8.01(G). For purposes of this SECTION 8.01(G) and SECTION 16.40, "cash balances" shall mean the aggregate of the collected cash balance in bank accounts (net of checks issued and uncleared), other cash (exclusive of petty cash maintained in reasonable amounts in the ordinary course of business) and Temporary Cash Investments. Amounts payable under this SECTION 8.01(G) shall be deposited, within such 2 (two) Business Days, into an interest bearing account maintained in the name of the Banks with the Agent for the benefit of the Banks and shall remain on deposit with the Agent until the next Interest Payment Date(s), at which time such amounts together with interest thereon shall be applied to the Revolving Portion as provided herein. The Borrower covenants and agrees that it will not, and will not permit any of its Subsidiaries to, convert non-U.S. Dollar cash balances to U.S. Dollar cash balances except to the extent reasonably necessary in the ordinary conduct of their business.
- (h) On the Second Restatement Date, the Borrower shall prepay the Loan, without premium or penalty except as set forth in SECTION 12.04, in the amount of DM 130,000,000 (Deutsche Mark One Hundred Thirty Million). Such prepayment

shall be applied to the Repayment Installments of the Term Portion in the direct order of the maturities of such installments.

8.02 The Borrower may make optional prepayments (including the portion of the First Prepayment applied toward the Revolving Portion pursuant to SECTION 2.01(A) and optional prepayments deemed made with funds provided by NL Industries and/or Kronos resulting from capital contributions made or Subordinated Debt, other than the Kronos Subordinated Loan and the NL Subordinated Loan, extended by NL Industries and/or Kronos to the Borrower) as follows:

On giving not less than 5 (five) days prior written notice to the Agent, the Borrower may prepay all or any part (but in any case not less than DM 5,000,000 (Deutsche Mark Five Million) (or the Equivalent Amount thereof in U.S. Dollars) and in integral multiples of DM 1,000,000 (Deutsche Mark One Million) (or the Equivalent Amount thereof in U.S. Dollars) in excess thereof per prepayment) of the Loan on any Interest Payment Dates, without premium or penalty, except as otherwise provided in SECTION 12.04, provided that:

- (a) except as expressly permitted by SECTION 2.04 with respect to the Revolving Portion, each prepayment made under this Agreement may not be reborrowed under this Agreement;
- (b) unless the Borrower expressly informs the Agent, in connection with the aforesaid notice of such prepayment, that such prepayment shall be applied to the Revolving Portion, any prepayment under this SECTION 8.02 shall be applied to the outstanding Repayment Installments of the Term Portion in inverse order of the maturities of such installments; and
- (c) notice of prepayment given by the Borrower shall be irrevocable and the Borrower shall be bound to prepay in accordance with each such notice.

8.03 To the extent that the amounts available to prepay the Loan pursuant to SECTIONS 8.01 or 8.02 shall exceed the principal of the tranche relating to the immediately following Interest Payment Date, such amounts shall be applied to prepay the principal of such tranche and the remainder, if any, shall be applied to prepay the principal of the tranche relating to the next immediately following Interest Payment Date or Dates, as the case may be, until all amounts allocated for prepayment have been applied. The requirement that prepayments be applied pro rata under SECTION 8.01(B) or 8.01(D), in inverse order of maturity under SECTION 8.01(C) and SECTION 8.02 or in direct order of maturity under SECTION 8.01(H) shall not be affected by the fact that prepayments may be made on an Interest Payment Date which is also a Repayment Date.

ARTICLE 9. REPAYMENT

Subject to the prepayment provisions set forth in ARTICLE 8, the Term Portion shall be repaid in 6 (six) installments due and payable on each of the following Repayment Dates in the following amounts:

REPAYMENT DATE	REPAYMENT INSTALLMENT
March 15, 1997	DM 50,000,000
September 15, 1997	DM 50,000,000
March 15, 1998	DM 75,000,000
September 15, 1998	DM 75,000,000
March 15, 1999	DM 100,000,000 minus 50% (fifty percent) of the Excess Term Prepayment (if any)
September 15, 1999	DM 100,000,000 minus 50% (fifty percent) of the Excess Term Prepayment (if any)

Subject to the prepayment provisions set forth in ARTICLE 8, the Revolving Portion (which shall be reduced to DM 105,000,000 (Deutsche Mark One Hundred Five Million) on March 15, 2000) shall be repaid (as provided in SECTION 8.01(E)) on March 15, 2000 to the extent necessary to cause the outstanding principal amount of the Revolving Portion, after giving effect to such repayment, to equal DM 105,000,000 (Deutsche Mark One Hundred Five Million), and shall be repaid in full on September 15, 2000. All amounts owed under this Agreement with respect to the Term Portion shall be due and payable on or before September 15, 1999, in accordance with the terms of this Agreement, and all amounts owed under this Agreement with respect to the Revolving Portion shall be due and payable on or before September 15, 2000, in accordance with the terms of this Agreement.

After giving effect to the mandatory prepayments to be made on the Second Restatement Date pursuant to SECTIONS 8.01(D) and 8.10(H) (including the Second Prepayment), (a) the Repayment Installments of the Term Portion previously (immediately prior to the Second Amendment Date) due on each of March 15, 1997, September 15, 1997, and March 15, 1998 shall have been paid in full and (b) the Repayment Installments of the Term Portion previously (immediately prior to the Second Amendment Date) due on each of September 15, 1998, March 15, 1999, and September 15, 1999, shall have been paid in part. Accordingly, after giving effect to such prepayments, the remaining outstanding Term Portion shall be payable in 3 (three) installments due and payable on the following Repayment Dates in the following amounts:

REPAYMENT DATE	REMAINING REPAYMENT INSTALLMENT
September 15, 1998	DM 48,751,048
March 15, 1999	DM 70,785,415
September 15, 1999	DM 68,713,415

#### ARTICLE 10. EVIDENCE OF DEBT

- 10.01 Each Bank shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it under this Agreement, including such amounts with respect to each of the Term Portion and the Revolving Portion, which accounts shall be prima facie evidence of such amounts. Such amounts shall be designated in Deutsche Mark or U.S. Dollars, as appropriate, and, if designated in U.S. Dollars, shall also be designated in the corresponding Base Deutsche Mark Amount.
- 10.02 The Agent shall maintain on its books an account in which shall be recorded:
- (a) the amount of the Loan (and the currency in which each portion of the Loan is denominated or redenominated from time to time), including the amount of each of the Term Portion and the Revolving Portion outstanding from time to time, and each Bank's share therein;
  - (b) the amount of any principal or interest due or to become due from the Borrower to the Banks under this Agreement (and the currency in which such amount is denominated or redenominated from time to time) with respect to each of the Term Portion and the Revolving Portion and each Bank's share therein; and
  - (c) the amount of any sum received or recovered by the Agent (and the currency in which such amount is denominated) under this Agreement and each Bank's share therein.
- 10.03 In any legal action or proceeding arising out of or in connection with this Agreement, the entries made in the accounts maintained pursuant to SECTIONS 10.01 and 10.02 shall be prima facie evidence of the existence and amounts of the obligations and the payments of the Borrower therein recorded. In the case of any conflict between accounting under SECTION 10.01 and 10.02, the accounts of each Bank under SECTION 10.01 shall control.

#### ARTICLE 11. PAYMENTS

- 11.01 Any and all payments by the Borrower and/or Kronos Titan under this Agreement shall be made without setoff or counterclaim, and free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, whether under U.S. or German law or otherwise,

excluding, in the case of each Bank and the Agent, taxes imposed on its overall net income and franchise taxes imposed on it by the jurisdiction under the laws of which such Bank or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its overall net income and franchise taxes imposed on it by the jurisdiction of such Bank's Lending Office or any political subdivision thereof (all such excluded taxes being hereunder referred to as "Excluded Taxes" and all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower and/or Kronos Titan shall be required by law (whether U.S. or German or otherwise) to deduct any Taxes from or in respect of any sum payable hereunder to any Bank or the Agent,

- (a) and if the deductions are the result of a change in circumstances after May 30, 1990 of the type described in CLAUSE (1) of SECTION 14.01(A), the sum payable shall be increased as may be necessary so that, after making all required deductions, such Bank or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made;
- (b) the Borrower and/or Kronos Titan shall make such deductions; and
- (c) the Borrower and/or Kronos Titan shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

Any Bank claiming any additional amounts payable pursuant to this SECTION 11.01 shall use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to transfer its portion of the Loan to a Lending Office in another jurisdiction where no such deductions are required. The Borrower and/or Kronos Titan shall forward promptly to the Agent official receipts of the relevant taxation or other authority or other evidence acceptable to the respective recipient of the amount deducted or withheld as described above, when and as such receipts or other evidence are made available to the Borrower and/or Kronos Titan by the relevant authority.

11.02 From time to time upon the request of the Borrower, Kronos Titan or the Agent,

- (a) each Bank organized under the laws of a jurisdiction outside the United States shall provide the Agent and the Borrower and/or Kronos Titan with a certificate, signed by an officer of each such Bank, stating that payments to be made to such Bank hereunder are expected, in the reasonable judgment of such Bank, to be exempt from United States withholding tax, if such Bank is so exempt, and the forms (if any) prescribed by the Internal Revenue Service of the United States certifying as to such Bank's status; and
- (b) each Bank organized under the laws of a jurisdiction outside Germany shall provide the Agent and the Borrower and/or Kronos Titan with a certificate, signed by an



officer of each such Bank, stating that payments to be made to such Bank hereunder are expected, in the reasonable judgment of such Bank, to be exempt from German withholding tax, if such Bank is so exempt, and the forms (if any) prescribed by the appropriate German governmental tax authority certifying as to such Bank's status.

Unless the Borrower, Kronos Titan or the Agent (as applicable) has received forms or other documents satisfactory to it indicating that payments hereunder are not subject to United States or German withholding tax, as applicable, the Borrower, Kronos Titan or the Agent (as applicable) shall, unless the Borrower, Kronos Titan or the Agent (as applicable) determines that no such withholding is required, withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Bank organized under the laws of a jurisdiction outside the United States or the Federal Republic of Germany, as the case may be. If any Bank fails to furnish to the Borrower, Kronos Titan or the Agent (as applicable) forms or other documents necessary for claiming exemption from United States or German withholding tax, then payments to such Bank shall be net of any amounts the Borrower, Kronos Titan or the Agent (as applicable) is required to withhold under applicable law, provided, however, that, notwithstanding anything in this Agreement to the contrary, any Bank that is subject to withholding as a result of a change in circumstances occurring after May 30, 1990 of the type described in SECTION 14.01 shall be entitled to payments pursuant to SECTION 11.01(A).

Each Bank hereby represents and warrants to the Borrower and Kronos Titan that, on the date that it became or becomes a Bank in accordance with the terms of the Original Agreement, the First Restated Agreement or this Agreement, respectively (as may be applicable), its Lending Office was or is entitled to receive payments of principal of, and interest on, Loans made by such Bank from such Lending Office without withholding or deduction for or on account of Taxes imposed by the United States of America, Germany or any respective political subdivisions of the United States of America or Germany.

11.03 If the Borrower and/or Kronos Titan makes an increased payment to any Bank pursuant to SECTION 11.01 and such Bank determines in its reasonable discretion that it has received or been granted a credit against or relief or remission for, or payment of tax paid or payable by it in respect of or calculated with reference to the deduction or withholding giving rise to such payment, such Bank shall, to the extent that it can in its sole discretion do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower and/or Kronos Titan (as applicable) such amount as such Bank shall have calculated to be attributable to such deduction or withholding. If Taxes are incorrectly or illegally paid or assessed, and if any Bank or the Agent contests the payment or assessment of such Taxes, such Bank or the Agent shall refund, to the extent of any refund made to such Bank or the Agent, any amounts paid by the Borrower and/or Kronos Titan under SECTION 11.01 in respect of such Taxes. Amounts payable pursuant

to this SECTION 11.03 shall be paid within 30 (thirty) days from the date of receipt of the relevant refund by such Bank or the Agent (as the case may be).

- 11.04 All payments to be made by the Borrower and/or Kronos Titan under this Agreement shall be made in the appropriate currency (Deutsche Mark or U.S. Dollars, as applicable) and in immediately available funds not later than 10:00 a.m. (local time at Munich) on the date upon which the relevant payment is due, (a) with respect to payments in Deutsche Mark, to the Agent's account no. 6450025141 with Bayerische Hypotheken-und Wechselbank AG, Munich, or (b) with respect to payments in U.S. Dollars, to the Agent's account no. 001 1 329 026 with The Chase Manhattan Bank N.A., New York, or (in either case) to such other bank and account as the Agent may from time to time designate by written notice to the Borrower and/or Kronos Titan (as applicable). All payments (including prepayments) of principal or interest accrued with respect to the Revolving Portion of the Loans shall be applied (i) first, to the payment of interest accrued with respect to the Revolving Portion other than the Kronos Titan Revolving Portion (until such interest is paid in full), (ii) second, to the payment of the outstanding principal amount of the Revolving Portion other than the Kronos Titan Revolving Portion (until such principal is paid in full), (iii) third, to the payment of interest accrued with respect to the Kronos Titan Revolving Portion (until such interest is paid in full), and (iv) fourth, to the payment of the outstanding principal of the Kronos Titan Revolving Portion (until such principal is paid in full).
- 11.05 All payments to be made by the Agent to the Borrower (or, with respect to advances under the Kronos Titan Revolving Portion, Kronos Titan) under this Agreement shall be made not later than 10:00 a.m. (local time at Munich) on the date upon which the relevant payment is due and, at the risk of the Borrower (and, with respect to advances under the Kronos Titan Revolving Portion, Kronos Titan), remitted to, in the case of the Borrower, an account in Munich or Luxembourg maintained at Hypobank International S.A. or an affiliate of Hypobank International S.A. which is pledged to secure the Loans in accordance with SECTION 16.40 or, in the case of Kronos Titan, an account of Kronos Titan.
- 11.06 Each Bank shall make available to the Agent in the appropriate currency (Deutsche Mark or U.S. Dollars, as the case may be) as the Agent may from time to time designate its portion of the Loan hereunder prior to 10:00 a.m. (local time at Munich) on the Drawdown Date or, with respect to any redenomination of any advance pursuant to SECTION 2.06, on the first day of the next succeeding Interest Period, as the case may be, to such account as the Agent may from time to time designate for the account of the Borrower and/or Kronos Titan (as applicable). Not less than 2 (two) Business Days prior to the effective date of any initial advance of the Loan in U.S. Dollars, each Bank shall notify the Agent of the identity and location of the Lending Office for such Bank in relation to all advances and payments to be denominated in U.S. Dollars in the event that such Lending Office is different from the Lending Office previously designated for the

Loan, provided, however, that (a) each Bank shall utilize the Lending Office previously designated for the Loan unless it is prohibited from doing so by applicable regulatory requirements, (b) if the use of such previously designated Lending Office is so prohibited, such Bank shall use its best efforts to use a Lending Office entitled to an exemption from United States and German withholding taxes (but no Bank shall be required to establish an office or branch or obtain any authorization to engage in banking activities in any jurisdiction in order to be entitled to any exemption from United States withholding taxes), and (c) such Bank shall give written notice to the Borrower and/or Kronos Titan (as applicable) if it is unable to utilize its Lending Office previously designated for the Loan and if its Lending Office utilized for the Loan is not entitled to an exemption from U.S. and German withholding taxes, and further provided that the Borrower shall not be in any way relieved of any obligation to gross up any payments to be made to the Agent or any Bank under this Agreement. All advances to be made by each Bank in U.S. Dollars shall be made available through the Lending Office of such Bank so designated for advances in U.S. Dollars.

11.07 Except for payments received by the Agent for its account or for the account of a specific Bank in accordance with this Agreement, the Agent shall promptly distribute in like funds and currency each payment received by it for the account of the Banks ratably in proportion to their portion of the Loan or, as the case may be, their respective Commitments.

11.08 Where an amount is to be made available under this Agreement by the Agent to a Person, the Agent shall not be bound to make such amount available to such Person until the Agent has been able to establish whether or not such amount has been made available to the Agent. If the Agent makes an amount available to the Borrower and/or Kronos Titan which has not, but should have, been made available to the Agent by a Bank, the Borrower and/or Kronos Titan (as applicable) shall (without prejudice to any rights the Borrower and/or Kronos Titan (as applicable) may have against that Bank) refund that amount to the Agent on request. If the Agent makes an amount available to a Bank which has not, but should have, been made available to the Agent by the Borrower and/or Kronos Titan, that Bank shall (without prejudice to any rights it may have against the Borrower and/or Kronos Titan, as applicable) refund that amount to the Agent on a date to be determined by the Agent after consultation with such Bank. Where, in accordance with the foregoing, an amount is to be refunded to the Agent, the Agent in addition shall be indemnified by the Person who has failed to make an amount available as required under this Agreement against any reasonable interest costs actually incurred and paid by the Agent by reason of any lapse of time between the date on which the amount was made available to any Person by the Agent and the date on which the amount was refunded to the Agent in full (including, without limitation, any interest paid by the Agent in respect of funds borrowed by the Agent in order to fund such amount during such period).

11.09 Any currency specified in accordance with this Agreement shall be the currency of account and of payment in all events. The payment obligations of the Borrower and Kronos Titan hereunder shall not be discharged by an amount paid in another currency, whether

pursuant to a judgment or otherwise, to the extent that the amount so paid upon conversion by the Agent or the Banks (as applicable) to the specified currency under normal and reasonable banking procedures does not yield at the place when payment is due the amount of the specified currency due hereunder. In the event that any payment by or on behalf of the Borrower and/or Kronos Titan, whether pursuant to a judgment or otherwise, upon such conversion and after the deduction of all fees, costs and expenses relating thereto does not result in payment of such amount of the specified currency at the place payment is due, the Agent and each Bank shall be entitled to receive from the Borrower and/or Kronos Titan (as applicable), and shall have a separate cause of action for, the deficiency in respect of the payments due to each, respectively.

#### ARTICLE 12. DEFAULT INTEREST AND INDEMNITY

12.01 In the event of a failure by the Borrower to pay any sum on the date on which such sum is due and payable pursuant to this Agreement and irrespective of any notice by the Agent or any other Person to the Borrower in respect of such failure, the Borrower shall pay interest on such sum, on demand, from the date of such failure up to the date of actual payment (both after and before any judgment) at the rate, increased by the sum of the Margin plus 2% (two percent), determined by the Agent to be the arithmetic mean (rounded upwards, if necessary, to the nearest four decimal places) of the rates notified to the Agent by the Reference Banks to be those at which deposits in Deutsche Mark or U.S. Dollars as the Agent may select in its discretion (after consultation with the Banks) for such period as the Agent may select in its discretion (after consultation with the Banks) are so offered to each Reference Bank by prime banks in the London interbank Euro-currency market at or about 11:00 a.m. (London time) for value 2 (two) Business Days after the Business Day immediately succeeding that on which the Agent becomes aware of such failure and, so long as the failure continues, such rate shall be recalculated on the same basis thereafter, provided that:

- (a) if any Reference Bank is unable or otherwise fails to furnish a quotation for the purposes of this SECTION 12.01, the interest rate shall be determined on the basis of the quotation(s) furnished by the remaining Reference Bank(s); and
- (b) if for any such period, none of the Reference Banks was offered deposits in the required amount and for the required period, the rate of interest applicable thereto shall be the weighted average (having regard to the respective portions of such unpaid sum) (rounded upwards, if necessary to the nearest four decimal places) per annum of the respective rates notified to the Agent by each Reference Bank as being that which expresses as a percentage rate per annum the cost to such Reference Bank of obtaining such deposits from such sources as it may select having reasonable regard to the interests of the Borrower.

Interest accruing under this SECTION 12.01 shall be due and payable at the end of each period by reference to which it is calculated.

12.02 Without prejudice to the foregoing and irrespective of any notice by the Agent or any other Person to the Borrower in respect of the Borrower's failure to make any payment when due or in respect of any other matter relating to this SECTION 12.02, the Borrower shall indemnify the Agent and the Banks against any and all damages, losses or expenses (including, without limitation, losses incurred in paying default interest or in liquidating or employing deposits from third parties acquired to make, fund or maintain the Loan or any part thereof, including interest and penalties on unpaid Taxes, if any, and including losses on foreign currency exchanges, if any, with respect to portions of the Loan denominated in U.S. Dollars) which any of them may properly and reasonably sustain or incur as a consequence of (a) the failure by the Borrower to borrow pursuant to any Notice of Borrowing, (b) the failure by the Borrower to pay any sum, including Taxes, if any, when due and payable under this Agreement upon the occurrence of any Event of Default, (c) the funding of the Loan or any portion thereof in U.S. Dollars as opposed to Deutsche Mark or (d) the liquidation or employment of amounts borrowed or contracted for relating to, or the termination or unwinding of any contract entered into in order to fund, an advance in U.S. Dollars requested by the Borrower that, by reason of the occurrence of any event specified in SECTION 7.01, is not funded as requested.

12.03 If for the purposes of filing a claim or proof for obtaining or enforcing any judgment in any court, it is necessary to convert a sum due under this Agreement in Deutsche Mark or U.S. Dollars (as the case may be) (the "Original Currency") into another currency (the "Other Currency"), the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be the rate of exchange offered by any one or more of the Reference Banks to the Agent, in respect of the relevant sums, at which, in accordance with normal banking procedures, the Agent could purchase the greatest amount of the Original Currency with the Other Currency at or about 11:00 a.m. in London on the Business Day preceding that on which final judgment is given. The obligation of the Borrower in respect of any sum due in the Original Currency from it to any Bank or the Agent under this Agreement shall, notwithstanding any judgment in any Other Currency, be discharged only to the extent that on the Business Day following receipt by such Bank or the Agent (as the case may be) of any sum adjudged to be so due in such Other Currency, such Bank or the Agent (as the case may be) may in accordance with normal banking procedures purchase the Original Currency with such Other Currency. If the amount of the Original Currency so purchased is less than the sum originally due to such Bank or the Agent (as the case may be) in the Original Currency, the Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify immediately such Bank or the Agent (as the case may be) against such loss, and if the amount of the Original Currency so purchased exceeds the sum originally due to any Bank or the Agent (as the case may be) in the Original Currency, such Bank or the Agent (as the case may be) agrees to remit to the Borrower such excess. The above indemnity shall constitute a separate and independent obligation of the Borrower from its other obligations under this Agreement and shall apply irrespective of any grace period granted by the Agent or the Banks.

12.04 Any prepayment or repayment of principal made under this Agreement, if made otherwise than on an Interest Payment Date relative to the amounts prepaid or repaid, shall be made together with accrued interest thereon and such additional amount as each Bank may certify as necessary to compensate it for any damages or losses incurred or to be incurred by it in connection with such prepayment or repayment (including loss of Margin and losses on account of funds borrowed in order to make, fund or maintain its proportion of the Loan or any part thereof prepaid or repaid).

#### ARTICLE 13. SET-OFF AND REDISTRIBUTION OF PAYMENTS

13.01 Upon the occurrence and during the continuance of any Event of Default specified in SECTION 18.01 consisting of the failure to pay principal of the Loan or any portion thereof and subject to the prior written consent of the Agent or the Majority Banks or upon the occurrence and during the continuance of any Event of Default and the acceleration of the maturity of the Loan pursuant to the provisions of ARTICLE 18, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (at any office or branch) to or for the credit or the account of the Borrower against all or any portion of the Loan outstanding under this Agreement and other amounts payable hereunder. Each Bank agrees promptly to notify the Borrower after any such set-off and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank under this ARTICLE 13 are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Bank may have. Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any portion of the Loan held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of principal and interest due with respect to any portion of the Loan held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participation in the portion of the Loan held by the other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Loans held by the Banks shall be shared by the Banks pro rata; provided that nothing in this ARTICLE 13 shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness hereunder. Subject to SECTION 13.02 hereof, the Borrower agrees, to the fullest extent such holder may effectively do so under applicable law, that any holder of a participation in a Loan, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Borrower in the amount of such participation. Anything herein to the contrary notwithstanding, nothing in this ARTICLE 13 shall impair the right of the Borrower to receive notice and to have the opportunity to cure certain Events of Default as provided in ARTICLE 18 or otherwise prior to the declaration of an acceleration of maturity.

- 13.02 Except for payments to a Bank from the Agent which were received by the Agent for the account of such Bank in accordance with the provisions of this Agreement, if any Bank shall at any time receive payment or satisfaction of all or a part of its share of the Loan, interest thereon or any other amount payable hereunder, whether by setoff, counterclaim or otherwise, in a proportion which, in relation to any amounts received by any other Bank or Banks at the same time, represents more than its percentage participation in the Loan, then such Bank shall notify the Agent thereof and shall pay to the Agent not later than 10 (ten) days after request by the Agent for account of the other Banks such amount as determined by the Agent as will ensure that each Bank will receive a proportion of such payment equal to its percentage participation.
- 13.03 In the event that at any time any Bank shall be required to refund to the Borrower any amount which has been paid to or received by it by set-off, counterclaim or otherwise on account of any part of the Loan, interest thereon or any other amount payable hereunder and which has been paid to any other Bank pursuant to this ARTICLE 13, such other Bank shall repay a proportionate amount of the amounts so refunded without interest.
- 13.04 The Borrower and the Banks expressly agree that payments by or recoveries from the Borrower shall be distributed in accordance with the provisions of this ARTICLE 13 without the need for further consent or the completion of any other formalities whatsoever.
- 13.05 If a Bank is required to make any payment to any other Bank pursuant to this ARTICLE 13, then, subject to SECTION 13.02, the liability of the Borrower to the Bank making such payment under this Agreement shall be treated as not having been reduced by the amount of such payment and the liability of the Borrower to any Bank receiving such payment shall be treated as having been reduced by the amount of the payment received by such Bank.

ARTICLE 14. CHANGE OF CIRCUMSTANCES; ILLEGALITY;  
RESERVE REQUIREMENTS

14.01 Change of Circumstances

- (a) If, after May 30, 1990, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:
- (1) shall subject any Bank (or its Lending Office) to any tax, duty or other charge with respect to the Loan or its obligation to make such Loan, or any part thereof, or shall change the basis of taxation of payments to any Bank (or its Lending Office) of the principal of or interest on its Loan, or any

part thereof, or any other amounts due under this Agreement in respect of its Loan or its obligation to make the Loan, or any part thereof (except for changes in the rate of tax on the overall net income of such Bank or its Lending Office imposed by the jurisdiction in which such Bank's principal executive office or Lending Office is located); or

- (2) shall impose, modify or deem applicable any reserve, special deposit or similar requirement, (including, without limitation, any such requirement imposed by the Federal Reserve) against assets of, deposits with or for the accounts of, or credit extended by any Bank (or its Lending Office) or shall impose on any Bank (or its Lending Office) or on the London interbank market any other condition affecting its Loan, or any part thereof, or other indebtedness under the Agreement or its obligations to make the Loan;

and the result of any of the foregoing is to increase the cost to such Bank (or its Lending Office) of making or maintaining the Loan, or any portion thereof, or to reduce the amount of any sum received or receivable by such Bank (or its Lending Office) under this Agreement with respect thereto, then, within 15 (fifteen) days after demand by such Bank (with a copy to the Agent), the Borrower shall pay promptly for the account of such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction. Such Bank shall submit to the Borrower and the Agent a certificate showing, in reasonable detail, the calculation of the amount of such increased cost.

- (b) If, after May 30, 1990, the adoption of any law, rule or regulation of any general applicability regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by a governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by a Bank (or its Lending Office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency (including, without limitation, and whether promulgated or made before or after the Second Restatement Date, any law, regulation, interpretation, guideline or request contemplated by the report dated July 1988 entitled "International Convergence of Capital Measurement and Capital Standards" issued by the Basle Committee on Banking Regulations and Supervisory Practices), shall, in the determination of a Bank, have the effect of reducing the rate of return of such Bank's capital to a level below that which such Bank could have achieved as a consequence of its obligations hereunder but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy), by an amount deemed by such Bank to be material in its sole and absolute discretion, then, within 15 (fifteen) days after demand by such Bank (with a copy to the Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.



- (c) Each Bank will notify the Borrower and the Agent promptly of any event of which it has knowledge, occurring after the First Restatement Date, which will entitle such Bank to compensation pursuant to this SECTION 14.01 and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this SECTION 14.01 and setting forth the additional amount or amounts to be paid to it under this Agreement shall be conclusive in the absence of manifest error.
- (d) Upon the occurrence of any of the events described in SECTION 14.01(A) or (B), the Borrower may prepay without premium or penalty except as otherwise provided in SECTION 12.04 such Bank's portion of the Loan together with all interest accrued thereon and all fees and other amounts (including amounts payable under SECTION 14.01(A) or (B) above) payable to such Bank hereunder, on giving not less than 10 (ten) days prior written notice to the Agent. Such Bank's Commitment shall be canceled on the giving of such notice.

#### 14.02 ILLEGALITY

- (a) Notwithstanding anything to the contrary contained in this Agreement, if any change in law, regulation or treaty or in the interpretation or application thereof after May 30, 1990, by any authority charged with the administration thereof shall make it unlawful for any Bank to make, fund or maintain its portion of the Loan (although such Bank may lawfully maintain its Commitment) or to give effect to its obligations through its Lending Office as contemplated hereby, such Bank may give written notice thereof to the Agent to be forwarded by the Agent to the Borrower and the other Banks. Before giving such notice to the Agent, such Bank, to the reasonable extent possible, shall designate a different Lending Office if such designation will avoid the need for giving such notice.
- (b) Until such Bank notifies the Borrower and the Agent that the circumstances of the type described above no longer exist, the obligation of such Bank to make its portion of the Loan shall be suspended and the Borrower may, at its option, terminate such Bank's Commitment, by notice to such Bank and to the Agent, to be given within 30 (thirty) days after the date of notice by the Agent to the Borrower, as provided above.
- (c) If such Bank shall determine that it may not lawfully continue:
  - (1) to maintain and fund its portion of the outstanding Loan to maturity; and
  - (2) to maintain its Commitment to maturity, and shall so specify in such notice, the Borrower shall prepay, without premium or penalty except as otherwise provided in SECTION 12.04, forthwith (or if permitted by law, on the next

following Interest Payment Date) such Bank's portion of the Loan, together with all interest accrued thereon and all fees and other amounts payable to such Bank under this Agreement. Such Bank's obligations under this Agreement and its Commitment shall be canceled on the giving of such notice.

#### 14.03 RESERVE REQUIREMENTS

The Borrower shall pay to the Agent for the account of each Bank, so long as such Bank shall be required under regulations of the Federal Reserve to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, interest in addition to the applicable interest rate plus the applicable Margin on the unpaid principal amount of the applicable portion of the Loan advanced by such Bank, from the date of such Loan until such principal amount is paid in full, an amount equal to an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the rate (not including the applicable Margin) for the Interest Period for such Loan, from (ii) the rate obtained by dividing the rate described in CLAUSE (I) of this SECTION 14.03 by a percentage equal to 100% (one hundred percent) minus the Eurocurrency Rate Reserve Percentage of such Bank for such Interest Period, payable on each date on which interest is payable. A certificate of each Bank setting forth in reasonable detail the calculation of the amount of such increased costs and such amounts as shall be necessary to compensate such Bank for such costs, shall be delivered to the Borrower and the Agent. The Borrower shall pay each Bank the amount shown as due on any such certificate within 30 (thirty) days after its receipt of the same.

Each Bank that became a "Bank" pursuant to the Original Agreement prior to the Primary Syndication Completion Date waives the right to claim additional amounts based upon reserve requirements in effect on the date it became a Bank; provided, however, that such waiver does not apply with respect to reserve requirements to which such Bank is entitled pursuant to Regulation D.

#### ARTICLE 15. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as of the Second Restatement Date (which representations and warranties shall be deemed to be repeated on the first day of each Interest Period) and as of the date of each advance of the Revolving Portion existing during the term of this Agreement (except to the extent such representations and warranties are expressly made only in reference to another specific date) that:

#### 15.01 CORPORATE EXISTENCE OF BORROWER AND SUBSIDIARIES

The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with a registered office in the Federal Republic of Germany. The Borrower has corporate power and authority to own its assets and carry on business as it is now being conducted in the United States and the Federal Republic of

Germany. Each of the Subsidiaries is a corporation or limited liability company duly organized and validly existing under the laws of its respective jurisdiction of incorporation, with the corporate power and authority to own its assets and carry on business as it is now being conducted.

#### 15.02 POWER AND AUTHORITY OF BORROWER

The Borrower had, at the time of its execution of the Original Agreement, the First Restated Agreement and the other Loan Documents executed in connection with the Original Agreement and the First Restated Agreement, the necessary corporate power and authority to enter into the Original Agreement, the First Restated Agreement and such Loan Documents to which it is a signatory and to exercise its rights and to perform its obligations under the Original Agreement, the First Restated Agreement and such other Loan Documents, and has duly taken all corporate action required to authorize the execution and delivery of, and the performance of its obligations under, the Original Agreement, the First Restated Agreement and such Loan Documents. The Borrower has the necessary corporate power and authority to enter into this Agreement and the other Loan Documents executed in connection with this Agreement to which it is a signatory and to exercise its rights and to perform its obligations under this Agreement and such Loan Documents, and has duly taken all corporate action required to authorize the execution and delivery of, and the performance of its obligations under, this Agreement and such Loan Documents.

#### 15.03 POWER AND AUTHORITY OF PLEDGORS AND GUARANTORS

Each of the Pledgors has the necessary corporate power and authority to enter into its respective Pledge Agreement and to perform its obligations under its respective Pledge Agreement, and has duly taken all corporate action required to authorize the execution and delivery of, and the performance of its obligations under, its respective Pledge Agreement; and each Guarantor has the necessary corporate power and authority to enter into its respective Guaranty and to perform its obligations under its respective Guaranty, and has duly taken all corporate action required to authorize the execution and delivery of, and the performance of its obligations under, its respective Guaranty.

#### 15.04 RANK OF INDEBTEDNESS

The claims of the Agent and the Banks against the Borrower under this Agreement will rank senior in respect of priority of payment to any Subordinated Debt and will rank at least pari passu in respect of priority of payment with all other present and future Indebtedness of the Borrower (excluding rights of secured parties with respect to Permitted Liens). As of the Second Restatement Date, under the laws in force in the jurisdiction of incorporation of each of the Guarantors and in the jurisdiction of its principal place(s) of business, the claims of the Agent and the Banks against the Guarantors under the respective Guaranties will rank at least pari passu in respect of priority of payment with

all present and future Indebtedness of the Guarantors (excluding rights of secured parties with respect to Permitted Liens) subject to matters described on SCHEDULE 4.

15.05 NO CONDITIONS TO PERFORMANCE AND ENFORCEABILITY

As of the Second Restatement Date, under the laws in force, all acts, conditions and things have been done, fulfilled and performed, including, without limitation, obtaining all authorizations, permits and consents, and making all filings and registrations, in order:

- (a) to enable the Borrower, Guarantor and Pledgors lawfully to enter into, to exercise rights under and to perform and to comply with their respective obligations under the Loan Documents; and
- (b) to ensure that the obligations assumed under the Loan Documents are legal, valid, binding and enforceable except as set forth on SCHEDULE 4.

15.06 NO FILINGS; NO STAMP TAXES

As of the Second Restatement Date, under the laws in force, it is not necessary in order to be legal, valid, binding and enforceable (subject to matters described in SCHEDULE 4):

- (a) that the Original Agreement, the First Restated Agreement, this Agreement or any of the other Loan Documents (except the Pledge Agreement for Societe Industrielle du Titane, S.A.) be filed, recorded or enrolled with any court or other authority in any jurisdiction; or
- (b) that any stamp, registration or similar tax be paid on or in relation to the Original Agreement, the First Restated Agreement, this Agreement or any other Loan Documents, except such actions or payments that have been taken as of the date of the Original Agreement or the First Restated Agreement or, with respect to this Agreement and the Loan Documents executed in connection with this Agreement, as of the Second Restatement Date.

15.07 LEGAL, VALID AND ENFORCEABLE OBLIGATIONS

The Loan Documents have been duly executed and delivered by the Borrower and its Subsidiaries who are signatories thereto, and each of such Loan Documents is a legal, valid and binding obligation of such entity and enforceable against such entity in accordance with the terms thereof, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by principles of equity and except as set forth in SCHEDULE 4. The execution and delivery of the Loan Documents by the Borrower, and its Subsidiaries, as the case may be, who are signatories thereto, do not contravene any provisions of the Certificate of Incorporation and By-Laws, or corresponding constitutive documents by whatever name, of the Borrower or its Subsidiaries.

15.08 BANKRUPTCY

Neither the Borrower nor any of its Subsidiaries has taken any corporate action nor have any other steps been taken or legal proceedings been started or (to the best of the Borrower's knowledge and belief) been threatened against any of the Borrower or any of its Subsidiaries for the winding-up, dissolution, administration or reorganization (in each such case under bankruptcy or insolvency laws) or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of it or them or of any or all of its or their assets or revenues, except the dissolution of Subsidiaries which are not Major Subsidiaries with respect to which notice is or has been given to the Agent.

15.09 NO DEFAULTS; NO LITIGATION

Neither the Borrower nor any of its Subsidiaries is in breach of or in default under any agreement to which it is a party or which is binding on it or any of its or their assets, which breach or default could reasonably be expected to have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole; and no action or administrative proceeding before any court, arbitration tribunal or governmental agency has been commenced or, to the Borrower's knowledge, threatened against the Borrower or any Subsidiary, or any assets of any of them, in which an adverse decision could reasonably be expected to have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole. As of the Second Restatement Date, SCHEDULE 5 sets forth a summary of each such action or administrative proceeding before any court, arbitration tribunal or governmental agency pending or, to the knowledge of the Borrower, threatened in writing, as of the Second Restatement Date which action or proceeding may result in liability to the Borrower and/or any Subsidiary in an amount in excess of DM 10,000,000 (Deutsche Mark Ten Million). As of the Second Restatement Date, except as may be set forth on SCHEDULE 5, neither NL Industries nor Kronos nor any other Affiliate of the Borrower is in breach of or default under any of (a) the Indentures or the senior secured notes or senior secured discount notes issued by NL Industries thereunder, (b) the "First-Tier Senior Mirror Note" or the "First-Tier Discount Mirror Note" (as such terms are defined in the Indentures) or (c) the Mirror Notes issued by the Borrower.

15.10 ENVIRONMENTAL COMPLIANCE

- (a) Each of the Borrower and its Subsidiaries is in compliance in all respects with all applicable Environmental Laws except where the failure to do so would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole;
- (b) Except where the failure to do so or absence thereof would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole, (1) each of the Borrower and its Subsidiaries has obtained or applied for all environmental, health and safety permits necessary for their respective operations;

(2) with respect to all such permits which have been obtained, all such permits are in good standing other than those which have expired as to which applications for renewal or extension are pending; (3) with respect to all such permits which have been obtained, each of the Borrower and its Subsidiaries is in compliance in all material respects with all terms and conditions of such permits; and (4) with respect to those permits for which applications are pending or renewals or extensions have been requested, neither the Borrower nor any of its Subsidiaries is in violation of any applicable law for the failure to have such permit in good standing;

- (c) Neither the Borrower nor any of its Subsidiaries nor any of their respective properties or operations nor, to the best knowledge of the Borrower, any of their formerly owned or operated properties are subject to any outstanding written notice or order from or agreement with any state, federal, foreign, territorial, provincial, local or other court or governmental authority, nor subject to any judicial or administrative proceeding respecting any Environmental Law, the result of which notice, order, agreement or proceeding would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole; and
- (d) Except as described on SCHEDULE 5, there are no conditions or circumstances associated with any property or operations of the Borrower or any Subsidiary or, to the best knowledge of the Borrower, property formerly owned or operated by the Borrower or any Subsidiary or any of their predecessors or former operations of the Borrower or its Consolidated Subsidiaries, including offsite disposal practices, which could give rise to Environmental Claims that would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole. As of the Second Restatement Date, SCHEDULE 5 also sets forth, for each site or location, a brief description of all Environmental Claims involving amounts in excess of DM 10,000,000 (Deutsche Mark Ten Million) (or the equivalent amount in any currency).

#### 15.11 FINANCIAL STATEMENTS

The consolidated and consolidating group financial statements of the Borrower and its Subsidiaries as of December 31, 1995 and as of September 30, 1996, respectively, and for the year and period then ended, present fairly, in all material respects, the consolidated group financial position and results of operations of the Borrower and its Subsidiaries as of such dates and for such periods, all in conformity with German GAAP, and neither the Borrower nor any of its Subsidiaries had any material liabilities as of December 31, 1995 or as of September 30, 1996 (as applicable), which are not reflected in such financial statements.

15.12 NO MATERIAL ADVERSE CHANGE

Since the preparation of the consolidated group financial statements of the Borrower and its Subsidiaries as of September 30, 1996, there has been no change which has had a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.

15.13 ACCURATE INFORMATION

The financial projections for the Borrower and NL Industries contained in the projection package dated January 15, 1997, were prepared in good faith based on assumptions believed by the management of the Borrower to be reasonable as of such date.

15.14 NO VIOLATION, DEFAULTS OR LIENS

The execution and delivery by the Borrower and its Subsidiaries, as the case may be, of the Loan Documents and the exercise by the Borrower of its rights, and the performance by the Borrower and its Subsidiaries of their respective obligations, under the Loan Documents will not result in:

- (a) the creation of or require the imposition of any Lien in favor of any Person other than the Agent and/or the Banks; or
- (b) the existence of any event of default (howsoever called) under any agreement or contract to which the Borrower or any Subsidiary is a party or by which any of them or their properties are bound which event of default would have a Material Adverse Effect on any Company; or
- (c) the violation of any law or regulation, or by any judgment, decree or order, applicable to the Borrower or its Subsidiaries which violation would have a Material Adverse Effect on any Company.

15.15 ERISA

- (a) Except as disclosed in SCHEDULE 6 A attached hereto, with respect to all Pension Benefit Plans which are or have been maintained by the Borrower or any member of the Controlled Group:
  - (1) there have not been any prohibited transactions, the aggregate liability for which either has not been satisfied in full or would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole;
  - (2) none of such plans has been terminated, the aggregate liability for which either has not been satisfied in full or the liability for which would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries,

taken as a whole, and if any of such plans has not been terminated, the aggregate liability and potential liability of the Borrower, if all such plans were to terminate, would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole;

- (3) none of such plans has any accumulated funding deficiency, whether or not waived, the aggregate liability for which either has not been satisfied in full or would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole;
- (4) neither the Borrower nor any member of the Controlled Group has incurred aggregate liabilities (excluding premium payments made as and when due) to the PBGC with respect to all such plans which liabilities would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole;
- (5) there have been no reportable events, the aggregate liability for which either has not been satisfied in full or would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.

For purposes of this SECTION 15.15, the terms "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned thereto by ERISA and/or the Code.

- (b) Except as disclosed in SCHEDULE 6 B with respect to all Pension Benefit Plans currently maintained or participated in by the Borrower or another member of the Controlled Group, the amount for which the Borrower would be liable pursuant to the provisions of Section 4063 of ERISA would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole, if all such plans had terminated.
- (c) Except as disclosed in SCHEDULE 6 C, neither the Borrower nor any other member of the Controlled Group is now, nor has the Borrower or any other member of the Controlled Group during the preceding 10 (ten) years ever been, a contributing employer to a multiple employer plan or a Multiemployer Plan with respect to which the Borrower or any other member of the Controlled Group has:
  - (1) withdrawn as a substantial employer or otherwise so as to become subject to the provisions of Section 4063 of ERISA or to any liability for withdrawal from such plan under either provisions of applicable non-U.S. laws or with respect to the applicable plan document, unless the aggregate liability and potential liability with respect to all such withdrawals has been satisfied in full or would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole;



- (2) incurred or caused to occur a "complete withdrawal" (within the meaning of Section 4203 of ERISA) or a "partial withdrawal" (within the meaning of Section 4205 of ERISA) from a Multiemployer Plan that is a Pension Benefit Plan so as to incur withdrawal liability under Section 4201 of ERISA, or incurred or caused to incur a similar event which could result in liability under non-U.S. laws with respect to Non-U.S. Employee Plans unless the aggregate liability and potential liability for all such withdrawals has been satisfied in full or would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries taken as a whole; or
- (3) been a party to any transaction or agreement under which the provisions of Section 4204 of ERISA were applicable, unless Borrower can no longer be held liable for any withdrawal liability with respect to a Multiemployer Plan to be contributed to by the purchaser pursuant to such transaction or agreement or the amount of the withdrawal liability which could be imposed on Borrower if there were a partial or complete withdrawal with respect to all such Multiemployer Plans would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.
- (d) Except as disclosed on SCHEDULE 6 D, the aggregate potential withdrawal liability of the Borrower with respect to all Multiemployer Plans and any similar liabilities of the Borrower and its Subsidiaries and potential liabilities under applicable non-U.S. laws or Non-U.S. Employee Plans would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole, if the Borrower and all members of the Controlled Group were to withdraw from all such Multiemployer Plans and were to incur all such liabilities and potential liabilities under applicable non-U.S. laws or with regard to the Non-U.S. Employee Plans.
- (e) Except as disclosed on SCHEDULE 6 E, there are no actions, suits or claims pending (other than routine claims for benefits) or, to the knowledge of the Borrower, threatened in writing which could reasonably be expected to be asserted against any Employee Plan maintained by the Borrower or against the Borrower or the assets of any such plan, the liability for which in the aggregate could have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.
- (f) All of the Employee Plans maintained by the Borrower or by any member of the Controlled Group comply or, upon amendment to conform to legislation within any applicable remedial amendment period, will comply in all material respects with their terms and with all applicable provisions of ERISA and the Code, and all other applicable laws, rules and regulations, except where the failure to do so would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.

15.16 NON-U.S. EMPLOYEE PLANS

Except as provided in SCHEDULE 6 F, with regard to Non-U.S. Employee Plans for which assets are not required to be or have not been set aside in a separate fund or trust, the reserves on the balance sheet of each Subsidiary, respectively, equal or exceed the present value of all accrued benefits under such Non-U.S. Employee Plans or the amount by which such reserves are less than the present value of all such accrued benefits would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole. The aggregate fair market value of the assets of Non-U.S. Employee Plans which are required to be funded by applicable law, or are funded to any extent (although not required to be funded), is at least equal to the sum of the accrued benefits and all other accrued liabilities provided for under such Non-U.S. Employee Plans, or if such value is not at least equal to such sum, the fact that, and the amount by which, the value is less than such sum would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole. The Borrower, its Subsidiaries and their Non-U.S. Employee Plans are in compliance in all material respects with all applicable laws, regulations and reserve and/or funding requirements concerning Non-U.S. Employee Plans, except where the failure to so comply would not have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.

15.17 INVESTMENT COMPANY

Neither the Borrower nor any Subsidiary is (a) an "investment company" within the meaning of the Investment Company Act of 1940, as amended; or (b) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

15.18 SUBSIDIARIES

As of the Second Restatement Date:

- (a) the Subsidiaries listed in SCHEDULE 7 are the only Subsidiaries of the Borrower, and the Subsidiaries designated as Major Subsidiaries in SCHEDULE 7 are the only Major Subsidiaries of the Borrower;
- (b) SCHEDULE 7 sets forth the jurisdiction of incorporation, principal place of business and percentage of ownership of the Borrower or any of its Subsidiaries in such Subsidiaries;
- (c) The Borrower or its Subsidiaries have good and marketable title to the shares of the Major Subsidiaries comprising the respective percentages of ownership indicated on SCHEDULE 7, free and clear of any Liens, except Liens in favor of the Agent and the Banks under the Loan Documents;

- (d) Neither the Borrower nor any of its Subsidiaries have sold or agreed to sell or otherwise dispose of any right, title or interest in any of its or their shares of any of the Subsidiaries described on SCHEDULE 7;
- (e) All of the shares of capital stock of the Pledged Subsidiaries have been duly authorized and are fully paid and non-assessable and, in the case of Pledged Subsidiaries issuing registered shares, are in registerable form; SCHEDULE 7 sets forth, with respect to the Pledged Subsidiaries, the number of shares of each class of capital stock authorized, the number of shares of each class of capital stock issued and outstanding and, if applicable, the stock certificate numbers which evidence such issued and outstanding shares; and, as of the Second Restatement Date, no options, warrants, conversion or other rights, agreements or commitments of any kind to a Person other than the Borrower or its Subsidiaries or officers or directors thereof obligating any of the Pledged Subsidiaries to issue or sell any shares of its capital stock of any class, or any securities convertible into or exchangeable for any of such shares, are outstanding, nor has any authorization therefor been given;
- (f) There are no contractual restrictions on the right to vote any shares of the Major Subsidiaries owned by the Borrower or its Subsidiaries, or the right to sell, transfer or otherwise dispose of such shares; and
- (g) The Pledge Agreements, which have been accompanied by any required delivery of share certificates, create a valid first priority perfected security interest in the shares of the respective Subsidiaries pledged thereunder.

#### 15.19 MARGIN STOCK

Neither the Borrower nor any Subsidiary is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock or margin securities (within the meaning of Regulations U or X of the Federal Reserve) or owns any such margin stock or margin security, and no part of the proceeds of any extension of credit under this Agreement will be used by the Borrower or any Subsidiary to purchase or carry any such margin stock or margin security or to extend credit to others for the purpose of purchasing or carrying any margin stock or margin security.

#### 15.20 TAXES

The Borrower and its Subsidiaries have filed all income tax returns and all other material tax returns that are required to be filed by them and have paid all taxes due for the period covered by such returns or pursuant to any material assessment received by the Borrower or any of its Subsidiaries, except for those being contested in good faith by appropriate proceedings against which adequate reserves are being maintained if required in accordance with German GAAP. As of the Second Restatement Date, except as may be specified on SCHEDULE 11, (i) none of the tax returns of the Borrower or any of its

Subsidiaries is under audit, (ii) there is no dispute, action or administrative proceeding by or before any court, arbitration, tribunal or governmental authority pending or, to the Borrower's knowledge, threatened in writing against the Borrower or any Subsidiary relating to any income taxes or similar types of taxes involving amounts in excess of DM 5,000,000 (Deutsche Mark Five Million) (or the equivalent amount in any currency), and (iii) no Lien referred to in CLAUSE (E) of the definition of the term "Permitted Lien" arising from income tax assessments or similar types of tax assessments has been granted or exists involving amounts in excess of DM 5,000,000 (Deutsche Mark Five Million) (or the equivalent amount in any currency).

15.21 INTELLECTUAL PROPERTY RIGHTS

- (a) Except as set forth on SCHEDULE 8 A, the Borrower and its Subsidiaries either own or are licensed to use pursuant to the license agreements with Affiliates of the Borrower set forth on SCHEDULE 8 B (the "Affiliate License Agreements") or pursuant to the license agreements with parties other than Affiliates of the Borrower set forth on SCHEDULE 8 C (the "Third Party License Agreements") the Intellectual Property Rights. Each of the Affiliate License Agreements and the Third Party License Agreements is presently in full force and effect, neither the Borrower, any of its Affiliates nor any of its Subsidiaries is in default under any Affiliate License Agreement or Third Party License Agreement and, pursuant to the Affiliate License Agreements and the Third Party License Agreements, the Borrower, its Affiliates and its Subsidiaries hold (and following the completion of the transactions contemplated by this Agreement will continue to hold) licenses to all Intellectual Property Rights material to the conduct of their businesses.
- (b) Except for the Affiliate License Agreements and the Third Party License Agreements and except as set forth on SCHEDULE 8 D, there are no agreements pursuant to which the Borrower or its Subsidiaries are licensed to use Intellectual Property Rights.
- (c) SCHEDULE 8 E sets forth the owners among the Borrower's Affiliates or Subsidiaries of Intellectual Property Rights which are patented or for which patent applications have been filed.
- (d) SCHEDULE 8 F sets forth the owners among the Borrower's Affiliates or Subsidiaries of trademarks included in the Intellectual Property Rights which are registered or for which applications for registration have been filed.
- (e) To the best knowledge of the Borrower, (i) the current manufacturing operations of the Borrower's Subsidiaries as of the Second Restatement Date do not infringe on any valid patent, trade secret or copyright of any other Person and (ii) the current marketing and sales operations of the Borrower and its Subsidiaries as of the Second Restatement Date do not infringe on any valid trademark or trade name of any other Person which, in each case, if enforced would have a Material

Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.

- (f) Except as set forth on SCHEDULE 8 G, no claims by any other Person alleging infringement of any patent, trade secret, trademark, trade name or copyright of such Person and relating to the current manufacturing, marketing or sales operations of the Borrower and its Subsidiaries as of the Second Restatement Date have been communicated to an employee of Borrower or its Subsidiaries charged with responsibility for Intellectual Property Rights and are pending against Borrower or its Subsidiaries, nor have any such claims been made and so communicated within the twelve months preceding the Second Restatement Date.
- (g) The execution, delivery and performance of the Loan Documents to which the Borrower is a party will not in any material manner or to any material extent impair the ownership of or any rights under or the license of, as the case may be, any of the Intellectual Property Rights utilized by the Borrower and/or its Subsidiaries.

#### 15.22 KEY CONTRACTS

The Borrower has delivered to the Agent, true, correct and complete photocopies of the Leverkusen Lease, the Service Contract and all existing loan agreements, including all Project Financing agreements, which, if terminated or materially modified, would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole. As of the Second Restatement Date, SCHEDULE 12 hereto specifically identifies each of such loan agreements.

#### 15.23 AFFILIATE TRANSACTIONS

SCHEDULE 9 sets forth all agreements or arrangements, whether or not in the ordinary course of business, existing on the Second Restatement Date, which involve payments or transfers of assets (other than inventory in the ordinary course of business) in excess of DM 5,000,000 (Deutsche Mark Five Million) per calendar year by the Borrower and/or its Subsidiaries to Affiliates (other than the Borrower and its Subsidiaries).

#### 15.24 NL DEBT OFFERING; MIRROR NOTES; SUBORDINATED LOANS; CONSIDERATION FOR PREPAYMENTS

- (a) The gross proceeds of the NL Debt Offering were not less than \$350,000,000 (Three Hundred Fifty Million U.S. Dollars), all of which gross proceeds, less the NL Debt Offering Expenses, were paid by NL Industries or Kronos to the Agent on behalf of the Borrower as the First Prepayment pursuant to SECTION 2.01 of the First Restated Agreement. The aggregate principal amount of the Mirror Notes issued by the Borrower did not exceed the gross proceeds of the NL Debt Offering. The only consideration received or to be received by NL Industries, Kronos or any other Affiliate of the Borrower from the Borrower in consideration for or otherwise

in connection with or relating to the First Prepayment is the Indebtedness evidenced by the Mirror Notes, and there is no other Indebtedness, liability or obligation due or owing, or that may become due or owing, by the Borrower as consideration for, or in any way in connection with or relating to, the First Prepayment.

- (b) The amount of the Kronos Subordinated Loan made by Kronos to the Borrower on December 31, 1996, was DM 25,000,000 (Deutsche Mark Twenty-Five Million). The amount of the NL Subordinated Loan made by NL Industries to the Borrower on or before the Second Restatement Date was DM 260,000,000 (Deutsche Mark Two Hundred Sixty Million), DM 150,000,000 (Deutsche Mark One Hundred Fifty Million) of which proceeds of the NL Subordinated Loan are, concurrently with the Second Restatement Date, being paid by NL Industries to the Agent on behalf of the Borrower as the Second Prepayment. The Subordinated Loan Documents evidence and represent the entire agreement between NL Industries and the Borrower relating to the Kronos Subordinated Loan and the NL Subordinated Loan.

#### 15.25 TAXES RELATING TO MIRROR NOTES

Under the laws in force at the First Restatement Date and the Second Restatement Date, no Taxes were or will be required to be deducted or withheld from or with respect to any sum payable or to be paid under the Mirror Notes.

#### 15.26 OWNERSHIP OF MATERIAL ASSETS

As of the Second Restatement Date, SCHEDULE 13 sets forth each tangible property or asset (or group of related properties or assets), whether real or personal property but exclusive of cash balances, inventory and accounts receivable, of the Borrower or any of its Subsidiaries which individually or in the aggregate, has a book value or estimated fair market value of DM 20,000,000 (Deutsche Mark Twenty Million) (or equivalent amount in any currency) or more, and also sets forth the owner(s) of each such property or asset (or group of related properties or assets).

#### 15.27 OPTIONAL PREPAYMENTS

As of the Second Restatement Date, no optional prepayments of the Loan have been made with funds provided by Kronos and/or NL Industries which would allow for the making of Restricted Payments in accordance with SECTION 16.20(B).

#### 15.28 CERTAIN ADJUSTED RESTRICTED PAYMENTS

The aggregate of all Adjusted Restricted Payments made by the Borrower or any of its Subsidiaries to any Affiliate of the Borrower (other than Subsidiaries of the Borrower) during 1996 did not exceed DM 47,000,000 (Deutsche Mark Forty-Seven Million).

15.29 SOLVENCY OF RHEOX, INC.

A condition to the closing of the January 1997 \$150,000,000 loan to Rheox, Inc. is the issuance by an independent valuation firm of a solvency opinion with respect to the financial condition of Rheox, Inc. after giving effect to such loan and a dividend in the maximum amount of \$130,000,000 from Rheox, Inc. to NL Industries.

ARTICLE 16. UNDERTAKINGS AND COVENANTS

The Borrower agrees that so long as the Loan or any portion thereof or any Commitment therefor is outstanding, the Borrower shall do the following:

16.01 DELIVERY OF FINANCIAL STATEMENTS, ETC.

(a) As soon as the same become available, but in any event within 90 (ninety) days after the end of each of its fiscal years, deliver to the Agent, in sufficient copies for distribution to all the Banks, the audited consolidated group financial statements (including a balance sheet and statements of operations, stockholders' equity and cash flow) of the Borrower and its Subsidiaries for such fiscal year, and, as unaudited supplemental information:

- (1) the related consolidating financial statements by country; and
- (2) separate balance sheets, as included in the consolidated group balance sheet of the Borrower, for each of Kronos Titan, Kronos Europe S.A./N.V., Titania A/S, Kronos Titan A/S and Kronos Canada, Inc.;

all as prepared in accordance with German GAAP, consistent with the preparation of the financial statements for the prior financial period except to the extent that any inconsistent practice is specified in the certificate described below, together with a certificate executed by the chief financial officer of the Borrower in the form of EXHIBIT Q including calculations of the provisions of SECTIONS 16.18 through 16.25, showing in reasonable detail the basis for such calculations.

(b) Within 60 (sixty) days after the end of each fiscal quarter (excluding the fourth quarter), unaudited consolidating group financial statements of the Borrower and its Subsidiaries, by country, prepared in accordance with German GAAP, consistent with the preparation of the financial statements for the prior financial period except to the extent that any inconsistent practice is specified in the certificate described below, and, as supplemental information, separate balance sheets, as included in the consolidating balance sheets of the Borrower and its

Subsidiaries, for each of Kronos Titan, Kronos Europe S.A./N.V., Titania A/S, Kronos Titan A/S and Kronos Canada, Inc., for each fiscal quarter (excluding the fourth quarter, except as provided below) and, commencing with the third fiscal quarter of 1993, a certificate executed by the chief financial officer of the Borrower in the form of EXHIBIT R including calculations of the provisions of SECTIONS 16.18 through 16.25, showing in reasonable detail the basis for such calculations and including (for each fiscal quarter, including the fourth quarter) calculations of Adjusted Restricted Payments made through the end of such fiscal quarter, showing in reasonable detail the basis for such calculations.

- (c) Promptly deliver notice thereof to the Agent, upon the commencement of any action or other proceedings by or against the Borrower or any of its Subsidiaries under any bankruptcy, insolvency or other similar law.
- (d) Upon request of the Agent, furnish the Agent with such information about the business, assets and financial condition of each of the Borrower and/or any of its Subsidiaries as the Agent, or any Bank through the Agent, may reasonably request; provided, however, nothing in this Agreement shall entitle the Agent or the Banks to request, nor require the Borrower or its Subsidiaries to provide, (i) nonpublic confidential technical information and knowhow or information relating to processes of or used by the Borrower or its Subsidiaries or (ii) information relating to the costs of manufacture (including, without limitation, raw materials supply contracts) any of which, if made public, would, in the reasonable opinion of the Borrower, impair its competitive position, provided, however, that the restriction on information set forth in CLAUSES (I) and (II) (A) shall not apply if an Event of Default exists and is continuing and (B) does not include information which:
  - (1) is or becomes generally available to the public other than as a result of a disclosure by the Agent or the Banks which are signatories to this Agreement or their respective directors, officers, employees, Affiliates, attorneys, accountants or other professional advisors in violation of this provision;
  - (2) was available to the Agent or any Bank on a non-confidential basis prior to its disclosure to any other Bank; or
  - (3) becomes available to the Agent or any Bank on a non-confidential basis from a Person (other than the Borrower or its Affiliates) who, to the reasonable belief of the Agent or such Bank, is not bound by a confidentiality agreement and is not prohibited from transmitting such information under applicable law.
- (e) Upon the request of the Agent, and at the Bank's expense, permit an auditor of the Agent to audit the financial statements and review all the financial records of the



Borrower and/or any of its Subsidiaries and permit the Banks to receive additional information from the auditors of the Borrower and its Subsidiaries.

- (f) Within 5 (five) days after the end of each month, (i) a report in form and substance reasonably satisfactory to the Agent which sets forth the maximum committed amount, the outstanding principal amount and identities of the debtor and payee of all Indebtedness of the Borrower or any of its Subsidiaries as of the end of such immediately preceding month, and (ii) the Liquidity Report (as such term is defined in the Liquidity Undertaking).

#### 16.02 OPERATING PERMITS

Inform the Agent promptly about the refusal of (or written notice of intent to refuse) any application for any operating permits and/or licenses or the suspension or withdrawal of any operating permits or licenses by governmental authorities having jurisdiction over the Borrower or any of its Subsidiaries, as the case may be, if the refusal of such application or the occurrence of such refusal, suspension or withdrawal would have a Material Adverse Effect on any of the Companies.

#### 16.03 ENVIRONMENTAL COMPLIANCE

Cause each of the Companies to comply in all material respects with all applicable Environmental Laws and all other laws, rules, regulations and orders relating to the disposal of Contaminants except to the extent failure to comply would not have a Material Adverse Effect on such Company.

#### 16.04 COMPLIANCE WITH APPLICABLE LAW

Comply, and cause each of its Subsidiaries to comply, in all material respects with all applicable laws, ordinances, rules, regulations and requirements of governmental authorities (including, without limitation, applicable Environmental Laws) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings and for which adequate reserves are being maintained if required by German GAAP or where noncompliance with such laws, ordinances, rules, regulations or requirements would not have a Material Adverse Effect on any of the Companies.

#### 16.05 BOOKS AND RECORDS

Keep, and cause each of its Subsidiaries to keep, proper books and records and accounts in which full, true and correct entries in conformity with local standards shall be made of all material dealings and transactions in relation to its business and activities; and subject to SECTION 16.01(D) permit, and cause each of its Subsidiaries to permit, representatives of any Bank, at such Bank's expense, to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records (including, without limitation, all documents relating to environmental control of the production of

titanium dioxide pigments) and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent accountants, and authorize and instruct and cause each of its Subsidiaries to authorize and instruct said officers, employees and accountants to so discuss the respective affairs, finances and accounts, all of the foregoing at such reasonable times and as often as may reasonably be requested with prior notice.

16.06 ENVIRONMENTAL REPORTS

- (a) Notify the Agent and the Banks in writing, promptly upon the Borrower or any of its Subsidiaries learning of any of the following which could have a Material Adverse Effect on any of the Companies:
  - (1) any Environmental Claim against the Borrower or any of its Subsidiaries, including one to take a remedial, removal or other action with respect to any Contaminants contained on any property whether or not owned by the Borrower or Subsidiary so notified;
  - (2) any notice of violation of any Environmental Law; and
  - (3) the commencement of any judicial or administrative proceedings or investigation alleging a violation of any Environmental Law.
- (b) Upon written request by the Agent or any Bank submit, and cause each of its Subsidiaries to submit, to the Agent or such Bank, at reasonable intervals, a report providing an update of the status of any environmental, health or safety compliance, hazard or liability issue identified in any notice required pursuant to this SECTION 16.06.

16.07 INTELLECTUAL PROPERTY RIGHTS

- (a) Not permit any of its Subsidiaries to assign the Affiliate License Agreements to which they are a party or to amend or modify in any respect adverse to any Company or any Subsidiary, or allow to expire, or terminate any of the Affiliate License Agreements to which they are a party, provided that this provision shall be without prejudice to the right of a party to seek damages or specific performance for breach of any of the Affiliate License Agreements; and
- (b) maintain, protect and enforce, and require each Subsidiary to take reasonable steps to maintain, protect and enforce, the Intellectual Property Rights owned by it (if any), consistent with prior practice by and among Kronos, Kronos U.S. and their Affiliates and, in any event, consistent with prudent business practices of the Borrower and the Subsidiaries.

16.08 LIENS

Not create or permit to exist, or permit its Subsidiaries to create or permit to exist, any Lien, except Permitted Liens.

#### 16.09 DISPOSITIONS

Not make, nor permit any of its Subsidiaries to make, a Disposition of any asset:

- (a) other than in the ordinary course of business;
- (b) for less than fair market value (other than a Disposition described in SECTIONS 16.09(A), (C), (D), (F) or (G));
- (c) other than transactions made in accordance with SECTION 16.15(C), Restricted Payments made in accordance with SECTION 16.20 and payments made under the Mirror Notes in accordance with the terms of the Mirror Notes;
- (d) other than interest payments on Subordinated Debt, if and to the extent permitted by the Subordination Agreement, provided that there exists no Default with respect to payment of any amounts due and owing under this Agreement and no Default exists or would result from such payment;
- (e) except for cash, if the aggregate Net Proceeds of such Dispositions (other than a Disposition described in CLAUSES (A), (C), (D), (F) or (G) of this SECTION 16.09), either alone or in the aggregate, during any calendar year during the term of this Agreement exceeds DM 100,000,000 (Deutsche Mark One Hundred Million);
- (f) other than Dispositions between and among the Borrower and its Subsidiaries or between and among the Subsidiaries; provided, however, that with respect to Kronos Canada, Inc., Kronos Europe S.A./N.V., Kronos Titan, Kronos Titan A/S and Titania A/S (the "Operating Subsidiaries"), without approval of the Majority Banks, the Borrower shall not make, nor permit its Operating Subsidiaries to make, a Disposition to the Borrower or another Subsidiary of assets in such Operating Subsidiaries consisting of production capacity, inventory (other than in the ordinary course of business), accounts receivable (other than to Kronos World Services S.A./N.V. (and as long as it remains a Subsidiary) for cash) or Intellectual Property Rights (other than licenses and sub-licenses of such Intellectual Property Rights), and further the Borrower shall not transfer, nor permit any of its Subsidiaries to transfer, to any other Subsidiary the Stock of any Pledged Subsidiary without the approval of the Majority Banks;
- (g) notwithstanding anything in this Agreement to the contrary, other than Dispositions, termination or shortening of the term, or modifications, of the Leverkusen Lease for full, fair and reasonable consideration; or

- (h) other than Dispositions prior to the Second Restatement Date of the distributorship/marketing arrangements existing as of the First Restatement Date between Rheox, Inc. and/or its subsidiaries and certain Subsidiaries of the Borrower.

Not use, or allow to be used, directly or indirectly, the proceeds of any Disposition permitted by this Section 16.09 to make any payment or other transfer of funds to or for the benefit of any Affiliate of the Borrower other than the Subsidiaries of the Borrower (if and to the extent that such payment or transfer to Subsidiaries is not otherwise prohibited by this Agreement); provided, however, that, subject to compliance with the other terms of this Agreement, the proceeds of any such permitted Disposition may be used to make Restricted Payments if and to the extent that such Restricted Payments are permitted pursuant to Section 16.20 and to make payments under the Mirror Notes in accordance with the terms of the Mirror Notes.

#### 16.10 MERGER; CONSOLIDATION

- (a)
  - (i) Not merge or consolidate with any other Person whereby the Borrower shall be the surviving corporation without the prior written consent of the Majority Banks.
  - (ii) Not merge or consolidate with or into any other Person whereby any other Person would be the surviving entity without the prior written consent of the Majority Banks (662/3%).
- (b) Not permit Kronos Canada, Inc., 2927527 Canada Inc., 2969157 Canada Inc. or Kronos Europe S.A./N.V. to merge or consolidate with or into any other Person (other than, as to 2927527 Canada Inc. only, the Borrower), unless the survivor shall (i) be a corporation organized under the laws of Canada (with respect to Kronos Canada, Inc., 2927527 Canada Inc. or 2969157 Canada Inc.) or Belgium (with respect to Kronos Europe S.A./N.V.); (ii) have a net worth approximately equal to or greater than that of Kronos Canada, Inc., 2927527 Canada Inc., 2969157 Canada Inc. or Kronos Europe S.A./N.V., as the case may be; (iii) have assumed all of the liabilities of Kronos Canada, Inc., 2927527 Canada Inc., 2969157 Canada Inc. or Kronos Europe S.A./N.V., as the case may be; and (iv) be a Subsidiary directly Controlled by the Borrower.
- (c) Not permit Kronos Titan, Kronos Titan A/S or Titania A/S to merge or consolidate with or into any Person unless the survivor shall (i) be a corporation organized under the laws of Germany (with respect to Kronos Titan) or Norway (with respect to Kronos Titan A/S or Titania A/S); (ii) have a net worth approximately equal to or greater than that of Kronos Titan, Kronos Titan A/S or Titania A/S, as the case may be; (iii) have assumed all of the liabilities of such entity; and (iv) be a Subsidiary either directly Controlled by the Borrower or directly Controlled by a Subsidiary of the Borrower;

provided, however, that any other Subsidiary may merge with or into any other Subsidiary.

16.11 EMPLOYEE MATTERS

(a) DISCHARGE OF ERISA LIABILITY

Pay and discharge promptly or cause any Subsidiary to pay and discharge promptly any liability imposed upon it pursuant to the provisions of Title IV of ERISA or the provisions of any similar applicable Non-U.S. law or similar provisions provided for in any applicable plan or document relating to such plan; provided, however, that neither the Borrower nor any Subsidiary shall be required to pay any such liability if:

- (i) the amount, applicability or validity thereof shall be diligently contested in good faith by appropriate proceedings; and
- (ii) the Borrower or the Subsidiary, as the case may be, shall establish and maintain reserves, if required in accordance with German GAAP which, in the opinion of the Borrower's independent accountants, are adequate with respect thereto.

(b) ERISA NOTICES

Deliver to the Banks promptly, and in any event within 10 (ten)

working days:

- (i) when the Borrower or any member of the Controlled Group gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Pension Benefit Plan that might constitute grounds for a termination of such Pension Benefit Plan under Title IV of ERISA, or knows that the plan administrator of any Pension Benefit Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC;
- (ii) when the Borrower or a member of the Controlled Group, or an administrator of any Pension Benefit Plan files with participants, beneficiaries or the PBGC a notice of intent to terminate any such plan in a distress termination pursuant to Section 4041(c) of ERISA, a copy of any such notice;
- (iii) upon the receipt of notice by the Borrower or member of the Controlled Group or an administrator of any Pension Benefit Plan from the PBGC of

the PBGC's intention to terminate any Pension Benefit Plan or to appoint a trustee to administer any such plan, a copy of such notice;

- (iv) when the Borrower knows or has reason to know of any event or condition which might constitute grounds under the provisions of Section 4042 of ERISA for the termination of (or the appointment of a trustee to administer) any Pension Benefit Plan or when Borrower or any member of the Controlled Group files an application under Section 412(d) of the Code for a waiver of the minimum funding standards with respect to a Pension Benefit Plan, an explanation of such event or condition or a copy of such application, as the case may be; or
- (v) upon the receipt by the Borrower or by a member of the Controlled Group of aggregate assessments in excess of \$1,000,000 (U.S. Dollars One Million) of withdrawal liability under Section 4201 of ERISA from Multiemployer Plans, a copy of each such assessment.

(c) ERISA TRANSACTIONS

Not engage in any transaction or permit any Subsidiary to engage in any transaction which could subject the Borrower or any Subsidiary to a civil penalty assessed pursuant to the provisions of Section 502 of ERISA or tax imposed under the provisions of Section 4975 of the Code, which civil penalty or tax would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.

(d) NO TERMINATION OF EMPLOYEE PLANS

Not terminate any Pension Benefit Plan of the Borrower or any member of the Controlled Group in a "distress termination" under Section 4041 of ERISA, or take any other action or have any event occur with respect to an Employee Plan, including, without limitation, any action or event for which the Borrower must provide the Banks with a copy of a notice, an explanation of an event or condition, or a copy of an assessment under this SECTION 16.11, which would have a Material Adverse Effect on the Borrower and its Consolidated Subsidiaries, taken as a whole.

(e) NON-U.S. EMPLOYEE PLANS

Not permit any condition to exist with respect to a Non-U.S. Employee Plan which would have a Material Adverse Effect on any Company.

16.12 INTEREST RATE PROTECTION AGREEMENTS

Shall, with financial institutions and at rates reasonably acceptable to the Agent, maintain Interest Rate Protection Agreements with respect to a minimum of 45% (forty-five percent) of the amount of the Loans outstanding at any time through May 31, 1995.

16.13 INDEBTEDNESS TO SUBSIDIARIES

Shall not make any payments with respect to any Indebtedness owed by the Borrower to any Subsidiary if a Default exists and is continuing, or would result from the making of such payment.

16.14 MAINTENANCE OF SEPARATE CORPORATE IDENTITIES

Shall, for so long as the Loan or any portion thereof or any Commitment therefor is outstanding,

- (a) provide, that at all times, at least one (1) member of its board of directors or at least one (1) of its officers will be a Person who is not an officer, director or employee of any corporation which Controls the Borrower;
- (b) maintain corporate records and books of account separate from those of any corporation which Controls the Borrower and separate from those of any Major Subsidiary;
- (c) not commingle its funds or assets with those of any corporation which Controls the Borrower or with those of any Major Subsidiary; and
- (d) provide that its board of directors will hold all appropriate meetings, which will not be jointly held with any corporation which Controls the Borrower, to authorize and approve the Borrower's corporate actions.

16.15 AFFILIATE TRANSACTIONS

Not, nor permit any of its Subsidiaries, directly or indirectly, to pay any funds (including, without limitation, payments of principal or interest on Indebtedness or Subordinated Debt to any Affiliate) to or for the account of, make any investment in, lease, sell, transfer or otherwise dispose of, any assets, tangible or intangible, grant loans, guarantees, suretyships to, enter into management, consulting, brokerage, advisory or similar agreements or arrangements with, or participate in or effect any transaction in connection with any joint enterprise or other joint arrangement with, any Affiliate (other than the Borrower and its Subsidiaries), provided, however, that the foregoing shall not restrict:

- (a) transactions which are on terms and conditions no less favorable to the Borrower and its Subsidiaries than would apply in comparable arm's-length transactions

(involving comparable circumstances) with a Person not an Affiliate; provided that (i) in no event shall payments provided for in any management, consulting, advisory or similar agreements or arrangements (other than the existing agreements and arrangements described in SCHEDULE 9) exceed, in the aggregate, DM 10,000,000 (Deutsche Mark Ten Million) in any calendar year; (ii) in no event shall amounts paid to Affiliates as brokerage fees in connection with Dispositions to non-Affiliates exceed the lesser of (A) 3% (three percent) of the Gross Proceeds or (B) customary fees and expenses which would be incurred pursuant to an arm's length agreement or arrangement); and (iii) with respect to sales or transfers of product or similar assets by the Borrower or any of its Subsidiaries to Affiliates of the Borrower (other than the Borrower and its Subsidiaries) (A) all such sales or transfers shall be on payment terms that provide for full payment in cash on or before 45 (forty-five) days after the date of such sale or transfer and (B) the aggregate amount owing to the Borrower and its Subsidiaries for all such sales or transfers (net of any amounts owing by the Borrower and its Subsidiaries with respect to sales or transfers of product or similar assets to such Affiliates of the Borrower) shall not at any time exceed \$15,000,000 (Fifteen Million Dollars) (or the equivalent amount in any currency);

- (b) Restricted Payments made in accordance with SECTION 16.20;
- (c) transactions by the Borrower or any Subsidiary with any Affiliate (including, without limitation, loans and advances), to the extent that the aggregate amount of such transactions when aggregated with Restricted Payments shall not exceed the limit on payments in the periods specified under SECTION 16.20 and shall otherwise be made in accordance with SECTION 16.20;
- (d) the Affiliate License Agreements and transactions by the Borrower or any Subsidiary pursuant to the Affiliate License Agreements; or
- (e) the issuance and payment of the Mirror Notes in accordance with the terms of the Mirror Notes.

#### 16.16 TRANSACTIONS WITH SUBSIDIARIES

If the Borrower or any Subsidiary, or a Subsidiary and another Subsidiary, creates or enters into any agreement with a Subsidiary which is on terms and conditions more favorable to such Subsidiary than would apply in a similar agreement with a Person which is not an Affiliate, then, in the event that any such benefitted Subsidiary merges or consolidates with another entity such that the surviving entity is no longer a Subsidiary, or such agreement is, or the benefits of such agreement are, sold (in one transaction or a series of transactions to a Person that is not a Subsidiary), any such agreement involving such benefitted Person must, prior to such merger, consolidation or sale of assets, be modified so that the terms and conditions thereof would be no more favorable than would apply with a Person which is not an Affiliate.



16.17 NOTICE OF DEFAULT; CHANGE OF LAW

Advise the Agent promptly upon the Borrower becoming aware of (i) any Default under this Agreement or any of the other Loan Documents or (ii) any change in law which would cause any representation or warranty in SECTION 15.04, 15.05, 15.06, 15.07, or 15.14 of this Agreement to be incorrect if such change in law were in effect on the Second Restatement Date.

16.18 LIMITATION OF INDEBTEDNESS

Not incur any Indebtedness other than Permitted Indebtedness.

16.19 SUBSIDIARY INDEBTEDNESS

Not allow any Subsidiary to incur any Indebtedness other than (a) Permitted Indebtedness or (b) subject to the limitations of SECTION 16.18, Indebtedness in respect of unfunded vested benefits under any laws governing non-U.S. Employee Plans.

16.20 RESTRICTED PAYMENTS

Not make or declare any Restricted Payments except for the following Restricted Payments if no Default exists or would result after giving effect thereto:

- (a) As a result of the First Prepayment, the Borrower may make Restricted Payments to Kronos in an aggregate amount not to exceed DM 75,000,000 (Deutsche Mark Seventy-Five Million), provided that (i) none of such Restricted Payments may be made prior to January 1, 1995 and (ii) the aggregate of all such Restricted Payments made during calendar year 1995 shall not exceed DM 50,000,000 (Deutsche Mark Fifty Million); and
- (b) The Borrower may make Restricted Payments to Kronos and/or NL Industries if and to the extent that such payments do not exceed, at any time when paid, the positive remainder, if any, of (i) the sum of (A) the optional prepayments of the Loan made with funds provided by Kronos and/or NL Industries as described in SECTION 8.02, exclusive of any optional prepayments directly or indirectly made with funds constituting capital contributions made or Subordinated Debt advanced to the Borrower and satisfying all or any portion of the "Maximum Required Investment Amount" as such term is defined in the Liquidity Undertaking and exclusive of the First Prepayment, the Second Prepayment and any other prepayments made with the proceeds of the NL Subordinated Loan or the Kronos Subordinated Loan, plus (B) interest accrued, at a rate not to exceed the average rate of interest applicable to the Loans plus 0.50% (one-half of one percent) as of the Business Day upon which such Restricted Payment is made, on any Subordinated Debt borrowed by the Borrower from Kronos and/or NL Industries and incurred to finance such optional prepayments of the Loan referred to in

CLAUSE (A) preceding minus (ii) the amount of Restricted Payments then previously paid by the Borrower to Kronos and/or NL Industries pursuant to this CLAUSE (B); for purposes of this CLAUSE (B), no such optional prepayment (or portion thereof) shall be deemed to have been made with funds provided by Kronos and/or NL Industries unless, in connection with the prior written notice of such optional prepayment given pursuant to SECTION 8.02, the Borrower notifies the Agent that such optional prepayment (or portion thereof) shall be made with funds provided by Kronos and/or NL Industries and, at the time of such prepayment, the Agent receives evidence reasonably satisfactory to it that such optional prepayment (or portion thereof) was in fact paid with funds provided by Kronos and/or NL Industries and placed into the Special Purpose Account (or, if so agreed by the Agent, into another special, restricted account of the Borrower maintained at, and acceptable to, the Agent from which the Borrower may not make withdrawals or otherwise direct distributions except with respect to any interest to accrue thereon) and then applied against the Loan pursuant to SECTION 8.02.

Notwithstanding the foregoing, the Borrower may make Restricted Payments, even if the foregoing conditions are not met, but only if and to the extent that, prior to or concurrently with the making of any such Restricted Payment, a cash equity capital contribution is made to the Borrower by the Person to whom such Restricted Payment is to be made such that the sum of Consolidated Equity plus Subordinated Debt of the Borrower is at least equal to the sum of Consolidated Equity plus Subordinated Debt of the Borrower if such Restricted Payment had not been made.

16.21 MAXIMUM FUNDED DEBT RATIO; MAXIMUM INDEBTEDNESS

Maintain for each fiscal quarter during the fiscal years set forth below a Funded Debt Ratio not exceeding the maximum Funded Debt Ratio specified opposite each such fiscal year:

YEAR	MAXIMUM FUNDED DEBT RATIO
1996	0.95 to 1.00

Effective as of the Second Restatement Date, allow to exist or remain outstanding Indebtedness of the Borrower and its Subsidiaries on a consolidated basis, exclusive of the Indebtedness evidenced by the Mirror Notes, that does not, at any time during any particular fiscal year, exceed the aggregate amount set forth in the table below applicable to such year:

YEAR	Maximum Aggregate AMOUNT OF INDEBTEDNESS
1997	DM 430,000,000
1998	DM 430,000,000
1999	DM 400,000,000
2000	DM 300,000,000

16.22 MINIMUM CONSOLIDATED EQUITY

Maintain for each fiscal quarter during the fiscal years set forth below Consolidated Equity of not less than the minimum Consolidated Equity specified opposite each such fiscal year:

YEAR	MINIMUM CONSOLIDATED EQUITY
1997	DM 1,600,000,000
1998	DM 1,325,000,000
1999	DM 1,175,000,000
2000	DM 1,100,000,000

16.23 CURRENT ASSETS TO CURRENT LIABILITIES RATIO

Maintain a ratio of Current Assets to Current Liabilities of not less than 1.50 to 1.00.

16.24 INTEREST COVERAGE RATIO

Maintain for the four fiscal quarters then ended an Interest Coverage Ratio of not less than the minimum Interest Coverage Ratio specified opposite each date as set forth below:

Four Fiscal QUARTERS ENDED	Minimum Interest COVERAGE RATIO
March 31, 1997	0.65 to 1.00
June 30, 1997	0.35 to 1.00
September 30, 1997	0.30 to 1.00
December 31, 1997	0.30 to 1.00
March 31, 1998	0.30 to 1.00
June 30, 1998	0.50 to 1.00
September 30, 1998	0.80 to 1.00
December 31, 1998	1.00 to 1.00
March 31, 1999	1.05 to 1.00
June 30, 1999	1.15 to 1.00
September 30, 1999	1.25 to 1.00
December 31, 1999	1.60 to 1.00
March 31, 2000	1.75 to 1.00

## 16.25 MINIMUM EBITDA

Have or achieve, for each fiscal year set forth below, EBITDA that is not less than the minimum EBITDA specified opposite each such fiscal year below:

FISCAL YEAR ENDED	MINIMUM EBITDA
1997	DM 20,000,000
1998	DM 90,000,000
1999	DM 195,000,000

For purposes of determining compliance with the minimum EBITDA requirements set forth in the immediately preceding sentence, there shall be added to EBITDA during any fiscal year the positive remainder, if any, of (a) the sum of (i) the amount, if any, of contributions to the equity of the Borrower in the form of cash (as distinguished from the conversion of debt to equity) made by NL Industries or Kronos during such fiscal year plus (ii) the amount, if any, of loans made by NL Industries or Kronos as Subordinated Debt during such fiscal year minus (b) the sum of (i) the increase in the Restricted Capital Amount during such fiscal year, plus (ii) the aggregate amount of Restricted Payments made during such fiscal year pursuant to SECTION 16.20(B); provided, however, that such addition to EBITDA may occur during no more than two separate fiscal years of the Borrower during the term of this Agreement and any such addition occurring during any fiscal year shall be wholly excluded for purposes of determining EBITDA during any other fiscal year.

## 16.26 REGISTERED OFFICE IN GERMANY

Maintain a registered office in Germany.

## 16.27 SERVICE CONTRACT OF KRONOS TITAN

Cause Kronos Titan to maintain the Service Contract or obtain a renewal or renewals, or a replacement or replacements, thereof providing for comparable services during the term of the Leverkusen Lease.

## 16.28 RESTRICTION ON DIVIDENDS FROM SUBSIDIARIES

(a) Without the consent of the Majority Banks, the Borrower shall not permit any of its Subsidiaries to incur any Indebtedness not existing as of the First Restatement Date, which Indebtedness includes a consensual encumbrance or restriction on the ability of a Subsidiary to pay dividends or distributions or make similar payments on its Stock to the Borrower or to any other Subsidiary.

- (b) Without the consent of the Majority Banks, the Borrower shall not, nor permit any of its Subsidiaries to, amend or refinance any Indebtedness if such amendment or refinancing includes a consensual encumbrance or restriction on the ability of any Subsidiary to pay dividends or distributions or make similar payments on its Stock to the Borrower or to any other Subsidiary to a greater extent than exists with respect to such Indebtedness at the time of such amendment or refinancing.

#### 16.29 INVESTMENTS

Except as otherwise expressly permitted under SECTIONS 16.09 or 16.10 of this Agreement, neither the Borrower nor any of its Subsidiaries will make or acquire any Investment in any Person other than:

- (a) Temporary Cash Investments;
- (b) Investments by a Subsidiary in the Borrower, or by the Borrower or any of the Subsidiaries in any of the Major Subsidiaries;
- (c) Investments by the Borrower or by any of its Subsidiaries in any Subsidiary which is not a Major Subsidiary if, immediately after such Investment is made or acquired, the aggregate net book value of all Investments permitted by this CLAUSE (C) does not exceed DM 105,000,000 (Deutsche Mark One Hundred Five Million); and
- (d) any Investment not otherwise permitted by the foregoing clauses of this SECTION 16.29 if, immediately after such Investment is made or acquired, the aggregate net book value of all Investments permitted by this CLAUSE (D) does not exceed DM 25,000,000 (Deutsche Mark Twenty-Five Million);

and provided, however, that neither the Borrower nor any of its Subsidiaries shall, if a Default exists and is continuing, make or acquire any Investment in any Person other than pursuant to CLAUSES (A) and (B) of this SECTION 16.29.

#### 16.30 LIMITATION ON RESTRICTED PAYMENTS

Not make any Restricted Payment to any Person if any one or more of the following Persons shall fail to make payments when due and payable of any of their Indebtedness in an aggregate amount exceeding DM 20,000,000 (Deutsche Mark Twenty Million) with respect to each such Person: NL Industries, the Principal Shareholder, or any corporation Controlled by NL Industries and Controlling the Principal Shareholder.

16.31 MAINTENANCE OF PROPERTY; INSURANCE

Except as otherwise permitted under this Agreement, keep, and cause each of its Subsidiaries to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted and maintain, and cause each of its Subsidiaries to maintain (either in the name of the Borrower or in such Subsidiary's own name), with financially sound and reputable insurance companies, insurance on all their property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies of established repute engaged in the same or a similar business; and furnish to the Agent, upon written request from the Agent, full information as to the insurance carried. SCHEDULE 10 attached hereto is a description of the types and amounts of insurance carried by the Borrower and its Subsidiaries as of the Second Restatement Date.

16.32 CONTINUATION OF BUSINESS

Except as otherwise permitted under this Agreement, continue, and cause each of its Major Subsidiaries to continue, to engage in business of the same general type as conducted by each of them as of the First Restatement Date, and preserve, renew and keep in full force and effect, and cause each of its Major Subsidiaries to preserve, renew and keep in full force and effect its respective corporate existence and its respective rights, privileges and franchises necessary or desirable in the normal conduct of business.

16.33 TAXES

File, and cause each of its Subsidiaries to file, all income tax returns and all other material tax returns that are required to be filed by them; and timely pay and cause each of its Subsidiaries to pay timely all taxes due and payable for the period covered by such returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except for those being contested in good faith by appropriate proceedings and against which adequate reserves are established and maintained if required in accordance with German GAAP.

16.34 ADDITIONAL GUARANTIES, PLEDGED SUBSIDIARIES, ETC.

(a) Cause any Subsidiary which is not a Guarantor as of the Second Restatement Date (including, without limitation, a Subsidiary which becomes a Subsidiary after the Second Restatement Date) to become a Guarantor hereunder and thereupon promptly execute a Guaranty in form and substance reasonably satisfactory to the Agent, to the extent permitted by applicable law; provided, however, that no such Subsidiary shall be required to execute such a Guaranty if, in the opinion of its independent counsel or counsel for the Agent, the execution of such Guaranty could subject the directors or officers of such Subsidiary to civil or criminal liability; provided, further, however, that each such Subsidiary which is not required to execute such a Guaranty in accordance with the preceding proviso shall

be required to execute such Guaranty if and when (and within a reasonably prompt time after the occurrence of) any change in or clarification of applicable law would permit the execution of such Guaranty without the imposition of such civil or criminal liability.

- (b) Cause any Subsidiary which is not a Pledged Subsidiary as of the Second Restatement Date (including, without limitation, any Subsidiary which becomes a Subsidiary after the Second Restatement Date) to become a Pledged Subsidiary and if it or any Subsidiary owns shares of a Subsidiary which becomes a Pledged Subsidiary, it shall, or shall cause such Subsidiary to, become a Pledgor with respect thereto and promptly execute a Pledge Agreement in form and substance reasonably satisfactory to the Agent, to the extent permitted by applicable law; provided, however, that neither the Borrower nor any Subsidiary shall be required to execute a Pledge Agreement if, in the opinion of its independent counsel or counsel for the Agent, the execution of such Pledge Agreement could subject the directors or officers of the Borrower or such Subsidiary to civil or criminal liability; provided, further, however, that if and to the extent that the Borrower or any Subsidiary is not required to execute such a Pledge Agreement in accordance with the preceding proviso, the Borrower or such Subsidiary (as applicable) shall be required to execute such Pledge Agreement if and when (and within a reasonably prompt time after the occurrence of) any change in or clarification of applicable law would permit the execution of such Pledge Agreement without the imposition of such civil or criminal liability.

#### 16.35 PLEDGED STOCK

- (a) Except as otherwise permitted by this Agreement, not effect nor permit any reduction in, or limitation on, by charter, by-law or otherwise, voting rights, rights to dividends or other distributions, or rights of sale by pledgees in foreclosure, with respect to the Stock of any Pledged Subsidiaries.
- (b) Except as otherwise permitted by this Agreement, not effect any sale, pledge, hypothecation, mortgage of, nor grant an option with respect to, or otherwise transfer, assign or encumber, any of the Stock of any Pledged Subsidiary.
- (c) Not permit a Pledged Subsidiary to issue Stock to the Borrower or other Pledgor that is not subject to a Pledge Agreement or as otherwise permitted under this Agreement.
- (d) Not effect or permit, by charter, by-laws, contract or other arrangement, any restriction on the rights of the pledgees under the Pledge Agreements to exercise their rights of sale or other rights or remedies in accordance with the terms of such agreements.

16.36 PRINCIPAL SHAREHOLDER WAIVER

If Kronos is no longer the Principal Shareholder of the Borrower, then any such Person which becomes a Principal Shareholder shall promptly execute, to the extent not prohibited by applicable law, an Acknowledgement of Limitation of Special Damages substantially in the form of EXHIBIT J to the First Restated Agreement.

16.37 MAXIMUM CAPITAL EXPENDITURES

Not make or allow any Consolidated Subsidiary to make any Capital Expenditures, provided, however that Capital Expenditures may be made if, after giving effect thereto, the aggregate Capital Expenditures made during any fiscal year do not exceed the maximum aggregate Capital Expenditures specified opposite each such fiscal year below:

YEAR	Maximum Aggregate CAPITAL EXPENDITURES
1996	DM 90,000,000
1997	DM 70,000,000
1998	DM 60,000,000
1999	DM 60,000,000
2000	DM 60,000,000
2001	DM 60,000,000
2002	DM 60,000,000

and provided further, however, that Capital Expenditures exceeding the amount thereof set forth in the preceding table may be made during any fiscal year if and to the extent that (a) such Capital Expenditures are reasonably required to comply with applicable Environmental Laws and the Borrower provides reasonable evidence of such requirement to the Agent and (b) such Capital Expenditures have not been previously budgeted or otherwise planned to occur during such fiscal year, and provided further, however, that the Borrower may, in addition to the maximum aggregate Capital Expenditures allowed in the table above for any particular fiscal year, make Capital Expenditures during such fiscal year of an amount equal to the positive remainder (if any) of (i) the maximum aggregate Capital Expenditures allowed in the table above for the immediately preceding fiscal year minus (ii) the aggregate Capital Expenditures actually made during such immediately preceding fiscal year. In addition, and notwithstanding anything to the contrary contained in the immediately preceding sentence, the Borrower and its Consolidated Subsidiaries shall, during each fiscal year subsequent to 1996, make Capital Expenditures of not less than DM 40,000,000 (Deutsche Mark Forty Million) (or the equivalent amount in any currency) in aggregate amount.



16.38 MIRROR NOTES; SUBORDINATED LOANS

- (a) Not make any payment (whether principal, interest or other payment in any form) of, on or with respect to the Mirror Notes, the NL Subordinated Loan or the Kronos Subordinated Loan, except for payments of principal and interest on or with respect to the Mirror Notes in amounts not to exceed the amounts then due made on or after the due dates for such payments, which payments of principal are (in the absence of any acceleration of maturity upon the occurrence of a default) due, respectively, on October 20, 2003 and October 20, 2005; and
- (b) Not amend or modify any of the Mirror Notes or the Subordinated Loan Documents without the prior written consent of the Majority Banks (662/3%) (i) to increase the principal amount of any of the Mirror Notes or the NL Subordinated Loan or the Kronos Subordinated Loan, (ii) to shorten the maturity of, or any date for the payment of any principal of or interest on, any of the Mirror Notes or the NL Subordinated Loan or the Kronos Subordinated Loan, (iii) to increase the rate of interest on or with respect to any of the Mirror Notes or the NL Subordinated Loan or the Kronos Subordinated Loan, (iv) to otherwise amend or modify any of the payment terms of the Mirror Notes or the NL Subordinated Loan or the Kronos Subordinated Loan other than to waive or cancel any payment obligations of the Borrower with respect thereto or to contribute such Indebtedness to the equity capital of the Borrower or a Subsidiary, (v) to increase any cost, fee or expense payable by the Borrower, (vi) to add any collateral as security for payment or collection of any of the Mirror Notes or the NL Subordinated Loan or the Kronos Subordinated Loan or (vii) in any other respect that would reasonably be expected to be adverse to the Borrower or any Subsidiary.

16.39 NOTIFICATION OF INDENTURE DEFAULTS

Promptly notify the Agent of the occurrence of any "Default" or "Event of Default", as such terms are defined in either of the Indentures.

16.40 BANK ACCOUNTS

The Borrower shall cause all cash balances of the Borrower and its Subsidiaries, other than Kronos World Services S.A./N.V., to be maintained at Hypobank International S.A. (or any affiliate of Hypobank International S.A. acceptable to the Agent) or another Bank (party to this Agreement) or branch of such Bank acceptable to the Agent; provided, however, that an aggregate amount of cash balances not to exceed DM 30,000,000 (Deutsche Mark Thirty Million) (or the equivalent amount in any currency) may be maintained by the Borrower or Subsidiaries of the Borrower at other financial institutions if and to the extent that it is not feasible for the Borrower or such Subsidiaries to maintain cash balances with Hypobank International S.A. or its affiliates or another Bank or branch of such Bank. The Borrower shall, and shall cause each of its Canadian Subsidiaries to, from time to time as may be necessary, pledge to the Agent as security for the Loans,

pursuant to agreements, documents and instruments in form and substance reasonably satisfactory to the Agent which shall create first priority Liens (except as provided in SECTION 17.05), all cash balances of the Borrower and its Canadian Subsidiaries, and the Borrower will, and will cause each of its Canadian Subsidiaries to, at all times cause its cash balances to be so pledged.

#### ARTICLE 17. COLLATERAL

17.01 As security for the repayment of the Loans and the performance of all other obligations of the Borrower to the Banks (and in addition to certain undertakings, covenants and other agreements), the following documents were executed and delivered in connection with the Original Agreement or the First Approval Agreement:

- (a) Pledge dated as of May 30, 1990, executed by the Borrower to and in favor of the Agent relating to the Stock of NL Industries (Deutschland) GmbH, Kronos Chemie GmbH and Schraubenfabrik Neustadt Goetz & Cie. GmbH, as amended and reaffirmed;
- (b) Pledge dated as of May 30, 1990, executed by NL Industries to and in favor of the Agent relating to the Stock of NL Industries (Deutschland) GmbH, as amended and reaffirmed;
- (c) Deed of Security dated as of May 30, 1990 and as of June 19, 1992, executed by the Borrower, the Agent and Societe Industrielle du Titane S.A., Assignment of Dividends dated as of May 30, 1990 and as of June 19, 1992, executed by the Borrower, the Agent and Societe Industrielle du Titane S.A. and Declaration of Pledge dated as of June 19, 1992, executed by the Borrower and Societe Industrielle du Titane S.A. to and in favor of the Banks, all relating to the Stock of Societe Industrielle du Titane S.A.;
- (d) Pledge Agreement of Registered Shares dated as of May 30, 1990, executed by the Borrower to and in favor of the Agent relating to the Stock of Kronos S.A./N.V. (including power of attorney and notice of assignment relating thereto), as amended and reaffirmed, and Pledge Agreement of Registered Shares dated as of May 28, 1993, executed by the Borrower to and in favor of the Agent relating to the Stock of Kronos Europe S.A./N.V. (including power of attorney and notice of assignment relating thereto);
- (e) Pledge Agreement dated as of May 30, 1990, executed by the Borrower to and in favor of the Agent relating to the Stock of Kronos Norge A/S, as amended and reaffirmed;
- (f) Legal Mortgage of Shares dated as of May 30, 1990, executed by the Borrower to and in favor of the Agent relating to the Stock of Kronos Limited (including power of attorney relating thereto), as amended and reaffirmed;

- (g) Pledge of Shares dated as of May 30, 1990, executed by the Borrower to and in favor of the Agent relating to the Stock of Kronos Canada, Inc., as amended and reaffirmed;
- (h) Stock Pledge Agreement dated as of May 30, 1990, executed by the Borrower to and in favor of the Agent relating to the Stock of Kronos Europe, Inc., as amended and reaffirmed;
- (i) Guaranty dated as of May 30, 1990, executed by Kronos Europe, Inc. to and in favor of the Agent, as amended and reaffirmed;
- (j) Guaranty dated as of March 22, 1991, executed by NL Industries and Kronos (US) to and in favor of Agent, as amended and reaffirmed (which Guaranty has been fully performed);
- (k) Guarantee Agreement dated as of May 10, 1991, executed by Kronos Canada, Inc. to and in favor of the Agent, as amended and reaffirmed;
- (l) Special Purpose Account Agreement dated as of May 15, 1992, executed by NL Industries, Kronos (US) (then known as Kronos, Inc.) and the Borrower to and in favor of the Agent relating to the Special Purpose Account;
- (m) Declaration dated as of June 15, 1992, executed by the Borrower, NL Industries and Kronos (US) relating to the pledge of the Special Purpose Account (and additional documents relating thereto);
- (n) Pledge of Shares dated as of September 30, 1993, executed by the Borrower to and in favor of the Agent relating to the Stock of 2927527 Canada Inc.; and
- (o) Guarantee Agreement dated as of September 30, 1993, executed by 2927527 Canada Inc. to and in favor of the Agent.

17.02 As additional security for the repayment of the Loans and the performance of all other obligations of the Borrower to the Banks, the documents referred to in CLAUSES (I)(A) through (C) of SECTION 4.01(A) of the First Restated Agreement were executed and delivered concurrently with the First Restatement Date.

17.03 As additional security for the repayment of the Loans and the performance of all other obligations of the Borrower to the Banks, the documents referred to in Paragraphs 3(h), 3(i) and 3(k) of the First Approval Agreement, if required to be executed under such agreement, were executed and delivered in accordance with, and at the times specified in, the First Approval Agreement.

17.04 As additional security for the repayment of the Loans and the performance of all other obligations of the Borrower to the Banks, the following documents have been, or will be concurrently with the Second Restatement Date, executed and delivered:

- (a)
  - (i) Pledge of Shares dated as of November 5, 1993, executed by the Borrower to and in favor of the Agent relating to the Stock of 2969157 Canada Inc., as amended and reaffirmed;
  - (ii) Guarantee Agreement dated as of November 5, 1993, executed by 2969157 Canada Inc. to and in favor of the Agent, as amended and reaffirmed;
  - (iii) Amendment and Reaffirmation of Pledge Agreement dated as of January 28, 1994, executed by the Borrower and the Agent confirming the pledge of 48,313 new shares of Stock of Kronos Norge A/S issued by Kronos Norge A/S to the Borrower;
  - (iv) Pledge Agreement of ZCON and ZCON Agreement dated as of February 2, 1994, executed by the Borrower to and in favor of the Agent relating to the pledge of the Subordinated Zero Coupon Option Note dated March 15, 1993, in the principal amount of NOK 110 million issued by Kronos Europe S.A./N.V. (then known as Kronos S.A./N.V.) to Kronos Norge A/S and the Agreement dated January 29, 1993, between Kronos Europe S.A./N.V. and Kronos Norge A/S and the ZCON Amendment Agreement dated March 15, 1993;
  - (v) Amendment and Reaffirmation of Pledge of Shares dated as of January 1, 1994, executed by the Borrower and the Agent relating to the Stock of 2927527 Canada Inc.; and
  - (vi) Amendment and Reaffirmation of Pledge of Shares dated as of January 1, 1994, executed by the Borrower and the Agent relating to the Stock of 2969157 Canada Inc.;
- (b) Amended and Restated Pledge Agreement dated as of June 26, 1996, executed by the Borrower to and in favor of the Agent relating to the pledge of 53,427 newly issued shares and 532,196 newly issued shares of Stock of Kronos Norge A/S and that certain Promissory Note and Agreement dated June 26, 1996, in the original principal amount of NOK 200,000,000 made by Kronos Norge A/S payable to the order of the Borrower; and
- (c)
  - (i) the Nordenham Mortgage executed by Kronos Titan to and in favor of the Agent, which Lien document shall secure only the principal amount of the Kronos Titan Revolving Portion which has at any time been advanced directly to Kronos Titan and which is outstanding at any time (including the principal thereof, interest accrued thereon and fees incurred with respect

thereto) and the priority of which Lien shall be subordinate only to (A) the existing Lien in favor of Westdeutsche Landesbank securing an actual (as opposed to nominal) aggregate amount not to exceed DM 4,000,000 (Deutsche Mark Four Million) of principal Indebtedness at any time outstanding, (B) the existing Lien in favor of the German tax authorities securing claims for taxes (including interest) of the Borrower and its Subsidiaries owed to the German tax authorities for fiscal year 1990 not to exceed DM 100,000,000 (Deutsche Mark One Hundred Million) and (C) any (if any) Permitted Liens referred to in CLAUSES (D) and (E) of the definition of the term "Permitted Liens";

- (ii) the Canadian Security Documents executed by Kronos Canada, Inc., 2927527 Canada Inc. and 2969157 Canada Inc. (as applicable) to and in favor of the Agent;
- (iii) the Cash Pledge Agreements executed by the Borrower, Kronos Canada, Inc., 2927527 Canada Inc. and 2969157 Canada Inc. (as applicable) to and in favor of the Agent; and
- (iv) the NL Guaranty executed by NL Industries to and in favor of the Agent.

17.05 The Borrower covenants and agrees that, pursuant to the Pledge Agreements, the Nordenham Mortgage, the Canadian Security Documents and the Cash Pledge Agreements, the Agent, as Agent for the Banks, shall have a Lien in and to (a) the Stock of the Pledged Subsidiaries, (b) the Nordenham plant of Kronos Titan, (c) all material assets and properties of Kronos Canada, Inc., 2927527 Canada Inc. and 2969157 Canada Inc. (including, without limitation, the Varennes, Quebec, Canada plant of Kronos Canada, Inc. and the Kronos Canada Note held by 2969157 Canada Inc. but excluding the stock of Kronos World Services S.A./N.V. owned by Kronos Canada, Inc.), and (d) certain bank accounts of the Borrower, Kronos Canada, Inc., 2927527 Canada Inc. and 2969157 Canada Inc., all as security for the Loans (including, without limitation, the Revolving Portion and any reborrowings of the Revolving Portion to be advanced on the date of any drawdown thereof). The Borrower further covenants and agrees that all of such Liens referred to in the immediately preceding sentence shall constitute perfected first priority Liens in favor of the Agent for the benefit of the Agent and the Banks and the properties and assets affected thereby shall not be subject to any other Liens other than Permitted Liens referred to in CLAUSE (D), (E), (F) or (I) of the definition of the term "Permitted Liens" in this Agreement; provided, however, that (A) the Lien created by the Nordenham Mortgage may have the priority specified in CLAUSE (I) of SECTION 17.04(C), (B) the Lien referred to in CLAUSE (B) preceding may be subordinate to any (if any) Permitted Liens referred to in CLAUSES (D) and (E) of the definition of the term "Permitted Liens", and (C) the Liens referred to in CLAUSE (C) preceding may be subordinate to any (if any) Permitted Liens referred to in CLAUSES (D), (E), (F) and, as to Liens affecting assets or properties of Kronos Canada, Inc. only, (H) of the term "Permitted Liens", and the Banks hereby expressly authorize the Agent to take all actions and execute all instruments

on their behalf necessary to subordinate its Liens referred to in CLAUSE (C) preceding affecting assets or properties of Kronos Canada, Inc. to the Liens referred to in CLAUSE (H) of the term "Permitted Liens".

#### ARTICLE 18. EVENTS OF DEFAULT

If, for whatever reason, any of the following shall occur and be continuing:

- 18.01 The Borrower shall fail to pay principal of the Loan or any portion thereof on the due date therefor; shall fail to pay any interest with respect to the Loan or any portion thereof within five (5) days of the due date therefor; or shall fail to pay any fee or any other sum which shall have become due under this Agreement or any other Loan Document within five (5) days after notice from the Agent; provided, however, that no failure of the Borrower to pay principal on the due date therefor shall be an Event of Default (as hereinafter defined) if, and only if, NL Industries or Kronos pays such principal on such due date;
- 18.02 The Borrower ceases to be, directly or indirectly, a majority-owned subsidiary of NL Industries.
- 18.03 The Leverkusen Lease is voluntarily modified, or is terminated or shortened or there is a Disposition of the Leverkusen Lease, or an agreement providing for the Disposition, modification, termination or shortening of the Leverkusen Lease shall be entered into during the term of the Loan or while any payments due and payable by the Borrower remain outstanding, unless such Disposition, modification, termination or agreement with respect to the Leverkusen Lease will result in the payment of full, fair and reasonable consideration to Kronos Titan.
- 18.04 The lessor under the Leverkusen Lease exercises or has the right to exercise immediately any remedies or rights of reversion or termination thereunder or, with respect to rental payments required in accordance with the Leverkusen Lease, the lessee fails to make rental payments for a period of 2 (two) quarters or, if there is a bona fide dispute, the lessee fails to make rental payments for a period of 4 (four) quarters.
- 18.05 The Service Contract is terminated, modified or Disposition is made thereof during the term of the Leverkusen Lease unless replaced or renewed with a contract or provisions providing for comparable services which replacement continues during the term of the Leverkusen Lease or unless the Disposition of the Service Contract or any such replacement occurs concurrently with the Disposition, termination, shortening or modification of the Leverkusen Lease in accordance with the terms of this Agreement.
- 18.06 Any representation, warranty, certification or statement made by the Borrower or any Affiliate (including, without limitation, NL Industries, Kronos (US), Kronos and the Subsidiaries) in any Loan Document shall prove to have been incorrect in any material respect when made or deemed to have been made or repeated, as the case may be.

- 18.07 Except as set forth on SCHEDULE 4, any Loan Document or any of the obligations of the Borrower or any Affiliate (including, without limitation, NL Industries, Kronos (US), Kronos and the Subsidiaries) thereunder shall cease in any material respect to be legally valid, binding and enforceable in accordance with the respective terms of such Loan Document, or any Guarantor shall state its intention, in writing, to revoke its Guaranty.
- 18.08 The Borrower and/or any Subsidiary shall fail to observe or perform in any material respect any covenant or agreement contained in SECTION 16.08 (to the extent that Borrower or any of its Subsidiaries voluntarily creates or permits to exist any Lien, except a Permitted Lien) or SECTIONS 16.09, 16.10, 16.17 through 16.25, 16.30 or 16.38 of this Agreement.
- 18.09 The Borrower and/or any Affiliate (including, without limitation, NL Industries, Kronos (US), Kronos and the Subsidiaries) shall fail to observe or perform in any material respect any other covenant or agreement contained in any Loan Document (and not constituting an Event of Default under any other clause of this ARTICLE 18) and such failure shall continue for 30 (thirty) days after written notice thereof has been given to the Borrower by the Agent.
- 18.10 Any Company, NL Industries, Kronos, the Principal Shareholder or any corporation which is Controlled by NL Industries and Controls the Principal Shareholder becomes insolvent for the purposes of any relevant law, or shall commence a voluntary action or other proceedings seeking liquidation, reorganization or other relief with respect to itself, its properties or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any relief or to the appointment of or taking or possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing.
- 18.11 An involuntary action or other proceedings shall be commenced against any Company, NL Industries, Kronos, the Principal Shareholder or any corporation which is Controlled by NL Industries and Controls the Principal Shareholder seeking liquidation, reorganization or other relief with respect to it or its debt under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 75 (seventy-five) days; or an order of relief shall be entered against any such corporation under any bankruptcy laws as now or hereafter in effect;
- 18.12 Indebtedness of (i) the Borrower and/or any Subsidiary or (ii) the Principal Shareholder, in either such case in an aggregate amount exceeding DM 20,000,000 (Deutsche Mark Twenty Million) (or the equivalent amount in any currency) is not paid when due after any

applicable grace period or is not paid if it becomes due and payable prior to its specified maturity, or any creditor or creditors of the Borrower or any of its Subsidiaries or the Principal Shareholder becomes entitled immediately to declare any such Indebtedness due and payable prior to its specified maturity;

- 18.13 One or more final judgments or non-appealable orders for the payment of money in excess of DM 10,000,000 (Deutsche Mark Ten Million) (or the equivalent amount in any currency) for all such judgments or orders shall be rendered against the Borrower and/or any of its Major Subsidiaries, and such judgments or orders shall continue unsatisfied and in effect for a period of 10 (ten) consecutive days;
- 18.14 Any other event occurs or circumstances arise with respect to the Borrower and/or its Subsidiaries which in the reasonable opinion of the Majority Banks is likely to materially adversely affect the ability of the Borrower to perform its obligations with respect to payments, Collateral or Liens under the Loan Documents;
- 18.15 The occurrence of an "Event of Default" (whether or not such an "Event of Default" is declared or any remedy is exercised with respect thereto), as such term is defined in either of the Indentures; or
- 18.16 (a) Either of the Indentures or any of the NL Notes shall be amended or modified without the prior written consent of the Majority Banks (662/3%) (i) to increase the principal amount of any of the NL Notes, (ii) to shorten the maturity of, or any date for the payment of any principal of or interest on, any of the NL Notes, (iii) to increase the effective rate of interest or discount on or with respect to any of the NL Notes, (iv) to increase any cost, fee or expense payable by NL Industries or any of its subsidiaries, (v) to add any collateral as security for payment or collection of any of the NL Notes, or (vi) in any other respect that would be materially adverse to NL Industries or any of its subsidiaries, (b) NL Industries shall elect to make any optional redemption or optional prepayment of principal of, interest on or other amount with respect to the NL Notes (or any of such notes) without the prior written consent of the Majority Banks (662/3%), or (c) the Borrower shall voluntarily or involuntarily make a payment of principal of, interest on or other amount with respect to the NL Subordinated Loan or the Kronos Subordinated Loan without the prior written consent of the Majority Banks (662/3%); or
- 18.17 The First Prepayment or any portion thereof or the Second Prepayment or any portion thereof, for any reason, is determined by a court of competent jurisdiction to be void or invalid as a fraudulent transfer, a preference or the like or is otherwise required to be disgorged;

then unless such an event (an "Event of Default") shall have been cured or waived in accordance with the applicable terms of this Agreement, except for an event under SECTIONS 18.10 or 18.11, the Agent may, and upon instruction of the Majority Banks shall, at any time after the occurrence of such Event of Default by notice in writing to the Borrower, declare that the Loan and all outstanding balances hereunder, together with



accrued interest thereon, and all other sums whatsoever payable pursuant to this Agreement and/or any other Loan Document have become immediately due and payable and that the Commitment of any Bank under this Agreement shall have terminated, without presentment, demand, protest or any other notice of any kind, all of which are expressly waived by the Borrower, and exercise any and all other rights or remedies of the Agent and/or the Banks under the Loan Documents or otherwise available under applicable law (none or which rights or remedies are waived). Upon the occurrence of any event in SECTION 18.10 or 18.11 above, the Commitments of the Banks shall automatically terminate and the Loan and all outstanding balances hereunder, accrued interest thereon and all other sums whatsoever payable pursuant to this Agreement and/or any other Loan Document shall automatically become due and payable, without presentment, demand, protest or notice of any kind, all of which are expressly waived by the Borrower. The occurrence of an Event of Default shall entitle the Agent and the Banks to enforce their rights and remedies under the Loan Documents and against any Collateral, and otherwise as permitted by applicable law, and the same shall be cumulative, non-exclusive and concurrent against the Borrower, its Affiliates or any other obligated party for payment of and/or performance under the Loan or any of the Loan Documents, or any part thereof, or against any one or more of them, or against the Collateral, at the sole discretion of the Agent and the Banks, and may be exercised as often as occasion therefor shall arise, it being agreed by the Borrower that the exercise of or failure to exercise any of same shall in no event be construed as a waiver or release thereof or of any right, remedy or recourse.

#### ARTICLE 19. FEES

19.01 On or before the Second Restatement Date, the Borrower shall pay to the Agent, for distribution amongst the Banks, a closing fee in an amount equal to 1/2 of 1% (one-half of one percent) of the sum of, for each such Bank and as of the Second Restatement Date, the outstanding principal amount of the Term Portion of the Loans of such Bank plus the maximum amount of such Bank's Revolving Commitment (in each case after giving effect to the prepayments and the reduction in the maximum amount of the Revolving Portion to occur on the Second Restatement Date). On or before January 29, 1997, the Borrower shall pay to the Agent, for distribution amongst each of the Banks who consents to this Agreement on or before January 24, 1997, whether or not this Agreement is executed by the Majority Banks, an additional closing fee in an amount equal to 1/10th of 1% (one-tenth of one percent) the sum of, for each such Bank and as of the Second Restatement Date, the outstanding principal amount of the Term Portion of the Loans of such Bank plus the maximum amount of such Bank's Revolving Commitment (in each case after giving effect to the prepayments and the reduction in the maximum amount of the Revolving Portion to occur on the Second Restatement Date). On or before January 29, 1997, the Borrower agrees to pay 40% (forty percent) of the closing fee referred to in the first sentence of this SECTION 19.01 preceding to each of the Banks who consents to this Agreement on or before January 24, 1997, whether or not this Agreement is executed by the Majority Banks.

- 19.02 The Borrower shall pay to the Agent for its own account an annual agency fee in Deutsche Mark in the amounts and on the dates stated in the letter dated as of May 30, 1990 to the Agent from the Borrower, as such letter may be amended from time to time. In addition, and in connection with this Agreement, the Borrower shall pay to the Agent for its own account the fees in the amounts and on the dates stated in the letter dated December 30, 1996 to the Agent from the Borrower.
- 19.03 The Borrower shall pay to the Agent for distribution amongst the Banks pro rata according to each Bank's Revolving Commitment a commitment fee, with respect to the Revolving Portion, equal to one-half of one percent (0.50%) per annum of the average Revolving Portion Availability during the applicable period. Such commitment fee shall be payable, for the period from the First Restatement Date through June 30, 2000, on the last day of each calendar quarter during the term of the First Restated Agreement or this Agreement (commencing December 31, 1993) and on August 15, 2000, and shall be calculated for the actual number of days elapsed on the basis of a 365 (three hundred sixty-five) day year.
- 19.04 All of the fees paid or payable by the Borrower pursuant to the Original Agreement, the First Restated Agreement, this Agreement and the other Loan Documents shall be nonrefundable.

#### ARTICLE 20. EXPENSES AND DUTIES

- 20.01 The Borrower shall reimburse the Agent on demand for all reasonable out-of-pocket charges and expenses incurred by the Agent in connection with the preparation, negotiation and execution of the Original Agreement, the First Restated Agreement, this Agreement and the other Loan Documents (including, without limitation, fees and expenses of legal advisors) and reimburse the Agent on demand for reasonable out-of-pocket charges and expenses in connection with the publication of this transaction. The Borrower shall reimburse the Agent on demand for fees and expenses of legal advisors, financial consultants and other consultants in connection with the preparation, negotiation and execution of the Original Agreement, the First Restated Agreement, this Agreement and the other Loan Documents.
- 20.02 The Borrower shall reimburse the Agent and the Banks on demand for all reasonable, out-of-pocket charges and expenses (including legal fees) reasonably incurred by them or any of them in, or in connection with, any modification of, the enforcement of, or preservation of rights under the Original Agreement, the First Restated Agreement, this Agreement and the other Loan Documents, provided that prior to an Event of Default the Borrower shall not be obligated to pay the fees and expenses of more than one law firm (unless questions arise under laws of jurisdictions in which the principal firms engaged are not authorized to practice law), and, after an Event of Default, the Borrower shall reimburse the Banks for the fees and expenses of counsel for each such Bank in connection with the modification, enforcement or restructuring of this Agreement and the other Loan Documents, and provided further that the Borrower shall not be obligated to pay under the

Original Agreement, the First Restated Agreement, this Agreement or any of the other Loan Documents losses, costs or expenses arising from or relating to disputes solely among the Agent and the Banks, or losses, costs or expenses of the Agent or any Bank resulting from its gross negligence or wilful misconduct.

20.03 The Borrower shall pay any and all stamp, registration and similar taxes, duties and charges of whatsoever nature (but excluding all Excluded Taxes) which may be payable or determined to be payable on, or in connection with, the execution, registration, notarization, performance or enforcement of the Original Agreement, the First Restated Agreement, this Agreement and the other Loan Documents. The Borrower shall indemnify the Agent and the Banks against any and all liabilities with respect to or resulting from delay or omission on the part of the Borrower to pay any such taxes, duties or charges.

20.04 The Borrower shall reimburse the Agent on demand for all reasonable, out-of-pocket charges and expenses (including, without limitation, legal fees and fees of financial consultants and other consultants) reasonably incurred by it in, or in connection with, periodic monitoring and determination of on-going compliance (or non-compliance, as the case may be) with the terms and provisions of this Agreement and the other Loan Documents. The Borrower acknowledges and agrees that, in addition to legal advisors, such consultants may include, without limitation, industry, tax, accounting and environmental consultants.

#### ARTICLE 21. THE AGENT AND THE BANKS

21.01 Each Bank hereby irrevocably appoints the Agent to act as its agent in connection with this Agreement and the Loan Documents and authorizes the Agent to exercise such rights, remedies, powers and discretion as are specifically delegated to the Agent by the terms of this Agreement and the Loan Documents together with all such rights, powers and discretion as are reasonably incidental thereto.

21.02 When acting in connection with the Loan Documents, the Agent may:

- (a) assume that no Default has occurred and that the parties thereto are not in breach or default of their respective obligations thereunder unless the officers of the Agent immediately responsible for matters concerning this Agreement shall have actual knowledge or shall have been notified in writing by a Bank that such Bank considers that a Default exists and is continuing and specifying the nature thereof;
- (b) assume that each Bank's Lending Office is that identified with its signature below and on SCHEDULE 1 until it has received from such Bank written notice designating some other office of such Bank as its Lending Office and continue to act upon such notice until the same is superseded by a further such notice;

- (c) subject to the provisions of SECTION 20.02, engage and pay for the advice or services of any lawyers, accountants or other experts whose advice or services may to it seem necessary, expedient or desirable and fully rely upon any advice so obtained;
- (d) rely as to any matters of fact which might reasonably be expected to be within the knowledge of the Borrower or any of its Affiliates upon a certificate signed by an officer on behalf of such entity;
- (e) rely upon any communication or document believed by it to be genuine;
- (f) refrain from exercising any right, power or discretion vested in it hereunder unless and until instructed by the Majority Banks as to the manner in which such right, power or discretion should be exercised; and
- (g) refrain from acting in accordance with any instructions of the Majority Banks to begin any legal action or proceeding arising out of or in connection with the Loan Documents until it shall have been indemnified by the Banks to its reasonable satisfaction against any and all costs, claims, expenses (including legal fees) and liabilities which it will or may expend or incur in complying with such instructions.

21.03 The Agent shall:

- (a) subject to the provisions of this Agreement, promptly inform each Bank of the contents of any written notice or document received by it from the Borrower hereunder;
- (b) promptly notify each Bank of the occurrence of any Default under this Agreement of which the Agent has received written notice from a Bank pursuant to SECTION 21.02;
- (c) subject to the provisions of this Agreement, act in accordance with any written instructions given to it by the Majority Banks;
- (d) if so instructed by the Majority Banks in writing, refrain from exercising any right, power or discretion vested in it hereunder; and
- (e) administer and service the Loan in accordance with its customary procedures and practices in the administration and servicing of loans of a similar nature made by the Agent, and the Agent shall have the authority to make decisions hereunder in connection with the day-to-day administration and servicing of the Loan, and each Bank shall be bound thereby.

21.04 Neither the Agent nor any of its directors, officers, employees, agents or Affiliates, shall:

- (a) be bound to inquire as to the occurrence or otherwise of any Default or Event of Default or as to any failure of the Borrower or any Affiliate duly to perform its obligations hereunder or under the Loan Documents;
- (b) be bound to account to any Bank for any sum or the profit element of any sum received by it for its own account;
- (c) be bound to disclose to any other Person any information relating to the Borrower or any of the Borrower's Affiliates received by it if such disclosure would or might in the opinion of any of the above Persons constitute a breach of any law or regulation or be otherwise actionable by suit of any Person;
- (d) be under any fiduciary duty towards any Bank or under any obligations other than those for which express provision is made herein;
- (e) be liable for any action taken or omitted to be taken except for their own gross negligence or wilful misconduct; or
- (f) be liable for any error in computing any amount payable to any Bank, provided, that the Agent, the Borrower and any affected Bank, upon discovery of such error, shall make such adjustments as may be required to correct such error.

21.05 Each Bank agrees to indemnify the Agent and its directors, officers, employees, agents and Affiliates to the extent not reimbursed by the Borrower in the proportion of its share in the Loan (or, if no amount is outstanding, its Commitment) for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent and its directors, officers, employees, agents or Affiliates in any way relating to or arising out of the First Restated Agreement, this Agreement or any other Loan Documents, or any other documents contemplated by or referred to herein or the transactions contemplated hereby (including, without limitation, the costs and expenses which the Borrower is obligated to pay under ARTICLE 20 but excluding, unless an Event of Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its Agent's agency duties hereunder) or the enforcement of any of the terms of the First Restated Agreement, this Agreement, the Loan Documents or of any such other documents, provided that no Bank shall be liable for any of the foregoing to the extent they arise from the Agent's gross negligence or wilful misconduct.

21.06 Each Bank agrees that the Agent shall not be responsible for the accuracy or completeness of any representation made (whether orally or otherwise) herein or in connection herewith, for the proper form, validity, effectiveness, adequacy or enforceability of the Original Agreement, the First Restated Agreement, this Agreement, any Guaranty, the Pledge Agreements, the Nordenham Mortgage, the Canadian Security Documents, the Cash Pledge Agreements or any of the other Loan Documents or for the creditworthiness of the Borrower, any Guarantor, Pledgor, Pledged Subsidiary or any Affiliate of the foregoing

entities. Neither the Agent nor any of its directors, officers, employees, agents or Affiliates shall be under any liability for or in respect of any action taken or omitted by any of them in relation to the Original Agreement, the First Restated Agreement, this Agreement, any Guaranty, the Pledge Agreements, the Nordenham Mortgage, the Canadian Security Documents, the Cash Pledge Agreements or any of the other Loan Documents except for their gross negligence or wilful misconduct.

21.07 The Agent may accept deposits from, lend money to and generally engage in any kind of banking or other business with the Borrower or any Affiliate, independently of the transactions contemplated herein.

21.08 It is understood and agreed by each Bank that it has been, and will continue to be, solely responsible, without reliance upon the Agent, for making its own independent appraisal of and investigations into the financial condition, creditworthiness and affairs of the Borrower, any Guarantor, the Pledgors, Pledged Subsidiaries and Affiliates of the foregoing entities and the value of the Collateral or the validity, enforceability or genuineness of the Original Agreement, the First Restated Agreement, this Agreement or any of the Loan Documents and accordingly each Bank confirms to the Agent that it has not relied, and will not hereafter rely, on the Agent:

- (a) to check or inquire on its behalf into the adequacy, accuracy or completeness of any information provided by the Borrower or any Affiliates, director, officer, employee or agent thereof in connection with the Loan Documents or the transactions therein contemplated whether or not such information has been or is hereafter circulated to such Bank by the Agent; or
- (b) to assess or keep under review on its behalf the financial condition, creditworthiness or affairs of the Borrower or its Affiliates and the value and/or enforceability of the Collateral.

21.09 The Agent may at any time be removed by the Majority Banks upon at least 30 (thirty) days prior written notice to such Agent of such removal but only for cause consisting of gross negligence or wilful misconduct or following a declaration of insolvency by the appropriate regulators. The Agent may at any time resign from the agency upon not less than 45 (forty-five) days' notice to the Banks of its intention to do so and, if any such notice is given by the Agent, the Agent shall, upon the appointment of a successor agent as hereinafter provided for, cease to be under any further obligation as Agent hereunder. Within such period, the Majority Banks may appoint a successor agent with the consent of the Borrower, which consent will not be unreasonably withheld or delayed and if, before the expiry of such notice, such successor agent notifies the parties hereto that it accepts such appointment:

- (a) each reference herein to the "Agent" shall thereafter be construed as a reference to the successor agent; and

(b) the successor agent and the parties hereto other than the retiring Agent shall thereafter have such rights and obligations inter se as they would have if the successor agent had been named herein as the Agent. If no successor agent, appointed by the Majority Banks, notifies the parties hereto, prior to the expiry of the Agent's notice of its intention to retire from the agency giving rise to the need to appoint the same, of its acceptance of such appointment, the Agent may appoint any experienced and reputable bank having offices in London, Munich, New York City or Luxembourg to be the successor agent and, if it does and such successor agent notifies the parties hereto that it accepts such appointment:

(i) each reference herein to the "Agent" shall thereafter be construed as a reference to the successor agent so appointed; and

(ii) the successor agent so appointed upon execution of a counterpart of this Agreement and the parties hereto other than the retiring Agent shall thereafter have such rights and obligations inter se as they would have if the successor agent so appointed had been named herein as the Agent.

Until the Borrower receives written notice of the appointment of a new Agent, the Borrower shall be entitled to continue to send notices and payments to the previously appointed Agent and otherwise to treat such Agent as the Agent for purposes of this Agreement.

21.10 If any Reference Bank shall be prepaid under this Agreement or shall cease to have any Commitment or after the Second Restatement Date cease to have any principal or interest owing to it hereunder, the Agent may in consultation with the Banks and the Borrower appoint a substitute Reference Bank.

21.11 The provisions of this ARTICLE 21 are solely for the benefit of the Agent and the Banks and neither the Borrower nor any Subsidiary or Affiliate of the Borrower shall have any rights (whether as third party beneficiary or otherwise) except as specifically provided herein.

#### ARTICLE 22. NO WAIVER

No failure to exercise and no delay in exercising on the part of the Agent or any Bank of any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or future exercise thereof, or the exercise of any other right, power or privilege. The rights and privileges herein provided are cumulative and not exclusive of any rights or remedies provided by law in equity or otherwise. This Agreement may be amended and any provision of this Agreement may be waived only with the consent of the Majority Banks, provided, however, that no amendment or waiver shall, unless in writing and signed by each Bank affected thereby, do any of the following:

(1) reduce the principal or the rate of interest payable by the Borrower on any Loan or reduce any fees payable to the Banks under this Agreement;

- (2) postpone the date fixed for the payment of principal of or interest on the Loan or any fees to the Banks under this Agreement;
- (3) increase the Commitment of any Bank or subject any Bank to any additional obligation to make Loans; or
- (4) amend this ARTICLE 22;

provided, further, that no amendment or waiver shall be effected which releases or impairs or otherwise compromises any Collateral or substitutes Collateral without the prior written consent of the Majority Banks (662/3%) other than in the case of the NL Undertaking for which the consent of the Majority Banks shall be required; and provided further that no such amendment or waiver or consent, as the case may be, which has the effect of (i) increasing the duties or obligations of the Agent under this Agreement or of the Agent under any other Loan Document, or (ii) increasing the standard of care or performance required on the part of the Agent under this Agreement or of the Agent under any other Loan Document, or (iii) reducing or eliminating the indemnities or immunities to which the Agent is entitled hereunder (including any amendment or modification of this ARTICLE 22), shall be effective unless the same shall be signed by or on behalf of the Agent.

#### ARTICLE 23. PARTIAL INVALIDITY; CHANGE IN ACCOUNTING PRINCIPLES

23.01 If at any time any provision of this Agreement or other Loan Documents to which the Borrower or any of its Affiliates is a signatory is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, the legality, validity or enforceability of the remaining provisions under this Agreement or such Loan Document shall not in any way be affected or impaired thereby. Such illegal, invalid or unenforceable provisions shall be replaced by legal, valid and enforceable provisions, the economic and legal effects of which are as close as possible to that of the invalid illegal or unenforceable provisions.

23.02 If any changes in German GAAP or other applicable accounting principles after the First Restatement Date result in a change of the interpretation, calculation or method of calculation of financial covenants, ratios, standards or terms contained in this Agreement (the "Financial Covenants") which is materially different from the interpretation, calculation or method of calculation of the Financial Covenants on the First Restatement Date, the parties hereto agree to enter into negotiations with a view to amending the Financial Covenants so that the criteria for evaluating the financial condition of the Borrower and its Subsidiaries shall be the same as if such change had not been made.

#### ARTICLE 24. ASSIGNMENTS, PARTICIPATION

24.01 The Borrower may not assign or transfer all or any of its rights, benefits and obligations under this Agreement without the prior written consent of the Majority Banks (662/3%); provided, however, that nothing in this SECTION 24.01 shall affect the ability of the



Borrower to merge or consolidate in accordance with the terms of SECTION 16.10.

24.02 (a) Notwithstanding any other provision contained in this Agreement or any other documents, no Bank may assign or transfer any of its interests under this Agreement except in accordance with the provisions of this SECTION 24.02 and no Bank may transfer, assign or grant participations in its rights and/or delegations under this Agreement except in accordance with this SECTION 24.02; provided, however, that nothing in this SECTION 24.02 or in this Agreement shall prevent, subject to SECTION 24.03, any Bank assigning or granting participations in such Bank's interests under this Agreement to such Bank's parent bank holding company or to any affiliate in which such Bank or parent bank holding company has the power to vote at least 33 1/3% of the voting securities issued by such affiliate for the election of the board of directors (or members of an equivalent governing body), provided, however, that such affiliate assignee may only further assign or subparticipate its interests in Loans pursuant to the terms of this ARTICLE 24 and provided, however, that such affiliate assignee cannot further assign or subparticipate its interests in Loans to any Person which is an affiliate pursuant to the provisions of SECTION 24.02(A).

(b) Each Bank shall have the right to transfer, assign or grant participations in all or any part of its remaining rights and obligations under this Agreement on the basis and subject to the conditions set forth below in this SUBSECTION 24.02(B).

(i) Each Bank may assign all or a portion of its rights and obligations under this Agreement to any Person in accordance with the terms of this SECTION 24.02. The parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording, an Assignment and Acceptance substantially in the form of EXHIBIT A together with a processing and recordation fee of DM 1,000 (Deutsche Mark One Thousand). Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least 5 (five) Business Days after the execution thereof (or such earlier date as shall have been agreed to by the assignor Bank, the assignee and the Agent), (A) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and (B) the Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(ii) Each Bank may sell participations to one or more banks or other financial institutions in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Loans owing to it); provided, however, that (A) such Bank shall remain a "Bank" for all purposes of this Agreement and the transferee of such participation shall not constitute a Bank hereunder, (B) such Bank's rights and obligations under this Agreement (including, without limitation, its Commitment to the Borrower hereunder) shall remain unchanged, (C) no notice to or filing (including the filing of any registration or similar statement) with any governmental authority or regulatory body is required in connection with any participation, (D) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (E) the Borrower, the Guarantors, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement and (F) any agreement pursuant to which any Bank grants a participation in its rights with respect to the Loan shall provide that, with respect to such Loan, such Bank shall retain the sole right and responsibility to exercise the rights of such Bank, and enforce the obligations of the Borrower relating to such Loan, including without limitation the right to approve any amendment, modification or waiver of any provision of this Agreement or any other Loan Documents and the right to take action to have the Loan declared due and payable pursuant to ARTICLE 18, provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement or any of the other Loan Documents without the consent of the participant that would:

- (1) reduce the principal or the rate of interest payable by the Borrower on any Loan or reduce any fees payable under this Agreement;
- (2) postpone any date fixed for the payment of principal of or interest on the Loan or any fees under this Agreement;
- (3) increase the Commitment of any Bank or subject any Bank to any additional obligation to make Loans; or
- (4) amend ARTICLE 22 or any other provision of this Agreement requiring the consent or other action of all the Banks.

No participant shall have any rights under this Agreement to receive payments pursuant to SECTION 11.01 AND 14.01.

24.03 Assignments under this Agreement, including assignments made to an Affiliate of a Bank in accordance with SECTION 24.02(A), are subject to the condition that if, at the time of such assignment, the assignee would be subject to any greater Taxes than those to which

the assignor Bank is then subject, or thereafter, if the assignee would at any time be subject to any greater Taxes than those to which the assignor Bank would at such time have been subject, the assignee Bank shall and does hereby waive any right to claim and receive Taxes and additional amounts payable pursuant to SECTIONS 11.01 AND 14.01 in respect of the excess of the Taxes and additional amounts applicable to it over the Taxes and additional amounts applicable to the assignor Bank.

- 24.04 By executing and delivering an Assignment and Acceptance, the assignor Bank thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assignor Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, the Loan Documents, the Collateral or any other instrument or document furnished pursuant hereto; (ii) such assignor Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower, any Pledgor, any Guarantor or their Affiliates or the performance or observance by the Borrower or any such Pledgor, Guarantor or Affiliate of any of its obligations under this Agreement, other Loan Documents or any other instrument or document furnished pursuant hereto or thereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in SECTION 15.11 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assignor Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement or any of the other Loan Documents; (v) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.
- 24.05 The Agent shall maintain at its address referred to below a copy of each Assignment and Acceptance delivered to and accepted by it and records of the names and addresses of the Banks and the Commitment (including the Revolving Commitment) of, and principal amount of the Loan (including each portion thereof) owing to, each Bank from time to time. The entries in such records shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Banks may treat each Person whose name is recorded in such records as a Bank hereunder for all purposes of this Agreement. The records shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.
- 24.06 Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and an assignee, the Agent shall, if such Assignment and Acceptance has been completed and is

in substantially the form of EXHIBIT A hereto, as the case may be, (i) accept such Assignment and Acceptance, (ii) record the information contained therein, and (iii) give prompt notice thereof to the Borrower.

24.07 Each of the Agent and each Bank which is a signatory to this Agreement shall execute a Confidentiality Agreement in the form of EXHIBIT S attached hereto on or prior to the date of its execution of this Agreement. Any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this ARTICLE 24 disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower or its Affiliates furnished to such Bank by or on behalf of the Borrower or its Affiliates; provided that, prior to the disclosure of confidential information concerning the Borrower or its Affiliates, the assignee or participant or proposed assignee or participant shall execute and deliver to the Borrower a Confidentiality Agreement in the form of EXHIBIT S.

#### ARTICLE 25. LANGUAGE

Each document, instrument, certificate and statement referred to herein or to be delivered hereunder shall, if not in the English language, be accompanied by an English translation thereof. In the case of conflict between any original document not in the English language and the English translation thereof, the language of the original document shall prevail.

#### ARTICLE 26. NOTICES

Unless otherwise specifically provided herein, any notice or other communication herein required or permitted to be given shall be in writing and may be personally served, telecopied, telexed or sent by courier service or first class prepaid mail (airmail if to an address in a foreign country from the party writing) and shall be deemed to have been given when delivered in person or by courier service, upon transmission of a telecopy or telex or four (4) days after deposit in the mail (registered, with postage prepaid and properly addressed). Notices to Agent shall not be effective until received by the Agent. For the purposes hereof, the addresses of the parties hereto (until 15 (fifteen) days' prior written notice of a change thereof is delivered as provided in this ARTICLE 26) shall be as set forth below each party's name on the signature pages hereof.

#### ARTICLE 27. LIMITATION ON SPECIAL DAMAGES

EACH OF THE BORROWER AND KRONOS TITAN HEREBY WAIVES, RELEASES AND AGREES NOT TO SUE FOR ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES, SUFFERED BY THE BORROWER OR ANY AFFILIATE, IN CONNECTION WITH ANY CLAIM (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT AND/OR ANY OTHER LOAN DOCUMENTS, WHETHER SUCH CLAIM IS ASSERTED BEFORE OR AFTER REPAYMENT IN FULL OF ALL OF THE BORROWER'S AND/OR KRONOS TITAN'S OBLIGATIONS.

ARTICLE 28. APPLICABLE LAW; JURISDICTION; SERVICE OF PROCESS

THIS AGREEMENT, AND THE RELATIONSHIP OF THE PARTIES ESTABLISHED BY THIS AGREEMENT, SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF GERMANY. EACH OF THE BORROWER AND KRONOS TITAN HEREBY AGREES THAT ALL CLAIMS OR SUITS OF ANY NATURE, WHETHER IN CONTRACT, TORT OR OTHERWISE, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP OF THE PARTIES ESTABLISHED BY THIS AGREEMENT SHALL BE RESOLVED EXCLUSIVELY BEFORE THE LANDGERICHT MUENCHEN I (COURT OF MUNICH), IN GERMANY, AND EACH OF THE BORROWER AND KRONOS TITAN HEREBY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SAID COURT. NOTHING IN THIS ARTICLE 28 SHALL AFFECT (I) THE RIGHT OF THE AGENT AND THE BANKS TO BRING AN ACTION OR PROCEEDING AGAINST THE BORROWER OR KRONOS TITAN OR ANY OF ITS PROPERTIES OR AGAINST ANY OF ITS SUBSIDIARIES IN THE COURT OF ANY OTHER JURISDICTION OR (II) THE RIGHT OF THE BORROWER OR KRONOS TITAN TO BRING AN ACTION OR PROCEEDING AGAINST THE AGENT OR THE BANKS ARISING UNDER ANY CONFIDENTIALITY AGREEMENT EXECUTED PURSUANT TO SECTION 24.07. The Borrower, in connection with the Original Agreement, and pursuant to a Form of Designation of Process Agent dated May 30, 1990, designated, appointed and empowered Dr. Wienand Meilicke, with offices at Poppelsdorfer Allee 106, 5300 Bonn 1, Germany, as its designee, appointee and agent to secure, accept and acknowledge for and on its behalf, and in respect of its property, service of any and all legal process, summons, notices and documents which may be served in any such action or proceeding. The Borrower hereby ratifies and confirms such designation, appointment and empowerment, and hereby agrees to appoint a substitute person upon the death or removal of Dr. Meilicke pursuant to a designation substantially identical to that previously delivered to the Agent or otherwise in form and substance reasonably satisfactory to the Agent.

ARTICLE 29. COUNTERPARTS

This Agreement may be executed and delivered in one or more counterparts, each of which shall constitute an original, and all of which when taken together shall constitute one and the same instrument and shall become effective when copies thereof, bearing the signatures of each of the parties hereto, shall have been received by the Agent and the Borrower.

ARTICLE 30. FURTHER ASSURANCES

In addition to the acts recited herein and contemplated to be performed, executed and/or delivered by the Borrower, the Borrower hereby agrees, at any time, and from time to time, to perform, execute and/or deliver to the Agent upon request, any and all such further acts, additional agreements, documents and instruments (including, without limitation, estoppel certificates stating that the Loan is in full force and effect and that there are no defenses, counterclaims or offsets thereto), or further assurances as may be necessary or proper to assure the rights and remedies intended to be granted or conveyed to the Agent and the Banks under this

Agreement or any of the other Loan Documents; and create, perfect, preserve, maintain and protect the liens and security interests created or intended to be created by the Loan Documents.

#### ARTICLE 31. CONSTRUCTION

The terms and provisions of this Agreement and the wording used herein shall in all cases be interpreted and construed simply in accordance with their fair meanings and not strictly for or against any party hereto.

#### ARTICLE 32. ENTIRE AGREEMENT

This Agreement and the other Loan Documents constitute the entire agreement with respect to the matters set forth herein and therein, and all prior negotiations, drafts and other writings that do not constitute a part of the Loan Documents but which relate to the subject matter of this Agreement or the other Loan Documents are merged herein and therein and are superseded, nullified and canceled by this Agreement and the other Loan Documents; provided, however, that the Original Agreement shall remain in effect as to the period from May 30, 1990 to the First Restatement Date and the First Restated Agreement shall remain in effect as to the period from the First Restatement Date to the Second Restatement Date. This Agreement shall become effective as of the Second Restatement Date when executed by the Borrower, Kronos Titan, the Agent and the Majority Banks and, if and when so executed, shall constitute an amendment and restatement of the First Restated Agreement.

#### ARTICLE 33. SURVIVAL OF WARRANTIES AND AGREEMENTS

All statements contained in this Agreement or any of the other Loan Documents, or any certificate, financial statement or other written material delivered by the Borrower to the Agent or the Banks pursuant to or in connection with this Agreement or any other Loan Document shall constitute representations and warranties made under this Agreement. All agreements, representations and warranties made herein shall survive, and shall not be waived by, the execution and delivery of this Agreement and the other Loan Documents, and any investigation by the Agent or any Bank. The obligations of the Borrower under ARTICLES 11, 12, 14, 19 and 20 shall survive, and not be waived by, the repayment of Borrower's obligations under this Agreement.

#### ARTICLE 34. NO THIRD PARTY BENEFICIARIES

The covenants contained herein and in all other Loan Documents to be kept by Borrower and/or Kronos Titan or the Agent and the Banks are intended solely for the benefit of the Borrower, the Agent and the Banks, respectively, and are not intended for the benefit of any other Person. No Person other than Borrower may compel the disbursement of Loans hereunder. No provisions in this Agreement or actions taken by the Agent or the Banks under this Agreement shall be construed as an assumption of any undertaking to protect third parties and all such provisions and actions are solely for the protection of the Agent and the Banks.

ARTICLE 35. NO NOVATION

This Agreement shall not result in or be deemed to be a novation of the Loan or any portion thereof. Without limiting the generality of the foregoing, the division of the Loan into the Term Portion and the Revolving Portion, and the division of the Revolving Portion into the Kronos Titan Revolving Portion and the portion that is not the Kronos Titan Revolving Portion, shall not result in or be deemed to be a repayment or an extinguishment of any portion of the Loan.

ARTICLE 36. MISCELLANEOUS

- 36.01 The parties hereto agree that a matter that is not a breach of the representation set forth in SECTION 15.21(E) shall not be, or be claimed to be, a breach of the representation set forth in SECTION 15.21(A).
- 36.02 The Banks hereby agree that the consummation of the Kronos (US)/Kronos Flip shall not, in and of itself, be deemed to result in a "Kronos MAC" as such term is defined in the Original Agreement.
- 36.03 Subject to the Borrower's compliance with Section 8.01(a) and the other terms of this Agreement, the Agent shall have the authority and obligation to release any Collateral (a) consisting of the Stock of any Pledged Subsidiary, which Stock is transferred to another Subsidiary with the approval of the Majority Banks pursuant to Section 16.09(f) (except to the extent that such approval is conditioned upon there not being a release of such Collateral), (b) consisting of the Stock of any Pledged Subsidiary that is a party to a merger permitted by (and approved in accordance with, if applicable) Section 16.10 if (i) such Pledged Subsidiary is not the surviving entity in such merger, (ii) such release occurs concurrently with or after such merger and (iii) concurrently with such release, the Agent (on behalf of the Banks) receives a valid and enforceable first priority perfected security interest in the Stock of the entity surviving such merger, and (c) consisting of all of the issued and outstanding Stock of any Pledged Subsidiary owned by the Borrower if (i) such Stock is sold, in compliance with this Agreement, to a Person who is not an Affiliate of the Borrower for an amount equal to or greater than its fair market value and (ii) all Net Proceeds from such sale shall be, promptly upon the occurrence of such sale and concurrently with such release, applied, first, as a prepayment of the principal of the Loan in the manner stated in Section 8.01(b), second (if any such Net Proceeds remain after all principal of the Loan is paid in full) to interest accrued and unpaid on the Loan and, third (if any such Net Proceeds remain after all interest accrued on the Loan is paid in full), to pay any additional amounts due and owing to the Agent and/or any Bank under the Loan Documents.

36.04 If and to the extent that such approval is necessary, the Banks hereby approve consummation of the following transactions:

- (a) the cross-licensing and transfer of technology between the "Kronos Group" and the "Tioxide Group", and the licensing of technology to the joint venture that will acquire the plant of Kronos Louisiana, Inc., pursuant to that certain Master Technology Exchange Agreement dated October 15, 1993 among Kronos, the Borrower, Kronos Louisiana, Inc., Tioxide Group Limited and Tioxide Group Services Limited;
- (b) the execution of an amendment to that certain Trademark Use Agreement among Kronos (US), Kronos, Kronos Titan and Kronos Titan A/S dated as of May 30, 1990 to take account of the assignment of trademarks from Kronos (US) to Kronos;
- (c) the execution of an amendment to that certain License Agreement between Kronos and Kronos Titan A/S dated as of October 1, 1966, pursuant to which the royalty rate payable by Kronos Titan A/S to Kronos is reduced from 7% to 5% of annual net sales; and
- (d) the execution of supplementary agreements dated as of December 27, 1990 and July 16, 1991 implementing the mechanism for paragraphs II.G and II.H of the Amended and Restated Technology Transfer and License Agreement between Kronos and Kronos Titan dated as of May 30, 1990.

IN WITNESS WHEREOF the hands of the duly authorized representatives of the parties hereto the day and year first before written.



THE BORROWER

KRONOS INTERNATIONAL, INC.

By: /s/ E. Gaertner  
Name: E. Gaertner  
Title: President

By: /s/ V. Roth  
Name: V. Roth  
Title: Vice President/Controller

Address for Notices:

Peschstrasse 5  
51373 Leverkusen 1  
Germany  
Attention: Volker Roth  
Telefax: 0214-42150

Copy to:

NL Industries, Inc.  
70 East 55th Street  
New York, New York 10022  
Attention: Susan E. Alderton  
Telefax: 212-421-7209

The undersigned, Kronos Titan - GmbH, executes this Agreement for the limited purposes of agreeing to all of the terms and provisions contained in this Agreement in any way relating to or in connection with (a) the Kronos Titan Revolving Portion, including, without limitation, the borrowing of the Kronos Titan Revolving Portion and the repayment of the principal of the Kronos Titan Revolving Portion, the payment of interest accrued on such principal and the payment of all fees accrued with respect to the Kronos Titan Revolving Portion in accordance with SECTION 2.04, ARTICLE 8 and SECTION 19.03 and (b) ARTICLES 27 and 28.

KRONOS TITAN

KRONOS TITAN - GMBH

By: /s/ E. Gaertner  
Name: E. Gaertner  
Title: Company Manager

By:  
Name:  
Title:

Address for Notices:

51373 Leverkusen 1  
Germany  
Attention: Volker Roth  
Telefax: 0214-42150

Copy to:

NL Industries, Inc.  
70 East 55th Street  
New York, New York 10022  
Attention: Susan E. Alderton  
Telefax: 212-421-7209

By: /s/ Michael Bisch  
Name: Michael Bisch  
Title: Charge de Service

By: /s/ Erwin Moos  
Name: Erwin Moos  
Title: Vice President

Address for Notices:

4, rue Alphonse Weicker  
L-2099 Luxembourg  
Attention: Michael Bisch  
Phone: 011-352-4272-2151  
Fax: 011-352-4272-4510

Lending Office:

4, rue Alphonse Weicker  
L-2099 Luxembourg  
Attention: Michael Bisch  
Phone: 011-352-4272-2151  
Fax: 011-352-4272-4510

ABN-AMRO BANK (DEUTSCHLAND) AG  
NIEDERLASSUNG DUESSELDORF

By:  
Volker Haubrich  
Title:

By:  
Roland Lukas  
Title:

ADDRESS FOR NOTICES:

Berliner Allee 41  
D-40212 Duesseldorf  
Attention: Volker Haubrich  
Roland Lukas  
Phone: 49-211-8770-117  
Fax: 49-211-8770-125

LENDING OFFICE:

Berliner Allee 41  
D-40212 Duesseldorf  
Attention: Volker Haubrich  
Roland Lukas  
Phone: 49-211-8770-117  
Fax: 49-211-8770-125

ARAB BANKING CORPORATION B.S.C.

By: /s/ Wahid O. Bugaighis  
Name: Wahid O. Bugaighis  
Title: First Vice President

By: /s/ Stephen A. Plauche  
Name: Stephen A. Plauche  
Title: Vice President

ADDRESS FOR NOTICES:

277 Park Avenue, 32nd Floor  
New York, New York 10172  
Attention: R. Hassan/Susan Williams  
Phone: 212-583-4770/71  
Fax: 212-583-0921/32

LENDING OFFICE:

Arab Banking Corporation (B.S.C.)  
Grand Cayman Branch  
c/o 277 Park Avenue, 32nd Floor  
New York, New York 10172  
Attention: R. Hassan/Susan Williams  
Phone: 212-583-4770/71  
Fax: 212-583-0921/32

BAHRAIN MIDDLE EAST BANK E.C.

By: /s/ Albert I. Kittaneh  
Name: Albert I. Kittaneh  
Title: Chief Executive

ADDRESS FOR NOTICES:

BMB Centre, Diplomatic Area  
P. O. Box 797  
Manama, Bahrain  
Attention: K.S. Ganesh  
Vice President  
Phone: 973-528138  
Fax: 973-536312

LENDING OFFICE:

BMB Center, Diplomatic Area  
P. O.Box 797  
Manama, Bahrain  
Attention: K.S. Ganesh  
Vice President  
Phone: 973-528138  
Fax: 973-536312

BANK HAPOALIM BM

By: /s/ Conrad Wager  
Name: Conrad Wagner  
Title: First Vice President

By: /s/ Shaun Breidbart  
Name: Shaun Breidbart  
Title: Assistant Vice President

ADDRESS FOR NOTICES:

1177 Avenue of the Americas  
New York, New York 10036  
Attention: Conrad Wagner  
Phone: 212-782-2176  
Fax: 212-782-2187

LENDING OFFICE:

1177 Avenue of the Americas  
New York, New York 10036  
Attention: Conrad Wagner  
Phone: 212-782-2176  
Fax: 212-782-2187

BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION

By: /s/ A. G. Tucker  
Name: A. G. Tucker  
Title: Vice President

ADDRESS FOR NOTICES:

1, Alie Street  
London EC1 8DE  
England  
Attention: A. G. Tucker  
Phone: 44-171-634-4728  
Fax: 44-171-634-4968

LENDING OFFICE:

1, Alie Street  
London EC1 8DE  
Attention: A. G. Tucker  
Phone: 44-171-634-4728  
Fax: 44-171-634-4968



BANK OF MONTREAL

By: /s/ Michael J. Solski  
Name: Michael J. Solski  
Title: Director

ADDRESS FOR NOTICES:

115 South LaSalle Street, 11th Floor  
Chicago, Illinois 60603  
Attention: Farid Ali  
Phone: 312-750-3727  
Fax: 312-750-3798

LENDING OFFICE:

Corporate and Institutional Financial Services  
24th Floor, First Bank Tower  
First Canadian Place, P. O. Box 1  
Toronto, Ontario M5X 1A1  
Attention: Michael J. Solski  
Phone: 416-867-6968  
Fax: 417-867-6366

BANK OF SCOTLAND

By: /s/ Catherine M. Oniffrey  
Name: Catherine M. Oniffrey  
Title: Vice President

ADDRESS FOR NOTICES:

565 Fifth Avenue, 5th Floor  
New York, New York 10017  
Attention: Catherine M. Oniffrey  
Fax: 212-557-9460

WITH A COPY TO:

Bank of Scotland  
Houston Representative Office  
1750 Two Allen Center  
1200 Smith Street  
Houston, Texas 77002  
Attention: Justin M. Alexander  
Phone: 713-651-1870  
Fax: 713-651-9714

LENDING OFFICE:

Bank of Scotland  
Grand Cayman Branch  
565 Fifth Avenue, 5th Floor  
New York, New York 10017  
Attention: Catherine M. Oniffrey  
Fax: 212-557-9460

BANKERS TRUST COMPANY

By: /s/ Michael Dent  
Name: M. Dent  
Title: Managing Director

ADDRESS FOR NOTICES:

1 Appold Street, Broadgate  
London EC2A 2HE  
Attention: Simon Alloway/Robert Foulston  
Phone: 44-171-982-3302  
Fax: 44-171-982-1902

LENDING OFFICE:

1 Appold Street, Broadgate  
London EC2A 2HE  
Attention: Simon Alloway/Robert Foulston  
Phone: 44-171-982-3302  
Fax: 44-171-982-5833

BANQUE ET CAISSE D'EPARGNE DE L'ETAT,  
LUXEMBOURG

By: /s/ John Dhur  
Name: John Dhur  
Title: Sous Director

ADDRESS FOR NOTICES:

1, place de Metz  
L-2954 Luxembourg  
Attention: Jean Pierre Thein  
Phone: 352-4015-4337  
Fax: 352-4015-4284

LENDING OFFICE:

1, place de Metz  
L-2954 Luxembourg  
Attention: Jean Pierre Thein  
Phone: 352-4015-4337  
Fax: 352-4015-4284

BANQUE INDOSUEZ

By: /s/ Jerome Sanzo  
Name: Jerome Sanzo  
Title: First Vice President

By: /s/ Jaime Silver  
Name: Jaime Silver  
Title: Vice President

ADDRESS FOR NOTICES:

1211 Avenue of the Americas  
New York, New York 10036  
Attention: Jaime Silver/Raymond Wright  
Phone: 212-278-2544  
Fax: 212-278-2759

LENDING OFFICE:

1211 Avenue of the Americas  
New York, New York 10036  
Attention: Raymond Wright  
Loan Department  
Phone: 212-278-2000  
Fax: 212-278-2502

BANQUE INTERNATIONALE A LUXEMBOURG  
S.A.

By: /s/ Yves Lahaye  
Name: Yves Lahaye  
Title: Vice President

By: /s/ Claude Lehnertz  
Name: Claude Lehnertz  
Title: Vice President

ADDRESS FOR NOTICES:

69, route d'Esch  
L-2953 Luxembourg  
Attention: Guy Denys/Simon Hauxwell  
Phone: 352-4590-2564  
Fax: 352-4590-3855

LENDING OFFICE:

69, route d'Esch  
L-2953 Luxembourg  
Attention: Guy Denys/Simon Hauxwell  
Phone: 352-4590-2564  
Fax: 352-4590-3855

CHRISTIANIA BANK OG KREDITKASSE ASA

By: /s/ Stein H. Offenberg  
Name: Stein H. Offenberg  
Title: Senior Vice President

ADDRESS FOR NOTICES:

P. O. Box 1166 Sentrum  
N-0107 Oslo  
Norway  
Attention: Stein H. Offenberg  
Phone: 47-22-48-69-59  
Fax: 47-22-56-40-83

WITH A COPY TO:

International Loan Administration  
P. O. Box 1166 Sentrum  
N-0107 Oslo  
Norway  
Attention: Aud Sandnes  
Phone: 47-22-48-47-26  
Fax: 47-22-48-54-97

LENDING OFFICE:

P. O. Box 1166 Sentrum  
N-0107 Oslo  
Norway  
Attention: Stein H. Offenberg  
Phone: 47-22-48-69-59  
Fax: 47-22-56-40-83

DLJ CAPITAL FUNDING, INC.

By: /s/ Stephen P. Hickey  
Name: Stephen P. Hickey  
Title: Managing Director

ADDRESS FOR NOTICES:

525 Washington Boulevard  
Newport Tower  
Jersey City, NJ 07310  
Attention: Ed Vowinkel  
Phone: 201-610-1971  
Fax: 201-610-1965

WITH A COPY TO:

c/o DLJ International  
Moorgate Hall, 155 Moorgate  
London, EC 2M 6XB  
Attention: Pam Carter  
Phone: 44-171-628-0869  
Fax: 44-171-814-7224

and

DLJ Capital Funding, Inc.  
277 Park Avenue, 9th Floor  
New York, New York 10172  
Attention: Mr. Donald Pollard  
Phone: 212-892-5475  
Fax: 212-892-5286

LENDING OFFICE:

525 Washington Boulevard  
Newport Tower  
Jersey City, NJ 07310  
Attention: Ed Vowinkel  
Phone: 201-610-1971  
Fax: 201-610-1965



FUJI BANK (LUXEMBOURG) S.A.

By: /s/ Tadashi Omiya  
Name: Tadashi Omiya  
Title: Managing Director

ADDRESS FOR NOTICES:

29, Avenue de la Porte Neuve  
2227 Luxembourg  
Attention: Loan Department  
Phone: 352-474-681  
Fax: 352-474-688

WITH A COPY TO:

The Fuji Bank, Limited  
One Houston Center, Suite 4100  
1221 McKinney Street  
Houston, Texas 77010  
Attention: Philip C. Lauinger, III  
Phone: 713-650-7852  
Fax: 713-759-0048

LENDING OFFICE:

29, Avenue de la Porte Neuve  
2227 Luxembourg  
Attention: Loan Department  
Phone: 352-474-681  
Fax: 352-474-688

IBJ SCHRODER BANK & TRUST COMPANY

By: /s/ Frederik W. Aase  
Name: Frederik W. Aase  
Title: Vice President

By:  
Name:  
Title:

ADDRESS FOR NOTICES:

Grand Cayman Branch  
One State Street  
New York, New York 10004  
Attention: Frank DeLillo/Frederik W. Aase  
Phone: 212-858-2786  
Fax: 212-858-2115

LENDING OFFICE:

Grand Cayman Branch  
One State Street  
New York, New York 10004  
Attention: Frank DeLillo/Frederik W. Aase  
Phone: 212-858-2786  
Fax: 212-858-2222

MERITA BANK LTD.

By: /s/ Esa Tuomi  
Name: Esa Tuomi  
Title: Vice President

By: /s/ Aimo Vitie  
Name: Aimo Vitie  
Title: Vice President

ADDRESS FOR NOTICES:

2627 International Credits  
FIN-00020 Merita  
Attention: Pirkko Relander/Borje Lindblom  
Phone: 358-9-165-55590  
Fax: 358-9-165-52820

LENDING OFFICE:

2627 International Credits  
FIN-00020 Merita  
Attention: Pirkko Relander/Borje Lindblom  
Phone: 358-9-165-55590  
Fax: 358-9-165-52820

SCHRODER MUENCHMEYER HENGST & CO.

By: /s/ Thomas W. Bengler  
Name: Thomsa W. Bengler  
Title:

By: /s/ David E. Watson  
Name: David E. Watson  
Title:

ADDRESS FOR NOTICES:

Friedensstrasse 6-10  
D-60311 Frankfurt am Main  
Attention: Thomas W. Bengler  
Phone: 49-69-2179-562  
Fax: 49-69-2179-591

LENDING OFFICE:

Friedensstrasse 6-10  
D-60311 Frankfurt am Main  
Attention: Thomas W. Bengler  
Phone: 49-69-2179-562  
Fax: 49-69-2179-591

SWISS BANK CORPORATION  
New York and Cayman Islands Branches

By: /s/ Nicolas T Erni  
Name: Nicolas T. Erni  
Title: Director

By: /s/ William A. Roche  
Name: William A. Roche  
Title: Restructuring

ADDRESS FOR NOTICES:

New York and Cayman Islands Branches  
222 Broadway  
New York, New York 10038  
Attention: Elizabeth Burnett  
Phone: 212-574-3000  
Fax: 212-574-3162

LENDING OFFICE:

New York and Cayman Islands Branches  
222 Broadway  
New York, New York 10038  
Attention: Nicolas T. Erni  
Phone: 212-574-3443  
Fax: 212-574-3162

THE BANK OF NOVA SCOTIA

By: /s/ R. A. Millard  
Name: R. A. Millard  
Title: Relationship Manager

ADDRESS FOR NOTICES:

1100 Louisiana Street  
Houston, Texas 77002  
Attention: Bryan Bulawa  
Phone: 713-752-0900  
Fax: 713-752-2425

LENDING OFFICE:

Scotia House  
33 Finsbury Square  
London EC2A 1BB  
Attention: R. A. Millard/J.W. Stevens  
Phone: 44-171-454-5758  
Fax: 44-171-454-9019

THE CHUO TRUST AND BANKING CO., LTD.

By: /s/ Mr. Y. Ueda  
Name: Mr. Y. Ueda  
Title: Deputy General Manager

ADDRESS FOR NOTICES:

Woolgate House  
Coleman Street  
London EC2R 5AT  
Attention: Paul Glynn/R. Weir  
Phone: 44-171-726-6050  
Fax: 44-171-606-8061

LENDING OFFICE:

Woolgate House  
Coleman Street  
London EC2R 5AT  
Attention: Paul Glynn/R. Weir  
Phone: 44-171-726-6050  
Fax: 44-171-606-8061

SCHEDULE 1

152



SCHEDULE 2

INDEBTEDNESS

SCHEDULE 3

LIENS

SCHEDULE 4

CERTAIN LEGAL MATTERS

SCHEDULE 5

LITIGATION

SCHEDULE 6

ERISA AND NON-U.S. EMPLOYEE PLANS

SCHEDULE 7

SUBSIDIARIES

SCHEDULE 8

LICENSE AGREEMENTS AND INTELLECTUAL PROPERTY RIGHTS

SCHEDULE 9

AFFILIATE TRANSACTIONS



SCHEDULE 10

INSURANCE

SCHEDULE 11

TAX INFORMATION

SCHEDULE 12

CERTAIN LOAN AGREEMENTS

SCHEDULE 13

CERTAIN MATERIAL ASSETS

EXHIBIT A

FORM OF ASSIGNMENT AND ACCEPTANCE

EXHIBIT B

FORM OF MIRROR NOTES

EXHIBIT C

SUBORDINATED LOAN DOCUMENTS

EXHIBIT D

FORMS OF AMENDMENTS AND/OR REAFFIRMATIONS  
OF PLEDGE AGREEMENTS



EXHIBIT E

FORMS OF AMENDMENTS AND/OR  
REAFFIRMATIONS OF GUARANTIES

EXHIBIT F

FORM OF SECOND AMENDED AND RESTATED TECHNOLOGY  
AND TRADEMARK UNDERTAKING

EXHIBIT G

FORM OF AMENDMENT AND/OR REAFFIRMATION OF  
SUBORDINATION AND CONTRIBUTION AGREEMENT

EXHIBIT H

FORM OF SECOND AMENDED AND  
RESTATED LIQUIDITY UNDERTAKING

EXHIBIT I

FORM OF ACKNOWLEDGMENT OF LIMITATION  
OF SPECIAL DAMAGES



EXHIBIT K

FORM OF CANADIAN SECURITY DOCUMENTS

EXHIBIT L

FORM OF NORDENHAM MORTGAGE



EXHIBIT M

FORMS OF CASH PLEDGE  
AGREEMENTS OF THE BORROWER

EXHIBIT N

FORMS OF CASH PLEDGE AGREEMENTS  
OF THE CANADIAN SUBSIDIARIES

EXHIBIT 0

FORM OF SOLVENCY CERTIFICATE

EXHIBIT P

FORM OF NOTICE OF BORROWING

EXHIBIT Q

FORM OF CERTIFICATE OF CHIEF FINANCIAL OFFICER  
OF BORROWER AS TO ANNUAL FINANCIAL STATEMENTS

EXHIBIT R

FORM OF CERTIFICATE OF CHIEF FINANCIAL OFFICER OF  
BORROWER AS TO QUARTERLY FINANCIAL STATEMENTS







## SECOND AMENDED AND RESTATED LIQUIDITY UNDERTAKING

This Second Amended and Restated Liquidity Undertaking (this "Agreement"), dated effective as of January 31, 1997, is executed and delivered by NL INDUSTRIES, INC., a New Jersey corporation ("NL Industries"), KRONOS, INC., a Delaware corporation f/k/a Kronos (USA), Inc. ("Kronos") (NL Industries and Kronos are sometimes hereinafter individually called a "Shareholder" and collectively called "Shareholders") and KRONOS INTERNATIONAL, INC., a Delaware corporation ("Borrower") to and in favor of HYPOBANK INTERNATIONAL S.A. ("Agent"), as Agent for the Banks (hereinafter defined), and the Banks.

## WITNESSETH:

Borrower, Kronos Titan-GmbH, Agent and the Banks are, concurrently herewith, entering into that certain Second Amended and Restated Loan Agreement dated as of January 31, 1997 (as the same may be amended or supplemented from time to time now or hereafter, the "Loan Agreement"), which Loan Agreement amends and restates that certain Amended and Restated Loan Agreement dated as of October 15, 1993, among Borrower, Agent, Banque Paribas, as Co-Agent ("Co-Agent"), and the Banks (or their predecessors in interest) (the "First Restated Agreement"), which First Restated Agreement amends and restates that certain Loan Agreement dated as of May 30, 1990, among Borrower, Agent, Co-Agent and the Banks (or their predecessors in interest), as amended by that certain (i) First Amendment Agreement dated as of December 31, 1990, (ii) Second Amendment Agreement dated as of March 22, 1991, and (iii) Third Amendment Agreement (herein so-called) dated as of June 15, 1992 (the "Original Agreement").

Pursuant to the Third Amendment Agreement, the parties hereto executed that certain Liquidity Undertaking dated as of June 15, 1992 (the "Original Liquidity Undertaking"). Pursuant to the First Restated Agreement, the parties hereto executed that certain Amended and Restated Liquidity Undertaking dated as of October 15, 1993 (the "First Restated Liquidity Undertaking") which amended and restated the Original Liquidity Undertaking. In order to induce Agent and the Banks to enter into the Loan Agreement, Shareholders and Borrower desire to amend and restate the First Restated Liquidity Undertaking as herein set forth.

NOW, THEREFORE, for and in consideration of the Loan Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree that the First Restated Liquidity Undertaking is amended and restated in its entirety as follows:

- i. Definitions. Unless otherwise defined in this Agreement, initially capitalized terms used in this Agreement shall have the meanings ascribed to them in the Loan Agreement. As used in this Agreement, the phrase "any Shareholder" means any Shareholder and/or both Shareholders.

SECOND AMENDED AND RESTATED LIQUIDITY UNDERTAKING - Page 1

- ii. Maintenance of Liquidity.

- (i) Liquidity Report. By 5:00 p.m. (New York, New York time) on each Business Day (i) which occurs prior to January 1, 2001 and (ii) which is the first Business Day immediately preceding any date upon which Borrower is required to make any payment of principal or interest on the Loans (any such Business Day herein a "Report Date" and any such date upon which Borrower is required to make any such payment hereinafter called a "Payment Date") but excluding any day upon which the payment of principal on the Loan is due as a result of the acceleration thereof, Borrower agrees to provide Shareholders and Agent with a report (the "Liquidity Report") identifying Borrower's Liquidity Level as of the prior Business Day (each such prior Business Day herein a "Date of Determination") and showing, in reasonable detail, Borrower's Liquidity Level and the manner in which such Liquidity Level was calculated. As used herein, the term "Liquidity Level" means, as of each Date of Determination the sum of (i) Borrower's Cash Position, plus (ii) without duplication, each Consolidated Subsidiaries' Cash Position, plus (iii) if no Default has occurred, the amount available to be borrowed by Borrower under the terms of Section 2.04 of the Loan Agreement but excluding any amounts available to be borrowed by Borrower under any other credit facilities, minus (iv) the amount of all the payments scheduled to be made under the Loans on

the Payment Date immediately following the Report Date. As used herein, the term "Cash Position" means, with respect to any Person, the amount, expressed in Deutsche Mark, equal to the remainder of (A) the sum of such Person's cash and cash equivalents (determined in accordance with German GAAP with respect to Borrower and its Consolidated Subsidiaries or determined on an unconsolidated basis but otherwise in accordance with accounting principles generally accepted in the United States ["U.S. GAAP"] with respect to the Shareholders, both consistently applied) plus the market value of such Person's Marketable Securities minus (B) without duplication, the aggregate amount of any Indebtedness secured by any Lien, other than a Lien in favor of Agent as security for the Loans, affecting such cash, cash equivalents and/or Marketable Securities (in each case not to exceed the amount

or value of the particular cash, cash equivalents or Marketable Securities affected by such Lien). As used herein, the term "Marketable Securities" means all stocks, bonds, notes or other securities which are regularly traded on any recognized national or international market or exchange and are otherwise freely transferable. The market value of Marketable Securities shall be determined as of each Date of Determination by reference to a market price quoted as of such date in a recognized national or international market or exchange for the Marketable Securities in question and otherwise on a basis reasonably satisfactory to the Majority Banks. If any cash, cash equivalent or the value of Marketable Securities is denominated in any currency other than Deutsche Mark, then, for purposes of calculating the Cash Position under this Agreement, the equivalent amount of Deutsche Mark shall be determined by using the Spot Rate existing as of the applicable Date of Determination. As used in this Agreement, the term "Spot Rate", with respect to any currency and any day, means the rate determined based on the "Frankfurt Foreign Exchange Fixing" for the offered rates to purchase Deutsche Mark with such currency as reflected on the display designated as page "1011" on the Telerate Systems, Incorporated service (or such other page as may replace page "1011" on that service for the purposes of displaying such offered rates) at or about 11:00 a.m. London time on such date. If at least two such offered rates appear on such display, the rate for such date will be the arithmetic mean of such offered rates.

- (ii) Borrower Liquidity Deficit; Required Investment. If Borrower's Liquidity Level is less than DM 25,000,000 (Deutsche Mark Twenty Five Million) as of any Date of Determination, Shareholders shall on a joint, several, irrevocable and unconditional basis (but subject to subparagraph (d) of this Paragraph 2), within ten (10) days after being given the applicable Liquidity Report (or if such Liquidity Report is not delivered, within ten (10) days after being given written notice from Agent) either make Capital Contributions to Borrower and/or make Subordinated Loans to Borrower, in either case in an aggregate amount sufficient so that, after giving effect to such contributions and/or such loans and the receipt of such funds by Borrower, Borrower's Liquidity Level (calculated as if such contributions and/or

loans were made as of the applicable Date of Determination) shall equal or exceed DM 25,000,000 (Deutsche Mark Twenty Five Million); provided that the aggregate amount of Capital Contributions and Subordinated Loans made by Shareholders to Borrower after January 31, 1997 and prior to January 1, 2001 pursuant to this Agreement shall not exceed an aggregate amount equal to DM 125,000,000 (Deutsche Mark One Hundred Twenty-Five Million) (the "Maximum Required Investment Amount"); and provided further that Shareholders' obligations to make Capital Contributions and/or Subordinated Loans up to the Maximum Required Investment Amount shall be satisfied by any of the following: (A) to the extent and in an amount equal to, as of the date of determination, the positive remainder (if any) of (1) the aggregate amount of Shareholders' optional Capital Contributions and/or Subordinated Loans made to Borrower after January 31, 1997 for general corporate purposes (including, without limitation, optional prepayments) minus (2) the sum of the aggregate amount of Restricted Payments made by Borrower prior to the date of determination but after January 31, 1997 pursuant to Section 16.20(b) of the Loan Agreement plus the aggregate amount of Restricted Payments permitted (as of the date of determination) to be made by Borrower on or after the date of determination pursuant to Section 16.20(b) of the Loan Agreement, and (B) an amount equal to the Liquidity Undertaking Credit in effect as of the date of determination. The term "Capital Contributions" means contributions by a Shareholder to the equity of Borrower. The term "Subordinated Loans" means loans by a Shareholder to Borrower on terms and provisions acceptable to such Shareholder and Borrower; provided that such loans are "Subordinated Debt", as such term is defined in the Loan Agreement.

- (iii) Event of Default; Required Investment. Notwithstanding anything to the contrary contained elsewhere in this Agreement, if an Event of Default has occurred and is continuing and Agent shall have given Borrower and Shareholders written notice requesting or requiring performance under this subparagraph (c), then Borrower and Shareholders' jointly and severally agree as follows:

(i) a Liquidity Report shall be provided by Borrower to Shareholders and Agent within two Business Days after Borrower's receipt of such notice referred to in this subparagraph (c), which Liquidity Report shall identify Borrower's Liquidity Level as of the Business Day immediately succeeding the date of such notice (the "Default Date of Determination"); provided, however that, for purposes of this subparagraph (c), the term "Liquidity Level" shall mean (without duplication) (A) the Liquidity Level as defined in subparagraph (a) of this Paragraph 2 minus, (B) the aggregate unpaid principal amount of the Loans, minus (C) the aggregate of the accrued and unpaid interest and fees under the Loan Agreement and the other Loan Documents; and

(ii) based upon the Liquidity Level as so determined in accordance with clause (i) immediately preceding, the Shareholders shall, on a joint, several, irrevocable and unconditional basis (but subject to subparagraph (d) of this Paragraph 2), within ten (10) days after being given such notice from Agent, either make Capital Contributions to Borrower and/or make Subordinated Loans to Borrower, in either case in an aggregate amount sufficient so that, after giving effect to such contributions and/or such loans and the receipt of such funds by Borrower, Borrower's Liquidity Level (as defined in this subparagraph (c) and calculated as if such contributions and/or loans were made as of the applicable Default Date of Determination) shall equal or exceed DM 25,000,000 (Deutsche Mark Twenty Five Million); provided that the aggregate amount of Capital Contributions and Subordinated Loans made by Shareholders to Borrower after January 31, 1997 and prior to January 1, 2001 pursuant to this Agreement shall not exceed the Maximum Required Investment Amount. Notwithstanding anything to the contrary that may be contained in this Agreement, payments by NL Industries under the NL Guaranty will not reduce or otherwise affect the Maximum Required Investment Amount.

(iv) Priority of Contributions by Shareholders. Each time the Shareholders are required to make Capital Contributions or Subordinated Loans (the "Required Contributions") under subparagraphs (b) or (c) of this Paragraph 2, Kronos shall be obligated to make so much of the Required Contributions as it is able to make from funds received from or otherwise attributable to its operations before NL Industries (i) makes any portion of the Required Contributions or (ii) contributes funds to Kronos to enable Kronos to make the Required Contributions. Kronos agrees that it will not utilize any funds received from NL Industries to make any Required Contributions until it has utilized all the then available funds which are received from or otherwise attributable to its operations. After Kronos has satisfied its obligations under the preceding two sentences or

if Kronos is unable to make Required Contributions, then NL Industries will, if necessary, promptly (within the ten (10) day period specified in subparagraph (c) of this Paragraph 2) make the Required Contributions or the remainder thereof left unpaid.

- (v) Payments. All payments by either Shareholder under this Agreement shall be in immediately available funds and made directly to Borrower's account number 5803610284 maintained at Bayerische Hypotheken-und Wechselbank AG in Munich, Germany. All payments by the Shareholders hereunder shall be made without setoff, deduction or counterclaim for amounts owed to any Shareholder by Borrower. Each Shareholder irrevocably waives, to the fullest extent permitted by law, all defenses, rights of setoff and counterclaims, which may now exist or hereafter arise with respect to such payments or other obligations under this Agreement. All payments by each Shareholder under this Agreement shall also be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes now or hereafter imposed on Borrower or its property, except to the extent that such withholding or deduction is required by applicable law.
- (vi) Borrower Obligations. Borrower hereby irrevocably and unconditionally agrees to either (i) authorize (to the extent necessary), issue and sell capital stock to Shareholders, in connection with any Capital Contributions, or (ii) authorize and issue promissory notes and any other necessary documents to evidence the Subordinated Loans or (iii) take such other action at such time as is necessary for Shareholders to comply with the provisions of this Paragraph 2. Neither the obligations of Borrower under this subparagraph (f), any other provision of this Agreement or any other Loan Document nor the performance thereof shall be a condition to the obligations of Shareholders to pay to Borrower the amounts required under this Agreement; provided that either Shareholder's performance shall not constitute a waiver of any rights against Borrower.
- (vii) Termination. The obligations of Shareholders under this Paragraph 2 shall terminate on January 1, 2001 (the "Termination Date") except with respect to any obligation under this Paragraph 2 which remains unsatisfied on the

Termination Date and except as provided in subparagraph (j) and (k) below.

- (viii) Failure to Perform; No Proof of Damages; Specific Performance. Borrower and each Shareholder recognize and agree that in the event Borrower or any Shareholder fails to perform or observe any or all of its obligations under this Agreement, and if for any reason Agent or any Bank shall have failed to receive when due and payable (whether at stated maturity, by acceleration, or otherwise) the payment of all or any part of principal or interest or any other amount payable by Borrower under the Loan Agreement or the other Loan Documents, then in each such case it shall be assumed conclusively without necessity of proof that such failure by Borrower or Shareholders was the sole and direct cause of Agent or any Bank failing to receive such payment when due irrespective of any other contributing or intervening cause whatsoever. As a result of the foregoing, Shareholders and Borrower irrevocably waive to the full extent permitted by applicable law any right or defense that Borrower or Shareholders may have to cause Agent or any Bank to prove the cause or amount of any damages or to mitigate the same. In addition, and without limiting the foregoing, the parties hereto agree that in the event of such a failure, (i) it is impossible to measure in money the damages that would be suffered by Agent and the Banks, (ii) Agent and the Banks will be irreparably damaged and (iii) any remedy at law will be inadequate relief and, as a result, this Agreement shall be enforceable by Agent and the Banks in a court of equity by a decree of specific performance without the need of proving that a remedy at law is inadequate, Borrower and each Shareholder hereby waiving and agreeing not to raise the defense that an adequate remedy at law exists.
- (ix) Non-impairment of Obligations upon Bankruptcy of Borrower. The obligations of Shareholders under this Agreement shall not be released, impaired, limited, reduced, discharged or otherwise affected on account of the insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution or lack of authority of Borrower or any Shareholder, whether now existing or hereafter arising and, in furtherance of the foregoing, each Shareholder waives, to the fullest extent permitted by

applicable law and for the benefit of, and as a separate undertaking with, Agent and the Banks, any defense to the performance of this Agreement which may be available to either Shareholder as a consequence of Borrower not being in existence or this Agreement being rejected or otherwise not assumed by Borrower or any trustee or other similar official for Borrower or for any substantial part of the property of Borrower, or as a consequence of this Agreement being otherwise terminated or modified, in any bankruptcy or insolvency proceeding whether such rejection, non-assumption, termination or modification be by reason of this Agreement being held to be an executory contract or by reason of any other circumstance; provided that, if Borrower is no longer in existence or this Agreement shall be rejected or otherwise not assumed, or terminated or modified, each Shareholder agrees for the benefit of, and as a separate undertaking with, Agent and the Banks, that it will unconditionally, jointly and severally pay to Agent an amount equal to each payment which would otherwise be payable by Shareholders under or in connection with this Agreement to Borrower if this Agreement were not so rejected or otherwise not assumed or were otherwise not so terminated or modified (such amount to be payable to Agent to be applied to the indebtedness, liabilities and obligations owing under or pursuant to the Loan Documents (the "Loan Obligations")) and in such event, Borrower shall comply with its obligations under subparagraphs (f) of this Paragraph 2. Shareholders further agree that their obligations under this subparagraph (i) shall continue to be effective or be reinstated (if a release, discharge or termination has occurred but only to the extent of the amount discharged), as the case may be, if at any time any payment (or any part of such payment) to Agent or any Bank previously paid by either Shareholder under the terms of this subparagraph (i) is rescinded or must otherwise be restored or disgorged by Agent or any Bank pursuant to any bankruptcy, insolvency, reorganization, receivership, liquidation or other debtor relief granted to any Shareholder or its successors or assigns. If, pursuant to the foregoing sentence, the obligations of Shareholders under this subparagraph (i) shall continue to be effective or be reinstated (if a release, discharge or termination has occurred), any prior release, discharge or termination from



the terms of this Agreement given to any Shareholder by Agent or any Bank shall be without effect.

(x) No Effect or Impairment. Each Shareholder consents to and agrees that its obligations under this Agreement will also not be discharged or affected by: (i) any acceptance, forbearance or release in respect of the rights of Agent or any of the Banks under the Loan Agreement or the other Loan Documents; (ii) any waiver or release of any right or option of Agent or any of the Banks under the terms of the Loan Agreement or other Loan Documents; (iii) any modification, extension, renewal or amendment of the terms of the Loan Agreement or other Loan Documents; (iv) the fact that the Loan Agreement or any other Loan Document shall be invalid, illegal or unenforceable, in whole or in part, for any reason; or (v) except as otherwise provided herein, any other act or omission of any kind by Agent, any Bank or Borrower or any other circumstance whatsoever which might constitute a legal or equitable discharge of the Shareholders.

(xi) Liquidity Report; Liquidity Level. Borrower agrees to provide to Agent and Shareholders, promptly upon any request therefor by Agent or any Shareholders, such information in such detail as Agent or any Shareholder may reasonably request from time to time relating to the determination of the Liquidity Level from time to time. Furthermore, and notwithstanding anything to the contrary contained elsewhere in this Agreement, in the event that Borrower fails to timely provide a Liquidity Report or an accurate Liquidity Report in accordance with this Agreement within five (5) days after being given written notice from Agent to do so, then for all purposes of this Agreement, the Liquidity Level as of the applicable date shall be deemed to be the Liquidity Level, as reasonably determined by Agent in good faith, specified in a written notice to Borrower and Shareholders.

iii. Representations and Warranties of Shareholders. In connection with this Agreement, Shareholders hereby jointly and severally represent and warrant to Agent and the Banks as follows, provided, however, that any representation or warranty contained in this Paragraph 3 made as to a particular Shareholder shall be deemed made in this Agreement only by such Shareholder:

- (i) NL Industries is the sole shareholder of Kronos and Kronos is the sole shareholder of Borrower, and Shareholders have received and will continue to receive a direct and indirect material benefit from the making of this Agreement, the Loans and the transactions evidenced by and contemplated in the Loan Agreement and the other Loan Documents; this Agreement is given by Shareholders in furtherance of the direct and indirect business interests and corporate purposes of Shareholders, and is necessary to the conduct, promotion and attainment of the business of Shareholders; and the value of the consideration received and to be received by Shareholders pursuant to the Loan Agreement is reasonably worth at least as much as the liability and obligation of Shareholders under this Agreement;
- (ii) Each Shareholder is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the corporate power and authority to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance by each Shareholder of this Agreement have been duly authorized by all requisite action on the part of each Shareholder and do not and will not violate or conflict with the articles of incorporation or bylaws of either Shareholder or any law, rule or regulation or any order, writ, injunction or decree of any court, governmental authority or arbitrator to which such Shareholder is subject and do not and will not result in the creation or imposition of any Lien upon any of the revenues or assets of either Shareholder. The execution and delivery of this Agreement and the performance of and compliance with the terms of this Agreement will not conflict with, constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or result in the breach of, any material contract, agreement or other instrument to which any Shareholder is a party or which may be applicable to any Shareholder or any of its assets;
- (iii) This Agreement, when executed and delivered by each Shareholder and Borrower, will constitute the joint and several and valid, legal and binding obligation of each Shareholder enforceable in accordance with its terms, except to the extent that enforcement may be limited by

bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by principles of equity;

- (iv) As of the date of this Agreement, and after giving effect to this Agreement and the contingent obligations evidenced by this Agreement, each Shareholder is not, and will not be, insolvent (as such term is used or defined in all applicable bankruptcy, fraudulent transfer, insolvency, fraudulent conveyance and similar laws), and each Shareholder has and will have assets which, fairly valued, exceed its indebtedness, liabilities and obligations;
- (v) All corporate acts and conditions required to be performed and satisfied prior to the execution and delivery of this Agreement, and to constitute this Agreement as the valid, binding and enforceable obligation of each Shareholder in accordance with its terms, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by principles of equity, have been performed and satisfied in accordance with all applicable laws;
- (vi) Each Shareholder is familiar with, and has independently reviewed books and records regarding, the financial condition of Borrower and is familiar with the value of any and all Collateral and other collateral and security intended to secure or to be created to secure the Loans; however, each of Shareholders is not relying on such financial condition or such Collateral, collateral or security as an inducement to enter into this Agreement; and
- (vii) Except for the execution of the Loan Agreement by Agent and Majority Banks, neither Agent, any of the Banks nor any other Person has made any representation, warranty or statement to, or promise, covenant or agreement with, any Shareholder in order to induce Shareholders to execute this Agreement.

iv. Representations and Warranties of Borrower. In connection with this Agreement, Borrower hereby represents and warrants to Shareholders, Agent and the Banks as follows:

- (i) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has all requisite corporate power and authority to own its assets and carry on its business as now being or as proposed to be conducted, and has the corporate power and authority to execute, deliver and perform its obligations under this Agreement;
- (ii) The execution, delivery and performance by Borrower of this Agreement have been duly authorized by all requisite action on the part of Borrower and do not and will not violate or conflict with the articles of incorporation or bylaws of Borrower or any law, rule or regulation or any order, writ, injunction or decree of any court, governmental authority or arbitrator to which Borrower is subject, and do not and will not result in the creation or imposition of any lien upon any of the revenues or assets of Borrower. The execution and delivery of this Agreement and the performance of and compliance with the terms of this Agreement will not conflict with, constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or result in the breach of, any material contract, agreement or other instrument to which Borrower is a party or which may be applicable to Borrower or any of its assets;
- (iii) This Agreement, when executed and delivered by each Shareholder and Borrower, will constitute the valid, legal and binding obligation of Borrower enforceable in accordance with its terms, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by principles of equity; and
- (iv) All corporate acts and conditions required to be performed and satisfied prior to the execution and delivery of this Agreement, and to constitute this Agreement as the valid, binding and enforceable obligation of Borrower in accordance with its terms, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by

principles of equity, have been performed and satisfied in accordance with all applicable laws.

- v. Cumulative Remedies; No Election. The rights of Agent and the Banks under this Agreement shall be cumulative of any and all other rights that Agent and the Banks may ever have against any Shareholder or Borrower or arising under the Loan Documents, or at law or in equity. The exercise by Agent or any Bank of any right or remedy under this Agreement or under any other Loan Document, or at law or in equity, shall not preclude the concurrent or subsequent exercise of any other right or remedy. This Agreement may be enforced from time to time as often as occasion therefor may arise, and it is agreed that it shall not be necessary for Agent or any Bank, in order to enforce the provisions of this Agreement, first to exercise any rights against Borrower, any Shareholder or any other Person or institute suit or to exhaust any available remedies against security in its possession or under its control, or to resort to any other sources or means of obtaining payment of the Loans. The obligations and duties of Shareholders under this Agreement are independent of the obligations and duties of Borrower under the Loan Agreement or this Agreement, and a separate action or actions may be brought and prosecuted against Shareholders or either of them, on a joint and several basis, whether or not action is brought against Borrower or any other Person obligated in respect of the Loan and whether or not Borrower is joined in any such action or actions. In furtherance and not in limitation of the foregoing, the obligations and duties of NL Industries under this Agreement are independent of the obligations and duties of NL Industries under the NL Guaranty, payments made by NL Industries under the terms of this Agreement will not be credited against payments made or required to be made under the NL Guaranty, payments made by NL Industries under the NL Guaranty will not be credited against payments made or required to be made hereunder and the rights of Agent and the Banks under this Agreement are cumulative of all rights Agent and the Banks may have against NL Industries under the NL Guaranty.
- vi. Binding Effect. This Agreement is for the benefit of Borrower, Agent and the Banks, and their successors and assigns, and in the event of an assignment by Agent or any Bank, its successors or assigns, of the Loans, or any part of the Loans, the rights and benefits under this Agreement, to the extent applicable to the indebtedness, liabilities and obligations so assigned, may be transferred with such indebtedness, liabilities and obligations. This Agreement is binding, not only upon Shareholders and Borrower, but upon their respective successors and assigns; provided that neither Borrower nor any Shareholder may assign any of its rights or obligations hereunder without the prior written consent of the Majority Banks.
- vii. Right of Setoff. With respect to all obligations of Shareholders hereunder owed to Agent or the Banks, each Shareholder hereby grants to Agent and the Banks a right of setoff upon any and all monies, securities or other property of

such Shareholder, and the proceeds therefrom, now or hereafter held or received by or in transit to Agent or any Bank from or for the account of such Shareholder, whether for safekeeping, custody, pledge, transmission, collection or otherwise, and also upon any and all deposits (general or special) and credits of such Shareholder, and any and all claims of such Shareholder against Agent or any Banks at any time existing.

- viii. Further Assurances. Upon the reasonable request of Agent, each Shareholder will, at any time and from time to time, duly execute and deliver to Agent any and all such further agreements, documents and instruments, and supply such additional information, as may be necessary or advisable, in the reasonable opinion of Agent, to obtain the full benefits of this Agreement, provided, however, that delivery of such additional information is subject to receipt of an executed Confidentiality Agreement with respect to confidential information of any Shareholder or any Person Controlled directly or indirectly by such Shareholder.
- ix. Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severable, this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.
- x. Modification in Writing. No modification, consent, amendment or waiver of any provision of this Agreement, and no consent to any departure by any Shareholder or Borrower from the terms of this Agreement, shall be effective unless the same shall be in writing and signed by the Majority Banks and then shall be effective only in the specific instance and for the specific purpose for which given; provided that no amendment, waiver or other modification of, or consent to any departure from, the provisions of Paragraph 2 of this Agreement or this Paragraph 10 shall be effective unless the same shall be in writing and signed by Banks who hold at least 80% (eighty percent) of the aggregate unpaid principal amount of the Loans.
- xi. No Waiver, Etc. No notice to or demand on any Shareholder in any case shall, of itself, entitle any Shareholder to any other or further notice or demand in similar or other circumstances. No delay or omission by Agent or any Bank in exercising any power or right under this Agreement shall impair any such power or right or be construed as a waiver thereof or any acquiescence therein, and no

single or partial exercise of any such power or right shall preclude other or further exercise thereof or the exercise of any other power or right under this Agreement.

- xii. Expenses. If any Shareholder or Borrower should breach or fail to perform any provision of this Agreement, Shareholders agree to pay to Agent all reasonable costs and expenses (including court costs and reasonable attorneys' fees of outside counsel) incurred by Agent in the enforcement of this Agreement.
- xiii. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE INTERNAL LAWS OF THE STATE OF NEW YORK.
- xiv. Notices. Unless otherwise specifically provided in this Agreement, any notice or other communication required or permitted to be given under this Agreement shall be in writing and may be personally served, telefaxed, telecopied, telexed or sent by courier service or first class prepaid mail (airmail if to an address in a foreign country from the party writing) and shall be deemed to have been given when delivered in person or by courier service, upon transmission of a telefax, telecopy or telex or four (4) days after deposit in the mail (registered, with postage prepaid and properly addressed). For the purposes of this Agreement, the addresses of Borrower, Shareholders and Agent (until fifteen (15) days' prior written notice of a change thereof is delivered as provided in this Paragraph 14 ) shall be as set forth below on the signature pages hereof in the case of Shareholders and Agent and as set forth in the Loan Agreement in the case of Borrower.
- xv. NO ORAL AGREEMENTS. THIS AGREEMENT REPRESENTS THE FINAL AGREEMENT AMONG SHAREHOLDERS, BORROWER AND AGENT AND THE BANKS RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF SUCH PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN OR AMONG SUCH PARTIES.
- xvi. Joint and Several Obligations, Etc. Except for certain representations and warranties made by only one of Shareholders pursuant to Paragraph 3 of this Agreement, all obligations, covenants, agreements, representations and warranties under this Agreement or contained in this Agreement shall constitute and be the joint and several obligations, covenants, agreements, representations and warranties of each Shareholder; provided however, that in no event shall the amount of Capital Contributions or Subordinated Loans made pursuant to this Agreement by Shareholders exceed individually or in the aggregate DM 125,000,000 (Deutsche Mark One Hundred Twenty-Five Million).

- xvii. Survival. All representations, warranties, covenants and agreements of any Shareholder or Borrower in this Agreement shall survive the execution of this Agreement.
- xviii. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall constitute an original, but all of which when taken together shall constitute one and the same Agreement.
- xix. CONSENT TO JURISDICTION, VENUE. EACH SHAREHOLDER REPRESENTS AND WARRANTS THAT IT IS NOT ENTITLED TO IMMUNITY FROM JUDICIAL PROCEEDINGS AND AGREES THAT, SHOULD AGENT OR ANY BANK BRING ANY SUIT, ACTION OR PROCEEDING IN ANY JURISDICTION DESCRIBED BELOW TO ENFORCE ANY OBLIGATION OR LIABILITY OF SUCH SHAREHOLDER UNDER THIS AGREEMENT NO IMMUNITY FROM SUCH SUIT, ACTION OR PROCEEDING WILL BE CLAIMED BY OR ON BEHALF OF SUCH SHAREHOLDER OR WITH RESPECT TO ITS PROPERTY. EACH SHAREHOLDER IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY FEDERAL OR STATE COURT SITTING IN THE CITY OF NEW YORK, STATE OF NEW YORK, OR IN THE CITY OF HOUSTON, STATE OF TEXAS, OR IN THE CITY OF DALLAS, STATE OF TEXAS, OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT. EACH SHAREHOLDER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR MAY HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH SHAREHOLDER AGREES THAT A FINAL AND NON-APPEALABLE JUDGMENT IN ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT SHALL BE CONCLUSIVE AND BINDING UPON SUCH SHAREHOLDER AND MAY BE ENFORCED IN ANY OTHER COURTS TO THE JURISDICTION OF WHICH SUCH SHAREHOLDER IS SUBJECT BY A SUIT UPON SUCH JUDGMENT, PROVIDED THAT SERVICE OF PROCESS IS EFFECTED UPON SUCH SHAREHOLDER IN ONE OF THE MANNERS SPECIFIED IN PARAGRAPH 21 BELOW OR AS OTHERWISE PERMITTED BY LAW.
- xx. Appointment of Agent. Each Shareholder hereby irrevocably designates and appoints Prentice-Hall Corporation System, Inc., 15 Columbus Circle, New York, NY 10023, as its authorized agent to accept and acknowledge on its behalf service of any and all process which may be served in any suit, action or proceeding of the nature referred to in Paragraph 19 of this Agreement in any court



sitting in the City of New York, State of New York, in the City of Houston, State of Texas, or in the City of Dallas, State of Texas, respectively. Said designation and appointment shall be irrevocable. If such agent for service shall cease so to act, each Shareholder covenants and agrees that it shall irrevocably designate and appoint without delay another such agent satisfactory to Agent and shall deliver promptly to Agent evidence in writing of such other agent's acceptance of such appointment.

- xxi. Service of Process. Each Shareholder hereby consents to process being served in any suit, action or proceeding of the nature referred to in Paragraph 19 of this Agreement either (a) by the mailing of a copy thereof by registered mail (registered airmail if addressed to a location in a country other than the country of mailing), postage prepaid, return receipt requested, to the address for such Shareholder set forth below such Shareholder's name on the signature pages hereof or to any other address of which such Shareholder shall have given written notice to Agent pursuant to Paragraph 14 of this Agreement or (b) by serving a copy thereof upon Prentice-Hall Corporation System, Inc. at its appropriate address set forth in Paragraph 20 of this Agreement, as such Shareholder's agent for service of process (provided that, to the extent lawful and possible, written notice of said service upon said agent of such Shareholder may be mailed by registered mail (registered airmail if addressed to a location in a country other than the country of mailing), postage prepaid, return receipt requested, to such Shareholder at its address specified above or to any other address of which such Shareholder shall have given written notice to Agent). Each Shareholder irrevocably waives, to the fullest extent permitted by law, all claim of error by reason of any such service and agrees that such service (i) shall be deemed in every respect effective service of process upon such Shareholder in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by law, be taken and held to be valid personal service upon and personal delivery to such Shareholder.
- xxii. No Limitation on Service or Suit. Nothing in Paragraphs 19, 20 or 21 of this Agreement shall (a) affect the right of Agent or any Bank to serve process in any manner permitted by law or (b) limit the right of Agent or any Bank or other holder to bring proceedings against any Shareholder in the courts of any other jurisdiction.
- xxiii. Financial Reporting. So long as this Agreement remains in effect, Shareholders agree that they will deliver to Agent, in sufficient copies for distribution to all Banks, the following financial information:
- (i) As soon as the same become available, but in any event within 120 (one hundred twenty) days after the end of the fiscal year, the audited consolidated financial statements and consolidating financial statements (which consolidating

financial statements are not separately reported on by independent public accountants) of NL Industries and its subsidiaries for such fiscal year and the consolidating financial statements (not separately reported on by independent public accountants) of Kronos and its subsidiaries for such fiscal year; each presented in conformity with U.S. GAAP with changes in accounting principles, if any, from the prior fiscal year, specified in the certificates described below, together with certificates executed by a Vice President of NL Industries, in form and substance reasonably satisfactory to Agent, and otherwise certifying that such financial statements have been prepared in accordance with U.S. GAAP and fairly present the financial condition and results of operation of the Persons subject thereof.

- (ii) Within 90 (ninety) days after the end of each fiscal quarter (excluding the fourth quarter), unaudited consolidated and consolidating financial statements of NL Industries and its subsidiaries and unaudited consolidating financial statements of Kronos and its subsidiaries; each presented in conformity with U.S. GAAP with changes in accounting principles, if any, from the prior fiscal year, specified in the certificates described below, for each fiscal quarter (excluding the fourth quarter), and certificates executed by a Vice President of NL Industries, in form and substance reasonably satisfactory to Agent, and otherwise certifying that such financial statements have been prepared in accordance with U.S. GAAP and fairly present the financial condition and results of operation of the Persons subject thereof.
- (iii) Promptly deliver notice thereof to Agent, upon the commencement of any action or other proceedings by or against any Shareholder under any bankruptcy, insolvency or other similar law.
- (iv) Upon request of Agent, furnish Agent with such information about the business, assets and financial condition of any Shareholder and/or any other Persons Controlled directly or indirectly by such Shareholder as Agent or any Bank may reasonably request, provided, however, that delivery of such information is subject to receipt of an executed Confidentiality Agreement with

respect to confidential information of such  
Shareholder or Person.

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

NL INDUSTRIES, INC.

By: /s/ Susan E. Alderton  
Name: Susan E. Alderton  
Title: Vice President & Treasurer

By:  
Name:  
Title:

Address for Notices:

70 East 55th Street  
New York, New York 10022  
Attention: Ms. Susan E. Alderton  
Telefax: 212-421-7209

KRONOS, INC.

By: /s/ Susan E. Alderton  
Name: Susan E. Alderton  
Title: Vice President & Treasurer

By:  
Name:  
Title:

Address for Notices:

c/o NL Industries, Inc.  
70 East 55th Street  
New York, New York 10022  
Attention: Ms. Susan E. Alderton  
Telefax: 212-421-7209

KRONOS INTERNATIONAL, INC.

By: /s/ E. Gaertner  
Name: E. Gaertner  
Title: President

By: /s/ V. Roth  
Name: V. Roth  
Title: Vice President & Controller

The undersigned has executed this Agreement solely for the purpose of confirming receipt of this Agreement and reliance on this Agreement by Agent and Banks effective as of the date first written above.

HYPOBANK INTERNATIONAL S.A.

By: /s/ Michael Bisch  
Name: Michael Bisch  
Title: Charge de Service

By:  
Name:  
Title:

Address for Notices:

4, rue Alphonse Weicker  
L-2721 Luxembourg-Kirchberg  
Attention: Michael Bisch  
Telefax: (011) 352-4272-4510



## GUARANTY

THIS GUARANTY (the "Guaranty"), dated as of January 31, 1997, is made by NL INDUSTRIES, INC., a Delaware corporation (the "Guarantor"), in favor of HYPOBANK INTERNATIONAL S.A. (the "Agent"), as agent for all the Banks listed on Schedule 1 to the Loan Agreement (as hereinafter defined) and their successors and assigns (collectively, with the Agent, the "Banks"). Capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement.

## W I T N E S S E T H:

WHEREAS, Kronos International, Inc., a Delaware corporation (the "Borrower"), Kronos Titan-GmbH ("Kronos Titan"), the Agent and the Banks are, concurrently herewith, entering into that certain Second Amended and Restated Loan Agreement dated as of January 31, 1997 (as the same may be amended or supplemented from time to time, the "Loan Agreement"), which Loan Agreement amends and restates that certain Amended and Restated Loan Agreement dated as of October 15, 1993, among the Borrower, the Agent, Banque Paribas, as Co-Agent (the "Co-Agent"), and the Banks (or their predecessors in interest) (the "First Restated Agreement"), which First Restated Agreement amends and restates that certain Loan Agreement dated as of May 30, 1990, among the Borrower, the Agent, the Co-Agent and the Banks (or their predecessors in interest) as amended by that certain (i) First Amendment Agreement dated as of December 31, 1990, (ii) Second Amendment Agreement dated as of March 22, 1991 and (iii) Third Amendment Agreement dated as of June 15, 1992 (the "Original Agreement"), pursuant to which the Banks (or their predecessors in interest) initially loaned to the Borrower the principal amount of DM 1,600,000,000 (Deutsche Mark One Billion Six Hundred Million) (the aggregate of any and all amounts advanced by the Banks or their predecessors in interest under the Loan Agreement, the First Restated Agreement and/or the Original Agreement and outstanding at any time, including without limitation any and all amounts outstanding under the Term Portion or the Revolving Portion (as such terms are defined in the Loan Agreement), is hereinafter called the "Loans"); and

WHEREAS, in order to induce the Banks to amend and restate the First Restated Agreement, the Guarantor is required to guarantee the prompt payment when due of all principal, interest and other amounts that shall be at any time payable by the Borrower or any of its Subsidiaries under the Loan Documents on the terms and conditions set forth in this Guaranty;

NOW THEREFORE, for and in consideration of the above, and any and all financial accommodations or extensions of credit (including, without limitation, any loan or advance by renewal, refinancing or extension of the agreements described herein) heretofore, now or hereafter made to or for the benefit of the Borrower and/or Kronos Titan by the Banks, the Guarantor hereto covenants and agrees as follows:

1

## ARTICLE I

## The Guaranty

SECTION 1.1 The Guaranty. The Guarantor hereby unconditionally guarantees to the Agent and the Banks and their respective successors and assigns the punctual payment, as and when due (whether by acceleration or otherwise), of

(i) The principal amount of the Loans and all interest and prepayment and other charges accruing thereunder;

(ii) All charges, payments, and other obligations of the Borrower and/or Kronos Titan accruing under the Loan Agreement, the First Restated Agreement and/or the Original Agreement; and

(iii) All charges, payments and other obligations of the Borrower, Kronos Titan and/or any of the Subsidiaries of the Borrower accruing under this Guaranty or any of the other Loan Documents (all of the foregoing, collectively, the "Secured Indebtedness").

Upon failure by the Borrower, Kronos Titan and/or any of the Subsidiaries of the Borrower to pay punctually any such amount, the Guarantor agrees that it will forthwith on demand pay the amount not so paid at the place and in the manner specified in the Loan Documents or as otherwise notified to the Guarantor by the Agent.

SECTION 1.2 Guarantor's Obligation. The Guarantor agrees that its liability hereunder shall be as a sole and primary obligor and not merely as surety and that its liability is absolute and unconditional, and shall not be subject to any right of set-off or counterclaim and shall remain in full force and effect until the entire Secured Indebtedness shall have been paid in full.

SECTION 1.3 Waiver. The Guarantor hereby waives, to the fullest extent permitted by law, notice of the acceptance hereof, diligence, presentment, demand of payment or otherwise, and any right to require a proceeding first against the Borrower, Kronos Titan and/or any other Person (including without limitation any other Guarantor).

SECTION 1.4 No Effect or Impairment. The Guarantor hereby consents to and agrees that its obligations under this Guaranty will not be discharged or affected by: (i) any acceptance, forbearance or release in respect of the rights of the Agent or the Banks or any subsequent holder under the Loan Agreement or the Loan Documents, including, without limitation, any release of any of the Collateral or any other guaranty of the Loans; (ii) any waiver or release of any right or option of the Agent or the Banks or any subsequent holder under the terms of the Loan Agreement or other Loan Documents, including, without limitation, any release of any of the Collateral or any other guaranty of the Loans; (iii) any modification, extension, renewal or amendment of the terms of the Loan Agreement or other Loan Documents; (iv) the fact that the Loan Agreement or any other Loan Documents shall be invalid, illegal or unenforceable, in whole or in part, for any reason; (v) the receipt and acceptance of notes, checks or other instruments for



the payment of money by the Borrower, Kronos Titan and/or any Subsidiary and extensions and renewals thereof; or (vi) except as otherwise provided herein, any other act or omission of any kind by the Agent or the Banks or any subsequent holder or the Borrower or Kronos Titan or any other circumstance whatsoever which might constitute a legal or equitable discharge of the Guarantor, including, without limitation, the bankruptcy of the Borrower, Kronos Titan and/or any Subsidiary.

SECTION 1.5 Payments. All payments provided for herein shall be made in immediately available funds in Deutsche Mark ("DM"); provided, however, that payments provided for herein shall be made in immediately available funds in U.S. Dollars if and to the extent that the payment provided for herein relates to an amount payable by the Borrower and/or Kronos Titan in U.S. Dollars. The obligation of the Guarantor to make payment in DM of any amounts due hereunder to the Agent shall not be discharged or satisfied by any tender, or any recovery pursuant to any judgment, which is expressed in or converted into any currency other than DM, except to the extent that such tender or recovery shall result in the actual receipt by the Agent of the full amount of DM expressed to be due and owing in respect of the principal amount of and interest accrued on the Loans and in regard to the other parts of the Secured Indebtedness expressed in DM. The Guarantor agrees that the obligations to make payments in DM as aforesaid shall be enforceable as an alternative or additional cause of action for the purpose of recovery in DM of the amount (if any) by which such actual receipt shall fall short of the full amount of DM expressed to be payable in respect of any amount due hereunder, and shall not be affected by any judgment being obtained for other sums in any other currency in enforcement of this Guaranty.

SECTION 1.6 Net Payments. All payments by the Guarantor under this Agreement shall be made without setoff or counterclaim and free and clear of, and without withholding or deduction for or on account of, any present or future taxes (other than Excluded Taxes) now or hereafter imposed on the recipient of such payment or its income, property, assets or franchises, except to the extent that such withholding or deduction is required by applicable law or is permitted under the Loan Agreement.

If any such withholding or deduction is required by applicable law or is permitted under the Loan Agreement, the Guarantor will:

(i) pay to the relevant tax authorities the full amount so required to be withheld or deducted when and as the same shall become due and payable to such tax authorities;

(ii) promptly forward to the Agent and each of the affected Banks an official receipt or other documentation satisfactory to the Agent evidencing such payment to such tax authorities; and

(iii) except to the extent that such withholding or deduction is for Excluded Taxes or, under the terms of the Loan Agreement, for additional amounts which are not payable or have been waived, pay to the Agent for the account of the relevant recipient such additional amount as is necessary to ensure that the net amount actually received by each recipient will equal

the full amount such recipient would have received had no such withholding or deduction been required.

SECTION 1.7 Subrogation. The Guarantor shall not have any right to, and will not, exercise any rights that it may acquire by way of subrogation under this Guaranty (by any payment made hereunder or otherwise) until all the Secured Indebtedness shall have been paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Secured Indebtedness shall not have been paid in full, such amount shall be held in trust for the benefit of the Agent and the Banks and shall forthwith be paid to the Agent to be credited and applied to the payment of the Secured Indebtedness, whether matured or unmatured, in accordance with the terms of the Loan Agreement. If (i) all the Secured Indebtedness shall be paid in full, the Agent and the Banks will, at the Guarantor's request, execute and deliver to the Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Secured Indebtedness resulting from such payment by the Guarantor.

SECTION 1.8 Revival of Obligation. If, after the Agent's or the other Banks' receipt of any payment from the Borrower of all or any part of the amounts paid under this Guaranty, or after the Agent's or the other Banks' collection of the proceeds from the sale of any Collateral or from the payment under any other guaranty, the Agent or the Banks are petitioned or compelled to return any such payment or proceeds, because such payment or proceeds is invalidated, declared fraudulent, set aside, determined to be void or voidable as a preference, an impermissible setoff, or for any reason whatsoever, then the Borrower's obligations (and Kronos Titan's obligations, if applicable) shall be deemed to be revived and this Guaranty shall continue in full force as if such payment or proceeds had not been received by the Agent or the Banks until payment in full is made by the Guarantor. In addition, the Guarantor agrees to indemnify and hold the Agent and the Banks harmless from and against and for any and all damages, losses, costs or expenses (including without limitation, reasonable attorneys' fees) incurred by them in connection with such surrender or return.

## ARTICLE II

### Jurisdiction and Service

SECTION 2.1 Consent to Jurisdiction, Venue. The Guarantor represents and warrants that it is not entitled to immunity from judicial proceedings and agrees that, should the Agent bring any suit, action or proceeding in the jurisdiction described below to enforce any obligation or liability of the Guarantor under this Guaranty, no immunity from such suit, action or proceeding will be claimed by or on behalf of the Guarantor or with respect to its assets or property. The Guarantor irrevocably submits to the jurisdiction of any federal or state court sitting in the City of New York, State of New York, or in the City of Dallas, State of Texas, over any suit, action or proceeding arising out of or relating to this Guaranty. The Guarantor irrevocably waives, to the fullest extent permitted by law, any objection which it has or may hereafter have to the laying of the venue of any such suit, action or proceeding brought in such court and any claim that any such suit, action or proceeding brought in such court has been

brought in an inconvenient forum. The Guarantor agrees that final and non-appealable judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding upon the Guarantor and may be enforced in any other courts to the jurisdiction of which the Guarantor is subject by a suit upon such judgment, provided that service of process is effected upon the Guarantor in one of the manners specified in Section 2.3 below or as otherwise permitted by law.

SECTION 2.2 Appointment of Agent. The Guarantor hereby irrevocably designates and appoints The Prentice-Hall Corporation System, Inc., c/o Corporation Service Company, 500 Central Avenue, Albany, New York 12206, as its authorized agent to accept and acknowledge on its behalf service of any and all process which may be served in any suit, action or proceeding of the nature referred to in Section 2.1 in any court sitting in The City of New York, State of New York. Said designation and appointment shall be irrevocable until the Secured Indebtedness shall have been paid in full. If such agent for service shall cease so to act, the Guarantor covenants and agrees that it shall irrevocably designate and appoint without delay another such agent satisfactory to the Agent and shall deliver promptly to the Agent evidence in writing of such other agent's acceptance of such appointment.

SECTION 2.3 Service of Process. The Guarantor hereby consents to process being served in any suit, action or proceeding of the nature referred to in Section 2.1 either (a) by the mailing of a copy thereof by registered mail (registered airmail if addressed to a location in a country other than the country of mailing), postage prepaid, return receipt requested, to the address for the Guarantor set forth on the signature page hereof or to any other address of which the Guarantor shall have given written notice to Agent or such holder or (b) by serving a copy thereof upon The Prentice-Hall Corporation System, Inc., c/o Corporation Service Company, 500 Central Avenue, Albany, New York 12206, as the Guarantor's agent for service of process (provided that, to the extent lawful and possible, written notice of said service upon said agent of the Guarantor shall be mailed by registered mail (registered airmail if addressed to a location in a country other than the country of mailing), postage prepaid, return receipt requested, to the Guarantor at its address specified above or to any other address of which the Guarantor shall have given written notice to the Agent. The Guarantor irrevocably waives, to the fullest extent permitted by law, all claim of error by reason of any such service (but does not waive any right to assert lack of subject matter jurisdiction) and agrees that such service (i) shall be deemed in every respect effective service of process upon the Guarantor in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by law, be taken and held to be valid personal service upon and personal delivery to the Guarantor.

SECTION 2.4 No Limitation on Service or Suit. Nothing in Sections 2.1, 2.2 or 2.3 above shall affect the right of the Agent to serve process in any manner permitted by law or limit the right of the Agent or other holder to bring proceedings against the Guarantor in the courts of any other jurisdiction.

## ARTICLE III

### General Conditions

SECTION 3.1 Survival. All covenants, agreements, representations and warranties made by the Guarantor in this Guaranty and in any certificates or other documents delivered pursuant hereto shall survive and shall continue in full force and effect until the Secured Indebtedness is paid in full.

SECTION 3.2 Assignment. The Agent may assign any and all rights it has hereunder, either in whole or in part; the Guarantor may not assign any of its rights or indebtedness, liabilities or obligations under this Guaranty except as may be permitted in the Loan Agreement.

SECTION 3.3 Communications and Notices. All communications and notices provided for in this Guaranty shall be in English, shall be in writing and shall be in accord with Article 26 of the Loan Agreement.

SECTION 3.4 Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Borrower, Kronos Titan and/or any of the Subsidiaries of the Borrower under the Loan Documents is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, Kronos Titan and/or any such Subsidiary, all such amounts otherwise subject to acceleration under the terms of the Loan Documents shall nonetheless be payable by the Guarantor hereunder forthwith on demand by the Agent.

SECTION 3.5 Limitation on Guarantor's Obligations. The indebtedness, liabilities and obligations of the Guarantor hereunder shall be limited to an aggregate amount equal to the largest amount that would not render its indebtedness, liabilities and obligations hereunder subject to avoidance under Section 548 of the Bankruptcy Code or any applicable provisions of comparable state law.

SECTION 3.6 Governing Law. This Guaranty shall be construed in accordance with, and governed by the laws of, the State of New York.

SECTION 3.7 Headings of Articles and Sections. The headings of the Articles and Sections of this Guaranty are inserted for convenience only and shall not be deemed to constitute a part of this Guaranty.

SECTION 3.8 Severability. In case one or more of the provisions contained in this Guaranty shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

SECTION 3.9 Execution in Counterparts. This Guaranty may be executed in one or more counterparts, each of which when executed and delivered shall be an original and all of which shall together constitute one and the same instrument.

SECTION 3.10 Entire Agreement. This Guaranty embodies the entire agreement and understanding between the Agent and the Guarantor relating to the subject matter hereof and supersedes all prior agreements and understandings relating to the subject matter hereof.

SECTION 3.11 No Waivers. No waiver by any party of any conditions, or of any breach of any term, covenant, representation or warranty contained in the instruments evidencing the Loans, the Loan Agreement, this Guaranty, or any of the other Loan Documents in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such condition or breach or waiver of any other condition or of any breach of any other term, covenant, representation or warranty thereof; nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

SECTION 3.12 Changes, Waivers, Amendments and Modifications. Neither this Guaranty nor any provision hereof may be modified or amended orally, but only by a statement in writing entered into by the Guarantor and the Agent, provided however, that no such agreement shall (i) affect the indebtedness, liabilities and obligations of the Guarantor under Article I hereof or (ii) modify the provisions of this Section 3.12, without the consent of the Banks in accordance with the Loan Agreement.

SECTION 3.13 Definitions. Terms used but not defined herein shall have the meanings provided for in the Loan Agreement unless otherwise expressly provided or unless the context hereof otherwise requires.

SECTION 3.14 Costs and Expenses. The Guarantor covenants and agrees to reimburse the Agent for all reasonable out-of-pocket costs and expenses, including without limitation reasonable attorneys' fees and court costs, incurred by the Agent in enforcing this Guaranty, and the Guarantor acknowledges and agrees that all such sums to be so reimbursed by it to the Agent are part of the Secured Indebtedness.

SECTION 3.15 Limitation of Special Damages. The Guarantor hereby releases each of the Agent and all of the Banks from any liability for, and waives, and agrees not to claim or sue for any special, indirect or consequential damages, suffered by the undersigned, in connection with any claim (whether sounding in tort, contract or otherwise) in any way arising out of, related to, or connected with the Loan Documents, whether such claim is asserted before or after repayment in full of all of the Borrower's and/or Kronos Titan's indebtedness, liabilities and obligations. This waiver shall inure to the benefit of the Agent and the Banks and their respective successors and assigns and shall be binding on the Guarantor and its successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Guaranty to be duly executed as of the date first stated above.

NL INDUSTRIES, INC.

By: /s/ Susan E. Alderton  
Name: Susan E. Alderton  
Title: Vice President & Treasurr  
Address: 16825 Northchase Drive, Suite 1200  
Houston, Texas 77060

HYPOBANK INTERNATIONAL S.A.

By: /s/ Michael Bisch  
Name: Michael Bisch  
Title: Charge de Service  
Address: 4, rue Alphonse Weicker  
L-2721 Luxembourg-Kirchberg



CONFORMED COPY

## AMENDED AND RESTATED CREDIT AGREEMENT

dated as of

January 30, 1997

between

RHEOX, INC.

THE SUBSIDIARY GUARANTORS PARTY HERETO,

and

THE LENDERS PARTY HERETO,

and

THE CHASE MANHATTAN BANK,  
as Administrative AgentBANKERS TRUST COMPANY,  
as Documentation Agent

## TABLE OF CONTENTS

	Page
ARTICLE I	
Definitions.....	1
SECTION 1.01. Defined Terms.....	1
SECTION 1.02. Classification of Loans and Borrowings.....	26
SECTION 1.03. Terms Generally.....	27
SECTION 1.04. Accounting Terms; GAAP.....	27
ARTICLE II	
The Credits.....	27
SECTION 2.01. Commitments.....	27
SECTION 2.02. Loans and Borrowings.....	28
SECTION 2.03. Requests for Borrowings.....	29
SECTION 2.04. Letters of Credit.....	29
SECTION 2.05. Funding of Borrowings.....	34
SECTION 2.06. Interest Elections.....	35
SECTION 2.07. Termination and Reduction of Commitments.....	36
SECTION 2.08. Repayment of Loans; Evidence of Debt..	37
SECTION 2.09. Prepayment of Loans.....	38
SECTION 2.10. Fees.....	41
SECTION 2.11. Interest.....	43
SECTION 2.12. Alternate Rate of Interest.....	44
SECTION 2.13. Increased Costs.....	44
SECTION 2.14. Break Funding Payments.....	45
SECTION 2.15. Taxes.....	46
SECTION 2.16. Payments Generally; Pro Rata Treatment; Sharing of Set-Offs.....	47
SECTION 2.17. Mitigation Obligations.....	49
ARTICLE III	
Guarantee by Subsidiary Guarantors.....	50
SECTION 3.01. The Guarantee.....	50
SECTION 3.02. Obligations Unconditional.....	50
SECTION 3.03. Reinstatement.....	51
SECTION 3.04. Subrogation.....	52
SECTION 3.05. Remedies.....	52
SECTION 3.06. Instrument for the Payment of Money...	52





	Page
SECTION 3.07. Continuing Guarantee.....	52
SECTION 3.08. Rights of Contribution.....	52
SECTION 3.09. General Limitation on Guarantee Obligations.....	53

ARTICLE IV

Representations and Warranties.....	54
SECTION 4.01. Organization; Powers.....	54
SECTION 4.02. Authorization; Enforceability.....	54
SECTION 4.03. Governmental Approvals; No Conflicts..	54
SECTION 4.04. Financial Condition; No Material Adverse Change.....	54
SECTION 4.05. Properties.....	55
SECTION 4.06. Litigation and Environmental Matters..	56
SECTION 4.07. Compliance with Laws and Agreements..	58
SECTION 4.08. Investment and Holding Company Status.	58
SECTION 4.09. Taxes.....	58
SECTION 4.10. ERISA.....	58
SECTION 4.11. Disclosure.....	58
SECTION 4.12. Capitalization.....	59
SECTION 4.13. Material Agreements and Liens.....	59
SECTION 4.14. Subsidiaries.....	59
SECTION 4.15. Certain Documents.....	60

ARTICLE V

Conditions.....	60
SECTION 5.01. Effective Date.....	60
SECTION 5.02. Each Extension of Credit.....	65

ARTICLE VI

Affirmative Covenants.....	66
SECTION 6.01. Financial Statements and Other Information.....	66
SECTION 6.02. Notices of Material Events.....	68
SECTION 6.03. Existence; Conduct of Business.....	68
SECTION 6.04. Payment of Obligations.....	69
SECTION 6.05. Maintenance of Properties.....	69
SECTION 6.06. Maintenance of Insurance.....	69
SECTION 6.07. Books and Records; Inspection Rights..	72
SECTION 6.08. Fiscal Year.....	72

	Page
SECTION 6.09. Compliance with Laws.....	72
SECTION 6.10. Use of Proceeds.....	72
SECTION 6.11. Hedging Agreements.....	72
SECTION 6.12. Certain Obligations Respecting Subsidiaries and Collateral Security.	73
SECTION 6.13. Environmental Laws and Permits.....	74
SECTION 6.14. Environmental Notices.....	74
SECTION 6.15. Environmental Audit and Remedial Action.....	75

ARTICLE VII

Negative Covenants.....	75
SECTION 7.01. Indebtedness.....	75
SECTION 7.02. Liens.....	76
SECTION 7.03. Fundamental Changes.....	77
SECTION 7.04. Investments, Loans, Advances, Guarantees and Acquisitions; Hedging Agreements.	78
SECTION 7.05. Restricted Payments.....	79
SECTION 7.06. Transactions with Affiliates.....	79
SECTION 7.07. Restrictive Agreements.....	80
SECTION 7.08. Certain Financial Covenants.....	80
SECTION 7.09. Lines of Business.....	82
SECTION 7.10. Modifications of Certain Documents....	82
SECTION 7.11. Rheox International.....	82
SECTION 7.12. Subordinated Notes.....	82

ARTICLE VIII

Events of Default.....	83
------------------------	----

ARTICLE IX

The Administrative Agent.....	86
-------------------------------	----

ARTICLE X

Miscellaneous.....	89
SECTION 10.01. Notices.....	89
SECTION 10.02. Waivers; Amendments.....	89
SECTION 10.03. Expenses; Indemnity; Damage Waiver...	91

SECTION 10.04.	Successors and Assigns.....	93
SECTION 10.05.	Survival.....	96
SECTION 10.06.	Counterparts; Integration; Effectiveness.....	97
SECTION 10.07.	Severability.....	97
SECTION 10.08.	Right of Setoff.....	97
SECTION 10.09.	Governing Law; Jurisdiction; Consent to Service of Process.....	97
SECTION 10.10.	WAIVER OF JURY TRIAL.....	98
SECTION 10.11.	Headings.....	98
SECTION 10.12.	Confidentiality.....	99

SCHEDULES:

Schedule 1.01	-- Ancillary Agreements
Schedule 2.01	-- Commitments
Schedule 2.04	-- Existing Letters of Credit
Schedule 4.05	-- Intellectual Property Matters
Schedule 4.06	-- Disclosed Matters
Schedule 4.13	-- Material Agreements and Liens
Schedule 4.14	-- Subsidiaries
Schedule 6.10	-- Indebtedness To Be Paid From Term Loan Proceeds
Schedule 7.01	-- Existing Indebtedness
Schedule 7.02	-- Existing Liens
Schedule 7.04	-- Investments
Schedule 7.07	-- Existing Restrictions

EXHIBITS:

Exhibit A	-- Form of Assignment and Acceptance
Exhibit B	-- Form of Opinion of Counsel to the Credit Parties and NL
Exhibit C	-- Form of Opinion of Special Counsel
Exhibit D	-- Form of Security Agreement
Exhibit E	-- Form of NL Pledge Agreement
Exhibit F	-- Form of Mortgage
Exhibit G	-- Form of Conditional Assignment of and Security Interest in Patent Rights
Exhibit H	-- Form of Conditional Assignment of and Security Interest in Trademark Rights
Exhibit I	-- Form of Copyright Security Agreement

AMENDED AND RESTATED CREDIT AGREEMENT dated as of January 30, 1997 between RHEOX, INC., the SUBSIDIARY GUARANTORS party hereto, the LENDERS party hereto and THE CHASE MANHATTAN BANK, as Administrative Agent.

WHEREAS, the Borrower, the Subsidiary Guarantors, certain of the Lenders (the "Existing Lenders") and the Administrative Agent are party to a Credit Agreement dated as of March 20, 1991 (as heretofore modified and supplemented and in effect on the date hereof immediately before giving effect to the amendment and restatement contemplated hereby, the "Existing Credit Agreement"). Pursuant to the Existing Credit Agreement (a) certain of the Existing Lenders committed to make Revolving Credit Loans (as defined in the Existing Credit Agreement and referred to herein as "Existing Revolving Credit Loans") in an original aggregate principal amount not exceeding \$15,000,000 at any one time outstanding (the "Existing Revolving Credit Commitments"), with a portion of such commitments made available for the issuance of letters of credit in an aggregate amount not exceeding \$5,000,000 at any one time outstanding and (b) certain of the Existing Lenders committed to make Term Loans (as defined in the Existing Credit Agreement and referred to herein as "Existing Term Loans") to the Borrower in an original aggregate principal amount not exceeding \$115,000,000 (the "Existing Term Loan Commitments");

WHEREAS, the Borrower has requested that the Existing Lenders (which include all of the Persons that on the date hereof are Banks under, and as defined in, the Existing Credit Agreement) and the Administrative Agent agree to amend and restate the Existing Credit Agreement, and the Existing Lenders and the Administrative Agent are willing to amend and restate the Existing Credit Agreement, in order to, among other things, (a) increase the aggregate amount of the Existing Revolving Credit Commitments to \$25,000,000, redesignate the Existing Revolving Credit Commitments as "Revolving Credit Commitments" hereunder and decrease the amount thereof available for Letters of Credit to \$2,500,000 and (b) reinstate the Existing Term Loan Commitments, increase the aggregate amount thereof to \$125,000,000 and redesignate the Existing Term Loan Commitments as "Term Loan Commitments" hereunder;

NOW, THEREFORE, the parties hereto hereby agree that the Existing Credit Agreement shall be amended and restated as of the date hereof (but subject to Section 5.01) to read in its entirety as follows:

#### ARTICLE I

##### Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

##### Credit Agreement

"Acquisition" means any transaction, or any series of related transactions, consummated after the date hereof, by which (a) the Borrower and/or any of its Subsidiaries acquires the business of or all or substantially all of the assets of any firm, corporation or division thereof, whether through purchase of assets, merger or otherwise or (b) any Person that was not theretofore a Subsidiary of the Borrower becomes a Subsidiary of the Borrower; provided however, the foregoing clauses (a) and (b) shall not include (i) any transaction between the Borrower and any direct or indirect Wholly Owned Subsidiary or between one or more direct or indirect Wholly Owned Subsidiaries, or (ii) the organization of a newly formed Wholly Owned Subsidiary of the Borrower.

"Adjusted Base Rate" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Adjusted Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, Base CD Rate or the Federal Funds Effective Rate, respectively.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means The Chase Manhattan Bank in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. For purposes of this definition, a Person shall be deemed to be an Affiliate of the Person specified if such Person possesses, directly or indirectly, the power to vote 10% or more of the securities having ordinary voting power for the election of directors of the Person specified. Notwithstanding anything in this definition to the contrary, (a) the Borrower and its Subsidiaries shall not be Affiliates of each other and (b) none of the Administrative Agent, the Lenders or the LC Issuing Lender shall be an Affiliate of the Borrower or any of its Subsidiaries.

"Ancillary Agreements" means the Tax Sharing Agreement and each of the other documents listed on Schedule 1.01.

"Applicable Percentage" means (a) with respect to any Revolving Credit Lender for purposes of Section 2.04 and any related definitions, the percentage of the total Revolving

Credit Commitments represented by such Lender's Revolving Credit Commitment and (b) with respect to any Lender in respect of any indemnity claim under Section 10.03(b) or 10.03(c) arising out of an action or omission of the Administrative Agent under any Loan Document, the percentage of the total Commitments of all Classes hereunder represented by the aggregate amount of such Lender's Commitment of all Classes hereunder.

"Applicable Rate" means, for Loans of any Type and commitment fees for each Rate Period (as defined below), the respective rate per annum indicated below for Loans of such Type or commitment fees, as applicable, opposite the applicable Leverage Ratio indicated below for such Rate Period:

Range of Leverage Ratio	Applicable Rate		
	Base Rate Loans	Eurodollar Loans	Commitment Fee
Greater than to 3.00 to 1	0.750%	1.750%	0.500%
Greater than 2.00 to 1 but less than or equal to 3.00 to 1	0.500%	1.500%	0.500%
Greater than 1.50 to 1 but less than or equal to 2.00 to 1	0.250%	1.250%	0.375%
Greater than 1.00 to 1 but less than or equal to 1.50 to 1	0.000%	1.000%	0.375%
Less than or equal to 1.00 to 1	0.000%	0.750%	0.375%

For purposes hereof, (i) a "Rate Period" means (x) initially, the period commencing on the date hereof to but not including the first Rate Reset Date (as defined below) thereafter and (y) thereafter, the period commencing on a Rate Reset Date to but not including the immediately following Rate Reset Date and (ii) a "Rate Reset Date" means, with respect to any fiscal quarters or fiscal year, the earlier of (x) the third Business Day after the date on which the Borrower delivers the Financial Certificate in respect of such fiscal quarter or fiscal year, as the case may be, and (y) the date on which the Borrower is required to have delivered the financial statements under Section 6.01(a) or (b) in respect of such fiscal quarter or fiscal year, as the case may be.

The Leverage Ratio for any Rate Period shall be the Leverage Ratio set forth in the applicable Financial Certificate as at the last day of the fiscal quarter or fiscal year, as the

Credit Agreement

case may be, in respect of which such Financial Certificate is delivered (i.e., the Leverage Ratio for the Rate Period commencing on the date on which the Borrower delivers its financial statements pursuant to Section 6.01(b) for the fiscal quarter ended on September 30, 1997 shall be the Leverage Ratio as at September 30, 1997, the Leverage Ratio for the Rate Period commencing on the date on which the Borrower delivers its financial statements pursuant to Section 6.01(a) for the fiscal year ended on December 31, 1997 shall be the Leverage Ratio as at December 31, 1997, and so forth).

Anything in this Agreement to the contrary notwithstanding, the Applicable Rate shall be the highest rates provided for above (i) during any period when an Event of Default shall have occurred and be continuing, or (ii) if the applicable Financial Certificate shall not be delivered within the time that the applicable financial statements are required to be delivered by Section 6.01(a) or (b), as the case may be, (but only, in the case of this clause (ii), with respect to the portion of such Rate Period prior to the delivery of such Financial Certificate).

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Base CD Rate" means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

"Base Rate", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted Base Rate.

"Basic Documents" means the Loan Documents and the Ancillary Agreements.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

Credit Agreement



"Borrower" means Rheox, Inc., a Delaware corporation.

"Borrowing" means Loans of a particular Class of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Business" means the development, licensing, manufacture and distribution of rheological additives and related and/or similar specialty chemical products and services from time to time, now or hereafter, conducted by the Borrower and its Subsidiaries.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in U.S. dollar deposits in the London interbank market.

"Capital Assets" means, as to any Person, all fixed assets, plant, equipment, land (to the extent the same constitutes a capital asset of such Person) and other assets (including intangible assets) of such Person that constitute capital assets of such Person under GAAP.

"Capital Expenditures" means expenditures made by the Borrower or any Subsidiary to acquire or construct Capital Assets, computed in accordance with GAAP.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Casualty Event" means, with respect to any property of any Person, any loss of or damage to, or any condemnation or other taking of, such property for which such Person or any of its Subsidiaries receives insurance proceeds, or proceeds of a condemnation award or other compensation.

"Change in Law" means (a) the adoption of any law, rule or regulation by any Governmental Authority after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the LC Issuing Lender (or, for

purposes of Section 2.13(b), by any lending office of such Lender or by such Lender's or the LC Issuing Lender's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Chase" means The Chase Manhattan Bank, a New York banking corporation.

"Class", when used in reference to any Loan, Borrowing or Commitment, refers to whether such Loan, the Loans comprising such Borrowing or the Loans that a Lender holding such Commitment is obligated to make, are Revolving Credit Loans or Term Loans.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Commitments" means the Revolving Credit Commitments and Term Loan Commitments, as applicable.

"Conditional Assignment of and Security Interest in Patent Rights" means an amended and restated Conditional Assignment of and Security Interest in Patent Rights substantially in the form of Exhibit G between the Borrower and the Administrative Agent.

"Conditional Assignment of and Security Interest in Trademark Rights" means an amended and restated Conditional Assignment of and Security Interest in Trademark Rights substantially in the form of Exhibit H between the Borrower and the Administrative Agent.

"Consolidated Subsidiary" means, for any Person, each Subsidiary of such Person (whether now existing or hereafter created or acquired) the financial statements of which shall be (or should be) consolidated with the financial statements of such Person in accordance with GAAP.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Copyright Security Agreement" means an amended and restated Copyright Security Agreement substantially in the form of Exhibit I between the Borrower and the Administrative Agent.

"Credit Parties" means the Borrower and the Subsidiary Guarantors.

"Debt Service" means, for any period, the sum, for the Borrower and its Subsidiaries (determined on a consolidated basis without duplication in accordance with

Credit Agreement

GAAP), of the following: (a) all payments of principal of Indebtedness scheduled (excluding any mandatory prepayment made pursuant to Section 2.09 hereof) to be made during such period, plus (b) all Interest Expense for such period.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Matters" means the actions, suits and proceedings and the environmental matters disclosed in Schedule 4.06.

"Disposition" means any sale, assignment, transfer or other disposition of any property (whether now owned or hereafter acquired) by the Borrower or any Subsidiary to any other Person (other than the Borrower or a Wholly Owned Subsidiary) excluding any sale, assignment, transfer or other disposition of (a) any property sold or disposed of in the ordinary course of business, (b) any obsolete or worn-out tools and equipment no longer used or useful in the business of the Borrower and its Subsidiaries and (c) any Collateral under and as defined in the Security Agreement pursuant to an exercise of remedies by the Administrative Agent under Section 5.05 thereof.

"Disposition Investment" means, with respect to any Disposition, any promissory notes or other evidences of indebtedness or investments received by the Borrower or any Subsidiary in connection with such Disposition.

"Distributor Affiliate Credit Extensions" shall mean extensions of credit by the Borrower and its Subsidiaries to Affiliates of the Borrower under Ancillary Agreements to finance the sale and distribution by such Affiliates of products of the Borrower and its Subsidiaries.

"Domestic Subsidiary" means any Subsidiary that is organized or created under the laws of the United States of America, any State or Territory thereof or the District of Columbia.

"EBITDA" means, for any period, operating income for the Borrower and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) for such period (calculated before income taxes, Interest Expense, depreciation, amortization and any other non-cash charges accrued for such period and (except to the extent received or paid in cash by the Borrower or any Subsidiary) income or loss attributable to equity in Affiliates for such period) excluding any extraordinary and unusual gains or losses during such period and excluding the proceeds of any Casualty Events and Dispositions.

Notwithstanding the foregoing, if during any period for which EBITDA is being determined the Borrower shall have consummated any Acquisition or Disposition then,

Credit Agreement

for all purposes of this Agreement (other than for purposes of the definition of Excess Cash Flow), EBITDA shall be determined on a pro forma basis as if such Acquisition or Disposition had been made or consummated on the first day of such period.

"Effective Date" means the date on which the conditions specified in Section 5.01 are satisfied (or waived in accordance with Section 10.02).

"Enenco" means Enenco, Inc., a New York corporation that, on the date hereof, is a joint venture between the Borrower and Witco Corporation.

"Environmental Claim" means, with respect to any Person, any written notice, claim, demand or other communication by any other Person alleging or asserting such Person's liability for investigatory costs, cleanup costs, governmental response costs, damages to natural resources or other property, personal injuries, fines or penalties arising out of, based on or resulting from (a) the presence or Release into the environment, of any Hazardous Material at any location, whether or not owned by such Person, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any known or unknown liability, contingent or otherwise (including any claim or liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of or non-compliance with any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the Release or threatened Release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Issuance" shall mean the sale or issuance by the Borrower to any Person other than NL or a Subsidiary of NL or by any Subsidiary to any Person other than the Borrower or any of the Borrower's Wholly Owned Subsidiaries of (a) any capital stock of the Borrower or any Subsidiary, (b) any options or warrants exercisable in respect of such capital stock or (c) any other security or instrument representing an equity interest (or the right to obtain an equity interest) in the Borrower or any Subsidiary; provided however the foregoing clauses (a), (b) and (c) shall not include the issuance of shares by a Foreign Subsidiary to a nominee for the Borrower or any of the Borrower's Wholly Owned

Credit Agreement

Subsidiaries if such issuance is required under the applicable corporate laws of the country in which such Foreign Subsidiary is organized.

"Equity Rights" means, with respect to any Person, any subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind (including any stockholders' or voting trust agreements) for the issuance or sale of, or securities convertible into, any additional shares of capital stock of any class, or partnership or other ownership interests of any type in, such Person.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived), (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived, (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan, (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan, (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan, (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan, or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article VIII.

"Excess Cash Flow" means, for any period, the excess of (a) EBITDA for such period over (b) the sum for the Borrower and its Subsidiaries (determined on a consolidated

basis without duplication in accordance with GAAP) of (i) Debt Service for such period plus (ii) the aggregate amount of all Capital Expenditures made during such period plus (iii) the aggregate amount paid in cash during such period in respect of income taxes, including payments under the Tax Sharing Agreement, plus (iv) any decrease in Working Investment for such Period minus (v) any increase in Working Investment for such Period.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, the LC Issuing Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income, net worth or franchise taxes imposed on (or measured by) its net income or net worth by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America and (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender on the date such Foreign Lender becomes a party to this Agreement (or, in the case of any Foreign Lender that is a party to the Existing Credit Agreement, on the date hereof) or that is attributable to such Foreign Lender's failure or inability to comply with Section 2.15(e), except to the extent that such Foreign Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.15(a).

"Existing Credit Agreement" has the meaning assigned to such term in the first paragraph of this Agreement.

"Existing Mortgages" means (a) the Deed of Trust, Assignment of Permits, Rents and Benefits, Security Agreement and Fixture Filing dated as of June 5, 1992 by the Borrower, as trustor, in favor of Lawyers Title Insurance Corporation, as trustee, for the benefit of the Administrative Agent recorded with the County Recorder in the Official Records of Alameda County, California as Instrument Number 92-184190; (b) the Deed of Trust, Mortgage, Security Agreement (Personal Property Including Minerals, Mineral Interests and Products thereof), Assignment of Benefits and Fixture Filing dated as of June 18, 1992 by the Borrower, as trustor, in favor of Lawyers Title Insurance Corporation, as trustee, for the benefit of the Administrative Agent recorded with the County Recorder in the Official Records of San Bernardino County, California as Instrument No. 91-228659; (c) the Deed of Trust, Assignment of Permits, Rents and Benefits, Security Agreement and Fixture Filing dated as of June 5, 1992 by the Borrower, as trustor, in favor of Kenneth R. Hill, as trustee, for the benefit of the Administrative Agent recorded in the St. Louis City Records in Book M919 Page 0651 as amended by Amendment to Deed of Trust dated as of June 5, 1992 recorded in the St. Louis City Records in Book M926 Page 2018; and (d) the Deed of Trust, Assignment of Permits, Rents and Benefits, Security Agreement and Fixture Filing dated as of June 5, 1992 by the Borrower, as trustor, in favor of Charles E. Barnett, as trustee, for the benefit of the Administrative Agent recorded in the Recorder's Office of Kanawha County, West Virginia in Book 2046, Page 164.

Credit Agreement

"Fair Market Value" means, with respect to any property, the amount that may be realized within a reasonable period of time from the sale of such property at market value, such market value being the amount that could be obtained for such property within such period by a capable and diligent seller from an interested buyer willing to purchase under prevailing selling conditions.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Final Maturity Date" means January 30, 2004 or, if such day is not a Business Day, the next preceding Business Day.

"Financial Certificate" has the meaning assigned to such term in Section 6.01(c).

"Financial Officer" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower, as the case may be.

"Fixed Charges Ratio" means, as at any date, the ratio of (a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) the sum for the Borrower and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (i) all Debt Service for such period (excluding the principal amount of the Subordinated Intercompany Note payable at maturity to the extent the same is extended, renewed or refinanced on substantially the same terms) plus (ii) the aggregate amount paid in cash during such period in respect of income taxes, including payments under the Tax Sharing Agreement, plus (iii) Restricted Payments (other than payments of the Special Dividend) made during such period. Notwithstanding the foregoing, payments or prepayments of principal of the Subordinated Note shall not be deemed to increase or decrease the Fixed Charges Ratio.

"Foreign Intellectual Property" means, collectively, all non-United States copyrights, copyright registrations and applications for copyright registrations, including all renewals and extensions thereof, the right to recover for all past, present and future infringements thereof, and all other rights of any kind whatsoever accruing thereunder or pertaining thereto, all non-United States patents and patent applications, including the inventions and improvements described and claimed therein together with the reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof, all income,

royalties, damages and payments now or hereafter due and/or payable under and with respect thereto, including damages and payments for past or future infringements thereof, the right to sue for past, present and future infringements thereof and all rights corresponding thereto throughout the world, and all non-United States trade names, trademarks and service marks, logos, trademark and service mark registrations, and applications for trademark and service mark registrations, including all renewals of trademark and service mark registrations, the right to recover for all past, present and future infringements thereof, all other rights of any kind whatsoever accruing thereunder or pertaining thereto, together, in each case, with the product lines and goodwill of the business connected with the use of, and symbolized by, each such trade name, trademark and service mark, in each case, now owned or hereafter acquired by any of the Borrower or any Subsidiary, together with (a) all inventions, processes, production methods, proprietary information, know-how and trade secrets used or useful in the Business; (b) all licenses or other agreements granted to the Borrower or any Subsidiary with respect to any of the foregoing to the extent legally assignable, in each case whether now or hereafter owned or used including the licenses and other agreements with respect to the Foreign Intellectual Property; (c) all existing, from time to time, information, customer lists, identification of suppliers, data, plans, blueprints, specifications, designs, drawings, recorded knowledge, surveys, engineering reports, test reports, manuals, materials standards, processing standards, performance standards, catalogs, computer and automatic machinery software and programs (to the extent a security interest may be granted), and the like pertaining to the operation by the Borrower or any of its Subsidiaries of the Business; (d) all existing, from time to time, field repair data, sales data and other information relating to sales or service of products now or hereafter manufactured and which pertain to the Business; (e) all existing, from time to time, accounting information which pertains to the Business and all media in which or on which any of the information or knowledge or data or records which pertain to the Business may be recorded or stored and all computer programs used for the compilation or printout of such information, knowledge, records or data; (f) all licenses, consents, permits, variances, certifications and approvals of governmental agencies now or hereafter held by the Borrower or any of its Subsidiaries pertaining to the operation, by the Borrower and its Subsidiaries, of the Business; and (g) all causes of action, claims and warranties now or hereafter owned or required by the Borrower or any Subsidiary in respect of any of the items listed above.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than the United States of America, a State thereof or the District of Columbia.

"Foreign Subsidiary" means any Subsidiary that is not a Domestic Subsidiary.

"GAAP" means generally accepted accounting principles in the United States of America.



"General Assignment" has the meaning assigned to that term in Section 1(e) of the Restructuring Agreement.

"Generator" means any Person whose act or process produces Hazardous Materials or whose act first causes a Hazardous Material to become subject to regulation.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" means a guarantee, an endorsement, a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of such debtor's obligations or an agreement to assure a creditor against loss, and including causing a bank or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms "Guarantee" and "Guaranteed" used as a verb shall have a correlative meaning.

"Guaranteed Obligations" has the meaning assigned to such term in Section 3.01.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Inactive Subsidiary" means, as at any date, any Subsidiary which, as at the end of and for the quarterly accounting period ending on or most recently ended prior to such date, shall have less than \$50,000 in assets and less than \$25,000 in gross revenues.

Credit Agreement

"Indebtedness" of any Person means, without duplication: (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind; (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments; (c) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person; (d) all obligations of such Person in respect of the deferred purchase price of property or services; (e) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed; (f) all Guarantees by such Person of Indebtedness of others; (g) all Capital Lease Obligations of such Person; (h) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty; (i) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances; and (j) in the case of the Borrower or any Subsidiary, Indebtedness of Enenco, Inc. (but only to the extent that the Borrower or such Subsidiary is obligated in respect of such Indebtedness under any arrangement entered into primarily for the benefit of one or more creditors)]. The Indebtedness of any Person shall include the Indebtedness of any other Person (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such other Person, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor. Notwithstanding the foregoing, Indebtedness shall not include (x) obligations under Hedging Agreements and (y) trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts are payable within 180 days of the date the respective goods are delivered or the respective services are rendered.

"Indemnified Taxes" means all Taxes other than (a) Excluded Taxes and Other Taxes and (b) amounts constituting penalties or interest imposed with respect to Excluded Taxes or Other Taxes.

"Intangible Assets" means the book value of all properties of any of the Borrower and its Subsidiaries that would be treated as intangibles under GAAP, including goodwill, patents, trademarks, service marks, trade names, copyrights and organization, reorganization and developmental expense and any write-up in the book value of the properties of the Borrower and its Subsidiaries resulting from a revaluation thereof subsequent to December 31, 1996.

"Intercompany Note Subordination Agreement" means the Subordination Agreement, satisfactory in form and substance to each of the Lenders, dated as of January 30, 1997 between NL, Rheox Inc. and the Administrative Agent providing for the subordination of the Subordinated Intercompany Note to the Indebtedness of the Borrower hereunder.

Credit Agreement

"Interest Coverage Ratio" means, as at any date, the ratio of (a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) Interest Expense for such period.

"Interest Election Request" means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.06.

"Interest Expense" means, for any period, the sum, for the Borrower and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of all interest in respect of Indebtedness (including imputed interest expense in respect of Capital Lease Obligations, if any) paid, accrued or capitalized during such period.

Notwithstanding the foregoing, if during any period for which Interest Expense is being determined the Borrower shall have consummated any Acquisition or Disposition then, for all purposes of this Agreement (other than for purposes of the definition of Excess Cash Flow), Interest Expense shall be determined on a pro forma basis as if such Acquisition or Disposition (and any Indebtedness incurred by the Borrower or any of its Subsidiaries in connection with such Acquisition or repaid as a result of such Disposition) had been made or consummated (and such Indebtedness incurred or repaid) on the first day of such period.

"Interest Payment Date" means (a) with respect to any Base Rate Loan, each Quarterly Date and (b) with respect to any Eurodollar Loan, the last Business Day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each Business Day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; provided, that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing. Notwithstanding the foregoing,

(i) if any Interest Period for any Revolving Credit Borrowing would otherwise end after the Final Maturity Date, such Interest Period shall not be available hereunder,

(ii) no Interest Period for any Term Loan Borrowing may commence before and end after any Principal Payment Date unless, after giving effect thereto, the aggregate principal amount of the Term Loans having Interest Periods that end after such Principal Payment Date shall be equal to or less than the aggregate principal amount of the Term Loans scheduled to be outstanding after giving effect to the payments of principal required to be made on such Principal Payment Date, and

(iii) notwithstanding the foregoing clauses (i) and (ii), no Interest Period shall have a duration of less than one month and, if the Interest Period for any Eurodollar Loan would otherwise be a shorter period, such Loan shall not be available hereunder as a Eurodollar Loan for such period.

"Investment" means, for any Person, the acquisition of capital stock, evidences of Indebtedness or other securities or ownership interests (including any option, warrant or other right to acquire any of the foregoing) of any other Person, or the making of any loans or advances to, Guarantee of any obligations of, or extensions of credit to any other Person (other than in the ordinary course of business with respect to purchase or sale of inventory, supplies, product or services).

"LC Collateral Account" has the meaning assigned to such term in Section 2.04(i).

"LC Disbursement" means a payment made by the LC Issuing Lender pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Revolving Credit Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"LC Issuing Lender" means The Chase Manhattan Bank, in its capacity as the issuer of Letters of Credit hereunder.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

Credit Agreement

"Leverage Ratio" means, as at any date, the ratio of (a) all Indebtedness of the Borrower and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) on such date to (b) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to U.S. dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for U.S. dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which U.S. dollar deposits of \$5,000,000, and for a maturity comparable to such Interest Period, are offered by the principal London office of Chase in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" means this Agreement, any promissory notes evidencing Loans hereunder and the Security Documents.

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations or condition, financial or otherwise, of the Borrower and its Subsidiaries taken as a whole, (b) the ability of any Credit Party to perform any of its obligations under this Agreement, the other Loan Documents or the Tax Sharing Agreement or (c) the rights of or benefits available to the Lenders under this Agreement or the other Loan Documents.

"Material Obligations" means Indebtedness (other than the Loans or Letters of Credit and other than Indebtedness owed by the Borrower to a Subsidiary or by a Subsidiary to the Borrower or a Subsidiary), or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower or any Subsidiary in an aggregate principal

amount exceeding \$2,000,000. For purposes of determining Material Obligations, the "principal amount" of the obligations of any Person in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Person would be required to pay if such Hedging Agreement were terminated at such time.

"Mortgage" means the Mortgage, Assignment of Rents, Security Agreement and Fixture Filing executed by the Borrower, for the benefit of the Administrative Agent substantially in the form of Exhibit F and covering the leasehold interest of the Borrower located in Mercer county, New Jersey pursuant to that certain lease dated as of August 17, 1994 between the Borrower, as tenant, and ABCJ East Windsor Associates L.P., as landlord.

"Mortgage Amendments" means amendments to the Existing Mortgages satisfactory to the Agent in form and substance.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Available Proceeds" means:

(a) in the case of any Disposition, the aggregate amount of all cash payments received by the Borrower and its Subsidiaries directly or indirectly in connection with such Disposition, whether at the time of such Disposition or after such Disposition under deferred payment arrangements or investments entered into or received in connection with such Disposition (including Disposition Investments) net of (i) the amount of any legal, title, transfer and recording tax expenses, commissions and other fees and expenses payable by the Borrower and its Subsidiaries in connection with such Disposition, (ii) any Federal, state and local income or other taxes estimated to be payable by the Borrower and its Subsidiaries as a result of such Disposition, but only to the extent that such estimated taxes are in fact paid to the relevant Federal, state or local governmental authority or to NL under the Tax Sharing Agreement within twelve months of the date of such Disposition and (iii) any repayments by the Borrower or any of its Subsidiaries of Indebtedness to the extent that (x) such Indebtedness is secured by a Lien on the property that is the subject of such Disposition and (y) the transferee of (or holder of a Lien on) such property requires that such Indebtedness be repaid as a condition to the purchase of such property;

(b) in the case of any Casualty Event, the aggregate amount of proceeds of insurance, condemnation awards and other compensation received by the Borrower and its Subsidiaries in respect of such Casualty Event net of (i) reasonable expenses incurred by the Borrower and its Subsidiaries in connection therewith and (ii) contractually required repayments of Indebtedness to the extent secured by a Lien

Credit Agreement

on such property and any income and transfer taxes payable by the Borrower or any of its Subsidiaries in respect of such Casualty Event; and

(c) in the case of any Equity Issuance, the aggregate amount of all cash received by the Borrower and its Subsidiaries in respect of such Equity Issuance net of reasonable expenses incurred by the Borrower and its Subsidiaries in connection therewith.

"NL" means NL Industries, Inc., a corporation organized under the laws of New Jersey.

"NL Pledge Agreement" means an amended and restated Pledge Agreement substantially in the form of Exhibit E between NL and the Administrative Agent.

"Note Subordination Agreement" means the Subordination Agreement dated as of September 17, 1996 between NL, the Borrower and the Administrative Agent providing for the subordination of the Subordinated Note to the Indebtedness of the Borrower hereunder.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement and the other Loan Documents (and any Uniform Commercial Code financing statements required by any Security Document to be filed with respect to the security interests in personal property and fixtures created pursuant to any Security Document) or any amendments thereof or supplements thereto, provided that there shall be excluded from "Other Taxes" all Excluded Taxes.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) Investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, a credit rating obtainable from Standard & Poor's Ratings Service of A-1 or better or from Moody's Investors Service of P-1 or better;

Credit Agreement

(c) Investments in certificates of deposit, banker's acceptances and time deposits (including Euro-deposits) maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any office of any commercial bank organized under the laws of the United States of America or any State thereof, or under the laws of any other member state of the Organization for Economic Cooperation and Development, which has a combined capital and surplus and undivided profits of not less than \$500,000,000; and

(d) fully collateralized repurchase agreements with a term of not more than 180 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above or with an investment bank organized under the laws of the United States or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000.

"Permitted Liens" means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 6.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 6.04 and Liens securing judgments but only to the extent for an amount and for a period not resulting in an Event of Default under Article VIII(k);

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) easements, reservations, covenant restrictions, zoning restrictions, rights-of-way and similar encumbrances or restrictions on real property imposed by law or arising in the ordinary course of business that do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of the Borrower or any Subsidiary;

(f) Liens arising under workers' compensation laws, unemployment insurance laws or similar legislation or progress payments under government contracts, deposits

Credit Agreement



as security for import duties; deposits to secure public or statutory obligations of the Borrower or any of its Subsidiaries; and

(g) Liens incident to the conduct of, or the operation of property or assets in the ordinary course of the Business and not securing obligations in the aggregate amount exceeding \$500,000 at any one time outstanding.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by The Chase Manhattan Bank, as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Principal Payment Dates" means the (a) 25 consecutive Quarterly Dates falling on or nearest to March 31, June 30, September 30 and December 31 of each year, commencing with the Quarterly Date in September of 1997 and (b) the Final Maturity Date.

"Quarterly Dates" means the last Business Day of March, June, September and December in each year, the first of which shall be the first such day after the date of this Agreement.

"Register" has the meaning assigned to such term in Section 10.04.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Release" means any "release" as such term is defined in 42 U.S.C. Section 9601 (22), as amended, or any successor statute.

"Required Lenders" means, at any time, Lenders having Loans, LC Exposure and unused Commitments representing more than 50% of the sum of the total Loans, LC Exposure and unused Commitments at such time.

Credit Agreement

"Required Revolving Credit Lenders" means, at any time, Lenders having Revolving Credit Loans, LC Exposure and unused Revolving Credit Commitments representing more than 50% of the sum of the total Revolving Credit Loans, LC Exposure and unused Revolving Credit Commitments at such time.

"Required Term Loan Lenders" means, at any time, Lenders having Term Loans and unused Term Loan Commitments representing more than 50% of the sum of the total Term Loans and unused Term Loan Commitments at such time.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any shares of any class of capital stock of the Borrower, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock of the Borrower.

"Restructuring" means the separation of NL's titanium dioxide operations from the rheological additives operations, as effected through the Restructuring Agreement.

"Restructuring Agreement" means that certain agreement dated June 30, 1990, between NL, Rheox International, Inc., Kronos, Inc. and the Borrower, effecting the Restructuring.

"Restructuring Documents" means the Restructuring Agreement, the Rheox Int'l IP Assignment, the Rheox IP Assignment, the General Assignment and the Supplemental Agreements.

"Revolving Credit Availability Period" means the period from and including the Effective Date to but excluding the earlier of (a) the Final Maturity Date and (b) the date of termination of the Revolving Credit Commitments.

"Revolving Credit Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Credit Loans and to acquire participations in Letters of Credit hereunder, as such commitment may be (a) reduced from time to time pursuant to Sections 2.07 and 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Revolving Credit Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Revolving Credit Commitment, as applicable. The aggregate original amount of the Revolving Credit Commitments is \$25,000,000.

"Revolving Credit Exposure" means, with respect to any Revolving Credit Lender at any time, the sum of the outstanding principal amount of such Lender's Revolving Credit Loans and its LC Exposure at such time.

"Revolving Credit Lender" means (a) initially, any Lender that has a Revolving Credit Commitment set forth opposite its name on Schedule 2.01 and (b) thereafter, the Lenders from time to time holding Revolving Credit Loans and Revolving Credit Commitments, after giving effect to any assignments thereof permitted by Section 10.04.

"Revolving Credit Loan" means a Loan made pursuant to Section 2.01(a) that utilizes the Revolving Credit Commitments.

"Rheox Int'l IP Assignment" has the meaning assigned to that term in Section 1(c) of the Restructuring Agreement.

"Rheox International" means Rheox International, Inc., a Delaware corporation.

"Rheox IP Assignment" has the meaning assigned to that term in Section 1(d) of the Restructuring Agreement.

"Security Agreement" means an amended and restated Security Agreement substantially in the form of Exhibit D between the Borrower, the Subsidiary Guarantors and the Administrative Agent.

"Security Documents" means the Copyright Security Agreement, the Conditional Assignment of and Security Interest in Patent Rights and the Conditional Assignment of and Security Interest in Trademark Rights, the Security Agreement, the NL Pledge Agreement, the Mortgage, each Existing Mortgage and each Mortgage Amendment.

"Special Counsel" means Milbank, Tweed, Hadley & McCloy, in its capacity as special counsel to The Chase Manhattan Bank, as Administrative Agent of the credit facilities contemplated hereby.

"Special Dividend" means a dividend in an aggregate amount not to exceed \$30,000,000 to be paid by the Borrower to NL with the proceeds of Term Loans and Revolving Credit Loans as provided herein.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to three months and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to

such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subordinated Note" means the \$100,000,000 subordinated note dated September 30, 1996 issued by the Borrower to NL.

"Subordinated Intercompany Note" means the (Pound Sterling) 3,423,292 note dated February 2, 1996 issued by Rheox Limited to NL.

"Subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. References herein to "Subsidiaries" shall, unless the context requires otherwise, be deemed to be references to Subsidiaries of the Borrower.

"Subsidiary Guarantors" means the Persons listed under the caption "SUBSIDIARY GUARANTORS" on the signature pages hereto and any other Person that shall have become a party hereto pursuant to Section 6.12(a).

"Supplemental Agreements" has the meaning assigned to that term in Section 6(a) of the Restructuring Agreement.

"Tangible Net Worth" means, at any time, the sum, for the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) the amount of share capital (less cost of treasury shares) but excluding share capital in respect of any preferred or similar stock which, by its terms or at the option of the holder or the issuer, is under any circumstances redeemable, or is convertible into Indebtedness, or which requires payments to a sinking fund, on or prior to the Final Maturity Date; plus (b) the amount of surplus and retained earnings (or, in the case of a surplus or retained earnings deficit, minus the amount of such deficit); minus (c) Intangible Assets of the Borrower and its Subsidiaries. Notwithstanding anything in this definition to the contrary, cumulative foreign currency translation gains (or losses) shall not be deemed to increase (or decrease) Tangible Net Worth.

"Tax Sharing Agreement" means the Tax Agreement between NL and Rheox dated as of July 1, 1990.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings of any nature imposed by any Governmental Authority, and any interest, penalties or fines thereon or other additions thereto.

"Term Loan" means a Loan made pursuant to Section 2.01(b) that utilizes the Term Loan Commitments.

"Term Loan Availability Period" means the period from and including the Effective Date to but excluding the earlier of (a) the Term Loan Commitment Termination Date and (b) the date of termination of the Term Loan Commitments.

"Term Loan Commitment" means, with respect to each Lender, the commitment of such Lender to make Term Loans, as such commitment may be (a) reduced from time to time pursuant to Sections 2.07 and 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Term Loan Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Term Loan Commitment, as applicable. The aggregate original amount of the Term Loan Commitments is \$125,000,000.

"Term Loan Commitment Termination Date" means the Effective Date.

"Term Loan Lender" means (a) initially, any Lender that has a Term Loan Commitment set forth opposite its name on Schedule 2.01 and (b) thereafter, the Lenders from time to time holding Term Loans and Term Loan Commitments, after giving effect to any assignments thereof permitted by Section 10.04.

"Three-Month Secondary CD Rate" means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

Credit Agreement

"Transactions" means (a) with respect to the Borrower, the execution, delivery and performance by the Borrower of the Loan Documents to which it is a party, the borrowing of Loans and the use of the proceeds thereof, and the issuance of Letters of Credit hereunder and (b) with respect to any Credit Party (other than the Borrower), the execution, delivery and performance by such Credit Party of the Loan Documents to which it is a party.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Adjusted Base Rate.

"UCP" means the Uniform Customs and Practices for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, or any successor publication.

"U.S. dollars" or "\$" refers to lawful money of the United States of America.

"Wholly Owned Subsidiary" means, with respect to any Person at any date, any corporation, limited liability company, partnership, association or other entity of which securities or other ownership interests representing 100% of the equity or ordinary voting power (other than directors' qualifying shares) or, in the case of a partnership, 100% of the general partnership interests are, as of such date, directly or indirectly owned, controlled or held by such Person or one or more Wholly Owned Subsidiaries of such Person or by such Person and one or more Wholly Owned Subsidiaries of such Person.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"Working Investment" means, at any time, the sum of the following (without duplication) for the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis in accordance with GAAP), in each case generated in the ordinary course of business: (a) net inventory at such time; plus (b) net accounts and current notes receivable at such time; minus (c) net accounts and current notes payable (excluding current notes payable to financial institutions in respect of Indebtedness) at such time; minus (d) accrued expenses at such time; minus (e) current accrued taxes at such time.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Revolving Credit Loan" or "Term Loan") or by Type (e.g., a "Base Rate Loan" or a "Eurodollar Loan") or by Class and Type (e.g., a "Eurodollar Revolving Credit Loan" or a "Base Rate Revolving Credit Loan"). In similar fashion, (i) Borrowings may be classified and referred to by Class, by Type and by Class and Type, and (ii) Commitments may be classified and referred to by Class.

Credit Agreement

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights and (f) references to "the date hereof" and "the date of this Agreement" and similar references shall be construed to mean January 30, 1997.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

## ARTICLE II

### The Credits

#### SECTION 2.01. Commitments.

(a) Revolving Credit Loans. Subject to the terms and conditions set forth herein, each Revolving Credit Lender agrees to make Revolving Credit Loans to the Borrower from time to time during the Revolving Credit Availability Period in an aggregate principal

Credit Agreement

amount that will not result in such Lender's Revolving Credit Exposure exceeding such Lender's Revolving Credit Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Credit Loans; provided that the Borrower may not borrow Revolving Credit Loans hereunder unless it shall have theretofore borrowed or is concurrently borrowing hereunder Term Loans in an aggregate principal amount of \$125,000,000.

(b) Term Loans. Subject to the terms and conditions set forth herein, each Term Loan Lender agrees to make Term Loans to the Borrower in a single drawing on a date falling during the Term Loan Availability Period in an aggregate principal amount equal to such Lender's Term Loan Commitment.

#### SECTION 2.02. Loans and Borrowings.

(a) Subject to Section 2.01(b), each Loan of a particular Class shall be made as part of a Borrowing consisting of Loans of such Class made by the Lenders ratably in accordance with their respective Commitments of such Class. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.12, each Borrowing shall be comprised entirely of Base Rate Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that (i) any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and (ii) the Borrower shall not be required to pay any additional amounts under Section 2.15(a) as a result of the exercise of such option unless amounts payable by the Borrower to the relevant Lender under said Section immediately after such exercise do not exceed amounts payable by the Borrower to the relevant Lender under said Section immediately prior to such exercise.

(c) At the commencement of each Interest Period for a Eurodollar Borrowing, such Borrowing shall be in an aggregate amount at least equal to \$5,000,000 or any greater integral multiple of \$1,000,000 with respect to a Term Loan, and at least equal to \$1,000,000 with respect to a Revolving Credit Loan. At the time that each Base Rate Borrowing is made, such Borrowing shall be in an aggregate amount at least equal to \$1,000,000 or any greater integral multiple of \$1,000,000; provided that a Base Rate Borrowing of Loans of any Class may be in an aggregate amount that is equal to the entire unused balance of the total Commitments of such Class. Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of six Eurodollar Borrowings outstanding.



SECTION 2.03. Requests for Borrowings. To request a Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of a Base Rate Borrowing, not later than 11:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) whether the requested Borrowing is to be a Revolving Credit Borrowing or Term Loan Borrowing;

(ii) the aggregate amount of such Borrowing;

(iii) the date of such Borrowing, which shall be a Business Day;

(iv) whether such Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing;

(v) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(vi) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.05.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be a Base Rate Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section 2.03, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, in addition to the Revolving Credit Loans provided for in Section 2.01(a), the Borrower may request the issuance of Letters of Credit for its own account or for the account of a Subsidiary by the LC Issuing Lender, in a form acceptable to the LC Issuing Lender in its reasonable determination, at any time and from time to time during the Revolving Credit Availability Period. Letters of

Credit Agreement

Credit issued hereunder shall constitute utilization of the Revolving Credit Commitments. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the LC Issuing Lender relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the LC Issuing Lender) to the LC Issuing Lender and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, the date of issuance, amendment, renewal or extension, the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section 2.04), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the LC Issuing Lender, the Borrower also shall submit a letter of credit application on the LC Issuing Lender's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the aggregate LC Exposure of the LC Issuing Lender (determined for these purposes without giving effect to the participations therein of the Revolving Credit Lenders pursuant to paragraph (d) of this Section 2.04) shall not exceed \$2,500,000 and (ii) the total Revolving Credit Exposures shall not exceed the total Revolving Credit Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Final Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) by the LC Issuing Lender, and without any further action on the part of the LC Issuing Lender, the LC Issuing Lender hereby grants to each Revolving Credit Lender, and each Revolving Lender hereby acquires from the LC Issuing Lender, a participation in such Letter of Credit equal to such Revolving Credit Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Credit Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the LC Issuing Lender, such Revolving Credit Lender's Applicable Percentage of each LC Disbursement made by the LC Issuing Lender and not reimbursed by the

Credit Agreement

Borrower on the date due as provided in paragraph (e) of this Section 2.04, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the LC Issuing Lender shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse the LC Issuing Lender in respect of such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the Business Day immediately following the day that the Borrower receives such notice, provided that, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with a Revolving Credit Base Rate Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting Revolving Credit Base Rate Borrowing.

If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Revolving Credit Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Revolving Credit Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Revolving Credit Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.05 with respect to Revolving Credit Loans made by such Lender (and Section 2.05 shall apply, mutatis mutandis, to the payment obligations of the Revolving Credit Lenders), and the Administrative Agent shall promptly pay to the LC Issuing Lender the amounts so received by it from the Revolving Credit Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the LC Issuing Lender or, to the extent that the Revolving Credit Lenders have made payments pursuant to this paragraph to reimburse the LC Issuing Lender, then to such Lenders and the LC Issuing Lender as their interests may appear. Any payment made by a Revolving Credit Lender pursuant to this paragraph to reimburse the LC Issuing Lender for any LC Disbursement shall not constitute a Loan and shall not relieve the Borrower of its reimbursement obligation in respect of such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section 2.04 shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of

validity or enforceability of any Letter of Credit, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) in the absence of gross negligence or wilful misconduct on the part of the LC Issuing Lender (as determined by a court of competent jurisdiction), payment by the LC Issuing Lender under a Letter of Credit against presentation of a draft or other document that does not comply strictly or substantially with the terms of such Letter of Credit and (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section 2.04, constitute a legal or equitable discharge of the Borrower's obligations hereunder.

Neither the Administrative Agent, the Lenders nor the LC Issuing Lender, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit by the LC Issuing Lender or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the LC Issuing Lender; provided that the foregoing shall not be construed to excuse the LC Issuing Lender from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the LC Issuing Lender's failure to exercise the standard of care agreed hereunder to be applicable when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that such standard of care shall be as follows, and that the LC Issuing Lender shall be deemed to have exercised such standard of care in the absence of gross negligence or wilful misconduct on its part (as determined by a court of competent jurisdiction):

(i) the LC Issuing Lender may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit without responsibility for further investigation, regardless of any notice or information to the contrary, and may make payment upon presentation of documents that appear on their face to be in substantial compliance with the terms of such Letter of Credit; and

(ii) the LC Issuing Lender shall have the right, in its sole discretion, to decline to accept such documents and to make such payment if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The LC Issuing Lender shall, to the extent required by the UCP, examine all documents purporting to represent a demand for payment under any Letter of Credit. The LC Issuing Lender shall, when required by the UCP, notify

the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the LC Issuing Lender has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the LC Issuing Lender and the Revolving Credit Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the LC Issuing Lender shall make any LC Disbursement in respect of any Letter of Credit, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to Revolving Credit Base Rate Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section 2.04, then Section 2.11(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the LC Issuing Lender, except that interest accrued on and after the date of payment by any Revolving Credit Lender pursuant to paragraph (e) of this Section 2.04 to reimburse the LC Issuing Lender shall be for the account of such Lender to the extent of such payment.

(i) Cash Collateralization. If either (i) an Event of Default shall occur and be continuing and the Borrower receives notice from the Administrative Agent or the Required Revolving Credit Lenders demanding the deposit of cash collateral pursuant to this paragraph, or (ii) the Borrower shall be required to provide cover for LC Exposure pursuant to Section 2.09(b), the Borrower shall immediately deposit into an account (the "LC Collateral Account") with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to, in the case of an Event of Default, the LC Exposure as of such date plus any accrued and unpaid interest thereon and, in the case of cover pursuant to Section 2.09(b), the amount required under 2.09(b); provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default described in clause (h) or (i) of Article VIII. Such deposit shall be held by the Administrative Agent as collateral in the first instance for the LC Exposure under this Agreement and thereafter for the payment of any other obligations of the Credit Parties hereunder and under the other Loan Documents. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over the LC Collateral Account. Such deposits shall not accrue interest other than any interest earned on the investment of such deposits, which investments shall be Permitted Investments made at the option and sole discretion of the Borrower prior to an Event of Default and made at the sole discretion of the Administrative Agent after the occurrence and during the continuance of an Event of Default, and in any event shall be at the Borrower's risk and expense. Prior to an Event of Default, income and profits, if any, on such investments shall be distributed to the Borrower upon request. After the occurrence and during the continuance of an Event of Default, interest and profits, if any, on such investments shall accumulate in

such account. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower upon request within three Business Days after all Events of Default have been cured or waived.

(j) Existing Letters of Credit. There is outstanding on the date hereof pursuant to the Existing Credit Agreements one or more letters of credit issued by Chase (as the "Issuing Bank" thereunder) for the account of the Borrower as set forth on Schedule 2.04. Upon the Effective Date each of such letters of credit is hereby designated a "Letter of Credit" under and for all purposes of this Agreement. In that connection, the Borrower hereby represents and warrants to the LC Issuing Lender, each Revolving Credit Lender and the Administrative Agent that each such letter of credit satisfies the requirements of this Section 2.04 (including paragraph (c) above).

#### SECTION 2.05. Funding of Borrowings.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 1:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request; provided that Revolving Credit Base Rate Loans made to finance the reimbursement of an LC Disbursement under any Letter of Credit as provided in Section 2.04(e) shall be remitted by the Administrative Agent to the LC Issuing Lender.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section 2.05 and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the Federal Funds Effective Rate or (ii) in the case of the Borrower, the interest rate applicable to Base Rate Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.06. Interest Elections.

(a) Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section 2.06. The Borrower may elect different options for continuations and conversions with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section 2.06, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options for continuations or conversions are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each affected Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to a Base Rate Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to a Base Rate Borrowing at the end of the Interest Period applicable thereto.

#### SECTION 2.07. Termination and Reduction of Commitments.

(a) Unless previously terminated, (i) the Revolving Credit Commitments shall terminate at the close of business on the Final Maturity Date and (ii) the Term Loan Commitments shall terminate at the close of business on the Term Loan Commitment Termination Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments of any Class; provided that (i) each reduction of the Commitments of such Class shall be in an amount that at least equal to \$1,000,000 or any greater integral multiple of \$500,000, (ii) the Borrower shall not terminate or reduce the Term Loan Commitments if, after giving effect to any concurrent prepayment of Term Loans in accordance with Section 2.09, the outstanding Term Loans would exceed the total Term Loan Commitments and (iii) the Borrower shall not terminate or reduce the Revolving Credit Commitments if, after giving effect to any concurrent prepayment of the Revolving Credit Loans in accordance with Section 2.09, the total Revolving Credit Exposures would exceed the total Revolving Credit Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce Commitments under paragraph (b) of this Section 2.07 at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section 2.07 shall be irrevocable; provided that a notice of termination of Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of Commitments shall be permanent. Each reduction of Commitments of any Class shall be



made ratably among the Lenders in accordance with their respective Commitments of such Class.

SECTION 2.08. Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Revolving Credit Lender the then unpaid principal amount of such Lender's Revolving Credit Loans on the Final Maturity Date.

(b) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of the Term Loan Lenders the principal of the Term Loans in twenty-six installments payable on the Principal Payment Dates as follows:

Principal Payment Date Falling on or Nearest to: -----	Amount of Installment (\$): -----
September 30, 1997 .....	\$3,750,000
December 31, 1997 .....	\$3,750,000
March 31, 1998 .....	\$3,750,000
June 30, 1998 .....	\$3,750,000
September 30, 1998 .....	\$3,750,000
December 31, 1998 .....	\$3,750,000
March 31, 1999 .....	\$3,750,000
June 30, 1999 .....	\$3,750,000
September 30, 1999 .....	\$3,750,000
December 31, 1999 .....	\$3,750,000
March 31, 2000 .....	\$3,750,000
June 30, 2000 .....	\$3,750,000
September 30, 2000 .....	\$3,750,000
December 31, 2000 .....	\$3,750,000
March 31, 2001 .....	\$5,625,000
June 30, 2001 .....	\$5,625,000
September 30, 2001 .....	\$5,625,000
December 31, 2001 .....	\$5,625,000
March 31, 2002 .....	\$6,250,000
June 30, 2002 .....	\$6,250,000
September 30, 2002 .....	\$6,250,000
December 31, 2002 .....	\$6,250,000
March 31, 2003 .....	\$6,250,000
June 30, 2003 .....	\$6,250,000
September 30, 2003 .....	\$6,250,000
January 30, 2004 .....	\$6,250,000

(c) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(d) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(e) The entries made in the accounts maintained pursuant to paragraph (c) or (d) of this Section 2.08 shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(f) Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form reasonably acceptable to the Administrative Agent. Thereafter, the Loans of such Class evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 10.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

#### SECTION 2.09. Prepayment of Loans.

(a) Optional Prepayments. The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with paragraph (c) of this Section 2.09. Each prepayment of Term Loans shall be applied to the installments thereof pro rata in accordance with the respective aggregate principal amounts of the Term Loans outstanding on the date of such prepayment.

(b) Mandatory Prepayments. The Borrower shall make prepayments of the Loans hereunder (and reduce the Commitments hereunder) as follows:

(i) Casualty Events. On the date of receipt by the Borrower or any Subsidiary of Net Available Proceeds in excess of \$100,000 of any insurance, condemnation award or other compensation in respect of any Casualty Event (excluding Net Available Proceeds from (x) business interruption coverage or (y) other insurance coverage unrelated to the repair and/or replacement of the damaged assets) the Borrower or such Subsidiary, as the case may be, shall deposit such Net Available Proceeds into the Collateral Account (under and as defined in the Security Agreement). Upon request by the Borrower, the Administrative Agent shall (unless a Default shall have occurred and be continuing) release the Net Available Proceeds to the Borrower in an amount not exceeding the amount required for repair or replacement of the property for which such Net Available Proceeds were received; provided that if such Net Available Proceeds have not been released or committed to be expended in respect of such repair or replacement in an amount and manner reasonably acceptable to the Administrative Agent within 180 days of receipt by the Borrower or such Subsidiary, as the case may be, such Net Available Proceeds, to the extent that such Net Available Proceeds, together with all other Net Available Proceeds received by the Borrower or any Subsidiary in respect of Casualty Events, not released or committed to be expended in respect of repair or replacement within 180 days of receipt by the Borrower or any Subsidiary exceeds \$500,000, shall be used to prepay the Loans (and/or provide cover for LC Exposure as specified in Section 2.04(i)) and automatically reduce the Revolving Credit Commitments in an aggregate amount, if any, equal to 100% of the Net Available Proceeds of such Casualty Event not theretofore applied to the repair or replacement of such property (such prepayment and reduction to be effected in each case in the manner and to the extent specified in clause (vi) of this Section 2.09).

(ii) Sale of Assets. Without limiting the obligation of the Borrower to obtain the consent of the Required Lenders to any Disposition not otherwise permitted hereunder, the Borrower agrees, on or prior to the occurrence of any Disposition which, together with the aggregate Net Available Proceeds of all other Dispositions to date in the then current fiscal year, would generate Net Available Proceeds in excess of \$100,000 to deliver to the Administrative Agent a statement certified by a Financial Officer, in form and detail reasonably satisfactory to the Administrative Agent, of the estimated amount of the Net Available Proceeds of such Disposition that will (on the date of such Disposition) be received by the Borrower or any Subsidiary in cash and the Borrower will prepay the Loans hereunder (and provide cover for LC Exposure as specified in Section 2.04(i)), and the Commitments hereunder shall be subject to automatic reduction, as follows:

(x) upon the date of such Disposition, in an aggregate amount equal to 100% of the amount of the Net Available Proceeds of such Disposition which,

together with the aggregate Net Available Proceeds of all other Dispositions to date in the then current fiscal year, would generate Net Available Proceeds in excess of \$100,000, to the extent received by the Borrower or any of its Subsidiaries in cash on the date of such Disposition; and

(y) thereafter, quarterly, on the date of the delivery by the Borrower to the Administrative Agent pursuant to Section 6.01 of the financial statements for any quarterly fiscal period or fiscal year, to the extent the Borrower or any Subsidiary shall receive Net Available Proceeds during the quarterly fiscal period ending on the date of such financial statements in cash under deferred payment arrangements or Disposition Investments entered into or received in connection with any Disposition, an amount equal to (A) 100% of the aggregate amount of such Net Available Proceeds received during such quarterly fiscal period minus (B) any transaction expenses associated with Dispositions and not previously deducted in the determination of Net Available Proceeds plus (or minus, as the case may be) (C) any other adjustment received or paid by the Borrower or any Subsidiary pursuant to the respective agreements giving rise to Dispositions and not previously taken into account in the determination of the Net Available Proceeds of Dispositions, provided that if prior to the date upon which the Borrower would otherwise be required to make a prepayment under this clause (y) with respect to any quarterly fiscal period the aggregate amount of such Net Available Proceeds (after giving effect to the adjustments provided for in this clause (y)) shall exceed \$1,000,000, then the Borrower shall within three Business Days after receipt of such aggregate amount make a prepayment under this clause (y) in an amount equal to such required prepayment.

Prepayments of Loans (and cover for LC Exposure) and reductions of Commitments shall be effected in each case in the manner and to the extent specified in clause (vi) of this Section 2.09(b).

(iii) Excess Cash Flow. Not later than the date 120 days after the end of each fiscal year of the Borrower beginning with Excess Cash Flow for the fiscal year ending December 31, 1997, the Borrower shall prepay the Loans (and/or provide cover for LC Exposure as specified in Section 2.04(i)), and the Commitments shall be subject to automatic reduction, in an aggregate amount equal to the excess of (x) 60% of Excess Cash Flow for such fiscal year over (y) the aggregate amount of prepayments of Term Loans made during such fiscal year pursuant to Section 2.09(a) (other than that portion, if any, of such prepayments applied to installments of the Term Loans falling due in such fiscal year) and, after the payment in full of the Term Loans, the aggregate amount of voluntary reductions of Revolving Credit Commitments made during such fiscal year pursuant to Section 2.07(b), such prepayment and reduction to be effected in each case in the manner and to the extent specified in clause (vi) of this Section 2.09(b).

Credit Agreement

(iv) Equity Issuance. Upon any Equity Issuance, the Borrower shall prepay the Loans (and/or provide cover for LC Exposure as specified in Section 2.04(i)), and the Commitments shall be subject to automatic reduction, in an aggregate amount equal to 100% of the Net Available Proceeds thereof, such prepayment and reduction to be effected in each case in the manner and to the extent specified in clause (vi) of this Section 2.09(b).

(v) Application. Upon each required reduction of Commitments and prepayment of Loans (and cover for LC exposure) pursuant to clauses (i) through (iv) of this Section 2.09(b), the amount of the required prepayment shall be applied (x) first, to reduce the Term Loan Commitments and if, after giving effect to such reduction, the aggregate principal amount of Term Loans exceeds the amount of the Term Loan Commitments, the Borrower shall prepay the Term Loans in an amount equal to such excess, such prepayment to be applied to the installments of the Term Loans pro rata in accordance with the respective aggregate principal amounts thereof outstanding on the date of such prepayment and (y) second, to reduce the Revolving Credit Commitments and if, after giving effect to such reduction, the aggregate principal amount of Revolving Credit Loans exceeds the amount of the Revolving Credit Commitments, the Borrower shall prepay the Revolving Credit Loans (and, to the extent necessary, provide cover for LC Exposure pursuant to Section 2.04(i)) in an amount equal to such excess.

(c) Notice of Prepayment. The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment under this Section 2.09 (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment and (ii) in the case of a Base Rate Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.07, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.07. Promptly following receipt of any such notice related to a prepayment, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of a Borrowing shall be in an amount that would be permitted in the case of a Borrowing of the same Class and Type as provided in Section 2.02. Each prepayment of a Revolving Credit Borrowing shall be applied ratably to the Revolving Credit Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.11.

#### SECTION 2.10. Fees.

#### Credit Agreement

(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at a rate per annum equal to the Applicable Rate on the daily average unused amount of the respective Commitments of such Lender during the period from and including the Effective Date to but excluding the date on which such Commitment terminates. Accrued commitment fees shall be payable in arrears on each Quarterly Date and, in respect of any Commitments, on the date such Commitments terminate, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) The Borrower agrees to pay with respect to Letters of Credit outstanding hereunder the following fees:

(i) to the Administrative Agent for the account of each Revolving Credit Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at a rate per annum equal to the Applicable Rate used in determining interest on Revolving Credit Eurodollar Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Revolving Credit Commitment terminates and the date on which there shall no longer be any Letters of Credit outstanding hereunder, and

(ii) to the LC Issuing Lender (x) a fronting fee, which shall accrue at the rate or rates per annum separately agreed upon between the Borrower and the LC Issuing Lender on the average daily amount of the LC Exposure of the LC Issuing Lender (determined for these purposes without giving effect to the participations therein of the Revolving Credit Lenders pursuant to paragraph (d) of Section 2.04, and excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Revolving Credit Commitments and the date on which there shall no longer be any Letters of Credit of the LC Issuing Lender outstanding hereunder, and (y) the LC Issuing Lender's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder.

Accrued participation fees and fronting fees shall be payable in arrears on each Quarterly Date and on the date the Revolving Credit Commitments terminate, commencing on the first such date to occur after the date hereof, provided that any such fees accruing after the date on which the Revolving Credit Commitments terminate shall be payable on demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed in writing between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances, absent manifest error in the determination thereof.

SECTION 2.11. Interest.

(a) The Loans comprising each Base Rate Borrowing shall bear interest at a rate per annum equal to the Adjusted Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at a rate per annum equal to the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided above or (ii) in the case of any other amount, 2% plus the rate applicable to Base Rate Loans as provided above.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan; provided that (i) interest accrued pursuant to paragraph (c) of this Section 2.11 shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of a Base Rate Revolving Credit Loan prior to the end of the Revolving Credit Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment, (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion and (iv) all accrued interest on Revolving Credit Loans shall be payable upon termination of the Revolving Credit Commitments.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Adjusted Base Rate at times when the Adjusted Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Adjusted Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

Credit Agreement

SECTION 2.12. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) if such Borrowing is of a particular Class of Loans, the Administrative Agent is advised by the Required Revolving Credit Lenders or the Required Term Loan Lenders, as the case may be, that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans of such Class included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the affected Lenders by telephone or teletype as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and such Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any such Borrowing to, or continuation of any such Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as a Base Rate Borrowing.

SECTION 2.13. Increased Costs.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the LC Issuing Lender; or

(ii) impose on any Lender or the LC Issuing Lender or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the LC Issuing Lender of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the LC Issuing Lender hereunder (whether of principal, interest or otherwise), then, upon delivery of the certificate provided for in Section 2.13(c), the Borrower will pay to such Lender or the LC Issuing Lender, as the case may be, such additional amount

Credit Agreement



or amounts as will compensate such Lender or the LC Issuing Lender, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the LC Issuing Lender reasonably determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the LC Issuing Lender's capital or on the capital of such Lender's or the LC Issuing Lender's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the LC Issuing Lender, to a level below that which such Lender or the LC Issuing Lender or such Lender's or the LC Issuing Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the LC Issuing Lender's policies and the policies of such Lender's or the LC Issuing Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the LC Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or the LC Issuing Lender, or such Lender's or the LC Issuing Lender's holding company, for any such reduction suffered.

(c) A certificate of a Lender or the LC Issuing Lender setting forth the amount or amounts necessary to compensate such Lender or the LC Issuing Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section 2.13 shall be delivered to the Borrower and shall be conclusive so long as it reflects a reasonable basis for the calculation of the amounts set forth therein and does not contain any manifest error. The Borrower shall pay such Lender or the LC Issuing Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the LC Issuing Lender to demand compensation pursuant to this Section 2.13 shall not constitute a waiver of such Lender's or the LC Issuing Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the LC Issuing Lender pursuant to this Section 2.13 for any increased costs or reductions incurred more than six months prior to the date that such Lender or the LC Issuing Lender, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the LC Issuing Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six-month period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.14. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto or (c) the failure to borrow, convert, continue or prepay any loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice is permitted to be revocable and

is revoked in accordance herewith), then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event.

In the case of a Eurodollar Loan, the loss to any Lender attributable to any such event shall be deemed to include an amount determined by such Lender to be equal to the excess, if any, of

(i) the amount of interest that such Lender would pay for a deposit equal to the principal amount of such Loan for the period (the "Breakage Period") from the date of such payment, conversion, failure or assignment to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, convert or continue, the duration of the Interest Period that would have resulted from such borrowing, conversion or continuation) if the interest rate payable on such deposit were equal to the Adjusted LIBO Rate for such Interest Period,

over

(ii) the amount of interest that such Lender would earn on such principal amount for the Breakage Period if such Lender were to invest such principal amount for the Breakage Period at the interest rate that would be bid by such Lender (or an affiliate of such Lender) for U.S. dollar deposits from other banks in the eurodollar market at the commencement of the Breakage Period.

A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section 2.14 shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

#### SECTION 2.15. Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) the Administrative Agent, Lender or the LC Issuing Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

Credit Agreement

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the LC Issuing Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 2.15) paid by the Administrative Agent, such Lender or the LC Issuing Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the LC Issuing Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender or the LC Issuing Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled at any time under then current law to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), on or before Effective Date or such later date on which such Person becomes a Foreign Lender and at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.16. Payments Generally; Pro Rata Treatment; Sharing of Set-Offs.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or under Section 2.13, 2.14 or 2.15, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at such of its offices in New York City as shall be notified to the relevant parties from time to time, except payments to be made directly to the LC Issuing Lender as expressly provided herein and except that payments pursuant to Sections 2.13, 2.14, 2.15, 3.03 and 10.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is

not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in U.S. dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, to pay principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) Except to the extent otherwise provided herein: (i) each borrowing of Loans of a particular Class from the Lenders under Section 2.01 shall be made from the relevant Lenders, each payment of commitment fee under Section 2.10 in respect of Commitments of a particular Class shall be made for account of the relevant Lenders, and each termination or reduction of the amount of the Commitments of a particular Class under Section 2.03 shall be applied to the respective Commitments of such Class of the relevant Lenders, pro rata according to the amounts of their respective Commitments of such Class; (ii) Eurodollar Loans of any Class having the same Interest Period shall be allocated pro rata among the relevant Lenders according to the amounts of their Commitments of such Class (in the case of the making of Loans) or their respective Loans of such Class (in the case of conversions and continuations of Loans); (iii) each payment or prepayment by the Borrower of principal of Loans of a particular Class shall be made for account of the relevant Lenders pro rata in accordance with the respective unpaid principal amounts of the Loans of such Class held by them; (iv) each payment by the Borrower of interest on Loans of a particular Class shall be made for account of the relevant Lenders pro rata in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders; and (v) each payment by the Borrower of participation fees in respect of Letters of Credit shall be made for the account of the Revolving Credit Lenders pro rata in accordance with the amount of participation fees then due and payable to the Revolving Credit Lenders.

(d) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans (or participations in LC Disbursements) of any Class resulting in such Lender receiving payment of a greater proportion of the aggregate principal amount of its Loans (and participations in LC Disbursements) of such Class and accrued interest thereon than the proportion of such amounts received by any other Lender of any other Class, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans (and LC Disbursements) of the other Lenders to the extent necessary so that the benefit of such payments shall be shared by all the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans (and participations in LC Disbursements); provided that (i) if any such participations are purchased and all or any

portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans (or participations in LC Disbursements) to any assignee or participant, other than to any Credit Party or any subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(e) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the LC Issuing Lender entitled thereto (the "Applicable Recipient") hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Applicable Recipient the amount due. In such event, if the Borrower has not in fact made such payment, then each Applicable Recipient severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Applicable Recipient with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the Federal Funds Effective Rate.

(f) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(d), 2.04(e), 2.05(b) or 2.16(e), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Section until all such unsatisfied obligations are fully paid.

(g) Anything in this Agreement to the contrary notwithstanding, each Lender hereby agrees with each other Lender that no Lender shall take any action to protect or enforce its rights arising out of this Agreement or any promissory notes prepared pursuant to Section 2.09(f) (including, without limitation, exercising any rights of setoff) without first obtaining the prior written consent of the Administrative Agent or the Required Lenders, it being the intent of the Lenders that any such action to protect or enforce rights under this Agreement and any promissory notes prepared pursuant to Section 2.09(f) shall be taken in concert and at the direction or with the consent of the Administrative Agent or the Required Lenders and not individually by a single Lender.

SECTION 2.17. Mitigation Obligations. Upon the earliest to occur of (i) notice or knowledge by Lender of any event that could result in or provide a basis for a request for compensation under Section 2.13 and a determination by such Lender that it will request such compensation, (ii) a request by Lender for compensation under Section 2.13, or

(iii) the Borrower being required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.15, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations, hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.13 or 2.15, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender; provided that such Lender shall not be required to make any such designation or assignment unless the Borrower agrees to pay all reasonable out-of-pocket costs and expenses incurred by any Lender in connection therewith.

### ARTICLE III

#### Guarantee by Subsidiary Guarantors

SECTION 3.01. The Guarantee. The Subsidiary Guarantors hereby jointly and severally guarantee to each Lender, the LC Issuing Lender and the Administrative Agent and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest on the Loans made by the Lenders to the Borrower, all LC Disbursements and all other amounts from time to time owing to the Lenders, the LC Issuing Lender or the Administrative Agent by the Borrower hereunder or under any other Loan Document, and all obligations of the Borrower to any Lender under any Hedging Agreement, in each case strictly in accordance with the terms thereof and including any interest accruing after the commencement of any proceeding referred to in Article VIII (h) or (i), whether or not allowed as a claim in such proceeding (such obligations being herein collectively called the "Guaranteed Obligations"). The Subsidiary Guarantors hereby further jointly and severally agree that if the Borrower shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Subsidiary Guarantors will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

SECTION 3.02. Obligations Unconditional. The obligations of the Subsidiary Guarantors under Section 3.01 are absolute and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of this Agreement, the other Loan Documents or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable

Credit Agreement

discharge or defense of a surety or guarantor, it being the intent of this Section 3.02 that the obligations of the Subsidiary Guarantors hereunder shall be absolute and unconditional, joint and several, under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Subsidiary Guarantors hereunder which shall remain absolute and unconditional as described above:

(a) at any time or from time to time, without notice to the Subsidiary Guarantors, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(b) any of the acts mentioned in any of the provisions hereof or of the other Loan Documents or any other agreement or instrument referred to herein or therein shall be done or omitted;

(c) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right hereunder or under the other Loan Documents or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with; or

(d) any lien or security interest granted to, or in favor of, the Administrative Agent, the LC Issuing Lender or any Lender or Lenders as security for any of the Guaranteed Obligations shall fail to be perfected.

The Subsidiary Guarantors hereby expressly waive diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Administrative Agent, the LC Issuing Lender or any Lender exhaust any right, power or remedy or proceed against the Borrower hereunder or under the other Loan Documents or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

SECTION 3.03. Reinstatement. The obligations of the Subsidiary Guarantors under this Article III shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Borrower in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, and the Subsidiary Guarantors jointly and severally agree that they will indemnify the Administrative Agent, the LC Issuing Lender and each Lender on demand for all reasonable costs and expenses (including fees of counsel) incurred by the Administrative Agent, any Lender or the LC Issuing Lender in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a

preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

SECTION 3.04. Subrogation. Each Subsidiary Guarantor hereby waives all rights of subrogation or contribution, whether arising by contract or operation of law (including any such right arising under the Federal Bankruptcy Code of 1978, as amended) or otherwise by reason of any payment by it pursuant to the provisions of this Article III and further agrees, to the extent valid under applicable law, with the Borrower for the benefit of each of its creditors (including the LC Issuing Lender, each Lender and the Administrative Agent) that any such payment by it shall constitute a dividend by such Subsidiary Guarantor to the Borrower.

SECTION 3.05. Remedies. The Subsidiary Guarantors jointly and severally agree that, as between the Subsidiary Guarantors on the one hand and the Administrative Agent, the Lenders and the LC Issuing Lender on the other hand, the obligations of the Borrower hereunder may be declared to be forthwith due and payable as provided in Article VIII or Section 2.04(i), as applicable (and shall be deemed to have become automatically due and payable in the circumstances provided in Article VIII or Section 2.04(i), as applicable) for purposes of Section 3.01 notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against the Borrower and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by the Borrower) shall forthwith become due and payable by the Subsidiary Guarantors for purposes of Section 3.01.

SECTION 3.06. Instrument for the Payment of Money. Each Subsidiary Guarantor hereby acknowledges that the guarantee in this Article III constitutes an instrument for the payment of money, and consents and agrees that the LC Issuing Lender, any Lender or the Administrative Agent, at its sole option, in the event of a dispute by the Subsidiary Guarantors in the payment of any moneys due hereunder, shall have the right to bring a motion-action under New York CPLR Section 3213.

SECTION 3.07. Continuing Guarantee. The guarantee in this Article III is a continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

SECTION 3.08. Rights of Contribution. The Subsidiary Guarantors hereby agree, as between themselves, that if any Subsidiary Guarantor shall become an Excess Funding Guarantor (as defined below) by reason of the payment by such Subsidiary Guarantor of any Guaranteed Obligations, each other Subsidiary Guarantor shall, on demand of such Excess Funding Guarantor (but subject to the next sentence), pay to such Excess Funding Guarantor an amount equal to such Subsidiary Guarantor's Pro Rata Share (as defined below and determined, for this purpose, without reference to the properties, debts and liabilities of such Excess Funding Guarantor) of the Excess Payment (as defined below) in respect of such



Guaranteed Obligations. The payment obligation of a Subsidiary Guarantor to any Excess Funding Guarantor under this Section 3.08 shall be subordinate and subject in right of payment to the prior payment in full of the obligations of such Subsidiary Guarantor under the other provisions of this Article III and such Excess Funding Guarantor shall not exercise any right or remedy with respect to such excess until payment and satisfaction in full of all of such obligations.

For purposes of this Section 3.08, (a) "Excess Funding Guarantor" means, in respect of any Guaranteed Obligations, a Subsidiary Guarantor that has paid an amount in excess of its Pro Rata Share of such Guaranteed Obligations, (b) "Excess Payment" means, in respect of any Guaranteed Obligations, the amount paid by an Excess Funding Guarantor in excess of its Pro Rata Share of such Guaranteed Obligations and (c) "Pro Rata Share" means, for any Subsidiary Guarantor, the ratio (expressed as a percentage) of (i) the amount by which the aggregate fair saleable value of all properties of such Subsidiary Guarantor (excluding any shares of stock of, or ownership interest in, any other Subsidiary Guarantor) exceeds the amount of all the debts and liabilities of such Subsidiary Guarantor (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of such Subsidiary Guarantor hereunder and any obligations of any other Subsidiary Guarantor that have been Guaranteed by such Subsidiary Guarantor) to (ii) the amount by which the aggregate fair saleable value of all properties of all of the Credit Parties exceeds the amount of all the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of the Borrower and the Subsidiary Guarantors hereunder and under the other Loan Documents) of all of the Credit Parties, determined (x) with respect to any Subsidiary Guarantor that is a party hereto on the Effective Date, as of the Effective Date, and (y) with respect to any other Subsidiary Guarantor, as of the date such Subsidiary Guarantor becomes a Subsidiary Guarantor hereunder.

SECTION 3.09. General Limitation on Guarantee Obligations. In any action or proceeding involving any state corporate law, or any state or Federal bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Subsidiary Guarantor under Section 3.01 would otherwise, taking into account the provisions of Section 3.08, be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under Section 3.01, then, notwithstanding any other provision hereof to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any Lender, the Administrative Agent or any other Person, be automatically limited and reduced to the highest amount that is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

ARTICLE IV

Representations and Warranties

The Borrower and each Subsidiary Guarantor represents and warrants to the Lenders, the LC Issuing Lender and the Administrative Agent, as to itself and each of its Subsidiaries, that:

SECTION 4.01. Organization; Powers. The Borrower and each Subsidiary is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. The Borrower and each Subsidiary has all requisite power and authority under its organizational documents to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 4.02. Authorization; Enforceability. The Transactions are within the corporate power of each Credit Party and have been duly authorized by all necessary corporate and, if required, stockholder action on the part of such Credit Party. Each of this Agreement and the other Loan Documents has been duly executed and delivered by each Credit Party party thereto and constitutes a legal, valid and binding obligation of such Credit Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 4.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, (b) will not violate any applicable law, policy or regulation or the charter, by-laws or other organizational documents of any Credit Party or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon any Credit Party, or any of its assets, or give rise to a right thereunder to require any payment to be made by any Credit Party, and (d) except for the Liens created by the Security Documents, will not result in the creation or imposition of any Lien on any asset of the Credit Parties.

SECTION 4.04. Financial Condition; No Material Adverse Change.

(a) The Borrower has heretofore delivered to the Lenders the following financial statements:

(i) the respective audited consolidated balance sheet and statements of income, retained earnings and cash flow of the Borrower and its Consolidated

Subsidiaries as of and for the fiscal years ended December 31, 1994 and December 31, 1995, reported on by Coopers & Lybrand, independent public accountants; and

(ii) the unaudited consolidated balance sheet and statements of income, retained earnings and cash flow of the Borrower and its Consolidated Subsidiaries as of and for the nine-month period ended September 30, 1996, certified by a Financial Officer.

Such financial statements present fairly, in all material respects, the consolidated financial position and results of operations and cash flows of the Borrower and its Consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of such unaudited statements.

(b) Since December 31, 1995, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and its Consolidated Subsidiaries taken as a whole.

(c) None of the Borrowers nor any of its Subsidiaries has on the date of this Agreement any contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments in each case that are material (as determined in accordance with GAAP), except as referred to or reflected or provided for in the balance sheets as at September 30, 1996 referred to above.

#### SECTION 4.05. Properties.

(a) Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for minor defects in title that do not materially interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Except as set forth on Schedule 4.05 hereto, as of the date hereof, (i) each of the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and (ii) the conduct of the business of the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, in both cases except for any such failure to own or have a license to use, and except for any such infringements, that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. In the opinion of the Borrower, the matters set forth on Schedule 4.05 hereto, both individually and in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Credit Agreement

SECTION 4.06. Litigation and Environmental Matters.

(a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of any of the Credit Parties, threatened against or affecting, the Borrower or any Subsidiary (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters listed on Schedule 4.06) or (ii) that involve any of the Loan Documents, the Tax Sharing Agreement or the Transactions.

(b) The Borrower and each of its Subsidiaries have obtained all permits, licenses, registrations and other authorizations which are required under all Environmental Laws, except to the extent failure to have any such permit, license, registration or authorization could not reasonably be expected to have a Material Adverse Effect. The Borrower and each of its Subsidiaries are in compliance with the terms and conditions of all such permits, licenses, registrations and authorizations, and are also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder except to the extent failure to comply could not reasonably be expected to have a Material Adverse Effect. No action to revoke any permit, license or other authorization, the lack of which could reasonably be expected to have a Material Adverse Effect, is pending or threatened in writing. In addition, except for the Disclosed Matters listed on Schedule 4.06, as of the date of this Agreement:

(i) No notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or, to the best knowledge of the Borrower, threatened by any governmental or other entity with respect to any alleged failure by the Borrower or any Subsidiary to have any permit, license or authorization required in connection with the conduct of the business of the Borrower or any Subsidiary or with respect to any handling generation, treatment, storage, recycling, transportation, discharge or disposal, or any threatened Release or Release of any Hazardous Materials generated by the Borrower or any Subsidiary that has not been fully satisfied or discharged as of the date hereof.

(ii) Neither the Borrower nor any Subsidiary has Released Hazardous Material on any property now or previously owned or leased by the Borrower or any Subsidiary in a manner or to an extent that it has, or may reasonably be expected to have, a Material Adverse Effect; and to the best knowledge of the Borrower after due inquiry, (w) no polychlorinated biphenyl is present, (x) no asbestos is present, and (y) there are no underground storage tanks, active or abandoned, at, or under any property now or previously owned or leased by the Borrower or any Subsidiary, during any

period that the Borrower or any Subsidiary owned or leased such property or, to the knowledge of the Borrower or any Subsidiary, prior thereto.

(iii) To the best knowledge of the Borrower after due inquiry, neither the Borrower nor any Subsidiary has transported or arranged for the transportation of any Hazardous Material to any location which is listed or proposed for listing on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), or any similar state list.

(iv) No written notification of a Release of a Hazardous Material has been filed by or on behalf of the Borrower or any Subsidiary and no property now or previously owned or leased by the Borrower or any Subsidiary is listed or, to the best knowledge of the Borrower, proposed for listing on the National Priorities list promulgated pursuant to CERCLA.

(v) To the best knowledge of the Borrower, no Liens have arisen under or pursuant to any Environmental Laws on any of the real property or properties owned or leased by the Borrower or any Subsidiary, and, to the best knowledge of the Borrower, no government actions have been taken or are in process which could subject any of such properties to such Liens and neither the Borrower nor any Subsidiary would be required to place any notice or restriction relating to the presence of Hazardous Materials at any property owned by it in any deed to such property.

(vi) There have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted by third party consultants which are in the possession of the Borrower or any Subsidiary in relation to any property or facility now or previously owned or leased by the Borrower or any Subsidiary which have not been made available to the Lenders except analyses conducted in the ordinary course of business including without limitation, waste water monitoring and air emissions measurements.

(vii) Neither the Borrower nor any Subsidiary has retained or assumed any liabilities (contingent or otherwise) in respect of any Environmental Claims (x) under the terms of any contract or agreement or (y) by operation of law as a result of the sale of assets or stock, which liabilities could reasonably be expected to have a Material Adverse Effect.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

Credit Agreement

SECTION 4.07. Compliance with Laws and Agreements. Each of the Borrower and its Subsidiaries is in compliance with all laws, regulations, policies and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to be in compliance, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 4.08. Investment and Holding Company Status. Neither the Borrower nor any Subsidiary is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended, or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935, as amended.

SECTION 4.09. Taxes. Each of the Credit Parties and their respective subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which such Credit Party has set aside on its books adequate reserves with respect thereto in accordance with GAAP or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 4.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date hereof, exceed by more than \$13,000,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date hereof, exceed by more than \$13,000,000 the fair market value of the assets of all such underfunded Plans.

SECTION 4.11. Disclosure. None of the financial statements, certificates or other information (including, without limitation, the Information Memorandum dated December, 1996 prepared by the Borrower in contemplation hereof) furnished in writing by or on behalf of the Credit Parties to the Administrative Agent or any Lender in connection with this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contain, as of the date hereof, any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not materially misleading; provided that, with respect to projected financial information, the Borrower and its Subsidiaries represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

Credit Agreement

SECTION 4.12. Capitalization. The authorized capital stock of the Borrower consists, on the date hereof, of an aggregate of 1,000 shares consisting of (i) 1,000 shares of common stock, par value \$10.00 per share, of which, as at the date hereof, 1,000 shares are duly and validly issued and outstanding, each of which shares is fully paid and nonassessable. As of the date hereof, (x) there are no outstanding Equity Rights with respect to the Borrower and (y) there are no outstanding obligations of the Borrower or any Subsidiary to repurchase, redeem, or otherwise acquire any shares of capital stock of the Borrower nor are there any outstanding obligations of the Borrower or any Subsidiary to make payments to any Person, such as "phantom stock" payments, where the amount thereof is calculated with reference to the fair market value or equity value of the Borrower or any Subsidiary.

SECTION 4.13. Material Agreements and Liens.

(a) Schedule 4.13 is a complete and correct list, as of the date of this Agreement, of each credit agreement, loan agreement, indenture, guarantee or other arrangement providing for or otherwise relating to any Indebtedness of, the Borrower or any Subsidiary (other than such arrangements between the Borrower and a Subsidiary or between one or more Subsidiaries), the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) \$100,000 (other than the Loan Documents) and, as of the date of this Agreement, the aggregate principal or face amount outstanding or which may become outstanding under each such arrangement is correctly described in Schedule 4.13.

(b) Schedule 4.13 hereto is a complete and correct list, as of the date of this Agreement, of each Lien securing Indebtedness of any Person the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) \$100,000 and covering any property of the Borrower or any Subsidiary, and the aggregate Indebtedness secured (or which may be secured) by each such Lien and the Property covered by each such Lien is correctly described in Schedule 4.13.

SECTION 4.14. Subsidiaries.

(a) Set forth in Schedule 4.14 is a complete and correct list of all of the Subsidiaries of the Borrower as of the date hereof and of all Investments held by the Borrower or any of its Subsidiaries in any joint venture or other Persons of the date hereof together with, for each such Subsidiary, (i) the jurisdiction of organization of such Subsidiary, (ii) each Person holding ownership interests in such Subsidiary and (iii) the nature of the ownership interests held by each such Person and the percentage of ownership of such Subsidiary represented by such ownership interests. Except as disclosed in Schedule 4.14, (x) the Borrower and its respective subsidiaries owns, free and clear of Liens (other than Liens created pursuant to the Security Documents), and has the unencumbered right to vote, all outstanding ownership interests in each Person and all Investments shown to be held by it in Schedule 4.14, (y) all of the issued and outstanding capital stock of each such Person organized as a corporation is validly issued, fully paid and nonassessable and (z) there are no

outstanding Equity Rights with respect to such Person. Except as set forth on Schedule 4.14, all of the capital stock of each of the Foreign Subsidiaries that is owned, directly or indirectly, by the Borrower is owned, directly or indirectly, by Rheox International.

(b) Except as provided in the arrangements described on Schedule 4.13 or on Schedule 4.14, as of the date of this Agreement, none of the Subsidiaries of the Borrower is subject to any indenture, agreement, instrument or other arrangement containing any provision of the type described in Section 7.07.

SECTION 4.15. Certain Documents. The Borrower heretofore or on the date hereof has furnished to the Administrative Agent true and complete copies of (a) the Tax Sharing Agreement, as amended and in effect on the date hereof or, if not in effect on the date hereof, in substantially the form in which such Tax Sharing Agreement will be executed, (b) each other Ancillary Agreement in effect on the date hereof or if not in effect on the date hereof, in substantially the form in which such Ancillary Agreement will be executed and (c) the Restructuring Documents, as amended and in effect on the date hereof.

## ARTICLE V

### Conditions

SECTION 5.01. Effective Date. The amendment and restatement of the Existing Credit Agreement provided for herein shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02):

(a) Counterparts of Agreement. The Administrative Agent (or Special Counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) Opinions of Counsel to Credit Parties and NL. The Administrative Agent (or Special Counsel) shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of (i) Bartlit, Beck, Herman, Palenchar & Scott, counsel to the Credit Parties, substantially in the form of Exhibit B, and covering such other matters relating to the Credit Parties, this Agreement, the other Loan Documents or the Transactions as the Required Lenders shall request and (ii) counsel to the Borrower in the states where the properties covered by the Mortgage and each Existing Mortgage is located, satisfactory to the Administrative Agent in form and substance (and each Credit Party hereby requests such counsel to deliver such opinion).

Credit Agreement



(c) Opinion of Special Counsel. The Administrative Agent shall have received a favorable written legal opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Special Counsel, substantially in the form of Exhibit C (and the Administrative Agent requests Special Counsel to deliver such opinion).

(d) Corporate Matters. The Administrative Agent (or Special Counsel) shall have received such documents and certificates as the Administrative Agent or Special Counsel may reasonably request relating to the organization, existence and good standing of each Credit Party and NL, the authorization of the Transactions and any other legal matters relating to the Credit Parties, NL, this Agreement, the other Loan Documents or the Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel.

(e) Financial Officer Certificate. The Administrative Agent (or Special Counsel) shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 5.02.

(f) Notes. The Administrative Agent (or Special Counsel) shall have received for each Lender that shall have requested a promissory note, a duly completed and executed promissory note for such Lender.

(g) NL Pledge Agreement. The Administrative Agent (or Special Counsel) shall have received (i) from NL a counterpart of the NL Pledge Agreement signed on behalf of NL and (ii) the stock certificates identified under the name of NL in Annex 1 thereto, accompanied by undated stock powers executed in blank. In addition, NL shall have taken such other action (including delivering to the Administrative Agent, for filing, appropriately completed and duly executed copies of Uniform Commercial Code financing statements) as the Administrative Agent shall have requested in order to perfect the security interests created pursuant to the NL Pledge Agreement to give effect to the priority contemplated therefor.

(h) Security Agreement. The Administrative Agent (or Special Counsel) shall have received (i) from the Borrower and each Subsidiary Guarantor, a counterpart of the Security Agreement signed on behalf of such Credit Party and (ii) the stock certificates identified under the name of such Credit Party in Annex 1 thereto, accompanied by undated stock powers executed in blank. In addition, each of the Borrower and the Subsidiary Guarantors shall have taken such other action (including delivering to the Administrative Agent, for filing, appropriately completed and duly executed copies of Uniform Commercial Code financing statements) as the Administrative Agent shall have requested in order to perfect the security interests

created pursuant to the Security Agreement to give effect to the priority contemplated therefor.

(i) Mortgage and Title Insurance. The Administrative Agent (or Special Counsel) shall have received (i) from the Borrower, a counterpart of the Mortgage signed on behalf of the Borrower, (ii) one or more mortgagee policies of title insurance on forms of and issued by one or more title companies satisfactory to the Administrative Agent (the "Title Companies"), insuring the validity and priority of the Liens created under the Mortgage for and in amounts satisfactory to the Administrative Agent, subject only to such exceptions as are satisfactory to the Administrative Agent and containing such affirmative coverage and endorsements as the Lenders may require and, to the extent necessary under applicable law, for filing in the appropriate county land office(s), Uniform Commercial Code financing statements covering fixtures, in each case appropriately completed and duly executed, (iii) an as-built survey of recent date of the facilities to be covered by the Mortgage, showing such matters as may be required by the Administrative Agent, which surveys shall be in form and content acceptable to the Administrative Agent, and certified to the Administrative Agent and the Title Companies, and shall have been prepared by a registered surveyor acceptable to the Administrative Agent, and (iv) certified copies of permanent and unconditional certificates of occupancy (or, if it is not the practice to issue certificates of occupancy in the jurisdiction in which the facilities to be covered by the Mortgage is located, then such other evidence reasonably satisfactory to each Lender) permitting the fully functioning operation and occupancy of each such facility and of such other permits as the Administrative Agent may request necessary for the use and operation of each such facility issued by the respective Governmental Authorities having jurisdiction over each such facility. In addition, the Borrower shall have paid to the Title Companies all expenses and premiums of the Title Companies in connection with the issuance of such policies and in addition shall have paid to the Title Companies an amount equal to the recording and stamp taxes payable in connection with recording the Mortgage in the appropriate county land office(s).

(j) Mortgage Amendments. The Administrative Agent (or Special Counsel) shall have received (i) from any Credit Party party to any Existing Mortgage, a counterpart of a Mortgage Amendment signed on behalf of such Credit Party and amending such Mortgage and (ii) commitments for title insurance policies or endorsements to existing title insurance policies in a form acceptable to the Administrative Agent insuring the validity and priority of the Liens created under each of the Existing Mortgages (as amended by the Mortgage Amendments) for and in amounts satisfactory to the Administrative Agent, subject only to such exceptions as are satisfactory to the Agent and containing such affirmative coverage and endorsements as the Lenders may require and, to the extent necessary under applicable law, for filing in the appropriate county and offices, Uniform Commercial Code financing statements covering fixtures, in each case appropriately completed and duly

Credit Agreement

executed. In addition, the applicable Credit Parties shall have (x) caused to be delivered to the applicable title companies such affidavits and other documents required by such title companies, including, if required by the respective title companies in order to provide title insurance coverage acceptable to the Administrative Agent, a re-certification by a registered surveyor acceptable to the applicable title company of as-built surveys of each of the facilities covered by the Existing Mortgages, which surveys shall be in form and content acceptable to the applicable title company and certified to the Administrative Agent and the applicable title insurance company, necessary to omit from the title insurance policies or endorsements thereto the standard survey exception and (y) caused to be paid to the applicable title insurance company all expenses and premiums in connection with the issuance of the title insurance and an amount equal to the recording and stamp taxes payable in connection with recording each Mortgage Amendment in the appropriate county land office.

(k) Intercompany Note Subordination Agreement. The Administrative Agent (or Special Counsel) shall have received (i) from each of NL and Rheox, Inc., a counterpart of the Intercompany Note Subordination Agreement signed on behalf of NL and Rheox Inc.

(l) Insurance. The Administrative Agent (or Special Counsel) shall have received certificates of insurance evidencing the existence of all insurance required to be maintained by the Borrower and its Subsidiaries pursuant to Section 6.06 and the designation of the Administrative Agent as the loss payee thereunder to the extent required by Section 6.06 in respect of all insurance covering tangible property, such certificates to be in such form and contain such information as is specified in Section 6.06.

(m) Other Loan Documents. The Administrative Agent (or Special Counsel) shall have received (i) from the Borrower and each Subsidiary Guarantor, a counterpart of the Conditional Assignment of and Security Interest in Patent Rights, the Conditional Assignment of and Security Interest in Trademark Rights and the Copyright Security Agreement signed on behalf of such Credit Party. In addition, each of the Borrower and the Subsidiary Guarantors shall have taken such other action (including delivering to the Administrative Agent, for filing, appropriately completed and duly executed copies of Uniform Commercial Code financing statements) as the Administrative Agent shall have requested in order to perfect the security interests created pursuant to the Security Agreement to give effect to the priority contemplated therefor.

(n) Solvency Analysis. The Administrative Agent (or Special Counsel) shall have received (i) analyses from Valuation Research Corporation, or any other firm of independent solvency analysts of nationally recognized standing, to the effect that, as

of the Effective Date and after giving effect to the making of the Loans hereunder and to the other transactions contemplated hereby, (x) the aggregate value of all properties of the Borrower and its Subsidiaries at their present fair saleable value (i.e., the amount which may be realized within a reasonable time, considered to be six months to one year, either through collection or sale at the regular market value, conceiving the latter as the amount which could be obtained for the property in question within such period by a capable and diligent businessman from an interested buyer who is willing to purchase under ordinary selling conditions), exceeds the amount of all the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities) of the Borrower and its Subsidiaries, (y) the Borrower and its Subsidiaries will not, on a consolidated basis, have an unreasonably small capital with which to conduct their business operations as heretofore conducted and (z) the Borrower and its Subsidiaries will have, on a consolidated basis, sufficient cash flow to enable them to pay their debts as they mature and (ii) a certificate from a Financial Officer of the Borrower certifying that the financial projections were at the time made, and on the Effective Date are, based on reasonable assumptions and are accurately computed based on such assumptions, and containing such other certifications relating to the valuation analyses as the Administrative Agent may reasonably request.

(o) Financial Projections. The Administrative Agent shall have received financial projections prepared in good faith and based on reasonable assumptions by a Financial Officer, satisfactory in scope and substance to the Lenders, as to the annual financial results of the Borrower and its Subsidiaries for a period of seven years after the Effective Date.

(p) Ancillary Agreements. The Administrative Agent (or Special Counsel) shall have received (i) copies of each of the Ancillary Agreements, including, but not limited to, the Tax Sharing Agreement as executed and delivered by the parties thereto, and (ii) a certificate from a senior officer of the Borrower to the effect that such copies are true and complete copies the Ancillary Agreements as in effect on the Effective Date.

(q) Other Documents. The Administrative Agent shall have received such other documents as the Administrative Agent or any Lender or Special Counsel shall have reasonably requested.

(r) Amounts Owing under the Existing Credit Agreement. The Administrative Agent shall have received evidence that the Borrower shall have paid or provided for the payment to the Agent under the Existing Credit Agreement the principal amount of all loans outstanding thereunder and all accrued and unpaid interest, fees and expenses owing by the Borrower thereunder.

Credit Agreement

(s) Fees and Expenses. The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all legal fees and expenses and other out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(t) Special Dividend. The Administrative Agent shall have received a certificate of a Financial Officer of the Borrower, dated the Effective Date, confirming that the Special Dividend, in the amount of \$30,000,000, will be paid on the Effective Date.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the amendment and restatement of the Existing Credit Agreement contemplated hereby shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 10.02) at or prior to 3:00 p.m., New York City time, on February 28, 1997 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 5.02. Each Extension of Credit. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the LC Issuing Lender to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) Representations and Warranties. The representations and warranties of each Credit Party set forth in this Agreement and the other Loan Documents, and the representations and warranties of NL set forth in the NL Pledge Agreement, shall be true and correct on and as of the date of such Borrowing, or (as applicable) the date of issuance, amendment, renewal or extension of such Letter of Credit, both before and after giving effect thereto and to the use of the proceeds thereof (or, if any such representation or warranty is expressly stated to have been made as of a specific date, such representation or warranty shall be true and correct as of such specific date).

(b) No Defaults. At the time of such Borrowing, and based upon the intended use thereof and immediately after giving effect to such Borrowing and the intended use thereof, or (as applicable) the date of issuance, amendment, renewal or extension of such Letter of Credit, no Default shall have occurred and be continuing.

Each Borrowing Request, or request for issuance, amendment, renewal or extension of a Letter of Credit, shall be deemed to constitute a representation and warranty by the Borrower (both as of the date of such Borrowing Request, or request for issuance, amendment, renewal or extension, and as of the date of the related Borrowing or issuance, amendment, renewal or extension) as to the matters specified in paragraphs (a) and (b) of this Section 5.02.

ARTICLE VI

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, each of the Borrower and the Subsidiary Guarantors covenants and agrees with the Lenders that:

SECTION 6.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent and each Lender:

(a) as soon as available and in any event within 105 days after the end of each fiscal year of the Borrower:

(i) consolidated and consolidating statements of income and retained earnings and consolidated statements of cash flow of the Borrower and its Subsidiaries for such fiscal year and the related consolidated and consolidating balance sheets of the Borrower and its Subsidiaries as at the end of such fiscal year, setting forth in each case in comparative form with respect to consolidated statements only, the corresponding consolidated figures for the preceding fiscal year,

(ii) an opinion of independent certified public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) stating that said consolidated financial statements referred to in the preceding clause (i) present fairly, in all material respects, the consolidated financial condition and consolidated results of operations of the Borrower and its Subsidiaries as at the end of, and for, such fiscal year in conformity with generally accepted accounting principles, and

(iii) a certificate of a Financial Officer stating that said consolidating financial statements referred to in the preceding clause (i) present fairly, in all material respects, the financial condition and results of operations on a consolidating basis of the Borrower and of each of its Subsidiaries, in each case in accordance with generally accepted accounting principles, consistently applied, as at the end of, and for, such fiscal year;

(b) as soon as available and in any event within 60 days after the end of each of the first three quarterly fiscal periods of each fiscal year of the Borrower:

Credit Agreement

(i) consolidated statements of income and retained earnings and consolidated statements of cash flow of the Borrower and its Subsidiaries for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such period, setting forth in each case in comparative form, the corresponding consolidated figures for the corresponding period in the preceding fiscal year (except that, in the case of balance sheets, such comparison shall be to the last day of the prior fiscal year),

(ii) a certificate of a Financial Officer, which certificate shall state that said financial statements referred to in the preceding clause (i) present fairly, in all material respects, the consolidated financial condition and results of operations of the Borrower and its Subsidiaries;

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer (the "Financial Certificate") (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Section 7.08, including a calculation of the Leverage Ratio as at the last day of the fiscal quarter or fiscal year, as the case may be, in respect of which such financial statements are delivered, and setting forth a reasonably detailed calculation of EBITDA for (x) in the case of financial statements delivered under clause (a) above, the fiscal year in respect of which such financial statements are being delivered and (y) in the case of financial statements delivered under clause (b) above, the period of the four consecutive fiscal quarters ending on the last day of the fiscal quarter in respect of which such financial statements are being delivered and (iii) stating whether any material change in GAAP or in the application thereof has been adopted by the Borrower since the date of the audited financial statements referred to in Section 4.04 and, if any such change has been adopted by the Borrower, specifying the effect of such change on the financial statements accompanying such certificate;

(d) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(e) within 105 days following the last day of each fiscal year of the Borrower, commencing with fiscal year 1997, a report of a qualified employee or agent (familiar with the identification of toxic and hazardous substances) stating that, except as expressly described in such report, to the best of such Person's knowledge, after due

inquiry, each of the Borrower and its Subsidiaries is, as of the last day of such fiscal year, in compliance with all applicable Environmental Laws (except to the extent failure so to comply could not reasonably be expected to have a Material Adverse Effect); and

(f) not later than April 15 of each year, commencing with April 15, 1998, financial projections prepared in good faith based on reasonable assumptions by a Financial Officer, of the projected annual consolidated financial statements of the Borrower and its Subsidiaries through the period ending on December 31, 2003;

(g) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

SECTION 6.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default describing the same in reasonable detail and describing the steps being taken to remedy same;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower, any Subsidiary that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$2,000,000; and

(d) any other event that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section 6.02 shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 6.03. Existence; Conduct of Business. The Borrower will, and will cause each of its Subsidiaries (other than Inactive Subsidiaries) to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business, except to the extent the failure to preserve, renew and keep in full force and effect any thereof



could not reasonably be expected to have a Material Adverse Effect; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 7.03.

SECTION 6.04. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 6.05. Maintenance of Properties. The Borrower will, and will cause each of its Subsidiaries to, keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, except where the failure to so maintain such properties could not reasonably be expected to have a Material Adverse Effect.

SECTION 6.06. Maintenance of Insurance. The Borrower will, and will cause each of its Subsidiaries to, keep insured by financially sound and reputable insurers all property of a character usually insured by corporations engaged in the same or similar business similarly situated against loss or damage of the kinds and in the amounts customarily insured against by such corporations and carry such other insurance as is usually carried by such corporations, provided that in any event the Borrower will maintain (with respect to itself and each of its Subsidiaries):

(a) Property Insurance -- insurance against loss or damage covering all of the tangible real and personal property and improvements of the Borrower and each of its Subsidiaries by reason of any Peril (as defined below) in such amounts (subject to reasonable deductibles) as shall be reasonable and customary and sufficient to avoid the insured named therein from becoming a co-insurer of any loss under such policy but in any event in an amount (i) in the case of fixed assets and equipment, at least equal to 100% of the actual replacement cost of such assets, subject to deductibles as aforesaid and (ii) in the case of inventory, not less than the fair market value thereof, subject to deductibles as aforesaid. Without limiting the foregoing, the Borrower shall in any event cover any property constituting improved real estate located in a "special flood hazard area" in a "participating community" as described in 12 CFR Part 22 with flood insurance in an amount at least equal to the lesser of the outstanding principal amount of the Obligations or the replacement cost of that property in the "special flood hazard area".

(b) Automobile Liability Insurance for Bodily Injury and Property Damage -- insurance in respect of all vehicles (whether owned, hired or rented by the Borrower or

any of its Subsidiaries) at any time located at, or used in connection with, its properties or operations against liability for bodily injury and property damage in such amounts as are then customary for vehicles used in connection with similar properties and businesses, but in any event to the extent required by applicable law.

(c) Comprehensive General Liability Insurance -- insurance against claims for bodily injury, death or property damage occurring on, in or about the properties (and adjoining streets, sidewalks and waterways) of the Borrower and its Subsidiaries, in such amounts as are then customary for property similar in use in the jurisdictions where such properties are located.

(d) Workers' Compensation Insurance -- workers' compensation insurance (including Employers' Liability Insurance) to the extent required by applicable law.

(e) Product Liability Insurance -- insurance against claims for bodily injury, death or property damage resulting from the use of products sold by the Borrower or any of its Subsidiaries in such amounts as are then customarily maintained by responsible persons engaged in businesses similar to that of the Borrower and its Subsidiaries.

(f) Business Interruption Insurance -- insurance against loss of operating income (subject to a deductible, or self-insured amount, not in excess of \$1,000,000) by reason of any Peril.

(g) Other Insurance -- such other insurance, in each case as generally carried by owners of similar properties in the jurisdictions where such properties are located, in such amounts and against such risks as are then customary for property similar in use.

Such insurance shall be written by financially responsible companies selected by the Borrower and having an A.M. Best rating of "A+" or better and being in a financial size category of XIV or larger, or by other companies reasonably acceptable to the Administrative Agent (including an insurer that is an Affiliate of the Borrower provided that all insurance with such Affiliate is reinsured on terms (including an insolvency provision) and with reinsurers reasonably acceptable to the Administrative Agent), and (other than workers' compensation) shall name the Administrative Agent as an additional insured to the extent of the Borrower's liability under this Agreement, or loss payee, as its interests may appear. Each policy referred to in this Section 6.06 shall provide that it will not be canceled or reduced, or allowed to lapse without renewal, except after not less than 30 days' written notice to the Administrative Agent and shall also provide that the interests of the Administrative Agent, the Lenders and the LC Issuing Lender shall not be invalidated by any act or negligence of the Borrower or any Person having an interest in any property covered by any mortgage nor by occupancy or use of any such property for purposes more hazardous than permitted by such policy nor by

any foreclosure or other proceedings relating to such property. The Borrower will advise the Administrative Agent promptly of any policy cancellation, material reduction or other material amendment.

On or before the Effective Date the Borrower will deliver to the Administrative Agent certificates of insurance satisfactory to the Administrative Agent evidencing the existence of all insurance required to be maintained by the Borrower hereunder setting forth the respective coverages, limits of liability, carrier, policy number and period of coverage and showing that such insurance is in effect. Thereafter, on or before the date 30 days after the expiration or renewal date of each insurance policy required hereunder the Borrower will deliver to the Administrative Agent certificates of insurance evidencing that all insurance required to be maintained by the Borrower hereunder is in effect. In addition, the Borrower will not modify in any material (in the reasonable judgment of the Borrower) respect any of the provisions of any policy with respect to property insurance, without notifying the Administrative Agent and providing such information in respect thereof as the Administrative Agent may request. The Borrower will not obtain or carry separate insurance concurrent in form or contributing in the event of loss with that required by this Section 6.06 unless the Administrative Agent is an additional insured thereunder, with loss payable as provided herein. The Borrower will immediately notify the Administrative Agent whenever any such separate insurance is obtained and shall deliver to the Administrative Agent the certificates evidencing the same.

Without limiting the obligations of the Borrower under the foregoing provisions of this Section 6.06, in the event the Borrower shall fail to maintain in full force and effect insurance as required by the foregoing provisions of this Section 6.06, then the Administrative Agent may, but shall have no obligation so to do, procure insurance covering the interests of the Administrative Agent, the Lenders and the LC Issuing Lender in such amounts and against such risks as the Administrative Agent (or the Required Lenders) shall deem appropriate and the Borrower shall reimburse the Administrative Agent in respect of any reasonable premiums paid by the Administrative Agent in respect thereof.

For purposes hereof, the term "Peril" means, collectively, fire, lightning, flood, windstorm, hail, earthquake, explosion, riot and civil commotion, vandalism and malicious mischief, damage from aircraft, vehicles and smoke and all other perils covered by the "all-risk" endorsement then in use in the jurisdictions where the properties of the Borrower and its Subsidiaries are located.

The requirements of this Section 6.06 shall apply only to insurance coverage with respect to the Borrower and its Subsidiaries and shall not affect or limit any insurance, amendments, cancellations or any changes with regard to insurance coverage for other entities insured under policies that also cover the Borrower and its Subsidiaries.

SECTION 6.07. Books and Records; Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. Subject to Section 10.12, the Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

SECTION 6.08. Fiscal Year. The Borrower and its Subsidiaries will not change the last day of their fiscal year from December 31 of each year, or the last days of the first three fiscal quarters in each of their fiscal years from March 31, June 30, and September 30 of each year, respectively.

SECTION 6.09. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries (other than Inactive Subsidiaries) to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 6.10. Use of Proceeds.

(a) Term Loans. The proceeds of the Term Loans shall be used solely (i) to pay certain Indebtedness of the Borrower, including interest thereon, outstanding on the date hereof listed on Schedule 6.10, (ii) to finance, on the Effective Date, the payment of \$15,000,000 of the Special Dividend and (iii) to pay related fees and expenses of the Borrower. The Borrower shall repay in full the indebtedness evidenced by the Subordinated Note on the Effective Date.

(b) Revolving Credit Loans. The proceeds of the Revolving Credit Loans shall be used solely (i) for working capital and general corporate purposes and (ii) to finance, on the Effective Date, the payment, in a single installment, of \$15,000,000 of the Special Dividend.

No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations G, U and X.

SECTION 6.11. Hedging Agreements. Within 120 days after the Effective Date, the Borrower will enter into and, thereafter maintain in full force and effect for a period at all times of at least four years, one or more Hedging Agreements with one or more of the

Credit Agreement

Lenders (and/or with a bank or other financial institution having capital, surplus and undivided profits of at least \$500,000,000), that satisfy the following requirements:

(a) the notional principal amount of such Hedging Agreement(s), shall be at least equal to \$50,000,000; and

(b) each such Hedging Agreement shall enable the Borrower, as at any date, to protect itself in a manner reasonably satisfactory to the Required Lenders against interest rate fluctuations.

SECTION 6.12. Certain Obligations Respecting Subsidiaries and Collateral Security.

(a) **Subsidiary Guarantors.** The Borrower shall take such action, and shall cause each of its Subsidiaries to take such action, from time to time as shall be necessary to ensure that all Domestic Subsidiaries (other than Inactive Subsidiaries) are Subsidiary Guarantors, and, thereby, "Credit Parties" hereunder and under the Security Agreement. Without limiting the generality of the foregoing, in the event that the Borrower shall form or acquire any new Domestic Subsidiary after the date hereof which the Borrower or such Subsidiary anticipates will not be an Inactive Subsidiary (or in the event that any theretofore Inactive Subsidiary that is a Domestic Subsidiary shall cease to be an Inactive Subsidiary), the Borrower will, and will cause each of its Subsidiaries to, cause such new Domestic Subsidiary (or such theretofore Inactive Subsidiary) within ten Business Days of such formation or acquisition notify the Administrative Agent of such formation or acquisition and promptly take all such actions as the Administrative Agent may request to cause such Subsidiary to become a "Subsidiary Guarantor" (and thereby, a "Credit Party") hereunder and under the Security Agreement pursuant to a written instrument in form and substance reasonably satisfactory to the Administrative Agent, to become a party to the Security Agreement and to deliver such proof of corporate action, incumbency of officers, opinions of counsel and other documents (including Uniform Commercial Code Financing Statements) as are consistent with those delivered by Credit Party pursuant to Section 5.01 or as the Required Lenders or the Administrative Agent shall have requested.

(b) **Ownership of Subsidiaries.** The Borrower will, and will cause each of its Subsidiaries to, take such action from time to time as shall be necessary to ensure that the Borrower and each of its Subsidiaries at all times owns (subject only to the Lien of the Security Agreement) at least the same percentage of the issued and outstanding shares of each class of stock of or other ownership interest in each of its Subsidiaries as is owned on the date hereof (except as otherwise permitted by Section 7.03 and subject to Section 7.11). Without limiting the generality of the foregoing, none of the Borrower nor any of its Subsidiaries shall sell, transfer or otherwise dispose of any shares of stock of or other ownership interest in any Subsidiary owned by them, nor permit any Subsidiary to issue any shares of stock of any class whatsoever to any Person (except as otherwise permitted by

Section 7.03 and, subject to Section 7.11, to the Borrower or a Subsidiary). In the event that any such additional shares of stock or other ownership interest shall be issued by any Domestic Subsidiary, the respective Credit Party agrees forthwith to deliver to the Administrative Agent pursuant to the Security Agreement the certificates evidencing such shares of stock, accompanied by undated stock powers duly executed in blank and shall take such other action as the Administrative Agent shall request to perfect the security interest created therein pursuant to the Security Agreement.

SECTION 6.13. Environmental Laws and Permits. Without limiting the Borrower's obligations under Section 6.09, the Borrower will, and will cause each of its Subsidiaries to, (a) comply in all material respects with all Environmental Laws now or hereafter applicable to the Borrower and its Subsidiaries, (b) when and to the extent required by any Governmental Authority after exhaustion of all available administrative and judicial remedies, carry out environmental investigatory and response actions at any property of the Borrower or any of its Subsidiaries under applicable Environmental Laws, and (c) obtain, at or prior to the time required by applicable Environmental Laws, all environmental, health and safety permits, licenses and other authorizations necessary for its operations and maintain such authorizations in full force and effect.

SECTION 6.14. Environmental Notices.

(a) The Borrower will, and will cause each of its Subsidiaries to, promptly and in no event later than thirty days after it has received the same, furnish to the Administrative Agent (i) all written notices of violation, orders, claims, citations, complaints, penalty assessments, suits or other proceedings, administrative, civil or criminal, at law or in equity, received by the Borrower or any Subsidiary or of which it has notice, pending or threatened against the Borrower or any Subsidiary by any Governmental Authority with respect to any alleged violation of or non-compliance with any Environmental Laws or any permits, licenses or authorizations, if such alleged violation or non-compliance could reasonably be expected to have a Material Adverse Effect and (ii) written notification of any condition or occurrence at, on, or arising from the property of the Borrower or any Subsidiary that results in its non-compliance with any applicable Environmental Law, which violation or non-compliance could reasonably be expected to have a Material Adverse Effect.

(b) The Borrower will, and will cause each of its Subsidiaries to, promptly and in no event later than thirty days after it has received the same, furnish to the Administrative Agent all requests for information, notices of claim, demand letters, and other notifications, received by the Borrower or any Subsidiary, that in connection with its ownership or use of any real estate or the conduct of its business, it may be potentially responsible with respect to any investigation or clean-up of Hazardous Material at any location, which investigation or clean-up could reasonably be expected to have a Material Adverse Effect.

(c) Upon receipt of any notice provided to the Administrative Agent pursuant to clause (a) or (b) of this Section 6.14, the Required Lenders shall have the right to retain the services of an independent environmental consulting firm acceptable to the Borrower (the "Environmental Consultant") to conduct an environmental assessment of the property, operation or environmental condition described in such notice. As a result of such environmental assessment, the Environmental Consultant may prepare a written recommendation of what, if any, technical action should be taken by the Borrower or its Subsidiaries to remedy the environmental condition in accordance with good commercial practices or in compliance with applicable Environmental Laws. The environmental assessment shall be conducted during normal business hours and with reasonable prior notice to the Borrower but such environmental assessment shall not include the physical collection of any samples. The Borrower shall have sole responsibility for all costs and reasonable out-of-pocket expenses associated with such environmental assessment.

SECTION 6.15. Environmental Audit and Remedial Action. Upon the occurrence and during the continuation of an Event of Default, the Borrower will, and will cause each of its Subsidiaries to, conduct and complete all investigations, studies, sampling and testing and all remedial, removal and other actions reasonably requested by the Administrative Agent on behalf of the Required Lenders.

## ARTICLE VII

### Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower and the Subsidiary Guarantors covenant and agree with the Lenders that:

SECTION 7.01. Indebtedness. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created hereunder;

(b) Indebtedness existing on the date hereof and set forth in Schedule 7.01, and any extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the principal amount thereof from the amount set forth in Schedule 7.01 or, in the case of the lines of credit, the aggregate amount of lines of credit set forth on Schedule 7.01 and that do not contain terms and conditions that are materially more restrictive to the Borrower and its Subsidiaries than the terms and conditions of the Indebtedness so extended, renewed, refinanced or replaced;

Credit Agreement

(c) Indebtedness of the Borrower and its Subsidiaries to each other, provided that (i) no such Indebtedness shall be owed by the Borrower or any of the Domestic Subsidiaries other than Rheox International to any of the Foreign Subsidiaries and no such Indebtedness shall be owed by any of the Foreign Subsidiaries to any of the Borrower and the Domestic Subsidiaries other than Rheox International and (ii) if the aggregate outstanding principal amount of Indebtedness owed by Rheox International to the Borrower and the Domestic Subsidiaries exceeds \$2,000,000 at any time, an amount equal to the excess shall be evidenced solely by one or more promissory notes of Rheox International pledged to the Administrative Agent under the Security Agreement;

(d) until the initial borrowing hereunder, Indebtedness of the Borrower to NL evidenced by the Subordinated Note;

(e) Indebtedness of Rheox Limited to NL evidenced by the Subordinated Intercompany Note;

(f) Indebtedness of up to \$500,000 in the form of Guarantees of Indebtedness of Enenco, so long as the Borrower owns, directly or indirectly, at least 50% of the equity interests in Enenco; and

(g) additional Indebtedness of the Borrower in an aggregate principal amount up to but not exceeding \$2,000,000 at any one time outstanding.

SECTION 7.02. Liens. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Liens created under the Security Documents;

(b) Permitted Liens; and

(c) Liens (including Capital Leases) on real and/or personal property acquired and/or constructed by the Borrower or any Subsidiary after the date hereof securing Indebtedness of the Borrower or such Subsidiary permitted by Section 7.01 in respect of the purchase price and/or construction cost of such property (including Indebtedness incurred to finance such acquisition and/or construction), provided that the aggregate principal amount of Indebtedness secured by each such Lien does not at any time exceed (i) the acquisition and/or construction cost of the related property referred to above or (ii) in the case of property subject to a Capital Lease, the Fair Market Value of the related property referred to above; and



(d) any Lien on any property or asset of the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 7.02 and Liens securing any Indebtedness incurred in connection with the refinancing of any Indebtedness secured by any Lien existing on the date hereof and set forth in Schedule 7.02, provided however that no property or asset may secure such Liens other than the property or asset covered by the related Lien existing on the date hereof and provided further that such Liens may not secure Indebtedness in a principal amount in excess of the principal amount set forth on Schedule 7.02.

SECTION 7.03. Fundamental Changes. The Borrower will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets, or all or substantially all of the stock of any of its Subsidiaries (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing:

(a) any Subsidiary other than Rheox International may merge into the Borrower in a transaction in which the Borrower is the surviving corporation;

(b) any Subsidiary other than Rheox International may merge into another Subsidiary; provided that (i) if any such transaction shall be between a Subsidiary and a Wholly Owned Subsidiary, the Wholly Owned Subsidiary shall be the continuing or surviving corporation and (ii) if any such transaction shall be between a Subsidiary Guarantor and a Subsidiary not a Subsidiary Guarantor, and such Subsidiary Guarantor is not the continuing or surviving corporation, then the continuing or surviving corporation shall have assumed all of the obligations of such Subsidiary Guarantor hereunder and under the other Loan Documents;

(c) any Subsidiary may sell, transfer, lease or otherwise dispose of its assets or property to the Borrower or to another Subsidiary;

(d) the Borrower or any Subsidiary may make Dispositions to third parties with the approval of the Required Lenders;

(e) the Borrower or any Subsidiary may sell, transfer, lease or otherwise dispose of any inventory or other assets or property in the ordinary course of business;

(f) the Borrower or any Subsidiary may sell, transfer, lease or otherwise dispose of obsolete or worn-out property, tools or equipment no longer used or useful in its business so long as the amount thereof sold in any single fiscal year by the Borrower and its Subsidiaries shall not have a Fair Market Value in excess of \$500,000; and

(g) the Borrower may sell, transfer, lease or otherwise dispose of the surplus parcels of real property in Alameda County, California owned by the Borrower and encumbered for the benefit of the Lenders as described in section (b) of the definition of "Existing Mortgages".

SECTION 7.04. Investments, Loans, Advances, Guarantees and Acquisitions; Hedging Agreements.

(a) The Borrower will not, and will not permit any its Subsidiary to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a Wholly Owned Subsidiary prior to such merger) any Investment, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(i) Investments outstanding on the date hereof and set forth in Schedule 7.04, including such Investments in Enenco so set forth;

(ii) Permitted Investments;

(iii) Investments by the Borrower and any Subsidiary in the capital stock of and other ownership interests in other Subsidiaries (subject to Section 7.11);

(iv) Indebtedness and advances permitted by Section 7.01(c);

(v) Guarantees constituting Indebtedness permitted by Section 7.01;

(vi) operating deposit accounts with banks;

(vii) Distributor Affiliate Credit Extensions not exceeding \$5,000,000 in the aggregate at any one time outstanding, provided that each Distributor Affiliate Credit Extension shall mature and be payable no later than the date 45 days after the date made;

(viii) Capital Expenditures (including but not limited to Acquisitions constituting Capital Expenditures) made by the Borrower or any Subsidiary as permitted under Section 7.08(e); and

(ix) Investments in Enenco after the date of this Agreement of up to \$750,000 in the form of capital contributions or loans and of up to \$500,000 in the form of Guarantees of Indebtedness of Enenco, so long as the Borrower owns, directly or indirectly, at least 50% of the equity interests in Enenco; and

(x) Investments of the LC Collateral Account as provided in Section 2.04(i).

(b) The Borrower will not, and will not permit any Subsidiary to, enter into any Hedging Agreement, other than (i) Hedging Agreements required by Section 6.11 and (ii) any other Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

SECTION 7.05. Restricted Payments. The Borrower will not, and will not permit any Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except that so long as no Default exists or would result therefrom:

(a) the Borrower may (i) declare and pay the portion of the Special Dividend payable from the proceeds of the Term Loans in cash; and (ii) declare and pay the portion of the Special Dividend payable from the proceeds of the Revolving Credit Loans in cash, provided that after giving effect thereto the aggregate unutilized amount of the Revolving Credit Commitments shall not be less than \$7,500,000; and

(b) the Borrower may declare and pay dividends in cash with respect to its capital stock after the second anniversary of the Effective Date, provided that (i) at the time of the declaration and at the time of payment of such dividends (and after giving effect thereto), the Fixed Charges Ratio shall not be less than 1.10 to 1 and (ii) the aggregate amount of such dividends paid in such fiscal year shall not exceed 40% of Excess Cash Flow for the immediately preceding fiscal year.

SECTION 7.06. Transactions with Affiliates. Except as expressly permitted by this Agreement, the Borrower will not, and will not permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except that:

(a) the Borrower or any Subsidiary may enter into transactions with Affiliates (other than extension of Indebtedness by the Borrower or any Subsidiary to an Affiliate) in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties;

(b) any Affiliate who is an individual may serve as a director, officer, employee or consultant of the Borrower or any of Subsidiary and receive reasonable compensation for his or her services in such capacity;

(c) Rheox GmbH, a German corporation, may pay dividends to all holders of interests in Rheox GmbH, provided that any such dividends are paid together with dividends to each holder of interest in Rheox GmbH ratably in accordance with their respective interests;

(d) the Borrower and its Subsidiaries may enter into and perform the Tax Sharing Agreement, the other Ancillary Agreements and the Restructuring Documents;

(e) the Borrower may engage in the transactions with Enenco permitted under Sections 7.01, 7.03 and 7.04; and

(f) the Borrower and its Subsidiaries may enter into Distributor Affiliate Credit Extensions permitted by Section 7.04.

SECTION 7.07. Restrictive Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement, (ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 7.07 or related to the Indebtedness set forth in Schedule 7.01 (but shall apply to any extension or renewal of, or any amendment or modification resulting in any such restriction or condition becoming more restrictive), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided that such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, and (iv) the foregoing shall not apply to (x) restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and (y) to customary provisions in leases and other contracts restricting the assignment thereof.

SECTION 7.08. Certain Financial Covenants.

(a) Leverage Ratio. The Borrower will not permit the Leverage Ratio at any time during any of the periods set forth below to exceed the ratio set opposite such period below:

Credit Agreement

Period -----	Ratio -----
From and including the Effective Date through June 30, 1997 .....	3.75 to 1
From and including July 1, 1997 through September 30, 1997 .....	3.60 to 1
From and including October 1, 1997 through December 31, 1997 .....	3.50 to 1
From and including January 1, 1998 through December 31, 1998 .....	3.25 to 1
From and including January 1, 1999 through December 31, 2000 .....	3.00 to 1
From and including January 1, 2001 and at all times thereafter .....	2.50 to 1

(b) Tangible Net Worth. The Borrower will not permit Tangible Net Worth on any date to be less than an amount equal to negative (-) \$52,000,000 plus the sum, for all of the fiscal quarters of the Borrower starting on or after January 1, 1997 and ending on or before such date for which the consolidated net income of the Borrower and its Subsidiaries was greater than zero (and excluding each fiscal quarter for which the consolidated net income of the Borrower and its Subsidiaries was less than zero), of 60% of the consolidated net income of the Borrower and its Subsidiaries for such fiscal quarters minus the Special Dividend.

(c) Fixed Charges Ratio. The Borrower will not permit the Fixed Charges Ratio to be less than 1.000 to 1 at any time from and including the Effective Date through June 30, 1997 or 1.025 at any time thereafter.

(d) Interest Coverage Ratio. The Borrower will not permit the Interest Coverage Ratio at any time during any of the periods set forth below to be less than the ratio set opposite such period below:

Period -----	Ratio -----
From and including the Effective Date through December 31, 1998 .....	3.00 to 1
From and including January 1, 1999 and at all times thereafter .....	3.50 to 1

(e) Capital Expenditures. The Borrower will not permit the aggregate amount of Capital Expenditures to exceed \$5,000,000 in any calendar year.

SECTION 7.09. Lines of Business. Neither the Borrower nor any of its Subsidiaries shall engage to any substantial extent in any line or lines of business activity other than the Business.

SECTION 7.10. Modifications of Certain Documents. The Borrower will not, and will not permit any Subsidiary to, agree or consent to any modification, supplement or waiver of (a) any of the provisions of any of the Restructuring Documents or the Ancillary Agreements (other than the Tax Sharing Agreement) if such modification, supplement or waiver could reasonably be expected to have a Material Adverse Effect or (b) the Subordinated Note, the Subordinated Intercompany Note (excluding any modification, supplement or waiver regarding waiver or deferral of the payment of interest or principal or extending the final maturity thereof), the Note Subordination Agreement, the Intercompany Note Subordination Agreement or the Tax Sharing Agreement, in each case without the prior consent of the Administrative Agent (with the approval of the Required Lenders).

SECTION 7.11. Rheox International. Notwithstanding anything to the contrary contained in this Agreement, but without limiting the effect of Section 6.12(b):

(a) the Borrower will cause all shares of capital stock or other ownership interests in any of the Foreign Subsidiaries at any time owned by any of the Borrower and the Domestic Subsidiaries to be owned solely by Rheox International, directly or indirectly through other Foreign Subsidiaries; and

(b) the Borrower will not permit Rheox International to (i) merge or consolidate with any Person, (ii) engage in any business other than (x) owning and administering the business of the Foreign Subsidiaries (including, but not limited to, owning, licensing and administering the Foreign Intellectual Property) and (y) extending Indebtedness permitted by Sections 7.04(iii) and 7.04(viii) and incurring Indebtedness permitted by Section 7.01(c) hereof or (iii) incur any Indebtedness other than Indebtedness of (A) Rheox International under the Loan Documents and (B) Indebtedness of Rheox International to the Borrower and its other Subsidiaries permitted by Section 7.01(c).

SECTION 7.12. Subordinated Notes. The Borrower will not (except, with respect to the Subordinated Note, as required by Section 6.10(a)), and will not permit any Subsidiary to, purchase, redeem, retire or otherwise acquire for value, or set apart any money for a sinking, defeasance or other analogous fund for the purchase, redemption, retirement or other acquisition of, or make any voluntary payment or prepayment of the principal of or interest on, or any other amount owing in respect of, the Subordinated Note or the Subordinated Intercompany Note, except (a) in the case of the Subordinated Note, (i) as required by Section 6.10(a) and (ii) subject to the Note Subordination Agreement, for regularly scheduled payments of interest thereon required pursuant thereto and (b) in the case of the Subordinated Intercompany Note, subject to the Intercompany Note Subordination

Credit Agreement

Agreement, for regularly scheduled payments of principal and interest thereon required pursuant thereto.

#### ARTICLE VIII

##### Events of Default

If any of the following events ("Events of Default") shall occur and be continuing:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) any Credit Party shall fail to pay any interest on any Loan or any fee or other amount (other than an amount referred to in clause (a) of this Article VIII) payable under this Agreement or under any other Loan Document, when and as the same shall become due and payable and such failure shall continue unremedied for a period of three or more Business Days;

(c) any representation or warranty made or deemed made by or on behalf any Credit Party or NL in or in connection with this Agreement, any of the other Loan Documents or any amendment or modification hereof or thereof, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement, any of the other Loan Documents or any amendment or modification hereof or thereof, shall prove to have been incorrect when made or deemed made in any material respect;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 6.02(a), 6.03 (with respect to the Borrower's existence), 6.09 or 6.10 or in Article VII;

(e) any Credit Party or NL shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article VIII), any other Loan Document or the Tax Sharing Agreement, and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent (given at the request of any Lender) to the Borrower;

(f) the Borrower or any Subsidiary shall fail after any applicable period of grace to make any payment of principal of, interest on or fees payable to lenders in

Credit Agreement

respect of any Material Obligations, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Obligations becoming due prior to its scheduled maturity or, for so long as such event or condition is continuing, that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Obligations or any trustee or agent on its or their behalf or cause any Material Obligations to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness or the voluntary termination of a Hedging Agreement;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of NL, the Borrower any Subsidiary other than an Inactive Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for NL, the Borrower or any Subsidiary other than an Inactive Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) NL, the Borrower or any Subsidiary other than an Inactive Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article VIII, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for NL, the Borrower or any Subsidiary other than an Inactive Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) NL, the Borrower or any Subsidiary other than an Inactive Subsidiary shall become unable, admit in writing or fail generally to pay its debts as they become due;

(k) one or more final judgments for the payment of money in excess of \$2,500,000 shall be rendered against the Borrower or any Subsidiary or any



combination thereof and the same shall not be discharged for a period of 30 consecutive days during which the execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment, or any action shall be legally taken by a judgment creditor of NL to attach or levy upon the collateral pledged under the NL Pledge Agreement;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) A reasonable basis shall exist for the assertion against NL, the Borrower or any Subsidiary of (or there shall have been asserted against NL, the Borrower or any Subsidiary) claims or liabilities, whether accrued, absolute or contingent, based on or arising from the generation, storage, transport, handling or disposal of Hazardous Materials by NL, the Borrower or any of the Borrower's Subsidiaries or Affiliates, or any predecessor in interest of NL, the Borrower or any of the Borrower's Subsidiaries or Affiliates, or relating to any site or facility owned, operated or leased by NL, the Borrower or any of the Borrower's Subsidiaries or Affiliates, which claims or liabilities (insofar as they are payable by NL, the Borrower or any Subsidiary but after deducting any portion thereof which is reasonably expected to be paid by other creditworthy Persons jointly and severally liable therefor), in the judgment of the Required Lenders are reasonably likely to be determined adversely to NL, the Borrower or any Subsidiary, and the amount thereof is, singly or in the aggregate, reasonably likely to have a Material Adverse Effect;

(n) NL shall at any time and for any reason cease to be the beneficial owner of 100% of the outstanding shares of capital stock of the Borrower; or any Person or Persons not having beneficial ownership in the aggregate of 50% or more of the outstanding shares of capital stock of NL on the date hereof shall acquire beneficial ownership in aggregate of 50% or more of the outstanding shares of capital stock of NL; or during any period of 25 consecutive calendar months, (i) individuals who were directors of NL on the first day of such period and (ii) other individuals whose election or nomination by the Board of Directors of NL was approved by at least a majority of the Board of Directors of NL who either were directors on the first day of such period or whose election or nomination was previously so approved shall no longer constitute a majority of the Board of Directors of NL; or

(o) Any of the following shall occur: (i) the Lien created by any Security Document shall at any time (other than by reason of the Administrative Agent relinquishing possession of certificates evidencing shares of stock of Subsidiaries pledged thereunder) cease to constitute a valid and perfected (to the extent such Lien is required to be perfected under the Security Documents) Lien on the collateral intended

to be covered thereby; (ii) except for expiration in accordance with its terms, any Security Document shall for whatever reason be terminated, or shall cease to be in full force and effect; or (iii) the enforceability of any Security Document or the validity of any subordination provision in the Note Subordination Agreement or in the Intercompany Note Subordination Agreement shall be contested by any Credit Party or by NL;

then, and in every such event (other than an event described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in the case of any event described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

#### ARTICLE IX

##### The Administrative Agent

Each of the Lenders and the LC Issuing Lender hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such actions and powers as are reasonably incidental thereto.

Chase shall have the same rights and powers in its capacity as a Lender hereunder as any other Lender and may exercise the same as though Chase were not the Administrative Agent, and Chase and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with any Credit Party or any Subsidiary or other Affiliate of any thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in this Agreement and the other Loan Documents. Without limiting the

##### Credit Agreement

generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by this Agreement and the other Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders, and (c) except as expressly set forth herein and in the other Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Credit Party, NL or any of their respective Subsidiaries that is communicated to or obtained by Chase or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders or, if provided herein, with the consent or at the request of the Required Revolving Credit or the Required Term Loan Lenders, or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall not be deemed to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender (whereupon the Administrative Agent shall promptly deliver a copy thereof to the Lenders), and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or the other Loan Documents, (ii) the contents of any certificate, report or other document delivered hereunder or under any of the other Loan Documents or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or in any other Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, the other Loan Documents or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article V or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall not, except to the extent expressly instructed by the Required Lenders with respect to collateral security under the Security Documents, be required to initiate or conduct any litigation or collection proceedings hereunder or under any other Loan Document.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all of its duties, and exercise its rights and powers, by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through its Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to its activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent, as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the LC Issuing Lender and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor Administrative Agent. If no successor shall have been so appointed and shall have accepted such appointment within 30 days after such retiring Administrative Agent gives notice of its resignation, then such retiring Administrative Agent may, on behalf of the Lenders and the LC Issuing Lender, appoint a successor Administrative Agent, which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent, by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After an Administrative Agent's resignation hereunder, the provisions of this Article IX and Sections 3.03 and 10.03 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent, the LC Issuing Lender or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent, the LC Issuing Lender or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement and the other Loan Documents, any related agreement or any document furnished hereunder or thereunder.

The Documentation Agent identified on the cover page of this Agreement shall have no duties or responsibilities hereunder other than as a Lender hereunder.

Credit Agreement

ARTICLE X

Miscellaneous

SECTION 10.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, (i) to Rheox, Inc. c/o NL Industries, Inc. at 70 East 55th Street, New York, New York 10022, Attention of Susan E. Alderton (Telecopy No. (212) 421-7209) and (ii) to Rheox, Inc., P.O. Box 700, Wycoffs Mill Road, Hightstown, New Jersey 08520, Attention of Debbie Young;

(b) if to the Administrative Agent, to The Chase Manhattan Bank, Loan and Agency Services Group, One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention of Terri Williams (Telecopy No. (212) 552-5277), with a copy to The Chase Manhattan Bank, 1 Chase Manhattan Plaza, 5th Floor, New York, New York 10081, Attention of Peter Dedousis (Telecopy No. (212) 552-7175); and

(c) if to any Lender (including to Chase in its capacity as the LC Issuing Lender), to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 10.02. Waivers; Amendments.

(a) No failure or delay by the Administrative Agent, the LC Issuing Lender or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the LC Issuing Lender and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by any Credit Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section 10.02, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of

Credit Agreement

a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the LC Issuing Lender may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall:

(i) increase the Commitment of any Lender without the written consent of such Lender;

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby;

(iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby;

(iv) change Section 2.09 in a manner that would reduce or alter the application of prepayments thereunder, or change Section 2.16(b), (c) or (d) in a manner that would alter the pro rata sharing of payments required thereby, without in each case the written consent of each Lender;

(v) alter the rights or obligations of the Borrower to prepay Loans without the written consent of each Lender;

(vi) change any of the provisions of this Section 10.02 or the definition of "Required Lenders", "Required Revolving Credit Lenders", or "Required Term Loan Lenders", or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or under any other Loan Document or make any determination or grant any consent hereunder or thereunder, without the written consent of each Lender; or

(vii) release all or substantially all of the Subsidiary Guarantors from their obligations in respect of their Guarantee under Article III, without the written consent of each Lender;

provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the LC Issuing Lender hereunder without the prior written consent of the Administrative Agent or the LC Issuing Lender, as the case may be.

Anything in this Agreement to the contrary notwithstanding, no waiver or modification of any provision of this Agreement that has the effect (either immediately or at some later time) of enabling the Borrower to satisfy a condition precedent to the making of Revolving Credit Loans or Term Loans shall be effective against the Revolving Credit Lenders or Term Loan Lenders, respectively, unless the Required Revolving Credit Lenders or Required Term Loan Lenders, respectively, shall have concurred with such waiver or modification.

(c) Neither any Security Document nor any provision thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Credit Parties party thereto, and by the Administrative Agent with the consent of the Required Lenders, provided that, without the prior consent of each Lender, the Administrative Agent shall not (except as provided herein or in the applicable Security Document) release all or substantially all of the collateral thereunder or otherwise terminate any Lien under any Security Document, agree to additional obligations being secured by such collateral (unless the Lien for such additional obligations shall be junior to the Lien in favor of the other obligations secured by such Security Document, in which event the Administrative Agent may consent to such junior Lien provided that it obtains the consent of the Required Lenders thereto), alter the relative priorities of the obligations entitled to the benefits of the Liens created under such Security Document, except that no such consent shall be required, and the Administrative Agent is hereby authorized, to release any Lien covering property that is the subject of either a Disposition of property permitted hereunder or a Disposition to which the Required Lenders have consented.

#### SECTION 10.03. Expenses; Indemnity; Damage Waiver.

(a) The Credit Parties jointly and severally agree to pay, or reimburse the Administrative Agent or Lenders for paying, (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of Special Counsel, in connection with the syndication of the credit facilities provided for herein, the preparation of this Agreement and the other Loan Documents (and any Uniform Commercial Code financing statements required by any Security Document to be filed with respect to the security interests in personal property and fixtures created pursuant thereto) or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all out-of-pocket expenses incurred by the LC Issuing Lender in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, (iii) all out-of-pocket expenses incurred by the Administrative Agent, the LC Issuing Lender or any Lender, including the fees, charges and disbursements of any

counsel for such Administrative Agent, LC Issuing Lender or Lender, in connection with the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents, including its rights under this Section 10.03, or in connection with the Loans made or Letters of Credit issued hereunder, including in connection with any workout, restructuring or negotiations in respect thereof, and (iv) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the other Loan Documents or any other document referred to herein or therein and all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by any Security Document, by any Uniform Commercial Code financing statements required by any Security Document to be filed with respect to the security interests in personal property and fixtures created pursuant thereto, or by any other document referred to therein. Notwithstanding anything to the contrary in this Section 10.03(a), the Borrower shall not be obligated to pay the fees and expenses of more than one law firm representing the Administrative Agent and the Lenders (which law firm shall be selected by the Administrative Agent, or if the Required Lenders so decide, by the Required Lenders) unless (x) the Administrative Agent or the Required Lenders reasonably determine that the retention of more than one law firm is advisable because questions arise under laws of jurisdictions in which the principal law firm engaged is not authorized to practice law or (y) in the case of the foregoing clause (iii), the Administrative Agent or any Lender or Lenders have different or conflicting interests.

(b) The Credit Parties jointly and severally agree to indemnify the Administrative Agent, the LC Issuing Lender and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, the other Loan Documents or any agreement or instrument contemplated hereby, the performance by the parties hereto and thereto of their respective obligations hereunder or thereunder or the consummation of the Transactions or any other transactions contemplated hereby or thereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the LC Issuing Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence, Release or threatened Release of Hazardous Materials related to any property owned or operated by any Credit Party or any of their Subsidiaries, or any Environmental Liability related in any way to any Credit Party or any of their Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (are determined by a court of competent jurisdiction by final and

Credit Agreement



nonappealable judgment to have) resulted from the gross negligence or wilful misconduct of such Indemnitee. Notwithstanding anything to the contrary in this Section 10.03(b), the Borrower shall not be obligated to pay or otherwise indemnify the Administrative Agent or any Lender for the fees and expenses of more than one law firm representing the Administrative Agent and the Lenders (which law firm shall be selected by the Administrative Agent, or if the Required Lenders so decide, by the Required Lenders) unless (x) the Administrative Agent or the Required Lenders reasonably determine that the retention of more than one law firm is advisable because questions arise under laws of jurisdictions in which the principal law firm engaged is not authorized to practice law or (y) the Administrative Agent or any Lender or Lenders have different or conflicting interests.

(c) To the extent that the Credit Parties fail to pay any amount required to be paid by them to the Administrative Agent under paragraph (a) or (b) of this Section 10.03, each Lender severally agrees to pay to the Administrative Agent such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent in its capacity as such. To the extent that the Credit Parties fail to pay any amount required to be paid by them to the LC Issuing Lender under paragraph (a) or (b) of this Section 10.03, each Revolving Credit Lender severally agrees to pay to the LC Issuing Lender such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent in its capacity as such.

(d) To the extent permitted by applicable law, none of the Credit Parties shall assert, and each Credit Party hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, the other Loan Documents or any agreement or instrument contemplated hereby or thereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section 10.03 shall be payable promptly after written demand therefor.

#### SECTION 10.04. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this

Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Lender and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that

(i) except in the case of an assignment to a Lender or an Affiliate of a Lender, the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Commitment or any Lender's obligations in respect of its LC Exposure, the LC Issuing Lender) must give its prior written consent to such assignment (which consent shall not be unreasonably withheld or delayed),

(ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment and Loans, the amount (without duplication) of the Commitment and Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$10,000,000 unless each of the Borrower and the Administrative Agent otherwise consent,

(iii) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500,

(iv) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire, and

(v) written notice of each assignment and the forms required under Section 2.15(e) are given to the Borrower.

provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default has occurred and is continuing.

Upon acceptance and recording pursuant to paragraph (d) of this Section 10.04, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and,

in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13, 2.14, 2.15, 3.03 and 10.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph (b) shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the LC Issuing Lender and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the LC Issuing Lender and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section 10.04 and any written consent to such assignment required by paragraph (b) of this Section 10.04, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless and until it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower, the Administrative Agent or the LC Issuing Lender, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations; and (iii) the Borrower, the Administrative Agent, the LC Issuing Lender and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 10.02(b), or the

first provision to Section 10.02(c), that affects such Participant. Subject to paragraph (f) of this Section 10.04, the Borrower agrees that each Participant shall be entitled, subject to the obligations of Section 2.17, to the benefits of Sections 2.13, 2.14 and 2.15 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section 10.04.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.13 or 2.15 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, and shall be subject to the obligations of Section 2.17, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.15 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.15(e) and Section 2.17 as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any such pledge or assignment to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

(h) Anything in this Section 10.04 to the contrary notwithstanding, no Lender may assign or participate any interest in any Loan held by it hereunder to the Borrower or any of its Affiliates or Subsidiaries without the prior consent of each Lender.

SECTION 10.05. Survival. All covenants, agreements, representations and warranties made by the Credit Parties herein and in the other Loan Documents, and in the certificates or other instruments delivered in connection with or pursuant to this Agreement and the other Loan Documents, shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the other Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the LC Issuing Lender or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect so long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement or the other Loan Documents is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.13, 2.14, 2.15, 2.17, 3.03 and 10.03 and Article IX shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters

of Credit and the Commitments or the termination of this Agreement or any other Loan Document or any provision hereof or thereof.

SECTION 10.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 5.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 10.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 10.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section 10.08 are in addition to any other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 10.09. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each party hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New

York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court (or, to the extent permitted by law, in such Federal court). Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the LC Issuing Lender or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against any Credit Party or its properties in the courts of any jurisdiction.

(c) Each party hereto hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any court referred to in paragraph (b) of this Section 10.09. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 10.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.10.

SECTION 10.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Credit Agreement

SECTION 10.12. Confidentiality. Each Lender and the Administrative Agent agrees (on behalf of itself and each of its Related Parties) to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of the same nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower pursuant to this Agreement that is identified by the Borrower as being confidential at the time the same is delivered to the Lenders or the Administrative Agent, provided that nothing herein shall limit the disclosure of any such information (i) after such information shall have become public (other than through a violation of this Section 10.12), (ii) to the extent required by statute, rule, regulation or judicial process, (iii) to counsel for any of the Lenders or the Administrative Agent, (iv) to bank examiners (or any other regulatory authority having jurisdiction over any Lender or the Administrative Agent), or to auditors or accountants, (v) to the Administrative Agent or any other Lender, (vi) in connection with any litigation to which any one or more of the Lenders or the Administrative Agent is a party, or in connection with the enforcement of rights or remedies hereunder or under any other Loan Document, (vii) to a Related Party of such Lender or (viii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first executes and delivers to such Lender an acknowledgement to the effect that it is bound by the provisions of this Section 10.12; provided, further, that in no event shall any Lender or the Administrative Agent be obligated or required to return any materials furnished by the Borrower.

Credit Agreement

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

RHEOX, INC.

by / s / William R. Bronner  
Name: William R. Bronner  
Title: Vice President

SUBSIDIARY GUARANTORS

RHEOX INTERNATIONAL, INC.

by / s / William R. Bronner  
Name: William R. Bronner  
Title: Vice President

ADMINISTRATIVE AGENT

THE CHASE MANHATTAN BANK,  
as Administrative Agent

by / s / Robert T. Sacks  
Name: Robert T. Sacks  
Title: Vice President

LENDERS

THE CHASE MANHATTAN BANK

by / s / Robert T. Sacks  
Name: Robert T. Sacks  
Title: Vice President

Credit Agreement



BANKERS TRUST COMPANY

by / s / Mary Zadroga  
Name: Mary Zadroga  
Title: Vice President

LASALLE NATIONAL BANK

by / s / Mark E. McCarthy  
Name: Mark E. McCarthy  
Title: Senior Vice President

THE NIPPON CREDIT BANK, LTD.

by / s / David C. Carrington  
Name: David C. Carrington  
Title: Vice President & Manager

VAN KAMPEN AMERICAN CAPITAL

by / s / Brian Good  
Name: Brian Good  
Title : Vice President

GIRO CREDIT BANK

by / s / T. Daileader  
Name: T. Daileader  
Title: Assistant Vice President

Credit Agreement

Schedule 1.01

[Ancillary Agreements]

Schedule 1.01

Schedule 2.01

Lender -----	Term Loan Commitment -----	Revolving Credit Commitment -----
The Chase Manhattan Bank .....	\$ 61,250,000.00	\$ 8,750,000.00
Bankers Trust Company .....	18,750,000.00	6,250,000.00
LaSalle National Bank .....	11,250,000.00	3,750,000.00
The Nippon Credit Bank, Ltd. ....	11,250,000.00	3,750,000.00
Van Kampen American Capital .....	15,000,000.00	--
Giro Credit Bank .....	7,500,000.00	2,500,000.00
	-----	-----

Schedule 2.01

Schedule 4.06

[Disclosed Matters]

Schedule 4.06

Schedule 4.13

[Material Agreements and Liens]

Schedule 4.13

Schedule 4.14

[Subsidiaries]

Schedule 4.14

Schedule 7.01

[Existing Indebtedness]

Schedule 7.01

Schedule 7.02

[Existing Liens]

Schedule 7.02



Schedule 7.07

[Existing Restrictions]



NL INDUSTRIES, INC.

RETIREMENT SAVINGS PLAN

As Amended and Restated effective April 1, 1996

NL INDUSTRIES, INC.  
RETIREMENT SAVINGS PLAN

TABLE OF CONTENTS

Article

PREAMBLE Paragraph

ARTICLE I - Purpose

ARTICLE II - Definitions

Affiliated Company.....2.1

Authorized Leave of Absence.....2.2

Basic Contributions.....2.3

Basic After-Tax Contributions.....2.4

Basic Pre-Tax Contributions.....2.5

Beneficiary.....2.6

Board.....2.7

Break in Service.....2.8

Code.....2.9

Committee.....2.10

Common Stock.....2.11

Company.....2.12

Compensation.....2.13

Contributing Participant.....2.14

Disability.....2.15

Employee.....2.16

Employer.....2.17

Employer Contributions.....2.18

ERISA.....2.19

Highly Compensated Employee.....2.20

Hour of Service.....2.21

Investment Funds.....2.22

Long-Term Disability Plan.....2.23

Month of Service.....2.24

Participant.....2.25

Plan.....2.26

Plan Year.....2.27

Predecessor Plan.....2.28

Prior Plan.....	2.29
Profitability Level.....	2.30
Qualified Election.....	2.31
Regulations.....	2.32
Retirement.....	2.33
Spouse.....	2.34
Supplemental Contributions.....	2.35
Supplemental After-Tax Contributions.....	2.36
Supplemental Pre-Tax Contributions.....	2.37
Trust.....	2.38
Trustee.....	2.39
Trust Fund.....	2.40
Valuation Date.....	2.41
Vesting Service.....	2.42

ARTICLE III - Eligibility for Participation

Eligibility.....	3.1
Method of Becoming a Participant.....	3.2
Method of Becoming a Contributing Participant.....	3.3
Termination of Participation in the Plan.....	3.4
Intra-Company Transfers.....	3.5

ARTICLE IV - Participant Contributions

Amount of Basic After-Tax Contributions.....	4.1
Amount of Basic Pre-Tax Contributions.....	4.2
Supplemental Contributions.....	4.3
Separate Accounting.....	4.4
Special Provisions Related to Basic and Supplemental Pre-Tax Contributions.....	4.5
Change in Amount of Contributions.....	4.6
Suspension of Basic or Supplemental Contributions.....	4.7
Remittance of Contributions to Trustee.....	4.8
Cessation of Contributions Made by a Contributing Participant.....	4.9
Participant Rollover Contributions, Direct Rollovers, and Trust to Trust Transfers.....	4.10

ARTICLE V - Employer Contributions

Employer Contributions.....	5.1
Average Contributions Test.....	5.2

Remittance of Employer Contributions to Trustee.....	5.3
Allocation of Employer Contributions and Forfeitures.....	5.4
Investment and Administrative Expenses.....	5.5
Multiple Use.....	5.6
Qualified Non-Elective Contributions.....	5.7

ARTICLE VI - Investment of Contributions

Investment Funds.....	6.1
Temporary Investments.....	6.2
Change in Investment Election for Future Contributions.....	6.3
Inter-Fund Transfers.....	6.4
Suspension of Investments and Investment Transfers into the NL Stock Fund or the Dresser/Tremont Stock Fund.....	6.5
Proxy Material for Those Participants For Whom an Investment Has Been Made in the NL Stock Fund or the Dresser Tremont Stock Fund.....	6.6
Exercise of Tender Rights.....	6.7
Best Interest of Participants.....	6.8
Assumption of Investment Risk by Participants.....	6.9
Section 404(c) of ERISA.....	6.10

ARTICLE VII - Trust Fund Accounts and Allocation of Earnings

Participant's Account.....	7.1
Valuation of Investment Funds.....	7.2
Valuation of Accounts.....	7.3
Statement of Participant's Account.....	7.4

ARTICLE VIII - Vesting

Vesting With Respect to Predecessor Plan Contributions, Participant Contributions and Pre-Tax Contributions Made After December 31, 1973.....	8.1
Vesting With Respect to Employer Contributions.....	8.2
Years of Vesting Service.....	8.3
Forfeitures Upon Distribution Prior to Full Vesting and Repayment.....	8.4
Full Vesting.....	8.5
Other Provisions Affecting Vesting.....	8.6

ARTICLE IX - Distribution of Benefits Other Than Withdrawals

Normal Form of Payment.....	9.1
Alternative Forms of Payment.....	9.2
Notice of Right to Elect Not to Receive Benefits in Form of Qualified Joint and Survivor Annuity.....	9.3
Distributions Upon Death.....	9.4
Commencement of Certain Distributions.....	9.5
Special Distributions.....	9.6
Minimum Distribution Requirements.....	9.7

ARTICLE X - Withdrawals

Withdrawals of Contributions.....	10.1
Suspensions.....	10.2
Withdrawal of Basic and Supplemental Pre-Tax Contributions.....	10.3
Restrictions on Withdrawal of Employer Contributions.....	10.4
Special Rules Affecting Withdrawals.....	10.5
Hardship Withdrawals.....	10.6

ARTICLE XI - Named Fiduciary and Administration

Pension and Employee Benefits Committee.....	11.1
Authority of the Committee.....	11.2
Delegation of Authority.....	11.3
Administrator.....	11.4
Appeals Procedure.....	11.5
Reliance on Reports and Certificates.....	11.6
Member's Own Participation.....	11.7
Exemption from Bond.....	11.8
Persons Serving in Dual Fiduciary Roles.....	11.9
Indemnification.....	11.10
Liability of Fiduciaries.....	11.11
Liability of Named Fiduciaries.....	11.12

ARTICLE XII - The Trust Fund

The Trust.....	12.1
Irrevocability of Company Contributions.....	12.2
Exclusive Benefit.....	12.3

ARTICLE XIII - Amendment and Termination of Plan

Right to Amend or Terminate.....	13.1
----------------------------------	------

Mandatory Amendments.....13.2  
Distribution of Accounts upon Plan Termination.....13.3

ARTICLE XIV - Limitations on Contributions

Priority of this Article.....14.1  
Limitation to Annual Additions.....14.2  
Adjustments of Annual Additions.....14.3  
Participant Covered Under Defined Benefit Plan.....14.4

ARTICLE XV - Top-Heavy Provisions

Applicability of Top-Heavy Provisions.....15.1  
Definitions.....15.2  
Determination of Top-Heavy Status.....15.3  
Minimum Vesting.....15.4  
Minimum Contribution.....15.5  
Maximum Benefit and Contribution Limitations.....15.6  
Coordination of Plans.....15.7

ARTICLE XVI - General Provisions

Employment Relationships.....16.1  
Benefits Provided Solely From Trust.....16.2  
Non-Alienation of Benefits.....16.3  
Merger, Consolidation or Transfer of Assets or Liabilities.....16.4  
Payments to Minors and Incompetents.....16.5  
Employee's Records.....16.6  
Missing Persons.....16.7  
Severability of Provisions.....16.8  
Receipt and Release.....16.9  
Fiduciary Capacities.....16.10  
Titles and Headings.....16.11  
Gender and Number.....16.12  
Governing Law.....16.13  
Counterparts.....16.14

## PREAMBLE

1. Formation of the Plan. The Plan is a successor plan to the former "Savings Plan for Employees of NL Industries, Inc.", which is referred to herein as the "Predecessor Plan." In connection with the Plan of Restructuring of NL Industries, Inc. which was approved by shareholders on December 22, 1988, the Predecessor Plan was renamed the Savings Plan for Employees of Baroid Corporation and adopted and assumed by Baroid Corporation. Pending the implementation of the Plan, eligible employees of NL Industries, Inc. and subsidiaries formerly eligible to participate in the Predecessor Plan continued to participate in the Predecessor Plan. The Plan was established as of January 1, 1989 to permit eligible employees of NL Industries, Inc. and participating subsidiaries to continue their participation in a tax-qualified savings plan. The Plan includes amendments which reflect the restructuring and other changes which were communicated to eligible employees in November of 1988. Accordingly, the Plan governs the rights and obligations of the Company and Plan participants for all periods on and after January 1, 1989, except with respect to participants' accounts held in Investment Funds of the Predecessor Plan, pending their transfer to the Plan. All participants who were participants under the Predecessor Plan automatically become participants under the new Plan. Account balances under the Predecessor Plan were transferred to the Plan as soon as practicable after the implementation of the Plan.

2. Change of Investment Structure. Effective as of July 1, 1990, the Plan was amended and restated to restructure the investments available, and to make related and other amendments.

3. Baroid Stock Fund. Baroid Corporation restructured in 1990, as a result of which holders of the Common Stock of Baroid Corporation under the Plan became holders of shares of both Baroid Corporation and Tremont Corporation. Baroid Corporation was later acquired by or merged with Dresser Industries, Inc. Therefore, the Baroid Stock Fund was renamed the Dresser/Tremont Stock Fund to reflect the names of the companies whose shares are held in that fund.

4. IRS Required changes. As part of their review of the amended and restated Plan in 1991, the Internal Revenue Service required several wording changes that had no operational effect, but also required substantial changes the forfeitures provisions of Section 8.4.

5. TRA 86 Update. To meet the requirements of the Tax Reform Act of 1986 and subsequent legislation and regulations, the Plan was amended and restated in December, 1994.

6. Additional Defined Contribution Feature. Effective April 1, 1996, the defined benefit plan was frozen and the Savings Plan amended to provide for an additional Company Contribution, to be called a "pension feature contribution"; this contribution is a profit sharing contribution not subject to the minimum funding standards of Section 412 of the Internal Revenue Code. The Plan was renamed the NL Industries, Inc. Retirement Savings Plan to reflect inclusion of the new benefit



formula. Other minor changes, including deleting certain obsolete portions of the historical plan document, are made at the same time.

ARTICLE I

PURPOSE

1.1 The purpose of the NL Industries, Inc., Retirement Savings Plan is to provide eligible employees with a convenient way to save on a regular and long-term basis by providing such employees with a beneficial interest in the profits of the business, all as set forth herein and in the Trust Agreement adopted in connection with the Plan. The Plan and its related Trust are intended to qualify as a plan and trust which meet the requirements of Sections 401(a), 401(k) and 501(a), respectively, of the Internal Revenue Code of 1986, as now in effect or hereafter amended, and all other applicable provisions of law including, without limitation, the Employee Retirement Income Security Act of 1974, as now in effect or hereafter amended.

## ARTICLE II

### DEFINITIONS

As used in the Plan, the following terms shall have the following meanings:

2.1 "Affiliated Company" means any business entity which (i) is included within a controlled group of corporations within which the Company also is included, (ii) is under common control with the Company, or (iii) is included within an affiliated service group within which the Company is also a member, all as determined under Sections 414(b), (c) and (m) of the Code, respectively; provided, however, that for purposes of determining the annual contribution limitations set forth in Article XIV, such determination shall be made in accordance with Section 415(h) of the Code.

2.2 "Authorized Leave of Absence" means any absence from employment:

(a) Authorized by the Committee for education purposes or by reason of family obligations, sickness, short term disability, accident or emergency (including any leave of absence to which the Employee is eligible under the Family and Medical Leave Act of 1993); or

(b) On account of a period of military service required by law or under leave granted by the Committee, provided the Employee returns to employment with the Company or an Affiliated Company within 90 days after his separation from active duty or within such longer period during which his right to reemployment is legally protected.

In granting leaves of absence, the Committee shall accord like treatment to all Participants in similar circumstances.

2.3 "Basic Contributions" means the aggregate of a Contributing Participant's Basic After-Tax Contributions and Basic Pre-Tax Contributions as defined in Paragraphs 2.4 and 2.5, respectively.

2.4 "Basic After-Tax Contributions" means that part of a Contributing Participant's Compensation which he contributes to the Trust Fund on an after-tax basis, as provided in Paragraph 4.1 hereof.

2.5 "Basic Pre-Tax Contributions" means that part of a Contributing Participant's Compensation which he elects to reduce in accordance with Paragraph 4.2 hereof and have contributed to the Trust Fund on his behalf by his Employer on a pre-tax basis, in compliance with the provisions of Section 401(k) of the Code.

2.6 "Beneficiary" means the Spouse of the Participant if surviving; provided, however, that if there is no surviving Spouse or if the surviving Spouse cannot be located, the person or persons designated by the Participant in the form of a Qualified Election, as such term is defined in Paragraph 2.31, to receive any death benefit payable hereunder. A Participant may also designate any person or persons as his Beneficiary in the form of a written designation to receive any death benefit payable hereunder, provided he obtains the notarized written consent of his Spouse. A Participant may revoke or change his Beneficiary designation only with the consent of the Spouse by filing a revised designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, change or revocation thereof, shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. In the absence of an effective designation or if no named beneficiary shall survive the Participant, the Beneficiary shall be the Participant's Spouse, or, if there is no Spouse, then the following persons (if then living) in the following order of priority: (i) children, in equal shares, (ii) parents, in equal shares, (iii) the persons designated as beneficiary under the group life insurance plan of the Employer, and (iv) the Participant's estate. If the Committee is in doubt as to the right of any person to receive such amount, the Committee may direct the Trustee to retain such amount, without liability for any interest thereon, until the rights thereto are determined, or the Committee may direct the Trustee to pay such amount into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Plan and the Trust therefor.

2.7 "Board" means the Board of Directors of the Company as constituted from time to time, or the duly appointed delegate of such Board of Directors.

2.8 "Break in Service" means any Plan Year during which an Employee fails to receive credit for at least three (3) Months of Service or 501 Hours of Service, except that a Break in Service shall not be deemed to occur on account of any Authorized Leave of Absence. Solely for purposes of determining whether a Break in Service has occurred in any Plan Year, an Employee who is absent from work on account of a "maternity or paternity absence" shall be credited with the number of Hours of Service which would have been completed but for such absence, or, if the Committee is unable to determine such Hours of Service, eight Hours of Service for each day of such absence; provided, however, that no more than 501 hours shall be credited hereunder on account of any such absence, and further provided that the Employee furnishes to the Committee such timely information as may be required by the Committee to properly administer this provision. Hours of Service for a "maternity or paternity absence" shall be credited entirely in the Plan Year in which the absence begins if necessary to prevent the occurrence of a Break in Service in such year, or, in any other case, in the immediately following Plan Year. A "maternity or paternity absence" shall mean any absence from work by reason of the Employee's pregnancy, the birth of the Employee's child, the placement of a child with the Employee in connection with the adoption of such child by the Employee, or for purposes of caring for any such child for the period immediately following such birth or placement.

2.9 "Code" means the Internal Revenue Code of 1986, as now in effect or as hereafter amended, and regulations and other authority issued thereunder. All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.

2.10 "Committee" means the Pension and Employee Benefits Committee of NL Industries, Inc. as established in accordance with Article XI hereof.

2.11 "Common Stock" means the presently authorized common stock, par value \$.125 per share, of NL Industries, Inc., a New Jersey corporation, as adjusted for stock splits, stock dividends, reclassifications and similar changes affecting such shares, or other common stock with voting power and dividend rights no less favorable than the voting power and dividend rights of the presently authorized common stock of NL Industries, Inc.

Solely with respect to common stock of Baroid Corporation which was allocated to the accounts of Employees of the Company or its Affiliated Companies as a result of the restructuring of NL Industries, Inc. into NL Industries, Inc. and Baroid Corporation and which Participants to whose accounts such stock was allocated elected to retain in lieu of exchanging it for common stock of the Company, Common Stock also means the presently authorized common stock, par value \$.10 per share, of Baroid Corporation, a Delaware corporation, or any successor corporation, as adjusted for stock splits, stock dividends, reclassifications and similar changes affecting such shares, or other common stock with voting power and dividend rights no less favorable than the voting power and dividend rights of the presently authorized common stock of Baroid Corporation.

Solely with respect to common stock of Tremont Corporation which was allocated to the accounts of Employees of the Company or its Affiliated Companies as a result of the restructuring of Baroid Corporation into Tremont Corporation and Baroid Corporation, Common Stock also means the presently authorized common stock, par value \$.10 per share, of Tremont Corporation, a Delaware corporation, or of any successor corporation, as adjusted for stock splits, stock dividends, reclassifications and similar changes affecting such shares, or other common stock with voting power and dividend rights no less favorable than the voting power and dividend rights of the presently authorized common stock of Tremont Corporation.

2.12 "Company" means NL Industries, Inc. and any person, firm or corporation which hereafter may succeed to the interests of said company by merger, consolidation or otherwise and which, by appropriate action, shall adopt the Plan.

2.13 "Compensation" means the first \$150,000 (as adjusted, as may be determined by the Commissioner of Internal Revenue, at such time and in such manner as is prescribed in Section 401(a)(17)(B) of the Code) of all remuneration paid to an Employee by his Employer during a Plan Year which is received during the period that such Employee is eligible to become a Participant in the Plan under the provisions of Paragraph 3.1, and which is subject to withholding for federal income tax purposes, or would have been paid and been subject to withholding if the Employee (i) had not made any Basic Pre-Tax Contributions as defined in Paragraph 4.2 or Supplemental

Pre-Tax Contributions as defined in Paragraph 4.3 hereof, (ii) had not elected to have his salary reduced to fund contributions to a plan maintained by his Employer pursuant to Section 125 of the Code, or (iii) was employed in the United States. Compensation shall not include relocation allowances or relocation bonuses, hiring or sign-on bonuses, the imputed value of group life insurance, tuition refunds, foreign service premiums and other similar foreign service adjustments, and any income attributable to stock options, stock appreciation rights, performance award rights (other than performance award rights which are in the nature of an annual bonus award) or other similar cash or non-cash fringe benefits and prerequisites (other than executive incentive awards made in cash or stock). To the extent that the remuneration of any Employee is paid in a foreign currency, such amount shall be converted to United States Dollars at a rate to be determined by the Committee and uniformly applicable to all Employees paid in such currency at such time. With respect to Plan Years commencing after December 31, 1993, Compensation in excess of \$150,000 (as adjusted, as may be determined by the Commissioner of Internal Revenue, at such time and in such manner as is prescribed in Section 401(a)(17)(B) of the Code) (the "applicable compensation limitation") shall be disregarded.

For purposes of this definition of "Compensation," and for purposes of the corresponding limitations on compensation in Section 14.2 the following provisions shall apply:

(a) The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined ("determination period") beginning in such calendar year. If a determination period consists of fewer than 12 months, the applicable compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12;

(b) If compensation for any prior determination period is taken into account in determining an employee's benefits accruing in the current plan year, the compensation for that prior determination period is subject to the applicable compensation limit in effect for that prior determination period, and for this purpose, for determination periods beginning before the first day of the first plan year beginning on or after January 1, 1994, the applicable compensation limit is \$150,000.

2.14 "Contributing Participant" means any Participant who elects to make Basic Contributions to the Trust Fund in accordance with Article IV hereof.

2.15 "Disability" means, with respect to any Participant, the inability of such Participant to perform the normal duties of his employment for which he is qualified by training or experience, and which qualifies such Participant for a benefit under the Long Term Disability Plan and/or the Social Security Act. The Committee may secure qualified medical advice and may require the Participant to submit to a physical examination in determining Disability hereunder.

2.16 "Employee" means any person employed by the Employer except:

(a) any person, other than a person whose conditions of employment currently are covered by a collective bargaining agreement, whose compensation is computed on an hourly, daily, piecework or other comparable basis, or any person who is a "leased employee" as defined in Section 414(n) of the Code, unless such person or leased employee is included within a class of employees which is designated by the Board as eligible to participate in the Plan and is not otherwise excluded from participation under subparagraphs (c) or (d) below;

(b) any person whose conditions of employment currently are covered by a collective bargaining agreement to which the Employer is a party, unless the Employer and the bargaining agent have come to agreement as to the inclusion of such person under the Plan;

(c) any person who is or becomes a participant under any other profit sharing, savings or similar type defined contribution plan (excluding a tax credit employee stock ownership plan) maintained by an Employer or any other nonparticipating Affiliated Company; and

(d) any person employed by an Affiliated Company which is not organized under the laws of the United States, or any State, or the District of Columbia, unless such person is a citizen of the United States or has been designated as an Employee, either individually or by employment classification, by the Committee in accordance with guidelines established by the Committee.

Provided however, any person described in (a) through (b) of the immediately preceding sentence shall be deemed to be an Employee for purposes of Section 2.22.

2.17 "Employer" means the Company, Rheox, Inc., and Kronos, Inc., and any other Affiliated Company which is designated by the Board as an Employer under the Plan and whose designation as such has become effective and continues in effect. The Board may revoke the designation of an Affiliated Company as an Employer at any time, but the provisions of the Plan shall otherwise continue to govern the rights and obligations of Participants of that Employer and their Beneficiaries after such revocation. When used in reference to Employer Contributions for a Participant, the term "Employer" shall refer to the Employer employing such Participant. When the term "Employer" is used in reference to the collective obligations of all Employers adopting the Plan, the obligations of each such Employer shall be proportionate to the Compensation of its Participants to the Plan. Each Employer appoints the Company and the Committee as its agents to act for it in all matters relating to the Plan and Trust, and agrees to furnish to the Committee such information which may be necessary for the proper administration of the Plan.

2.18 "Employer Contributions" means the amount which the Employer shall contribute to the Trust Fund as provided in Article V hereof, including both Employer Matching Contributions and Employer Pension Feature Contributions.

2.19 "ERISA" means the Employee Retirement Income Security Act of 1974, as now in effect or hereafter amended, and regulations and other authority issued thereunder. All citations to Sections of ERISA are to such sections as they may from time to time be amended or renumbered.

2.20 "Highly Compensated Employee" or "Highly Compensated Participant" means an Employee or Participant who, during the relevant period is treated as a highly compensated employee under Section 414(q) of the Code.

2.21 "Hour of Service" means:

(a) each hour for which an Employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliated Company during the Plan Year;

(b) each hour for which an Employee is paid or entitled to payment by the Employer or an Affiliated Company during the Plan Year on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, or an Authorized Leave of Absence; provided, however, that an Hour of Service shall not include any hour during which no duties are performed and for which payment is made solely for the purpose of complying with applicable worker's compensation, unemployment compensation or disability insurance laws; and

(c) each hour for which back pay, irrespective of mitigation of damage, has been either awarded or agreed to by the Employer or an Affiliated Company (these hours shall be credited to the Employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award agreement, or payment was made).

Hours of Service credited for reasons other than the performance of duties shall be computed and credited to computation periods in accordance with paragraphs (b) and (c) of Section 2530.200b-2 of the Department of Labor Regulations. Hours of Service shall be credited for any person considered a "leased employee" as defined in Section 414(n) of the Code, regardless of whether such person is an Employee; provided, however, that no such "leased employee" shall participate in the Plan except as provided in subparagraph (a) of Paragraph 2.17.

2.22 "Investment Funds" means the funds in which the Trust Fund is invested by the Trustee in accordance with the provisions of Article VI hereof.

2.23 "Long Term Disability Plan" means the long term disability plan of the Company, as amended from time to time, which covers enrolled Employees.



2.24 "Month of Service" means each calendar month during which an Employee or "leased employee" is entitled to credit for at least one Hour of Service. For purposes of the Plan, credit for one Month of Service shall be the equivalent of having been credited with 190 Hours of Service during the relevant calendar month. Months of Service shall include each calendar month of service with Baroid Corporation after the approval of the Plan of Restructuring provided such service would have been credited as a Month of Service if Baroid Corporation had been an Affiliated Company during such period. Months of Service also shall include service accumulated with certain predecessor employers if, and to the extent, authorized by the Board. The Committee shall credit Months of Service under the preceding two sentences in accordance with nondiscriminatory rules of uniform application.

2.25 "Participant" means an Employee who satisfies the eligibility requirements of Article III hereof and who maintains an account balance in the Trust Fund, regardless of whether such Employee is a Contributing Participant.

2.26 "Plan" means the NL Industries, Inc. Retirement Savings Plan, as may be subsequently amended or restated from time to time.

2.27 "Plan Year" means each calendar year.

2.28 "Predecessor Plan" means the Savings Plan for Employees of Baroid Corporation as in effect on December 31, 1988 and as thereafter amended to incorporate changes (i) approved by the Board with respect to NL Industries, Inc. participants or (ii) otherwise required to be made effective prior to such date to comply with the amendments to applicable law.

2.29 "Prior Plan" means the Savings Plan for Employees of NL Industries, Inc. effective as of July 1, 1990, as amended, restated and continued under the form of the Plan, without a gap or lapse in coverage, time or effect of a qualified plan under applicable provisions of the Code.

2.30 "Profitability Level" means the level and measurement of profitability which are approved by the Board with respect to the relevant Plan Year.

2.31 "Qualified Election" shall mean an election made by a Participant in writing and consented to by the Participant's Spouse in writing. The Spouse's consent must name a specific beneficiary or class of beneficiaries which may not be changed without spousal consent, unless the spouse expressly consents to the designation by the participant without further consent; and must acknowledge the effect of such election and must be witnessed by a member of the Committee, a local employee relations manager or a notary public. Notwithstanding the preceding sentence, consent of the Spouse shall not be required if the Participant establishes to the satisfaction of the Committee that there is no Spouse or that the Spouse cannot be located. Except as otherwise provided in Paragraph 2.6, a Participant may revoke a prior election without the Spouse's consent at any time before the commencement of benefits. The number of elections and revocations shall not be limited.

2.32 "Regulations" means the applicable regulations issued under the Code, ERISA or other applicable law by the IRS, the Labor Department, or any other governmental authority or any temporary regulations or rules promulgated by such authorities pending the issuance of such regulations.

2.33 "Retirement" means, in the case of a Participant eligible for a then current pension under the provisions of any formal retirement plan of the Company, the termination of employment by the Participant due to actual retirement in accordance with the provisions of such plan, and in the case of any other Participant not covered by a formal retirement plan of the Company, such Participant's termination of employment in accordance with rules of uniform application maintained by the Company.

2.34 "Spouse" means the person to whom the Participant was legally married, as determined by the Committee, for at least 31 days immediately preceding the earlier of either (a) the date on which the Participant terminates employment under the Plan due to Retirement (or is deemed to have so terminated his employment) or (b) the Participant's death; provided, however, that a former Spouse will be treated as a Spouse to the extent provided under a qualified domestic relations order as described in Paragraph 16.2.

2.35 "Supplemental Contributions" means the aggregate of a Contributing Participant's Supplemental After-Tax and Supplemental Pre-Tax Contributions, as defined in Paragraphs 2.37 and 2.38, respectively.

2.36 "Supplemental After-Tax Contributions" means that part of a Contributing Participant's Compensation in excess of his Basic Contributions, and/or and contributions made by a Contributing Participant by means of personal check, which he contributes to the Trust Fund on an after-tax basis as provided in Paragraph 4.3 hereof.

2.37 "Supplemental Pre-Tax Contributions" means that part of a Contributing Participant's Compensation which he elects to reduce in accordance with Paragraph 4.3 hereof and have contributed to the Trust Fund on his behalf by his Employer on a pre-tax basis, in compliance with the provisions of Section 401(k) of the Code.

2.38 "Trust" means the trust established pursuant to and forming part of the Plan for the investment, reinvestment and administration of contributions under the Plan.

2.39 "Trustee" means the bank, trust company or national banking association having trust powers designated as Trustee of the Trust under an agreement between the Company and such bank, trust company or national banking association.

2.40 "Trust Fund" means the trust fund described in Article XII hereof.

2.41 "Valuation Date" means the date or dates as may be determined by the Committee to apply with respect to amounts invested in any Investment Fund.

2.42 "Vesting Service" means service described in Paragraph 8.3 hereof.

## ARTICLE III

### ELIGIBILITY FOR PARTICIPATION

#### 3.1 Eligibility:

(a) General Rules: Effective April 1, 1996, each Employee who was a Contributing Participant in the Prior Plan on the date immediately prior to the date such Prior Plan was amended, restated and continued under the form of the Plan shall continue as a Contributing Participant under the provisions of the Plan. Each other Employee shall become a Participant and also eligible to participate in the Plan as a Contributing Participant on the later of (a) April 1, 1996, and (b) the first day of the pay period coincident with or next following the date on which he shall have performed at least 1000 Hours of Service or six Months of Service, provided he shall have performed such service within a single "eligibility computation period." An Employee's "eligibility computation period" shall be the 12-month period commencing with his date of employment or, if the Employee fails to satisfy the requirements of this subparagraph (a) during such period, any Plan Year following his date of employment.

(b) Rollovers By Non-Participants: Notwithstanding subparagraph (a) immediately above or any other provision of the Plan to the contrary, an Employee who would otherwise be eligible to participate in the Plan but for his failure to satisfy the service requirement under subparagraph (a) may make, with the consent of the Committee, a Rollover Contribution (as defined in subparagraph 4.10(b)), a Direct Rollover to the Trust Fund (as described in subparagraph 4.10(c)) or a direct transfer to the Trust Fund (as described in subparagraph 4.10(d)) in accordance with the procedures set forth in subparagraph 4.10(a). In the event the Committee permits an Employee to make such a Rollover Contribution, Direct Rollover, or direct transfer to the Trust Fund, the Committee shall cause the Trustee to establish a separate account for such Employee in accordance with procedures set forth in Article VII hereof and shall invest the assets involved in the manner set forth in Paragraph 6.1 in accordance with instructions submitted in writing to the Committee by the Employee. In the event the Employee terminates employment with the Employer prior to becoming a Participant under the Plan, such separate account shall be distributed to him in the form of a lump sum payment in the manner and at the time prescribed in subparagraph 9.1(a).

(c) Non-Resident Aliens: Notwithstanding any other provision of the Plan to the contrary, an Employee who qualifies as such under subparagraph 2.17(d) or any other nonresident alien or expatriate shall not be eligible to make Basic Pre-Tax Contributions as defined in Paragraph 2.5, unless otherwise determined by the Committee in its sole discretion.

(d) Independent Contractors: Notwithstanding any other provision of the Plan to the contrary, but subject to the provisions of this paragraph, (i) any individual who was considered by the Employer to be an independent contractor, but who is later reclassified as a common-law Employee (excluding any Leased Employee described in clause (ii) below) of the Employer with respect to any portion of the period in which such individual was paid by the Employer as an independent contractor, or (ii) any Leased Employee, shall be excluded from participation in the Plan with respect to the period in which any individual described in clause (i) was considered to be an independent contractor, or the period in which any individual described in clause (ii) is a Leased Employee. If any individual who is described in clause (i) or in clause (ii) must be covered with respect to a Plan Year (or portion thereof) in order to ensure that the Plan is operated in compliance with Sections 401(a) and 410(b) of the Code, starting with the class of reclassified independent contractors, only such number of individuals within the class which includes the individual (beginning with the individuals with the lowest Considered Compensation determined on an annualized basis) as is necessary to ensure compliance with the Code shall be covered in the Plan only for the Plan Year (or portion thereof) that is necessary to ensure that the requirements of the Code are met.

3.2 Method of Becoming a Participant: An Employee who is eligible to become a Participant in the Plan under the provisions of Paragraph 3.1 shall automatically become a Participant and shall be provided opportunity to:

- (a) stipulate the Investment Fund(s) to which the Employer Contributions should be allocated as set forth in Paragraph 6.1; and
- (b) name a Beneficiary.

3.3 Method of Becoming a Contributing Participant: An Employee who is eligible to become a Contributing Participant in the Plan under the provisions of Paragraph 3.1 shall do so by completing and delivering to the Committee at least 15 days (or any shorter period authorized by the Committee) before the date of desired participation, a written statement (or other form of direction authorized by the Committee):

- (a) enrolling as a Contributing Participant;
  - (b) electing the initial rate of his Basic and Supplemental Contributions under Article IV;
  - (c) stipulating the Investment Fund(s) to which his contributions and the Employer Contributions should be allocated as set forth in Paragraph 6.1;
  - (d) providing such other information as the Committee may require;
- and

(e) agreeing to be bound by all the terms and conditions of the Plan.

Each Participant who does not become a Contributing Participant when first eligible to do so may become a Contributing Participant as of the first day of any pay period thereafter by complying with the provisions of this Paragraph 3.2.

3.4 Termination of Participation in the Plan: Participation in the Plan shall cease in the case of any Participant whose entire account balance is distributed. Any person whose participation is terminated pursuant to the preceding sentence may resume participation in the Plan as of the first day of the pay period coincident with or next following the date he again becomes an Employee, provided he satisfies the requirements of Paragraph 3.2. Participation in the Plan shall continue in the case of any Participant who, upon termination of employment for any reason (including Disability or Retirement), or in the case of any Beneficiary who, upon the death of the Participant, elects to receive a distribution in a form that would maintain an account balance in any one or more of the Investment Funds after termination of employment. Such person shall remain a Participant or, in the case of a Beneficiary, be deemed a Participant herein, but not a Contributing Participant, until such time as the distribution in full has been made to him. Any person whose participation is continued under this Paragraph 3.3 shall continue to participate in Investment Fund performance but shall be prohibited from making any further contributions to the Trust Fund unless he is reemployed, in which event again he shall be eligible to become an active Participant, and, at his election a Contributing Participant herein.

3.5 Intra-Company Transfers: Termination of employment shall not be deemed to occur by reason of:

(a) transfer in employment from one Employer to another Employer;

(b) transfer in employment from an Employer to any Affiliated Company not participating in the Plan or to a class of employees (including "leased employees" as defined in Section 414(n) of the Code) which is ineligible to participate in the Plan; or

(c) transfer in employment from any Affiliated Company not participating in the Plan or from a class of employees (including "leased employees" as defined in Section 414(n) of the Code) which is ineligible to participate in the Plan to an Employer or class of eligible Employees hereunder.

Except as provided in Paragraph 10.1, for purposes of subparagraph (b), a Participant shall remain a Participant for purposes of investment election, withdrawals, and distribution rights, under the Plan, but he shall not be eligible to be a Contributing Participant or to receive Employer Contributions for the period of time during which he is employed by an Affiliated Company which is not participating in the Plan or during which he is part of a class of employees which is ineligible to participate in the Plan. For purposes of subparagraph (c), employment with an Affiliated Company which is not participating in the Plan or as an employee ineligible to participate in the Plan

shall count as Hours of Service and Months of Service toward satisfying the requirement of Paragraph 3.1.

III-4

## ARTICLE IV

### PARTICIPANT CONTRIBUTIONS

4.1 Amount of Basic After-Tax Contributions: Subject to the provisions of Paragraph 5.2(c)(i) and Article XIV, any Employee who is, or is eligible to become, a Contributing Participant may make through payroll deductions, Basic After-Tax Contributions, for any Plan Year, equal to any percentage of his Compensation, in increments of 0.5%, from 1% up to and including 8% (or such other maximum amount as may be established by the Committee) less the percentage of Compensation elected as Basic Pre-Tax Contributions pursuant to Paragraph 4.2, if any.

#### 4.2 Amount of Basic Pre-Tax Contributions:

(a) Contribution Limits: Subject to the provisions of Paragraph 4.5 and Article XIV, any Employee who is, or is eligible to become, a Contributing Participant may elect, in accordance with procedures adopted by the Company, to reduce his Compensation by an amount equal to any percentage, in increments of 0.5%, from 1% up to and including 8%, or such other maximum amount as may be established by the Committee; provided, however, that the maximum amount elected as Basic Pre-Tax Contributions in no event shall exceed the difference between (i) 8% (or such other maximum amount as may be established by the Committee) and (ii) the percentage of Compensation elected as Basic After-Tax Contributions pursuant to Paragraph 4.1, if any. Subject to subparagraph 4.5(b), the amount of any such reduction shall be contributed to the Plan as Basic Pre-Tax Contributions on behalf of such Contributing Participant by his Employer. Notwithstanding the foregoing, Basic Pre-Tax Contributions in any calendar year shall not exceed the limitation on elective deferrals under Section 402(g)(1) of the Code adjusted for increases in the cost of living in accordance with Section 402(g)(5) of the Code.

(b) Refund of Excess Contributions: In the event that the aggregate amount of Basic Pre-Tax Contributions for a Participant exceeds the limitation in the previous sentence, the amount of such excess, increased by any income and decreased by any losses attributable thereto (but, effective January 1, 1992, before the gap period between the end of the calendar year and the date of distribution), shall be refunded to the Participant no later than the April 15th of the calendar year following the calendar year for which the Basic Pre-Tax Contributions were made. If a Participant also participates, in any calendar year, in any other plans subject to the limitations set forth in Section 402(g) of the Code and has made excess deferrals under this Plan when combined with the other plans subject to such limits, to the extent the Participant, in writing submitted to the Committee no later than the March 1 of the calendar year following the calendar year for which the Basic Pre-Tax Contributions were made, designates any Basic Pre-Tax Contributions under this Plan as excess deferrals, the amount of such designated excess, increased by any income and decreased by any losses attributable thereto, shall be refunded to the Participant no later than the April 15 of the calendar year following the calendar year for which the Basic Pre-Tax Contributions were



made. Alternatively, a Participant may request refund of excess deferrals before the end of the Plan Year.

4.3 Supplemental Contributions: Subject to the provisions of Article XIV, a Participant who is an Employee and whose Basic Contributions are at least 8% may elect to make Supplemental After-Tax or Supplemental Pre-Tax Contributions through payroll deductions. A Participant who is an Employee and whose Basic Contributions are less than 8% may elect to make Supplemental After-Tax Contributions by personal check. Supplemental Pre-Tax Contributions shall be made in accordance with procedures adopted by the Company. Supplemental Contributions are not matched by the Company. The amount of a Contributing Participant's Supplemental Contributions may be made by payroll deductions in increments of 0.5% from 1% to 4% of Compensation, or by personal check in multiples of \$100, or in such other percentages or amounts as may be established by the Committee.

If Basic Contributions are reduced below 8%, a Participant's Supplemental Contributions by payroll deduction will be suspended. Such Supplemental Contributions may resume once Basic Contributions equal at least 8%. The provisions of Section 4.2(b) apply to Supplemental Pre-Tax Contributions, also.

4.4 Separate Accounting: The Committee and the Trustee shall be responsible for maintaining separate records of the Basic After-Tax and Pre-Tax Contributions, Supplemental After-Tax and Pre-Tax Contributions and Rollover Contributions (including Direct Rollovers and direct transfers) made by or on behalf of the Participant and paid over to the Trustee. All amounts contributed by or on behalf of the Participant to the Trust Fund with respect to any pay period shall be allocated to the Participant's account as soon as practicable after the end of the pay period in respect of which the payroll deductions, salary reductions or cash payments are effectuated.

4.5 Special Provisions Related to Basic and Supplemental Pre-Tax Contributions:

(a) Vesting and Withdrawal Limitation: Basic and Supplemental Pre-Tax Contributions, including increments earned thereon, shall be fully vested at all times and may not be withdrawn by or distributed to a Participant, except as permitted by an election made pursuant to Section 9.6, until the earliest to occur of his Retirement, death, Disability, separation from service, attainment of age 59 1/2 or hardship.

(b) (i) ADP Test: Notwithstanding any other provision of this Article IV, the actual deferral percentage for the Plan Year for Highly Compensated Employees shall not exceed the greater of the following actual deferral percentage tests: (a) the actual deferral percentage for such Plan Year of those eligible Employees who are not Highly Compensated Employees multiplied by 1.25; or (b) the actual deferral percentage for the Plan Year of those eligible Employees who are not Highly Compensated Employees multiplied by 2.0, provided that the actual deferral percentage for Highly Compensated Employees does not exceed the actual deferral

percentage for such other eligible Employees by more than 2 percentage points. For purposes of this Article IV, the "actual deferral percentage" for a Plan Year means, for each specified group of employees, the average of the ratios (calculated separately for each Employee in such group) of (a) the amount of the Participant's Basic and Supplemental Pre-Tax Contributions for the Plan Year, to (b) the amount of the Participant's Compensation (as defined in Section 414(s) of the Code) for the Plan Year. An eligible Employee's actual deferral percentage shall be zero if no Basic Pre-Tax Contribution or Supplemental Pre-Tax Contribution is made on his behalf for such Plan Year.

(ii) Recharacterization and Refund (Leveling Method): The Committee shall determine as of the end of the Plan Year, and at such time or times in its discretion, whether one of the actual deferral percentage tests specified in subparagraph 4.5(b)(i) is satisfied for such Plan Year. This determination shall be made after first determining the treatment of excess deferrals within the meaning of Section 402(g) of the Code under Paragraph 4.2. In the event that neither of such actual deferral percentage tests is satisfied, the Committee shall, to the extent permissible under the Code and the Regulations, and to the extent any such recharacterization would not cause a violation of subparagraph 5.2(a) or, together with Basic After-Tax Contributions actually made, exceed the limitations on Basic After-Tax Contributions stated in Paragraph 4.1 determined prior to application of subparagraph 5.2(a), if the Participant so elects, recharacterize such excess contributions as Basic or Supplemental After-Tax Contributions, in the manner described in subparagraph 4.5(b)(iv) or, to the extent such recharacterization is not possible or the Participant does not so elect, refund the excess contributions in the manner described in subparagraph 4.5(b)(v). For purposes of this Article IV, "excess contributions" means, with respect to any Plan Year, the excess of the aggregate amount of Basic and Supplemental Pre-Tax Contributions (and any earnings and losses allocable thereto but, effective January 1, 1992, before the gap period between the end of the calendar year and the date of distribution) made on behalf of Highly Compensated Participants for such Plan Year, over the maximum amount of such contributions that could be made to such Participants without violating the requirements of subparagraph 4.5(b)(i), determined by reducing Basic and Supplemental Pre-Tax Contributions made on behalf of Highly Compensated Participants in order of the actual deferral percentages beginning with the highest of such percentages. The reduction shall be determined by the leveling method, under which the actual deferral ratio of the Highly Compensated Employee with the highest actual deferral ratio is reduced to the extent required to (i) enable the Plan to satisfy the ADP test, or (ii) cause such Highly Compensated Employee's actual deferral ratio to equal the ratio of the Highly Compensated Employee with the next highest actual deferral ratio. This leveling process shall be repeated until the Plan satisfies the ADP test. Provided, however, that for years after 1996, if a different leveling method is mandated by the Code, such different leveling method shall be used instead.

(iii) Forfeiture of Matching Contributions: If any Basic Pre-Tax Contributions are to be refunded as an excess contribution, the corresponding matching contributions that were contributed under Section 5.1 (and any earnings and losses attributed thereto but, effective January 1, 1992, before the gap period between the end of the calendar year and the date of distribution) will be forfeited.

(iv) Tax Treatment of Recharacterized Deferrals: To the extent provided in subparagraph 4.5(b)(ii), in accordance with the Code and the Regulations, if a Highly Compensated Participant so elects in writing no later than the 15th day of the second month immediately following the end of the Plan Year for which such excess contributions were made, the Committee shall recharacterize excess contributions of such Participant for a Plan Year as Basic or Supplemental After-Tax Contributions in order to satisfy the requirements of subparagraph 4.5(b)(i), in which event the amount of excess contributions so recharacterized shall, to the extent permitted by the Code and the Regulations, be treated as having been refunded to the Participant and then contributed by the Participant as Basic or Supplemental After-Tax Contributions, as appropriate. Earnings related to any recharacterized amount shall not be treated as a recharacterized amount.

(v) Timing of Refunds: If a Highly Compensated Participant does not elect recharacterization under subparagraph 4.5(b)(iv), or, if required in order to comply with the provisions of subparagraph 4.5(b)(i), and the Code, the Committee shall refund excess contributions for a Plan Year. The distribution of such excess contributions shall be made to Highly Compensated Participants to the extent practicable before the 15th day of the third month immediately following the Plan Year for which such excess contributions were made, but in no event later than the earlier of (a) the end of the Plan Year following such Plan Year or (b) in the case of the termination of the Plan in accordance with Article XIII, no later than the end of the twelve-month period immediately following the date of such termination. Any such distribution shall be made to each Highly Compensated Participant on the basis of the respective portions of such amounts attributable to each such Highly Compensated Participant.

(vi) Effect of Prior Distribution of Excess Deferrals: Notwithstanding the foregoing provisions of this subparagraph 4.5(b), the amount of excess contributions to be recharacterized or distributed pursuant to subparagraph 4.5(b)(iii) with respect to a Participant for a Plan Year shall be reduced by any excess deferrals previously distributed to such Participant for such Plan Year.

(vii) Continued Impact of Excess Contributions: Notwithstanding the foregoing provisions of this Paragraph 4.5, excess contributions that are recharacterized shall then be taken into account for purposes of Paragraph 5.2, shall continue to be subject to Paragraph 8.1 and Paragraph 10.3, and shall continue to

count toward the limits in Paragraph 14.2. Excess contributions that are refunded shall continue to count toward the limits in Paragraph 14.2.

(viii) Family Aggregation Rules: Only to the extent that family aggregation rules are mandated by the Code, if an eligible Highly Compensated Employee is subject to the family aggregation rules of Section 414(q)(6) of the Code because such employee is either a five-percent owner or one of the ten most Highly Compensated Employees, the combined actual deferral ratio for the family group (which is treated as one Highly Compensated Employee) shall be determined by combining the Basic and Supplemental Pre-Tax Contributions, Compensation and amounts treated as Basic and Supplemental Pre-Tax Contributions of all the eligible family members.

The Basic and Supplemental Pre-Tax Contributions, Compensation and amounts treated as Basic and Supplemental Pre-Tax Contributions of all family members shall be disregarded for the purpose of determining the actual deferral percentage for the group of eligible Employees who are not Highly Compensated Employees.

If an Employee is required to be aggregated as a member of more than one family group in a plan, all eligible Employees who are members of those family groups that include that Employee shall be aggregated as one family group.

(ix) Family Correction: The determination and correction of excess contributions of a Highly Compensated Employee whose actual deferral ratio is determined under subparagraph 4.5(b)(viii) shall be accomplished as follows: the actual deferral ratio shall be reduced as required under subparagraph 4.5(b)(ii) and the excess contributions for the family unit shall be allocated among the family members in proportion to the Basic and Supplemental Pre-Tax Contributions of each family member that are combined to determine the actual deferral ratio.

4.6 Change in Amount of Contributions: A Contributing Participant may change the rate of his Basic or Supplemental Contributions for any calendar month by filing the appropriate Plan form with the local administrator at least 15 days prior to the first day of any such calendar month for which the change in payroll deductions is intended to be effective. All elections of Basic and Supplemental Contribution rates made under the Plan shall remain in effect, notwithstanding any change in Compensation, until changed as permitted in this Paragraph 4.6 or Paragraph 4.5.

4.7 Suspension of Basic or Supplemental Contributions: A Contributing Participant may suspend his Basic or Supplemental Contributions to the Plan by filing the appropriate Plan form with the local administrator at least 15 days prior to the first day of the pay period for which such suspension is intended to be effective. Suspension of Basic After-Tax Contributions shall not prevent a Contributing Participant from continuing or increasing his Basic Pre-Tax Contributions

and suspension of Basic Pre-Tax Contributions shall not prevent a Contributing Participant from continuing or increasing his Basic After-Tax Contributions.

4.8 Remittance of Contributions to Trustee: Basic Contributions and Supplemental Contributions shall be remitted to the Trustee as soon as practicable after the end of the month in which the payroll deductions, personal checks, salary reductions or cash payments are effectuated, but in no event later than 90 days from the date such contributions are received by the Employer (in the case of Basic and Supplemental After-Tax Contributions) or the date on which such contributions would otherwise have been paid to the Employee in cash (in the case of Basic and Supplemental Pre-Tax Contributions). The aggregate amounts contributed hereunder, shall be employed by the Trustee to make purchases for the Investment Fund or Funds in accordance with the respective investment elections of each Contributing Participant for such pay period. All such contributions shall be allocated to the accounts of each Participant established in accordance with Article VII.

4.9 Cessation of Contributions Made by a Contributing Participant: All Contributions of a Contributing Participant shall cease effective with the first day of the pay period coincident with or next following the date of:

(a) the timely filing of a notice of voluntary suspension of Basic Contributions as described in Paragraph 4.7;

(b) the election to make certain withdrawals pursuant to Article X;

(c) the involuntary suspension of Basic Contributions because of a transfer in employment or employment classification as described in subparagraph 3.4(b); or

(d) the termination of employment for any reason including Retirement, death or Disability.

Notwithstanding the foregoing, subparagraph (b) shall not affect Basic Pre-Tax Contributions, except as provided in Paragraph 10.2.

4.10 Participant Rollover Contributions:

(a) General: With the consent of the Committee, an Employee described in subparagraphs 3.1(a) or (b) may contribute cash to the Trust Fund other than as Basic or Supplemental Contributions provided such contribution constitutes a Rollover Contribution (as defined in subparagraph (b) of this Paragraph) or a Direct Rollover (as defined in subsection (c) of this Paragraph) or a direct transfer (as defined in subparagraph (d) of this Paragraph). All Rollover Contributions, Direct Rollovers, and direct transfers to the Trust Fund shall be allocated to the Employee's account as of the Valuation Date coincident with or immediately preceding the date of the contribution. To the extent prohibited under the Code, no Rollover Contribution, Direct Rollover or direct transfer shall be allowed if the

assets involved are is attributable directly or indirectly to a trust or annuity forming part of a plan under which the Employee was a 5% owner at the time the distribution from such trust or annuity was made. For purposes of the preceding sentence, a 5% owner shall mean any individual who was a 5% owner (within the meaning of Section 416(i)(1)(B) of the Code) of the employer maintaining such other plan at any time during the five plan years preceding the plan year in which the distribution is made. If an Employee described in subparagraphs 3.1(a) or (b) is permitted to make such a Rollover Contribution, Direct Rollover or direct transfer, the Committee shall obtain such evidence, assurances or certifications as it may deem necessary from such Employee to establish to its satisfaction that the amounts to be contributed qualify as Rollover Contributions, Direct Rollovers or direct transfers within the meaning of subparagraphs (b) or (c) and will not affect the qualification of the Plan or the tax exempt status of the Trust Fund under Sections 401(a) and 501(a) of the Code, respectively, or substantially increase the administrative expenses of the Plan. The amount so transferred must consist of cash distributed from such other plan or any portion of the cash proceeds from the sale of distributed property other than cash, to the extent permitted by Section 402(a)(6)(D) of the Code.

(b) Rollover Contributions: As used in this Paragraph 4.10, the term "Rollover Contribution" shall mean the following:

(i) all or any portion of a "qualified total distribution" (as said term is defined in Section 402(a)(5)(E)(i)(I) and (II) of the Code inclusive of Section 402(a)(6) of the Code, and, after December 31, 1984, including a rollover distribution attributable to a trust forming part of a plan under which the Employee was an employee within the meaning of Section 401(c)(1) at the time contributions were made on his behalf) which is contributed to the Trust Fund within 60 days or receipt of the distribution from a trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code. A qualified total distribution shall not include any amount considered to be contributed by the Employee to the qualified trust described above;

(ii) an amount (described in Section 408(d)(3)(A)(ii) or Section 409(b)(3)(C) of the Code) which is contributed to the Trust Fund and represents all or any portion of the amount of the Employee's distribution from an individual retirement account or individual retirement annuity (defined in Sections 408(a) and 408(b) of the Code, respectively) the value of which account or annuity is attributable solely to a qualified total distribution received by such Employee from a trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code, and which amount is contributed to the Trust Fund within 60 days of the distribution from the Employee's individual account or annuity.

(c) Direct Rollovers: Special Rules Regarding Eligible Rollover Distributions:

(i) This Section 4.10(c) applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section 4.10(c), a distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion (provided that such portion is at least \$500) of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a Direct Rollover. Only one Direct Rollover shall be allowed for each eligible rollover distribution.

(ii) Definitions:

(a) Eligible rollover distribution: An eligible rollover distribution is any distribution of all or any portion (that is at least \$500) of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: (1) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; (2) any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; (3) the portion of any distribution that is not includable in gross income (determined without regard to the exclusion of new unrealized appreciation with respect to employer securities), and (4) any other amounts that are treated as not being eligible rollover distributions under Temporary Regulation Section 1.401(a)(31) - IT or other guidance issued under Section 401(a)(31) of the Code.

(b) Eligible retirement plan: An eligible retirement plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(iii) Distributee: A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(iv) Direct Rollover: A Direct Rollover is a payment by the Plan to the eligible retirement plan specified by the distributee.

(d) Direct Transfers: Subject to subparagraph 4.10(e), in addition to the Rollover Contribution described in subparagraphs (a) and (b), and the Direct Rollover described in subparagraph (c), the Committee, in accordance with a uniform and nondiscriminatory policy applicable to Employees described in subparagraphs 3.1(a) and (b), may direct the Trustee to accept a cash contribution transferred directly to the Trust Fund from the trustee of another trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code on behalf of such Employee who participated in that trust. Prior to the acceptance of such a contribution the Committee shall obtain such evidence, assurances or certifications as it may deem necessary to establish to its satisfaction that the amount to be contributed will not affect the qualification of the Plan or the tax-exempt status of the Trust Fund under Sections 401(a) and 501(a) of the Code, respectively, or substantially increase the administrative expenses of the Plan.

(e) Restrictions: Notwithstanding anything herein to the contrary, the Committee, pursuant to uniform and nondiscriminatory guidelines established by it, shall not permit any direct or indirect transfers from another trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code, which provides for a life annuity form of payment to the Employee, other than the trust under the Predecessor Plan.



## ARTICLE V

### EMPLOYER CONTRIBUTIONS

#### 5.1 Employer Contributions:

(a) Employer Matching Contributions: For each plan year, and generally during the first quarter of the Plan Year, the Board of Directors in its sole discretion, shall establish three profitability thresholds which are referred to herein as "Level A", "Level B" and "Level C". The highest Profitability Level which is attained, as determined at or after the end of the Plan Year, shall determine the Employer's matching contribution obligations to the Plan.

Subject to the provisions of Article XIV, each Employer shall contribute to the Trust Fund based upon the Profitability Level attained in accordance with the following formula:

(i) Twenty-five cents for each one dollar of a Contributing Participant's Basic Contributions which are based on the first 8% of his Compensation, provided the Profitability Level is equal to or above Level A but below Level B;

(ii) Fifty cents for each one dollar of a Contributing Participant's Basic Contributions which is based on the first 8% of his Compensation provided the Profitability Level is equal to or above Level B but below Level C;

(iii) Seventy-five cents for each one dollar of a Contributing Participant's Basic Contributions which is based on the first 8% of his Compensation provided the Profitability Level is equal to or above Level C.

In a "below A" year, no Employer Matching Contributions will be contributed to the Plan or allocated to any Participant's account.

No Employer Matching Contributions shall be made with respect to a Contributing Participant's Supplemental Contributions. No Employer matching contributions shall be made with respect to a Contributing Participant's Basic After-Tax Contributions to the extent that such Basic After-Tax Contributions were withdrawn before the end of the calendar year in which they were contributed.

(b) Employer Pension Feature Contributions: Effective April 1, 1996 for periods after March 31, 1996, the Employer Pension Feature Contribution shall be that amount which, in combination with forfeitures, provides for a percentage of Compensation profit sharing allocation as calculated for each Participant who is an active employee during the calendar year, by adding together two formulas, "A" and "B", where:

"A" is 3% of the Participant's Compensation for the calendar year, and

"B" is calculated in accordance with the following steps:

1) The prospective benefit that would have been earned (starting on April 1, 1996) from the Retirement Programs of NL Industries, Inc., for Salaried Employees if that plan had not been frozen as of April 1, 1996, for service on and after April 1, 1996, was calculated as of March 31, 1996, using data available on January 22, 1996. 1996 annual compensation was estimated and was projected to increase at 3% per year. Corporate profitability was assumed to be "B" level, resulting in 2% accruals per year. Continuous employment until retirement at age 65 was assumed. (For anyone already over age 65, the April 1, 1996 age was used.) These assumptions and data will remain fixed; they will not be adjusted in later years to reflect actual corporate profitability rates, employment experiences, or changes in other assumptions used to calculate the benefit under the Retirement Programs. The result of this calculation is called the "Old Plan Benefit."

2) The value of the Old Plan benefit was converted to a lump sum payable at age 65 using a discount rate of 9% and the 1983 Group Annuity Mortality Table (50% male, 50% female). (For any individual not a participant in the Retirement Program as of March 31, 1996, the Old Plan Benefit is zero.)

3) The account balance that will be provided by the 3% of Compensation contribution in item A above was projected to the end of the year prior to age 65, assuming accruals start January 1, 1996, with an assumed contribution date at the end of each calendar year while the Participant is under age 65, and an assumed account earnings rate of 9% per year. This total amount is called the "New Plan Benefit."

4) The New Plan Benefit (calculated in Item 3 above) is subtracted from two-thirds of the lump sum value of the Old Plan Benefit (calculated in item 2 above). The difference is called the "Transition Benefit."

5) If the Transition Benefit (calculated in item 4 above) is zero or less, no additional contribution will be added to the amount in A above for 1996 or any later year.

6) If the Transition Benefit (calculated in item 4 above) is more than zero, the current value of the Transition Benefit is calculated by discounting the value the Transition Benefit at age 65 to April 1, 1996, at 9% interest. This result is called the "Current Value of the Transition Benefit."

7) The Current Value of the Transition Benefit was converted to an increasing annuity payable annually for a number of years equal to 65 minus the Participant's age as of the most recent birthday on April 1, 1996, assuming 3% annual

compensation increases and 9% annual asset growth. That annuity was converted to a percentage of pay ("Transition Benefit Percentage") by dividing the annual 1996 payment by estimated 1996 pay and rounding to one decimal place.

8) Participants with a Transition Benefit Percentage of 1.0% or greater will receive the transition benefit for 1996, 1997, and later years, so long as they remain employed and eligible for a benefit under the terms of the Plan governing eligibility to receive an allocation.

9) Participants with a Transition Benefit Percentage of less than 1.0% will receive the Current Value of the Transition Benefit (calculated in item 6 above) in 1996 if they remain employed and eligible for a benefit for 1996 under the terms of the Plan governing eligibility to receive an allocation, and will receive no transition benefit for any year after 1996 even if they remain employed for future years.

The purpose of the pension feature contribution is to help ameliorate the effect of the freeze of the Retirement Programs by creating a new contribution to the Retirement Savings Plan equal to not less than 2/3 of the future benefit lost due to the freeze of the Retirement Programs. Therefore, notwithstanding the preceding provisions of this subsection 5.1(b), any employee whose compensation during the period January 1, 1996 through March 31, 1996 exceeded \$150,000 shall receive no pension feature contribution for 1996.

The contributions calculated under this subsection 5.1(b) are intended to meet the general test under Code Section 401(a)(4) both in 1996 and in 1997 and later years.

#### 5.2 Average Contribution Test:

(a) ACP: Subject to Paragraph 5.7, the average contribution percentage for the Plan Year for Highly Compensated Employees shall not exceed the greater of the following average contribution percentage tests: (i) the average contribution percentage for such Plan Year of those eligible Employees who are not Highly Compensated Employees multiplied by 1.25; or (ii) the average contribution percentage for the Plan Year of those eligible Employees who are not Highly Compensated Employees multiplied by 2.0, provided that the average contribution percentage for Highly Compensated Employees does not exceed the average contribution percentage for such other eligible Employees by more than 2 percentage points. The test in clause (ii) shall not be used if the parallel test was used under Section 4.5(b)(i), to the extent such multiple use is prohibited by the Code. For purposes of this Article V, the "average contribution percentage" for a Plan Year means, for each specified group of employees, the average of the ratios (calculated separately for each Employee in such group) of (i) the sum of (A) Employer Matching Contributions described in Section 5.1 for the Plan Year, (B) Basic and Supplemental After-Tax Contributions for the Plan Year, and (C) if the Committee so elects in accordance with and to the extent permitted by the Regulations, Basic and Supplemental Pre-Tax Contributions, to (ii) the amount of the

Participant's compensation (as defined in Section 414(s) of the Code) for the Plan Year. In accordance with regulation 1.401(m)-1(b)(5) and the related Example 3, for the purpose of passing the ACP test the Committee may elect to treat as Matching Contributions some or all of the Basic and Supplemental Pre-Tax Contributions of HCEs as well as of NHCEs. An eligible Employee's average contribution percentage shall be zero if no contributions are made on his behalf for such Plan Year.

(b) Refund (Leveling Method) or Forfeiture: The Committee shall determine as of the end of the Plan Year, and at such time or times in its discretion, whether one of the average contribution percentage tests specified in subparagraph 5.2(a) is satisfied for such Plan Year. This determination shall be made after first determining the treatment of excess deferrals within the meaning of Section 402(g) of the Code under Paragraph 4.2 and then determining the treatment of excess contributions under subparagraph 4.5(b). In the event that neither of the average contribution percentage tests is satisfied, the Committee shall refund or forfeit the excess contributions in the manner described in subparagraph 5.2(d). For purposes of this Article V, "excess aggregate contributions" means, with respect to any Plan Year and with respect to any Participant, the excess of the aggregate amount (and any earnings and losses allocable thereto before the gap period between the end of the calendar year and the date of distribution) of (a) Employer Matching Contributions, (b) Basic and Supplemental After-Tax Contributions and (c) the Basic and Supplemental Pre-Tax Contributions (if the Regulations permit and the Committee elects to take into account Basic and Supplemental Pre-Tax Contributions when calculating the average contribution percentage) of Highly Compensated Participants for such Plan Year, over the maximum amount of such Employer Contributions, Basic and Supplemental After-Tax Contributions and Basic and Supplemental Pre-Tax Contributions that could be made to the account of Participants without violating the requirements of subparagraph 5.2(a). The amount of each Highly Compensated Participant's excess aggregate contributions shall be determined by reducing the average contribution percentage of each Highly Compensated Participant whose average compensation percentage is in excess of the percentage otherwise permitted under subparagraph 5.2(a) to the maximum amount permitted by that paragraph.

The reduction shall be determined by the leveling method, under which the actual contribution ratio of the Highly Compensated Employee with the highest actual contribution ratio is reduced to the extent required to (i) enable the Plan to satisfy the ACP test, or (ii) cause such Highly Compensated Employee's actual contribution ratio to equal the ratio of the Highly Compensated Employee with the next highest actual contribution ratio. This leveling process shall be repeated until the Plan satisfies the ACP test. Provided, however, that for years after 1996, if a different leveling method is mandated by the Code, such different leveling method shall be used instead.

(c) Forfeiture of Non-vested Matching Contributions: Matching contributions that were not forfeited under Section 4.5(b)(iii) may not be forfeited except to the extent that they are not vested. Non-vested matching contributions (and any earnings and losses

allocated thereto) may be forfeited, but such forfeited contributions are still counted as annual additions under Sections 404 and 415 of the Code.

(d) Timing of Refund or Forfeiture: If the Committee is required to refund or forfeit excess aggregate contributions for any Highly Compensated Participant for a Plan Year in order to satisfy the requirement of subparagraph 5.2(a), then the refund or forfeiture of such excess aggregate contributions shall be made with respect to such Highly Compensated Participants to the extent practicable before the 15th day of the third month immediately following the Plan Year for which such excess aggregate contributions were made, but in no event later than the end of the Plan Year following such Plan Year, or, in the case of the termination of the Plan in accordance with Article XIII, no later than the end of the twelve-month period immediately following the date of such termination. For each of such Participants, amounts so refunded or forfeited shall be made in the following order of priority: (A) to the extent permitted by law, by forfeiting nonvested Employer Matching Contributions, and earnings thereon; (B) by distributing vested Employer Matching Contributions, and earnings thereon, of Highly Compensated Participants; (C) by distributing Supplemental or Basic After-Tax Contributions, and earnings thereon; and (D) by distributing Supplemental or Basic Pre-Tax Contributions (to the extent such amounts are included in the average contribution percentage) and earnings thereon. All such distributions and forfeitures shall be made to or be with respect to Highly Compensated Participants on the basis of the respective portions of such amounts attributable to each such Highly Compensated Participant. The amount of any forfeitures made pursuant to this Paragraph 5.2 shall be used to reduce Employer Matching Contributions in accordance with Paragraph 5.4.

(e) Family Aggregation Rules: Only to the extent that family aggregation rules are mandated by the Code, if an eligible Highly Compensated Employee is subject to the family aggregation rules or Section 414(q)(6) of the Code because such employee is either a five-percent owner or one of the ten most Highly Compensated Employees, the combined actual contribution ratio for the family group (which is treated as one Highly Compensated Employee) shall be determined by combining the Basic and Supplemental After-Tax Contributions and Employer Matching Contributions of all the eligible family members.

The Basic and Supplemental After-Tax Contributions, Compensation and amounts treated as Employer Matching Contributions of all family members shall be disregarded for purposes of determining the actual contribution percentage for the group of Highly Compensated Employees, and the group of eligible Employees.

If an Employee is required to be aggregated as a member of more than one family group in a plan, all eligible Employees who are members of those family groups that include that Employee shall be aggregated as one family group.

(f) The determination and correction of excess aggregate contributions of a Highly Compensated Employee whose actual contribution ratio is determined under the family aggregation rules of (e) shall be accomplished as follows: the actual contribution ratio shall be reduced as required under subparagraph 5.2(b) and the excess aggregate

contributions for the family unit shall be allocated among the family members in proportion to the Basic and Supplemental After-Tax Contributions and Employer Matching Contributions of each family member that are combined to determine the actual contribution ratio.

5.3 Remittance of Employer Contributions to Trustee: Employer Contributions, if any, shall be made solely in cash and shall be remitted to the Trustee, as soon as practicable after the end of the year for which the Company's Profitability Level was attained; provided, however, that Employer Contributions to the NL Stock Fund, may be made in shares of Common Stock of NL or in cash.

5.4 Allocation of Employer Contributions and Forfeitures:

(a) General: All Employer Contributions shall be used by the Trustee to make purchases for the Investment Fund or Funds in accordance with the respective investment elections of the Participant to whose account the Employer Contributions are allocated. All Employer Contributions shall be allocated to the accounts established in accordance with Article VII of each Participant entitled to share in such contributions.

(b) December 31 Rule: Employer Pension Feature Contributions accrued on behalf of a Participant shall be allocated to such Participant's account whether or not such Participant remains employed on the last day of the Plan Year. Notwithstanding any other provision of the Plan, no Employer Matching Contributions shall be made for the benefit of, and no Employer Matching Contributions or forfeitures shall be allocated, added or otherwise credited to the account of, a Participant under the Plan who was not an Employee of an Employer on the last day of the Plan Year; provided, however, a Participant who terminated Service during any Plan Year on his Retirement Date or by reason of his death or Disability shall be treated as if he was an active Participant on the last day of such Plan Year. In addition, any Participant who is, on the last day of the Plan Year on a leave of absence to which such Employee is entitled under the Family and Medical Leave Act of 1993 ("FMLA") shall be deemed to be in the employ of the Employer on such last day unless final regulations issued under the FMLA do not require such treatment for this purpose.

(c) Use of forfeitures: Amounts in the accounts of Participants which are forfeited in accordance with Article VIII and Paragraph 16.6 shall be applied during the continuance of the Plan in the following order: (i) to restore the accounts of reemployed participants pursuant to subparagraph 8.4(b), (ii) to restore the accounts of Participants or Beneficiaries who apply for forfeited benefits pursuant to Paragraph 16.6 and (iii) to reduce the amount of Employer Contributions otherwise payable by their Employer. If upon complete discontinuance of contributions under the Plan or termination of the Plan any such forfeitures have not been so applied, such unapplied amount shall be allocated among all remaining Employees who are Participants in accordance with Paragraph 13.2.

5.5 Investment and Administrative Expenses: All brokerage commissions, taxes and other expenses related to the purchase and sale of securities shall be paid out of the assets of the Trust Fund, as directed by the Committee. All other expenses, including any taxes which may be imposed upon the Trust Fund or upon the income therefrom, compensation of the Trustee, investment management fees, fees for legal and accounting purposes and all other costs and expenses incurred in administering the Plan, unless paid by the Employer, shall be paid out of the Trust Fund, as directed by the Committee.

5.6 Multiple Use:

(a) Notwithstanding any other provision under this Plan, in the event there is multiple use, as defined and determined in accordance with Section 1.401(m)-2 of the Regulations, such multiple use shall be corrected to the extent required by the Regulations by reducing the actual contribution percentage, as defined in subparagraph 5.2(a), of Highly Compensated Employees in the manner prescribed in subparagraph 5.6(b).

(b) The amount of the reduction to the actual contribution percentage of Highly Compensated Employees shall be calculated in the manner described in subparagraph 5.2(b) so that there is no multiple use. The reduction shall be treated as an excess aggregate contribution.

5.7 Qualified Non-Elective Contributions: At the election of the Board of the Plan Sponsor, in lieu of distributing excess contributions to Highly Compensated Employees in order to satisfy the actual deferral percentage test or the actual contribution percentage test, the Employer may make Qualified Non-Elective Contributions on behalf of one or more non-Highly Compensated Employees who are Participants in such amounts as are sufficient to satisfy the actual deferral percentage test or the actual contribution percentage test.

## ARTICLE VI

### INVESTMENT OF CONTRIBUTIONS

6.1 Investment Funds: Each Participant at the time he becomes a Participant under the Plan shall submit written instructions to the Committee (unless the Committee establishes a different way to submit such instructions) to invest any and all contributions made by him or on his behalf in whole percentages in any one or a combination of Investment Funds (which conform to any portfolio standards and guidelines established by the Trustee) as may be determined from time to time by the Committee and made available on an equal basis to all individuals with accounts in the Plan. The Investment Funds shall include at least the following five, but may include additional funds at the Committee's discretion:

(a) Money Market Fund: an income producing diversified fund comprised of short-term money market instruments that seeks to maintain a constant \$1 per share value. Acceptable securities include, but are not limited to, U.S. Government and U.S. Government Agency obligations, commercial paper, time deposits, certificates of deposit, Eurodollar deposits, repurchase agreements, banker's acceptances and guaranteed investment contracts.

(b) Fixed Income Fund: a diversified fund that may invest in a variety of short-, intermediate- or long-term fixed income instruments, that may seek a mixture of capital gains and current income. Acceptable securities include, but are not limited to, U.S. Government and U.S. Government Agency obligations, corporate bonds and notes and mortgage- and asset-backed securities and other money market instruments. The fund assumes a higher degree of risk than a money market fund and its share value may fluctuate considerably.

(c) Equity Fund: a diversified fund that invests primarily in equity securities traded in public markets in the U.S. or in foreign markets, that seeks growth in asset value and possibly current income. The fund's investments can be comprised of common stock from a wide array of companies and industries. The fund will typically assume a higher degree of risk than a money market fund and a fixed income fund but may also achieve a higher long term rate of return. The fund's share value can be expected to fluctuate considerably.

(d) NL Stock Fund: A fund invested primarily in Common Stock. All dividends declared and paid on Common Stock held in the NL Stock Fund, shall be used, as soon as practicable, by the Trustee to purchase additional Common Stock, the value of which shall be allocated to such Participant's account.



(e) The Dresser/Tremont Stock Fund: A fund which shall hold shares of Common Stock which were received by the Trustee as a result of the Plan of Restructuring of NL Industries, Inc., approved by the shareholders of the Company at the special meeting held on December 22, 1988, and which Participants elected to retain in the form of Baroid Corporation Common Stock in lieu of exchanging it for Common Stock of the Company (the Baroid Corporation common stock having later been acquired by Dresser Industries, Inc.), and shares of Common Stock of Tremont Corporation which Participants received due to the subsequent reorganization of Baroid Corporation into Tremont Corporation and Baroid Corporation. No additional contributions or transfers to the Dresser/Tremont Stock Fund will be permitted. Dividends paid on the securities in the Dresser/Tremont Stock Fund will be allocated to the respective Participant's accounts and invested in accordance with the Participant's most recent instructions directing the investment of new contributions to the Plan. No shares of Dresser or Tremont Common Stock will be purchased on or after January 1, 1994.

6.2 Temporary Investments: After the allocation of assets of the Trust Fund to any of the Investment Funds, but prior to investment or pending reinvestment of monies in securities of a type consistent with the objectives of any such Fund, the Trustee or Investment Manager may temporarily invest and reinvest any such assets in securities with maturities of one year or less issued or guaranteed by the Government of the United States of America or by any agency or instrumentality thereof, or in the name of the Trustee in any savings accounts or certificates of deposit in any banks, or may maintain cash balances consistent with the liquidity needs of the Plan.

6.3 Change in Investment Election for Future Contributions: Any investment election filed by a Participant for investment of current contributions shall continue in effect until changed by the Participant. A Participant may change his current investment election as to future contributions. Effective July 1, 1990, changes in investment elections may be made by telephoning the representative of the Trustee at the number stated in the summary plan description of the Plan, and following the instructions of that representative. Written confirmation of the transaction will be sent to the Participant by the Trustee and such written confirmation is binding unless the Participant demonstrates an error in such written confirmation within the number of days stated on the written confirmation.

6.4 Inter-Fund Transfers: Effective July 1, 1990, a Participant may transfer all or any portion of his account balance in any Fund (in increments of 1%) to any other Fund upon submission to the investment manager appointed under Section 11.2 the appropriate information in the form required by the investment manager under uniform procedures.

Transfers may be made as often as daily. Instructions must be received one business day in advance of the business day on which the transfer is to be effected. A business day is a period of time during a calendar day when the New York financial markets are open.

Notwithstanding the preceding paragraph, only one transfer per month may affect a Participant's accounts in the NL Stock Fund, and only one transfer is permitted out of a Participant's Dresser/Tremont Stock Fund. No transfer into the Dresser/Tremont Stock Fund will be permitted. Transfers under this paragraph are permitted any business day of the quarter requested by the Participant with one business day advance notice, and settlement will take place within five business days. Any commissions charged will be paid by the forfeiture account of the Plan or by the Employer.

6.5 Suspension of Investments and Investment Transfers into the NL Stock Fund or the Dresser/Tremont Stock Fund: Notwithstanding any election by a Participant, during any period of time when (a) a Registration Statement covering the Plan is not in effect, (b) although in effect, information in the Prospectus forming part of such Registration Statement does not meet the requirements of the Securities Act of 1933, as amended, or is not available for delivery, or (c) in the judgment of the Company, a proceeding by the Securities and Exchange Commission for the issuance of a stop order suspending the effectiveness of the Registration Statement is threatened or contemplated, no future Basic, Supplemental, or Employer Contributions may be invested in, and no such prior contributions, or income earned thereon, may be transferred for investment in the NL Stock Fund or the Dresser/Tremont Stock Fund. In lieu thereof, the Trustee shall invest such amounts in short term investments in accordance with Paragraph 6.2. At such time as (a) a Registration Statement covering the plan shall become effective, (b) the Prospectus forming part of such Registration Statement shall have been amended to meet the requirements of the Act or shall be available for delivery, or (c) no stop order proceedings shall be threatened or contemplated, such amount shall be invested as previously directed, until such prior direction is changed in accordance with Paragraph 6.3.

6.6 Proxy Material for Those Participants for Whom an Investment Has Been Made in the NL Stock Fund or the Dresser/Tremont Stock Fund: Before each annual or special shareholders' meeting of the applicable company, the Trustee shall furnish to each Participant with an account in the NL Stock Fund or the Dresser/Tremont Stock Fund, a copy of the proxy solicitation material, together with a form requesting confidential instructions to the Trustee on how such Common Stock (including fractional shares, to 1/10th of a share) is to be voted. Such proxy solicitation material will be furnished to participants in a timely manner so as to comply with applicable federal and/or state laws. Upon timely receipt of such instructions, the Trustee shall vote such Common Stock as instructed. The instructions received by the Trustee from Participants shall be held by the Trustee in strict confidence and shall not be divulged or released to any person including officers or employees of the Company or any Affiliated Company. The Trustee shall not make recommendations to Participants on whether to vote or how to vote. If voting instructions for Common Stock for a particular shareholders meeting are not timely received from Participants, the Trustee shall not vote such Common Stock, except that effective January 1, 1994, if timely instructions are not received from Participants, or if the Trustee determines that the instructions received violate ERISA, the trustee shall vote such Common Stock for which valid instructions are not received in the same proportion as are voted the shares for which valid instructions are received.

6.7 Exercise of Tender Rights: Each Participant shall have the right from time to time with respect to the shares of Common Stock allocated to his account in the NL Stock Fund or the Dresser/Tremont Stock Fund to instruct the Trustee in writing as to the manner in which to respond to any tender or exchange offers which shall be pending or which may be made in the future for all such shares of Common Stock or any portion thereof. A Participant's instructions shall remain in force until superseded in writing by the Participant. The Trustee shall tender or exchange such shares of Common Stock as and to the extent so instructed. If the Trustee shall not receive instructions from a Participant regarding tender or exchange offers for Common Stock, the Trustee shall have no discretion in such matter and shall take no action in response thereto. Unless and until shares of Common Stock are tendered or exchanged, the individual instructions received by the Trustee from Participants shall be held by the Trustee in strict confidence and shall not be divulged or released to any person, including officers or employees of the Company or any Affiliated Company; provided, however, that the Trustee shall advise the Company, at any time upon request, of the total number of shares of Common Stock which it has been instructed to tender or exchange and the total number of such shares not subject to instructions to tender or exchange. The Trustee shall notify each Participant of each tender or exchange offer and utilize its best efforts to timely distribute or cause to be distributed to such Participant all information distributed to shareholders of the Company in connection with any such tender or exchange offer.

6.8 Best Interests of Participants: In the event that the Trustee or a court of competent jurisdiction determines that the Trustee shall have the discretion or power to sell, convey or transfer any shares of Common Stock held in the NL Stock Fund or the Dresser Tremont Stock Fund of the Trust Fund in response to a tender or exchange offer, notwithstanding the provisions of Section 6.7, the Trustee in exercising such discretion or power shall be obliged to consider not only any increased value in the accounts of the Participants in the NL Stock Fund or the Dresser Tremont Stock Fund of the Trust Fund as a result of a tender or exchange of the shares of Common Stock in the accounts of such Participants, but also the impact of any change in the management or control of the Company on the status of the Participants as employees of the Company in the long run, not over a short period, such as whether such Participants will be retained or dismissed as employees of the Company, whether such Participants will receive greater or fewer benefits than they receive as employees of the Company at present, including coverage under pension, savings or thrift, or employee stock ownership plans similar to the Company's plans, whether such plans are as well funded as the Company's plans, whether the Participants will receive greater or lower levels of compensation and whether the Participants will continue to be covered by a savings or thrift plan, such as the Plan. To the maximum extent permitted by law, the Trustee shall be obliged to treat the instructions of Participants who have given such instructions as indicative of whether tendering shares of Common Stock would be in the best interests of other Participants.

6.9 Assumption of Investment Risk by Participants: Upon the withdrawal or distribution of benefits under the Plan, a Participant or Beneficiary may be entitled to receive shares of Common Stock or cash as provided for under Articles IX and X. The Employer does not guarantee that the current market value of Common Stock or any other investment will be equal to the purchase price thereof or that the total amount withdrawn or distributed in cash will be equal to or greater than the

amount of the Participant's Basic or Supplemental Contributions. Each Participant assumes all risks in connection with any decrease in the market price of any common stocks or other investments or Investment Funds held on his behalf in accordance with the provisions of the Plan.

If a Participant or Employee submits invalid instructions directing the investment of his account, his account shall continue to be invested in accordance with the most recent valid instructions received by the Committee or in accordance with Section 6.3. If no valid instructions have ever been received, such Participant or Employee shall be deemed to have elected to invest his account in the Money Market Fund, or if none is offered, the Investment Fund that the Committee determines to be closest to a money market fund in expected risk.

6.10 Section 404(c) of ERISA: Except as may otherwise be prescribed by the Committee, categories of assets, election procedures and other rules relating to investment elections shall comply with the requirements of Section 404(c) of ERISA.

## ARTICLE VII

### TRUST FUND ACCOUNTS AND ALLOCATION OF EARNINGS

7.1 Participant's Account: The Committee shall cause to be maintained in an equitable manner a separate account for each Participant in which there shall be kept a separate record of the share of such Participant in each Investment Fund of the Trust Fund which is attributable to his Basic and Supplemental After-Tax and Pre-Tax Contributions, Roll-over Contributions, if any, made pursuant to Article IV hereof and the Employer Contributions made on his behalf.

7.2 Valuation of Investment Funds: The Committee shall cause the Trustee to value separately the Investment Funds described in Article VI as of each Valuation Date by determining the fair market value of the Trust Fund's assets then held in each of the Investment Funds.

7.3 Valuation of Accounts: The difference between the value of each such Investment Fund on any Valuation Date and its value as of the last preceding Valuation Date together with interest, dividends and other sums received and accrued but not yet invested, less expenses, shall be credited or debited, as the case may be, to the account balances of the Participants in each such Investment Fund.

7.4 Statement of Participant's Account: As soon as practicable after the completion of a Plan Year, an individual statement of account shall be issued to each Participant showing the value of his interest in each Fund.

## ARTICLE VIII

### VESTING

8.1 Vesting With Respect to Predecessor Plan Contributions, Participant Contributions and Pre-Tax Contributions Made After December 31, 1973: A Participant shall at all times be fully vested in the current value of that portion of his account which is attributed to Basic and Supplemental Contributions, Rollover Contributions, Direct Rollovers, and direct transfers to the Trust Fund (as described in subparagraph 4.10(c)).

8.2 Vesting With Respect to Employer Contributions: A Participant shall have no vested interest with respect to the value of that portion of his account which is attributed to Employer Contributions, unless he shall have been credited with at least three years of Vesting Service (as defined in Paragraph 8.3). If a Participant has been credited with at least three years of Vesting Service, he shall be vested in 50% of the value of all Employer Contributions. If a Participant has been credited with at least four years of Vesting Service, he shall be vested in 75% of the value of all Employer Contributions. A Participant who has been credited with at least five years of Vesting Service shall be vested in 100% of the value of all Employer Contributions.

8.3 Years of Vesting Service: Subject to the last sentence of subparagraph 10.1(c), an Employee shall be credited with one year of Vesting Service for each Plan Year or part thereof following his commencement of employment with the Employer or with an Affiliated Company during which he shall have been credited with at least 1,000 Hours of Service or six Months of Service. For this purpose, an Employee shall receive credit for all Hours of Service and Months of Service with an Employer or an Affiliated Company, whether or not such Employee was eligible to participate in the Plan during each such Plan Year. In addition, any Employee may be credited with up to five years of employment with Valhi, Inc, Tremont Corporation, Louisiana Pigment Company, L.P., or Baroid Corporation (but only if such employment with Baroid Corporation preceded Baroid's acquisition by or merger with Dresser Industries, Inc.) prior to such Employee's date of hire by the Employer. Notwithstanding the fact that a Participant has incurred a forfeiture under the rules described in Paragraph 8.4, years of Vesting Service shall include years of Vesting Service prior to a one-year Break in Service subject to the following rules:

(a) If a vested Participant has a one-year Break in Service, his pre-break and post-break service shall be used for computing years of Vesting Service upon his date of reemployment.

(b) After five consecutive one-year Breaks in Service, a Participant's vested interest in the value of his Employer Contributions attributable to pre-break service shall not be increased as a result of post-break service.

8.4 Forfeitures Upon Distribution Prior to Full Vesting and Repayment: Except as provided in Paragraphs 8.5 and 8.6, any termination of employment of a Participant, prior to the time

his account attributable to the Employer Contributions made with respect to him is 100% vested in accordance with Paragraphs 8.2 or 8.5, may result in a forfeiture of the current value of the nonvested amounts subject to the following provisions, effective January 1, 1992.

(a) General Rule: The value of his vested interest in his Basic and Supplemental After-Tax Contributions, and in the Basic and Supplemental Pre-Tax Contributions and Employer Contributions made on his behalf will be paid to him in accordance with Paragraph 9.1. Notwithstanding any other provisions of the Plan to the contrary, any nonvested amounts that were held under the Plan (as in effect immediately prior to the Plan Year that commenced on January 1, 1992), in Accounts maintained for Participants who had incurred at least five (5) consecutive one year Breaks in Service on or before January 1, 1992, shall be deemed to have been forfeited during the first Plan Year that commenced immediately after December 31, 1991 and shall be applied as herein provided.

(b) Cashouts Within Two Plan Years After Employment Terminates: The Participant shall not be entitled to the value of the nonvested portion of his account attributable to Employer Contributions which nonvested portion shall be forfeited as of the date distribution of his vested account balance is made or commenced (due to such person's cessation of participation in the Plan) by the close of the second complete Plan Year following the Plan Year in which his employment terminated, and applied in accordance with Paragraph 5.4. Otherwise, with respect to the nonvested portion of such account of a Participant who received a distribution of all or a portion of the vested portion of such account other than by the close of the second complete Plan Year following the Plan Year in which his employment terminated, such forfeiture shall occur on the date on which such Participant incurs five consecutive one-year Breaks in Service following the date of termination of employment. Provided, however, that if the Participant (1) received a distribution which includes the full amount of his entire vested interest in his account attributable to Employer Contributions as a result of his termination of participation in the Plan, which distribution is \$3,500 or less, or is more than \$3,500 but is consented to, (2) returns to active employment before incurring five consecutive one-year Breaks in Service and (3) not later than the end of the five-year period beginning with the Employee's resumption of employment covered by the Plan, repays to the Trust Fund, in cash or shares of Employer Stock (but only to the extent of the number of shares received upon distribution), the entire value of his account balance at the time of distribution to him, the amount repaid and the nonvested portion of the Employer Contributions previously made on the Participant's behalf shall be restored to such Participant's accounts in an amount equal to the value of his accounts on the date of distribution and shall be invested in accordance with the option in effect for such Participant at the time of repayment. In addition, if such Participant (1) received a distribution by the close of the second Plan Year following the Plan Year in which his employment terminated, which distribution was less than the full amount of his entire vested interest in his account attributable to Employer Contributions, which interest is \$3,500 or less, or is more than \$3,500 but is consented to, and (2) returns to active employment before incurring five consecutive one-year Breaks in Service following the date

his employment terminated, the nonvested portion of the Employer Contributions previously made on the Participant's behalf shall be restored to such Participant's accounts in an amount equal to the value of his accounts on the date the distribution commenced without any requirement that he repay to the Trust Fund any amount of the distribution attributable to Employer Contributions; provided, however, any future distributions attributable to Employer Contribution shall be subject to offset by the amount of the prior distribution that was not repaid incident to restoration to the Participant's account pursuant to this sentence. There shall be no adjustment for any gains or losses which may be incurred between the date of distribution and the date of repayment.

(c) Deemed Cashouts: If the Participant did not have a vested interest in any contributions credited to his account at the time of his termination of participation in the Plan he shall be deemed to have received distribution of a vested interest in any contributions credited to his account equal to zero (although actually receiving no distribution from his account as a result of his termination of participation in the Plan), and his account will be restored if he resumes employment covered under the Plan prior to incurring a period of five consecutive one-year Breaks in Service following the date of the termination.

(d) Distribution Made or Begun More Than Two Plan Years After Employment Terminates: With respect to a Participant whose vested interest in his account attributable to Employer Contributions is less than 100% and who receives a termination distribution from his account attributable to Employer Contributions other than by the close of the second Plan Year following the Plan Year in which his employment terminated, any amount remaining in his account attributable to Employer Contributions shall continue to be maintained as a separate account. At any relevant time, such Participant's nonforfeitable portion of such separate account shall be determined in accordance with the following formula:

$$X = P(AB + D) - D$$

For purposes of applying the formula: X is the nonforfeitable portion of such separate account at the relevant time; P is the Participant's vested interest in his account attributable to Employer Contributions at the relevant time; AB is the balance of such separate account at the relevant time; and D is the amount of the distribution. For all other purposes of the Plan, a Participant's separate account shall be treated as an account attributable to Employer Contributions. The forfeitable portion of such terminated Participant's separate account shall be forfeited on the date on which such Participant incurs five consecutive one-year Breaks in Service following the date of termination of employment.

(e) Deferred Vested Distributions: With respect to a Participant who terminates employment with the Employer with a vested interest in his account attributable to Employer Contributions greater than 0% but less than 100% and who is not otherwise subject to the forfeiture provisions of paragraph (b) or paragraph (d) above, the forfeitable portion of such



terminated Participant's account attributable to Employer Contributions shall be forfeited on the date on which such Participant incurs five consecutive one-year Breaks in Service following the date of termination of employment.

(f) Investment of Forfeitable Account Balances: A terminated Participant shall be entitled to direct the investment of his Account up until such time as investments are liquidated, if applicable, and distribution of his entire vested interest is made in accordance with Article IX. Thereafter, the forfeitable portion of such Account shall be invested by the Committee.

8.5 Full Vesting: Notwithstanding the provisions of Paragraph 8.2, a Participant shall be fully vested in all Employer Contributions if his employment is terminated as a result of his Retirement, Disability or death. A Participant shall also be fully vested upon attainment of his normal retirement age regardless of whether he actually retires on such date, except that for Participants first hired by an Employer on or after January 1, 1997, a Participant shall be fully vested upon attainment of the later of (i) his normal retirement age (regardless of whether he actually retires on such date) and (ii) the completion of five years of Vesting Service. For purposes of the preceding sentence, a Participant's normal retirement age shall be the earlier of age 65 or the age treated as his normal retirement age under the provisions of any formal retirement plan the Company under which he may be covered.

8.6 Other Provisions Affecting Vesting: If the termination of participation of any Participant is occasioned by a change in ownership of the outstanding stock of an Affiliated Company by which such Participant is employed, or if the termination of employment of any Participant is occasioned by the sale or other transfer to an acquiring corporation of all or substantially all of the assets used by the Company in a division, plant, location, or other identifiable unit of the Company by which such Participant is employed, and if such former Affiliated Company or acquiring corporation, either prior to or within 60 days from the date of such change, evidences in writing its intention to continue in effect for its employees a profit sharing, thrift or savings plan for their benefit in accordance with the terms of the Plan, the Committee upon approval by the Board shall direct the Trustee to transfer to itself, or to such other trustee as such former Affiliated Company or acquiring corporation shall designate in a trust agreement containing the same or substantially similar terms and provisions as are contained in the agreement establishing the Trust forming part of the Plan, such assets then held by the Trustee for such Participant, without reduction for the nonvested amounts, if any, of his account balance, as the Committee shall determine and certify to the Trustee, constitute the appropriate share of the Trust Fund then held in respect of such former Affiliated Company's or the acquiring corporation's employees, who, prior to the change in ownership, participated under the Plan.

## ARTICLE IX

### DISTRIBUTION OF BENEFITS OTHER THAN WITHDRAWALS

9.1 Normal Form of Payment: Subject to Paragraphs 5.2, 8.6, 13.2, 17.2 and 17.3, distributions shall be made under the Plan only upon the occurrence of one of the events described in Paragraph 10.3. In addition, to the extent required by Section 401(k) of the Code and Regulations or other authority issued thereunder by the appropriate governmental authority, the limits of the immediately preceding sentence shall continue to apply even if Trust Funds attributable to any Participant's account are transferred to another plan pursuant to applicable provisions of Paragraph 4.12(c) or 17.3. Neither the Committee, Trustee nor any Employer shall have any duty to ensure compliance with the requirements of the immediately preceding sentence after the initial transfer therein described.

Unless a Participant otherwise elects, in the case of a Participant whose employment is terminated for any reason, including Retirement, the Committee shall value his account balance as of the Valuation Date coincident with or next following the date on which such termination of employment occurs (or would be deemed to have occurred).

(a) If a Participant's termination of employment is for any reason other than death, all vested amounts then credited to his account shall be distributed in one lump-sum payment; provided, however, that no such lump-sum payment shall be made without the written consent of the Participant where the portion of the payment attributable to (i) Employer Contributions, (ii) Basic and Supplemental Contributions, and (iii) Rollover Contributions, exceeds \$3,500. Such written consent shall be obtained by the Committee within the 90 day period commencing before the date the lump-sum payment is to be made to the Participant. If such a Participant does not provide the Committee with the written consent described above, the Participant shall be deemed to have elected a deferred distribution and all amounts credited to his account at that time shall remain in the Investment Funds, subject to his right to make inter-fund transfers pursuant to Paragraph 6.4, until such Participant either (i) dies (ii) attains age 65 or (iii) consents in writing to an earlier date for distribution; provided, however, if any Participant or Beneficiary elects a deferred lump-sum payment described in Paragraphs 9.2(b), such amounts credited to the Participant's account shall remain in said Investment Funds, subject to inter-fund transfers pursuant to Paragraph 6.4, until the Valuation Date designated by the Participant or the Beneficiary for distribution of benefits, with payment to occur as soon as practicable thereafter. If such Participant dies or attains age 65, without having made a timely election to defer distribution under Paragraph 9.2, all amounts credited to his account at that time shall be distributed pursuant to this subparagraph no later than the 60th day after the close of the Plan Year in which such Participant dies or attains age 65. Such Participant's account balance shall be valued for distribution purposes as of the Valuation Date either (i) designated by the Participant for distribution of benefits under this subparagraph or Paragraph 9.2, or (ii) coincident with or next following his date of death, as applicable. Any such distributions

shall be made as soon as practicable after the applicable Valuation Date. All amounts distributable as a lump-sum under this Paragraph 9.1 from Investment Funds other than the NL Stock Fund and the Dresser/Tremont Stock Fund shall be paid in cash. Amounts distributable from the NL Stock Fund and the Dresser/Tremont Stock Fund shall be paid either entirely in cash, or entirely in whole shares of Common Stock and in cash to the extent of any fractional shares (to 1/10th of a share) as the Participant shall elect. Absent such an election, amounts distributable from the NL Stock Fund and the Dresser/Tremont Stock Fund shall be paid in whole shares of Common Stock (and fractional shares to 1/10th of a share paid in cash).

(b) If the value of a Participant's vested benefit attributable to any Employer Contributions, Basic and Supplemental Contributions, and Rollover Contributions, is less than \$3,500, the Committee in its sole discretion may distribute such benefit in a cash lump-sum, regardless of any election to the contrary.

9.2 Alternative Forms of Payment: Each Participant whose vested account balance exceeds \$3,500 shall be given, not less than 30 days nor more than 90 days before the first day of the first period for which an amount is to be paid as a partial or complete distribution, a general description of the distribution options. After receiving the notice, a Participant or his Beneficiary may file with the Committee an election to have his distribution paid to the Participant or his Beneficiary, as the case may be, in one or more of the forms described below in lieu of the immediate lump-sum payment provided in Paragraph 9.1(a); provided, however, that in the case of termination of employment for any reason other than death, Disability or Retirement, the Participant may not elect the annuity form of distribution described in subparagraph (a) of this Paragraph 9.2. Any such election may be revoked, by the Participant or the Beneficiary, as the case may be, at any time prior to the commencement of benefits or, if sooner, the purchase of any annuity contract pursuant to subparagraph (a) of this Paragraph 9.2. Similarly, a Participant whose Beneficiary is other than his Spouse may designate, at the time he designates such Beneficiary, that the distribution to such Beneficiary be paid in one or more of such forms in lieu of the form prescribed in subparagraph 9.1(a). If the designation permitted in the previous sentence is not made irrevocably by a Participant with respect to actions of his Beneficiary or if the Participant's Spouse is his Beneficiary, and such Participant dies prior to his Retirement, then his Beneficiary may file with the Committee the same election not more than 60 days subsequent to the date of the Participant's death.

The alternate forms of distribution are:

(a) Annuity: A nontransferable annuity contract, provided, however, that: (i) if a Participant's termination of employment is due to Retirement and if such Participant has a Spouse at the time of such distribution then, unless the Participant files a written election not to receive his benefits in this form in the manner prescribed in Paragraph 9.3, such annuity shall be paid on a fixed annuity basis with 50% of the annuity continued after the Participant's death to his Spouse. Such annuity shall be in the form of a "qualified joint and survivor annuity", as that term is defined in Section 417(b) of the Code, and shall be

actuarially equivalent to the single life annuity which would be payable for the life of the Participant.

All payments under an annuity contract distributed hereunder must be payable not less frequently than annually and must be of approximately equal amounts, except that the earlier payments may exceed the later payments and no contingent annuitant option may be elected which would allocate to the Participant less than 50% of the actuarial value of the benefits payable under such contract. This limitation shall not preclude the election of an annuity for the life of the Participant under which payments in equal or lesser amounts are thereafter made to his surviving spouse;

(b) Lump Sum: A lump sum payment payable in the manner prescribed in subparagraph 9.1(a) valued as of the Valuation Date designated as the date for distribution of benefits by the Participant or the Beneficiary but no later than the April 1st of the calendar year following the calendar year in which the Participant attains age 70 1/2; provided, however, if a Participant was born prior to July 1, 1917, and is not a 5% owner subject to the rule set forth in subparagraph 9.5(a), any benefit payable to such Participant shall commence no later than the April 1st of the calendar year following the later of (i) the calendar year in which the Participant attains age 70 1/2 or (ii) the calendar year in which the Participant retires. The Committee may accelerate the lump-sum payment in the event of hardship; or

(c) Installments: Approximately equal annual installments paid in cash over a fixed period of years subject to minimum payment requirements under the Regulations as prescribed by the Committee. Such period of years for the payment of installments may commence as of any Valuation Date after the Participant's termination of employment, as elected by the Participant or the Beneficiary, but no later than the April 1st of the calendar year following the calendar year in which the Participant attains age 70 1/2; provided, however, if a Participant attained age 70 1/2 prior to January 1, 1988, except as otherwise provided in subparagraph 9.4(a), any benefit payable to such Participant shall commence no later than the April 1st of the calendar year following the later of (i) the calendar year in which the Participant attains age 70 1/2 or (ii) the calendar year in which the Participant retires. Such installments shall be paid over the period of years elected by the Participant or the Beneficiary provided that such period shall not exceed the lesser of (i) 15 years, or (ii) the life expectancy of the Participant, the Beneficiary or the joint life expectancy of the Participant and the Beneficiary as determined by the Committee in accordance with the Code. In the event of hardship, the Committee may accelerate the payment of one or more installments or reduce the installment payment period.

Any Participant or Beneficiary electing an alternate form of distribution described in subparagraphs (b) or (c) shall continue to participate in Investment Fund performance with respect to all undistributed portions of his account balance. In no event shall any payment pursuant to subparagraphs (b) or (c) be permitted after the Participant's attainment of age 65 unless the method

of payment, on an actuarial basis, will provide the Participant with more than 50% of the present value of the total payments to be made to the Participant and the Beneficiary.

9.3 Notice of Right to Elect Not to Receive Benefits in Form of Qualified Joint and Survivor Annuity: Each Participant who elects to have his distribution paid in the form of an annuity contract set forth in Paragraph 9.2(a) and who would otherwise receive the qualified joint and survivor annuity set forth in subparagraph 9.2(a)(i) shall have a period of 90 days ending on the annuity starting date to make a Qualified Election not to take such form of annuity under the Plan, and to elect any other permissible form of annuity or other optional form of benefit provided under Paragraph 9.2. A Participant may revoke his election to take an optional form of benefit at any time during the election period. The Committee shall provide to the Participant within a reasonable period prior to the commencement of benefits a written explanation of: (i) the terms and conditions of qualified joint and survivor annuity; (ii) the Participant's right to make, and the effect of, a Qualified Election to waive such form of benefit; (iii) the rights of the Participant's Spouse; and (iv) the right to make, and the effect of, a revocation of a previous Qualified Election to waive the qualified joint and survivor annuity. The election of an optional form of benefit which includes the payment of an annuity shall not be given effect if the Participant or any other person who would receive benefits from such annuity dies before the purchase of an annuity contract.

#### 9.4 Distributions Upon Death:

(a) Except in the case of a Participant whose benefits are paid in the form of an annuity, as described in subparagraph 9.2(a), in the event of the death of a Participant prior to complete payment under any allowable form of distribution, the balance of his account under the Trust Fund shall be distributed to his Beneficiary in accordance with Paragraphs 9.1(a) and 9.2; provided, however, that such balance will continue to be distributed at least as rapidly as under the method of distribution in effect on the Participant's death.

(b) In the event of the death of a Participant prior to commencement of the distribution of his benefit, the Participant's entire benefit shall be distributed to the Beneficiary no later than five years after the Participant's death; provided, however, that any such distribution may be made in installments pursuant to subparagraph 9.2(c) if such distribution is commenced not later than one year after such Participant's death or, if such Beneficiary is the Participant's surviving Spouse, not later than the date on which such Participant would have attained age 70 1/2 (or any such later date prescribed in the Regulations.) If the surviving Spouse dies before payments begin, subsequent distributions shall be made as if the Spouse had been the Participant.

(c) For purposes of this Paragraph 9.4, any amount paid to a child of the Participant shall be treated as if it had been paid to the surviving Spouse if such amount becomes payable to the surviving Spouse upon the child's attaining the age of majority or such other event prescribed in the Regulations.

9.5 Commencement of Certain Distributions:

(a) If a Participant who is a 5% owner attained age 70 1/2 before January 1, 1988, any benefit payable to such Participant shall commence no later than the April 1st of the calendar year following the later of (i) the calendar year in which the Participant attains age 70 1/2 or (ii) the earlier of (A) the calendar year within which the Participant becomes a 5% owner or (B) the calendar year in which the Participant retires. For purposes of this Subsection (a), a 5% owner shall mean a 5% owner of such Participant's Employer as defined in Section 416 (i) of the Code at any time during the Plan Year in which such owner attains age 66 1/2 or any subsequent Plan Year.

(b) Unless a Participant or Beneficiary elects otherwise in accordance with this Article IX, the payment of the value of a Participant's vested interest under the Plan shall begin not later than the 60th day after the latest of the close of the Plan Year in which: (i) the Participant attains age 65; (ii) the Participant terminates employment with the Employer or other Affiliated Company; or (iii) the tenth anniversary of the year in which the Participant commenced participation in the Plan occurs.

9.6 Special Distributions:

(a) In addition to the distributions available under Sections 9.1 and 9.2, a Participant or his Beneficiary may elect, on or after the date of occurrence of an event specified in Paragraph 9.5(b), to receive, as soon as practicable after the filing of an election with the Committee, a distribution in one lump-sum payment of all amounts credited to his account in Investment Funds B,C,E and G or, effective July 1, 1990, in all Investment Funds.

(b) A Participant or his Beneficiary may make an election under Paragraph 9.5(a) if one of the following events shall have occurred on or after January 1, 1985: (i) the Plan is terminated without the establishment of or maintenance of another defined contribution plan (other than a plan defined in Section 4975(e)7 of the Code); (ii) there is a disposition by the Company of substantially all of the assets (within the meaning of Section 409(d)(2) of the Code) used by the Company in a trade or business, and the Participant continues employment with the corporation acquiring the assets; or (iii) there is a disposition by the Company of the Company's interest in a subsidiary (within the meaning of Section 409(d)(3) of the Code), and the Participant continues employment with the subsidiary.

9.7 Minimum Distribution Requirements: All distributions under Article IX shall be determined and made in accordance with Section 401(a)(9) of the Code, including the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed Income Tax Regulations or any successor or final regulation issued with respect thereto.

9.8 Waiver of 30 Day Notice: If a distribution is one to which Sections 401(a)(11) and 417 of the Internal Revenue Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that:

(1) the plan administrator clearly informs the participant that the participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(2) the participant, after receiving the notice, affirmatively elects a distribution.

## ARTICLE X

### WITHDRAWALS

#### 10.1 Withdrawals of Contributions:

(a) General: Subject to the limitations set forth in Paragraph 10.3 with respect to Basic and Supplemental Pre-Tax Contributions, a Participant may make withdrawals from his account balance in the various Investment Funds at any time prior to his termination of employment, without the consent of the Committee, as hereinafter set forth. The provisions of this Article X shall apply to deferred vested Participants who are not current employees on the same basis that such provisions apply to currently employed Participants.

(b) Procedure: All requests for withdrawals shall be initiated by submission of the appropriate Plan form to the local administrator at least 5 days before the 15th of the month or the end of the month that is the Valuation Date with respect to the proposed withdrawal, unless the Committee resolves that requests for withdrawals may be initiated by telephoning the representative of the Trustee at the number stated in the summary plan description of the Plan and following the instructions of that representative. Written confirmation of the transaction will be sent to the Contributing Participant by the Trustee and such written confirmation is binding unless the Contributing Participant demonstrates an error in such written confirmation within the number of days stated on the written confirmation. The value of a Participant's accounts will be valued on the Valuation Date next following the date on which the request is approved. Distribution shall be made in a lump-sum cash payment within 15 days or as soon as practicable. All such withdrawals shall be taken proportionately from each of the Participant's Investment Funds, except that if the Committee determines in its sole discretion that such proportionate withdrawal would violate any Securities and Exchange Commission ("SEC") rule concerning the sale of stock by an officer or member of the board of directors of any company of which the stock is held in the Plan, the withdrawal shall be taken proportionately from each of the affected Participant's Investment Funds other than the NL Stock Fund or the Dresser/Tremont Stock Fund or any other company stock fund in which transactions would violate any SEC rule.

(c) Limitations: A Participant is not allowed to take more than two withdrawals in any calendar year, nor any withdraw an amount of less than one hundred dollars (\$100).

(d) Source of funds: All withdrawals shall be made in the following sequence and for purposes of this Paragraph where reference is made to Basic and Supplemental Pre-Tax Contributions or Basic and Supplemental After-Tax Contributions, such terms shall mean the lesser of the actual amount of such unwithdrawn contributions or the current market value thereof as of the applicable Valuation Date:



(i) all of his Basic and Supplemental After-Tax Contributions made prior to 1987;

(ii) all or part of his post-1986 Supplemental After-Tax Contributions, and all or part of the increments earned on all Supplemental After-Tax Contributions;

(iii) all or part of his post-1986 Basic After-Tax Contributions, and all or part of the increments earned on all Basic After-Tax Contributions;

(iv) all or part of that portion of his account balance attributable to Employer Contributions which are fully vested, including increments earned thereon, subject to the provisions of Paragraph 10.4. For purposes of determining his vested percentage at the time of such withdrawal, a Participant who has completed at least 1,000 Hours of Service or six Months of Service at the time of the withdrawal shall be deemed to have completed one year of Vesting Service;

(v) all or part of Employer Contributions made prior to January 1, 1974 to the Predecessor Plan, including increments earned thereon, Rollover Contributions, Direct Rollovers and direct transfers from another qualified trust as described in subparagraphs 4.10(b), (c) and (d) including increments earned thereon;

(vi) all or part of his Basic and Supplemental Pre-Tax Contributions, provided he has satisfied the requirements of Paragraphs 10.3 or 10.6.

10.2 Suspensions: A Participant who makes a withdrawal shall be suspended from making any further Basic After-Tax or Supplemental Contributions for a period of three months, effective as of the Valuation Date upon which the withdrawal is based. A Participant who makes a withdrawal pursuant to Paragraph 10.6 shall be suspended from making any further Basic Pre-Tax, Basic After-Tax or Supplemental Contributions for a period of three months, effective as of the Valuation Date upon which the withdrawal is based.

10.3 Withdrawal of Basic and Supplemental Pre-Tax Contributions: Notwithstanding the provisions of Paragraph 10.1, Basic and Supplemental Pre-Tax Contributions, including the increments earned thereon, may not be withdrawn by, or otherwise distributed to, a Participant until the earliest to occur of the Participant's Retirement, Disability, death, separation from service, attainment of age 59 1/2 or hardship (as determined by the Committee in accordance with Paragraph 10.6). Notwithstanding the foregoing, in the case of a withdrawal on account of hardship, no post-1988 earnings on Basic or Supplemental Pre-Tax Contributions may be withdrawn by, or otherwise distributed to, a Participant except to the extent permitted by Regulations.

10.4 Restrictions on Withdrawal of Employer Contributions: Notwithstanding the provisions of Paragraphs 10.1, 10.2 and 10.6, no Participant shall be permitted to make a withdrawal under subparagraph 10.1(c) until the amounts to be withdrawn have been held in the Trust Fund for a period of 24 full months. Such period shall be measured from the day such amounts are actually deposited in the Trust Fund until the day of withdrawal; provided, however, that Participants with

not less than 60 months of participation in the Plan (including, for this purpose, participation in the Prior Plan) may make withdrawals subject to Paragraph 10.2 under subparagraph 10.1(c) without regard to the restriction imposed by this Paragraph 10.4.

10.5 Special Rules Affecting Withdrawals: Except as provided in Paragraph 10.6, no withdrawal other than as provided in subparagraph (d) of Paragraph 10.1 may be made by a Participant while a suspension for a prior withdrawal is in effect. If a Participant was suspended from making Basic Contributions as a result of a withdrawal described under Paragraph 10.1, and thereafter resumes making Basic Contributions, such Basic Contributions shall be, for a period of time equal to the period of suspension, at a rate of contribution not greater than the rate contributed as Basic Contributions at the time the suspension began.

#### 10.6 Hardship Withdrawals:

(a) General rules: After all withdrawals permissible under Paragraphs 10.1 and 10.4, a Participant, in the case of immediate and heavy financial need, may apply to the Committee to withdraw all or any portion of his vested account balance under the Plan. If the Committee determines in accordance with nondiscriminatory and objective guidelines promulgated by the Committee (which shall be consistent with the Regulations subject to differences in rules and regulations applicable to different classifications of contributions and increments, and uniformly applicable to all Participants), in accordance with any guidelines or Regulations issued by the Secretary of the Treasury, and with the facts of the particular case, that an immediate and heavy financial need exists, the Committee may direct the Trustee to distribute such portion of the Participant's account balance at such time and subject to such conditions as the Committee in its sole discretion shall determine is necessary to satisfy such immediate and heavy financial need and which may not reasonably be obtained by other resources of the Participant including resources of the Participant's spouse, children or dependents reasonably available to the Participant. The Committee may require any Participant who applies for a withdrawal pursuant to this Paragraph 10.6 to provide it with such financial information as may be required to make such determination.

(b) Hardship amounts and purposes: Subject to the Committee's guidelines, such withdrawals may be made in the event of an immediate and heavy financial need arising from (i) medical expenses described in Section 213(d) of the Code previously incurred (or, effective January 1, 1992, previously incurred or necessary to be incurred) by the Participant, his spouse, or dependents, (ii) the purchase (excluding mortgage payments) of the Participant's primary residence, whether such residence is a previously existing structure or a proposed structure under contract to be newly constructed (iii) payment of tuition or, effective January 1, 1992, related educational fees, for the next semester or quarter or, effective January 1, 1992, year, of post-secondary education of the Participant, his spouse, or dependents, (iv) the need to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence, or (v) any other event specifically identified in regulations or other guidance from the Internal Revenue Service as a hardship for which a qualified pension benefit plan may permit a hardship withdrawal under Section 401(k) of the Code and related regulations. Effective January 1, 1992, the withdrawal may include an additional amount necessary to pay any federal, state, or local income taxes or penalties (including additional taxes under Section 72(t) of the Code) that are reasonably expected to result from the withdrawal.

## ARTICLE XI

### NAMED FIDUCIARY AND ADMINISTRATION

11.1 Pension and Employee Benefits Committee: The Committee shall be the Pension and Benefits Committee of NL Industries, which is a committee appointed by the Board. The charter and bylaws of the Committee shall govern wherever such investments are in direct conflict with the provisions of this Article XI. If, however, the Pension and Employee Benefits Committee should cease to exist then, the Board shall appoint at least three persons as members of the Committee who shall be subject to removal by the Board at any time. A member of the Committee may resign by giving the Board not less than 30 days written notice unless the Board accepts a lesser period of notice.

Names of the current members of the Committee are available from the Secretary of the Committee. The Committee shall be the Plan's "named fiduciary" as that term is defined in ERISA and shall, except as provided in Paragraph 11.2, provide for the funding, maintenance and administration of the Plan. Any act which the Plan authorizes or requires the Committee to do may be done at a meeting of the Committee by a majority of the members then voting. The members of the Committee shall serve without compensation for their services as such, but all expenses of the Committee in the performance of their duties under the Plan (including compensation for legal counsel, accountants, consultants and agents) shall be paid proportionately by each Employer or, at the Committee's direction, out of the Trust Fund.

#### 11.2 Authority of the Committee:

(a) The Committee shall have the following powers of the Company with respect to the Plan:

(i) to appoint, remove or replace any Trustee;

(ii) to appoint, remove or replace any one or more investment advisors or investment managers under the Plan;

(iii) to appoint, remove or replace any other fiduciary or named fiduciary of the Plan;

(iv) to amend the Plan and the Trust as may be necessary or appropriate to facilitate their administration or operation or to ensure the continued qualification of the Plan and the tax-exempt status of the Trust under Sections 401(a) and 501(a) of the Code, respectively, provided such amendment does not increase materially the cost to the Company funding or administering the Plan; and

(v) to secure and maintain the qualification of the Plan under applicable law.

(b) The Board shall retain power and, except as provided in subparagraph (a)(iv) above, the Committee shall not have the power:

(i) to amend, suspend or terminate the Plan, any contributions thereunder or the Trust, in whole or in part, at any time and for any reason;

(ii) to provide the proper funding of the Plan; and

(iii) to monitor periodically the performance of the Committee and to determine, in connection with such monitoring, whether to continue any delegation to or responsibility of the Committee with respect to the Plan.

11.3 Delegation of Authority: The Committee shall appoint a Secretary, who need be neither a Participant nor a member of the Committee. The Secretary, or such other person as the Committee may designate, duly shall record all acts and determinations of the Committee and maintain all record books or documents necessary for the administration of the Plan. The Committee may establish procedures for allocating fiduciary responsibilities among the members of the Committee and may designate any one or more persons to exercise any of its powers, including any of its powers as administrator, or to execute or deliver any instrument or make any payment on its behalf; provided, however, that no person other than a member of the Committee, the Trustee or an investment manager shall have any authority or control, whether or not discretionary, respecting the management or disposition of the Plan's assets.

11.4 Administrator: The Committee shall serve as "administrator" of the Plan as that term is defined in ERISA. The Committee, as administrator, shall have the authority and responsibility to:

(a) control the operation and administration of the Plan in accordance with the terms of the instruments and resolutions governing the Plan and any related Trust;

(b) determine benefit eligibility and to certify such eligibility to any other fiduciaries;

(c) establish procedures and adopt rules and regulations of uniform application as it deems necessary or appropriate for the effective administration of the Plan;

(d) hire persons and organizations to provide legal, accounting, investment advisory and other services necessary or beneficial to the Plan;

(e) issue directions to the Trustee to pay any fees, taxes, charges or other costs incidental to the operation and management of the Plan by the administrator pursuant to this Paragraph 11.4;

(f) issue directions to the Trustee as to the amount of Plan assets to be held in cash to assure proper liquidity;

(g) prepare and file all reports and returns required to be filed by the Plan with any agency of government;

(h) comply with all disclosure requirements imposed by state or federal law;

(i) maintain all records of the Plan other than those required to be maintained by the Trustee or by any fiduciary of the Plan; and

(j) perform all other acts required by law to be performed by the administrator of the Plan.

The Committee shall have all powers necessary to carry out the provisions of the Plan and shall have the absolute, unilateral, and exclusive right and power to interpret, construe and construct the terms and provisions of the Plan, including, without limitation, correcting any error or defect, supplying any omission or reconciling any inconsistency, and making all determinations that may impact a claim for benefits, including factual determinations. Subject to Paragraph 11.5, the Committee's decisions, interpretations, determinations and actions in respect thereof shall be conclusive and binding upon each Employer, Participant, Beneficiary and all other persons and entities.

**11.5 Appeals Procedure:** The Committee, as administrator, shall act as claims fiduciary except to the extent that the Committee has delegated the function to someone else. All claims for benefits under the Plan must be made in writing and shall be directed to the attention of the claims fiduciary. Upon receipt of the claim, the claims fiduciary shall notify the claimant in a timely fashion of the time periods within which any notice of denial of claim, request for review of claim, or decision on review of denial of claim must be given in accordance with subparagraphs (a) through (c) below.

(a) If the claims fiduciary determines that any individual who has claimed a right to receive benefits under the Plan is not entitled to receive all or any part of the benefits claimed, it shall inform the claimant in writing of its determination and of the reasons therefor in layman's terms, with specific reference to pertinent Plan provisions and any additional material necessary for the claimant to perfect his claim. The notice of denial shall also include a summary description or a copy of the text of the review procedures set forth below. Such notice shall be made within a reasonable period of time but not later than 90 days after receipt of the claim, unless special circumstances require an extension of time for processing. If such an extension of time is required, the claims fiduciary shall furnish written notice of the extension to the claimant prior to the termination of the initial 90 day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the claims fiduciary expects to render a final decision. If notice of the denial of claim is not furnished within the time limits specified above, the claim shall be deemed denied and the claimant shall be permitted to proceed to the review process described in subparagraphs (b) and (c) below.

(b) Within 60 days of the receipt by the claimant of the written notice of denial of the claim, the claimant may file a written request with the claims fiduciary to conduct a full and fair review of the denial of the claimant's claim for benefit. In connection with the claimant's appeal, the claimant may review pertinent documents and may submit issues and comments in writing.

(c) The claims fiduciary shall promptly advise the claimant of its decision on the claimant's request for review. Such decision shall be written in a manner calculated to be understood by the claimant, shall include specific reasons for the decision, and shall contain specific references to pertinent Plan provisions upon which the decision is based. The decision on review shall be made no later than 60 days following receipt of the claimant's request for review. If special circumstances require an extension of time for processing, a decision shall be rendered not later than 120 days following receipt of the request for review. Written notice of any such extension shall be furnished to the claimant prior to the commencement of the extension.

**11.6 Reliance on Reports and Certificates:** The Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any Trustee, accountant, controller, counsel or other

person who is employed or engaged for such purposes.

11.7 Member's Own Participation: No member of the Committee may act, vote or otherwise influence a decision of the Committee specifically relating to his own participation under the Plan.

11.8 Exemption from Bond: No member of the Committee shall be required to give bond for the performance of his duties hereunder, unless required by law which cannot be waived.

11.9 Persons Serving in Dual Fiduciary Roles: Any person, group of persons, corporations, firm or other entity, may serve in more than one fiduciary capacity with respect to the Plan, excluding the ability to serve both as Trustee and as a member of the Committee.

11.10 Indemnification: Each member of the Committee and any Employee, director or officer of an Employer, who is considered to have served in a fiduciary capacity with respect to the Plan, shall be indemnified by the Company against expenses (including the amount of any liability imposed in the form of a money judgment, civil penalty, excise tax, as well as amounts paid in settlement) reasonably incurred by him in connection with any action, suit or proceeding to which he may be a party or with which he shall be threatened by reason of his being considered to have served in a fiduciary capacity, to the fullest extent permitted by the By-Laws of the Company and by law. No such individual shall be liable with respect to a breach of fiduciary duty if such a breach occurred before he became a fiduciary or after he ceased to be a fiduciary.

11.11 Liability of Fiduciaries: No person, including any Trustee, who shall at any time be considered to be or to have been a fiduciary, as such term is defined under ERISA, shall be liable for the breach of fiduciary responsibility of any other person who is at any time considered to be or to have been a fiduciary, except as provided in Section 405(a) of ERISA.

11.12 Liability of Named Fiduciaries: No fiduciary who at any time is considered to be or to have been a "named fiduciary," as that term is defined in ERISA, shall be liable for an act or omission of any person, designated by such fiduciary to carry out fiduciary responsibilities, or to whom such named fiduciary has allocated the performance of his own fiduciary responsibilities, except as provided in Section 405(c)(2) of ERISA.

## ARTICLE XII

### THE TRUST FUND

12.1 The Trust: All assets of the Plan, including earnings thereon, shall comprise the Trust Fund. Except as provided in Paragraph 12.2, no part of the principal or income of the Trust Fund shall be used for, or diverted to, purposes other than the exclusive benefit of the Participants and their Beneficiaries. No person shall have any interest in or right to any part of the earnings of the Trust Fund, except as and to the extent provided in the Plan and under federal law. The Trustee shall invest, reinvest, manage, control and make disbursements from the Trust Fund in accordance with the provisions of the Plan and the Trust, subject, however, to the power of the Committee to appoint an investment manager pursuant to subparagraph 11.2(a)(ii).

12.2 Irrevocability of Company Contributions: All contributions by the Company or any Employer shall be irrevocable when made, and the Company shall have no right, title or interest of any kind in the Trust Fund; provided, however, that if the Plan and Trust shall not initially, or after any amendment, be determined by the Internal Revenue Service to be qualified under applicable provisions of the Code, or if a contribution made by any Employer shall be disallowed as a deduction under applicable provisions of the Code, or if a contribution of any Employer is made by mistake of fact, then upon the Employer's written request such affected Employer contributions shall be returned to the Company or to the appropriate Employer within 30 days of such request; provided, however, that no contributions may be returned more than one year after the date of the determination of disqualification, disallowance of the deduction of mistaken payment, respectively.

12.3 Exclusive Benefit: Subject to the provisions of Paragraph 12.2, it shall be impossible at any time for any part of the Trust Fund to revert to the Company or to any Employer, or to be used for or diverted to any purpose other than the exclusive benefit of Participants, former Participants and their Beneficiaries, or for defraying expenses of administering the Plan and Trust Fund. No person shall have any interest in or right to any part of the Trust Fund, except as, and to the extent, provided in the Plan and under federal or state law.

ARTICLE XIII

AMENDMENT AND TERMINATION OF PLAN

13.1 Right to Amend or Terminate: The Board shall have the right, at any time and from time to time, to amend in whole or in part of any of the provisions of the Plan or to terminate the Plan, provided that no such amendment may affect the rights, duties or responsibilities of the Trustee without its consent. Any amendment or termination of the Plan, other than an amendment described in subparagraph 11.2(a)(iv), shall become effective upon delivery to the Committee and the Trustee of a written instrument executed by the Company pursuant to written resolutions of the Board, as of the effective date specified therein. To the extent that the Board delegates authority to the Committee to amend the Plan, the written instrument shall be executed by the Committee pursuant to written resolution of the Committee. The written instrument may be a certified copy of the applicable resolutions. Amendments of the Plan described in subparagraph 11.2(a)(iv) shall become effective as of the effective date of a written instrument executed by the Committee. Any amendment of the Plan requiring the Trustee's consent shall become effective as of such specified date immediately upon such consent. Except as may be necessary to maintain the qualification of the Plan pursuant to Sections 401(a) and 501(a) of the Code and subject to the provisions of Paragraph 12.2, no such amendment or termination of the Plan shall authorize or permit any part of the Trust Fund to be used for or directed to purposes other than the exclusive benefit of Participants and their Beneficiaries, or, except as may be required by governmental authority, to affect adversely either the benefits of Participants already retired, or the Trust Fund securing such benefit.

13.2 Mandatory Amendments: The Contributions of each Employer to the Plan are intended to be:

- (a) deductible under the applicable provisions of the Code;
- (b) except as otherwise prescribed by applicable law, exempt from the Federal Social Security Act;
- (c) except as otherwise prescribed by applicable law, exempt from withholding under the Code; and
- (d) excludible from any Participant's regular rate of pay, as that term is defined under the Fair Labor Standards Act of 1938, as amended.

The Company shall make such amendments to the Plan as may be necessary to carry out this intention, and all such amendments may be made retroactively.

13.3 Distribution of Accounts Upon Plan Termination: In the event of and upon the Company's termination or partial termination of the Plan or complete discontinuance of contributions other than by reason of being merged into, or consolidated with, the plan of another Affiliated Company, whether or not the Trust also terminates concurrently therewith, the interest in the portion of each Participant's account balance attributable to Employer Contributions theretofore made on behalf of such Participant shall become fully vested. Subject to the provisions of Article XIV, any unallocated forfeitures shall be reallocated to the accounts of Employees who are Participants on the date of such termination or complete discontinuance in the proportion that the account balances of each such individual Participant bears to the account balances of all persons who are Participants on such date, provided that such reallocation does not discriminate in favor of Employees who are officers, shareholders, or highly compensated. Unless the Board directs otherwise, such a complete discontinuance of contributions or a termination of the Plan shall not, except as otherwise permitted under Paragraph 9.5, accelerate any payments or distributions to or for the benefit of the Participants or their Beneficiaries or estates, but the Trust Fund shall continue to be held for distribution and application in the manner to be prescribed by the Board.

## ARTICLE XIV

### LIMITATIONS ON CONTRIBUTIONS

14.1 Priority of this Article: The provisions of this Article XIV shall govern notwithstanding any other provisions of the Plan.

14.2 Limitation to Annual Additions: Annual Additions to a Participant's account in respect of any Plan Year may not exceed the lesser of:

(a) \$30,000, or, if greater, one-fourth of the defined benefit dollar limitation set forth in Section 415(b)(1)(A) of the Code as in effect for such Plan Year; or

(b) 25 percent of the Participant's compensation as defined in Section 415(c)(3) of the Code for such Plan Year, but in no event more than the first \$150,000 of compensation, as adjusted for cost of living to the extent permitted by the Code and the Regulations.

For this purpose, the term "Annual Additions" shall mean the sum of the following amounts which, without regard to this Article XIV, would have been credited to the Participant's Account for any Plan Year under the Plan and under any other defined contribution plans of the Employer or an Affiliate: (i) Employer Contributions; (ii) Basic Pre-Tax Contributions; (iii) Basic After-Tax Contributions; (iv) Supplemental Contributions; (v) forfeitures, if applicable; and, with respect to any plan maintained by the Employer or an Affiliate; (vi) contributions allocated to any individual medical account defined in Section 415(l)(1) of the Code; and (vii) in the case of a Participant who is a "key employee," as defined in Section 416(i) of the Code, the amount allocated to a separate account established for postretirement medical or life insurance benefits or such Participant described in Section 419A(d)(1) of the Code. Without limiting the scope of the immediately preceding sentence, for the purpose of clarity, in addition to other amounts set forth in regulations or other guidance issued under Section 415 of the Code by the appropriate governmental authority, amounts paid to the Trust pursuant to the terms and provisions of the Plan to pay brokerage commissions on purchases and sales of Employer Stock shall not be treated as annual additions. The term Annual Additions shall not include any Rollover Contributions made pursuant to Paragraph 4.10. Solely for the purposes of subparagraph 14.4(a), Annual Additions shall include a participant's contributions under a qualified cost-of-living arrangement described in Section 415(k)(2) of the Code. Contributions shall continue to be treated as Annual Additions notwithstanding that such contributions are excess deferrals, excess contributions, or excess aggregate contributions or notwithstanding that such excess deferrals and excess contributions have been corrected through distribution or recharacterization.

14.3 Adjustments of Annual Additions: In the event that the amounts which would otherwise be allocated to a Participant's account must be reduced by reason of the limitations of Paragraph 14.2, such reduction shall be made in the following order of priority, but only to the extent necessary:

(1) The amount of the Participant's Supplemental After-Tax Contributions, exclusive of any earnings of the Trust Fund attributable thereto, shall be refunded to the Participant; then

(2) The amount of the Participant's Basic After-Tax Contributions, exclusive of any earnings of the Trust Fund attributable thereto, shall be refunded to the Participant; then

(3) To the extent permitted by the Code and the Regulations, the amount of Basic and Supplemental Pre-Tax Contributions, exclusive of any earnings of the Trust Fund attributable thereto, shall be refunded to the Participant or, to the extent required by law shall be held unallocated in a suspense account and shall be applied, as directed by the Committee in accordance with the law and regulations, as a credit to reduce the contributions of the Employer for the next Plan Year and in the event of termination of the Plan shall be returned to the Employer; and then

(4) Employer Pension Feature Contributions allocable to such Participant in respect of such Plan Year shall be reduced and the amount of such reduction shall be utilized to reduce Employer Pension Feature Contributions which would otherwise be made to the Plan.

(5) Employer Matching Contributions allocable to such Participant in respect of such Plan Year shall be reduced and the amount of such reduction shall be utilized to reduce Employer Matching Contributions which would otherwise be made to the Plan.

14.4 Participant Covered Under Defined Benefit Plan:

(a) Subject to subparagraphs 14.4(c) and 14.4(d), in the event that, in any Plan Year and with respect to any Participant, the sum of the "Defined Contribution Fraction" (as defined in subparagraph 14.4(b)) and the "Defined Benefit Fraction" (as defined in subparagraph 14.4(b)) would otherwise exceed 1.0, then the benefit payable under the defined benefit



plan or plans shall be reduced in accordance with the provisions of that plan or those plans, but only to the extent necessary to ensure that such limitation is not exceeded. If this reduction does not ensure that the limitation set forth in this Paragraph 14.4 is not exceeded, then the Annual Addition to any defined contribution plan, other than the Plan, shall be reduced in accordance with the provisions of that plan but only to the extent necessary to ensure that such limitation is not exceeded.

(b) For purposes of Paragraph 14.4, the following terms shall have the following meanings:

(1) "Defined Contribution Fraction" shall mean, as to any Participant for any Plan Year, a fraction, (A) the numerator of which is the sum of Annual Additions, for the Plan Year and all prior Plan Years, as of the close of the Plan Year and (B) the denominator of which is the sum of the lesser of the following amounts, determined for such Plan Year and for each prior Year of Service (i) the product of 1.25 multiplied by the dollar limitation in effect for such year under subparagraph 14.2(a) or (ii) the product of 1.4 multiplied by the amount which may be taken into account under subparagraph 14.2(b) with respect to the Participant for such year; provided, however, that for years ending prior to January 1, 1976, the numerator of such fraction shall in no event be deemed to exceed the denominator of such fraction; and, further provided, that the Committee, in determining the Defined Contribution Fraction may elect to use the special transitional rules permitted by Section 415 of the Code and the Regulations thereunder; and

(2) "Defined Benefit Fraction" shall mean, as to any Participant for any Plan Year, a fraction, (A) the numerator of which is the projected annual benefit (determined as of the close of the Plan Year and in accordance with the Regulations) of the Participant under any defined benefit plan (as defined in Sections 414(j) and 415(k) of the Code) maintained by the Company or any of its Affiliates and (B) the denominator is the lesser of (i) the product of 1.25 multiplied by the dollar limitation in effect under Section 415(b)(1)(A) of the Code for such Plan Year or (ii) the product of 1.4 multiplied by an amount equal to 100 percent of the Participant's average compensation for his high 3 years within the meaning of Section 415(b)(3) of the Code for such Plan Year.

(c) In the case of a Participant with respect to whom the sum of the Defined Contribution Fraction and the Defined Benefit Fraction exceeds 1.0 with respect to the last Plan Year beginning before January 1, 1983, an amount, determined in accordance with the Regulations, may be subtracted from the numerator of the Defined Contribution Fraction (not exceeding such numerator) so that the sum of such Participant's Defined Contribution Fraction and his Defined Benefit Fraction computed under paragraph (a) of this Paragraph 14.4 does not exceed 1.0 for the last Plan Year beginning before January 1, 1983.

(d) Notwithstanding the foregoing provisions of this Paragraph 14.4, in determining the maximum Annual Addition for any Plan Year beginning before January 1, 1987, the Annual Addition shall not be recomputed to treat all Basic After-Tax Contributions and Supplemental After-Tax Contributions as an Annual Addition.

ARTICLE XV

TOP-HEAVY PROVISIONS

15.1 Applicability of Top-Heavy Provisions: If the Plan is or becomes a Top-Heavy Plan in any Plan Year, the provisions of this Article XV will supersede any conflicting provisions in the Plan during each Plan Year in which the Plan is a Top-Heavy Plan. In the event that any provision of this Article XV is no longer necessary for the Plan to meet the requirements of Section 401(a) or other applicable sections of the Code, such provision shall immediately become null and void and shall no longer apply without the necessity of further amendment of the Plan.

15.2 Definitions: As used in this Article XV, the following terms shall have the meanings set forth below:

(a) "Determination Date" shall mean, with respect to any Plan Year, the last day of the preceding Plan Year.

(b) "Key Employee" shall have the meaning set forth in Section 416(i) of the Code. For purposes of determining Key Employees pursuant to this subparagraph, "compensation" shall have the meaning prescribed in Section 414(s) of the Code or, to the extent required by the Code and the Regulations, Section 1.415-2(d) of the Regulations.

(c) "Non-Key Employee" shall mean a "Non-Key Employee" as defined in Section 416(i)(2) of the Code and the Regulations promulgated thereunder.

(d) "Top-Heavy Plan" shall mean a "top-heavy plan" as defined in Section 416(g) of the Code.

(e) "Aggregation Group" shall mean the group composed of each qualified retirement plan of the Company or an Affiliate in which a Key Employee is a participant and each other qualified retirement plan of the Company or an Affiliate which enables a plan of the Company or an Affiliate in which a Key Employee is a participant to satisfy Sections 401(a)(4) or 410 of the Code. In addition, the Company may choose to treat any other qualified retirement plan as a member of the Aggregation Group if such Aggregation Group will continue to satisfy Sections 401(a)(4) and 410 of the Code with such plan being taken into account.

15.3 Determination of Top-Heavy Status: The Plan shall be a Top-Heavy Plan for any Plan Year if it is determined to be a Top-Heavy Plan as of the Determination Date applicable to such year. For purposes of determining whether the Plan is a Top-Heavy Plan, all qualified retirement plans maintained by the Company or an Affiliated Company shall be aggregated to the extent that such aggregation is required under the applicable provisions of Section 416 of the Code. All other qualified retirement plans maintained by the Company or an Affiliated Company shall be aggregated only if elected by the Company and only to the extent permitted by Section 416 of the Code. In determining whether the Plan is a Top-Heavy Plan, the provisions of Section 416 of the Code shall be applied.

15.4 Minimum Vesting: For any Plan Year in which the Plan is a Top-Heavy Plan, each Participant who is credited with at least one Hour of Service on or after the date the Plan becomes a Top-Heavy Plan shall have his vested interest in his account attributable to Employer Contributions determined as follows:

Years of Vesting Service	Vested Interest
less than 2	0%
2 but less than 3	20%
3 but less than 4	50%
4 but less than 5	75%
5 or more	100%

If in any subsequent Plan Year, the Plan ceases to be a Top-Heavy Plan, the above vesting schedule shall continue to apply.

15.5 Minimum Contribution: The aggregate Employer Contributions allocable to the account of each Employee (other than a Key Employee) who has satisfied the eligibility requirements of Paragraph 3.1, whether or not a Contributing Participant in the Plan, and who is in Service at the end of the Plan Year shall not be less than the lesser of (i) 3% of such Employee's compensation (as defined in Section 414(s) of the Code or to the extent required by the Code or the Regulations, Section 1.415-2(d) of the Regulations) or (ii) the largest percentage of Employer Contributions, as a percentage of Compensation, allocated to the accounts of any Key Employee for such Plan Year. For purposes of determining the percentage under clause (ii), all defined contribution plans required to be included in an Aggregation Group shall be treated as a single plan. Clause (ii) shall not be applicable if the Plan is required to be included in an Aggregation Group which enables a defined benefit plan also required to be included in said Aggregation Group to satisfy Sections 401(a)(4) or 410 of the Code. Any required minimum contribution shall be made even though the Participant would not be eligible otherwise to receive a contribution, or would have received a lesser contribution in such Plan Year as a result of the

Participant's failure to make Basic Contributions to the Plan. For the purpose of clarity and without limiting the scope of the preceding provisions of this paragraph, with respect to Plan Years beginning after December 31, 1988, any elective deferral (described in Section 402(g)(3) of the Code) under the Plan or any other defined contribution plan that is aggregated with the Plan under the provisions stated above on behalf of any Participant who is not a Key Employee shall not be treated as Employer Contributions for purposes of this paragraph, but will be treated as an Employer Contribution for purposes of determining the percentage at which Employer Contributions are made for the Key Employee with the highest percentage.

15.6 Maximum Benefit and Contribution Limitations: If for any Limitation Year the Plan is a Top-heavy Plan, then for purposes of applying the overall limitations on benefits and contributions under Paragraph 14.4(a) of the Plan, "1.0" shall be substituted for "1.25" in each applicable place in subparagraphs 14.4(b)(1) and 14.4(b)(2) of the Plan unless the Plan would not be a Top-Heavy Plan if 90% were substituted for 60% in each applicable place in Section 416(g) of the Code and 4% were substituted for 3% in each applicable place in Paragraph 15.6 of the Plan.

15.7 Coordination of Plans: If, with respect to a Non-Key Employee who benefits in a Plan Year under both a defined contribution plan and a defined benefit plan which are determined to be Top-Heavy Plans maintained by the Employer, a top-heavy minimum benefit is not provided for such Plan year under both plans, then such determination for such Plan Year shall be made in conformity with the comparability analysis described in Q&A M-12 of Section 1.416-1 of the Regulations.

Such analysis shall be modified, where a factor of 1.25 is utilized for such Plan Year in connection with the satisfaction of the limitations set forth in Section 415(e) of the Code, in accordance with the last sentence of Q&A M-14 of Section 1.416-1 of the Regulations.

## ARTICLE XVI

### GENERAL PROVISIONS

16.1 Employment Relationships. Nothing contained herein shall be deemed to give any Employee the right to be retained in the service of any Employer or to interfere with the right of an Employer to discharge any Employee at any time.

16.2 Benefits Provided Solely From Trust: All benefits payable under the Plan shall be paid or provided for solely from the Trust; no Employer assumes any liability or responsibility therefor.

16.3 Non-Alienation of Benefits. Except as otherwise may be required by law or pursuant to the terms of a "qualified domestic relations order," no amount payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge or seizure. Except with respect to any indebtedness owing to the Trust by a Participant or a Beneficiary, no amount payable under the Plan shall be liable in any manner for or subject to the debts, contracts, liabilities, engagements or torts of any Employee or Beneficiary. For purposes of the Plan, a "qualified domestic relations order" means any judgment, decree, or order (including approval of a property settlement agreement) which has been determined by the Committee, in accordance with procedures established by it, to constitute a "qualified domestic relations order" ("QDRO") within the meaning of Section 414(p) of the Code. The Committee shall comply with the terms and provisions of any order which requires distribution to an alternate payee prior to the affected Participant's "earliest retirement age," as such term is defined in Section 206(d)(3)(E)(ii) of the Act and Section 414(p)(4)(B) of the Code, if the order would have been determined to be valid QDRO if the order had required distribution at or after the Participant's "earliest retirement date." If the Committee receives notice that a domestic relations order that is intended to be a QDRO is being prepared and will be provided to the Committee within 30 days or such other short time as the Committee deems reasonable, the Committee may put a temporary hold on the distribution of benefits under the Plan to the affected Participant, pending (a) the determination of whether such order is a QDRO, and (b) the rights of the alternate payee under such order.

16.4 Merger, Consolidation or Transfer of Assets or Liabilities. In the event of any merger or consolidation with, or transfer of assets of the Plan to another plan, each Participant in the Plan shall receive a benefit in the surviving plan (if such plan were then terminated) at least equal to the benefit which he would have been entitled to receive immediately prior to the transaction if the Plan had then terminated.

16.5 Payments to Minors and Incompetents. If a Participant or Beneficiary entitled to receive any benefits hereunder is deemed by the Committee or is adjudged to be legally incapable of giving valid receipt and discharge for such benefits or is a minor, such benefit shall be paid to such person or persons as the Committee may designate or to a duly appointed guardian.

16.6 Employee's Records. Each of the Employers and the Committee respectively shall keep such records, and shall give the other reasonable access to such information as is necessary or desirable to effectuate the purposes of the Plan and the Trust including, without limiting the foregoing, records and information with respect to the employment date, date of participation in the Plan and Compensation of Employees, elections by Participants and their Beneficiaries and consents granted and determinations made under the Plan and the Trust. Neither the Employers nor the Committee shall be required to duplicate any records kept by the other.

16.7 Missing Persons. Each Participant and Beneficiary shall keep the Committee advised of his current address. If amounts become distributable under the Plan and the Committee is unable, after reasonable efforts, to locate the Participant or Beneficiary to whom distribution is payable for a period of two years from the time such distribution first becomes payable, all such amounts shall be forfeited and applied in accordance with Paragraph 5.4. If the Participant or his Beneficiary thereafter applies for the Participant's distributable account, the amount forfeited shall be paid to him pursuant to Article IX.

16.8 Severability of Provisions. If any provision of the Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions, and the Plan shall be construed and enforced as if such provision had not been included.

16.9 Receipt and Release. As a condition precedent to the payment to any Participant or to his legal representative or Beneficiary, such Participant, legal representative or Beneficiary may be required to execute a receipt therefor and a release in such form as shall be determined by the Committee.

16.10 Fiduciary Capacities. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

16.11 Titles and Headings. The titles to Articles and headings of Paragraphs of the Plan are for convenience of reference. In case of conflict, the text of the Plan, rather than such titles and headings, shall control.

16.12 Gender and Number. Wherever used herein, the masculine gender shall include the feminine gender and the singular shall include the plural, unless the context indicates otherwise.

16.13 Governing Law. To the extent that New Jersey law has not been preempted by federal law, the provisions of the Plan shall be governed by and construed in accordance with the laws of the State of New Jersey.

16.14 Counterparts: If this Agreement is executed, it may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.



## INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement"), effective as of January 1, 1996, amends and supersedes that certain Intercorporate Services Agreement effective as of January 1, 1995 by and between VALHI, INC., a Delaware corporation ("Valhi"), and NL INDUSTRIES, INC., a New Jersey corporation ("NL").

## Recitals

Employees and agents of Valhi and affiliates of Valhi perform management, financial and administrative functions for NL without direct compensation from NL.

NL does not separately maintain the full internal capability to perform all necessary management, financial and administrative functions that NL requires.

Valhi desires to have the services of certain personnel of NL and NL is willing to provide such services under the terms of this Agreement.

The cost of maintaining the additional personnel necessary to perform the functions provided for by this Agreement would exceed the amount charged to such party that is contained in the net fee set forth in Section 4 of this Agreement and that the terms of this Agreement are no less favorable to each party than could otherwise be obtained from a third party for comparable services.

Each party desires to continue receiving the management, financial and administrative services presently provided by the other party and its affiliates and each party is willing to continue to provide such services under the terms of this Agreement.

## Agreement

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

Section Valhi Services to be Provided. Valhi agrees to make available to NL, upon request, the following services (the "Valhi Services") to be rendered by the internal staff of Valhi and affiliates of Valhi:

Consultation and assistance in the development and implementation of NL's corporate business strategies, plans and objectives;

Consultation and assistance in management and conduct of corporate affairs and corporate governance consistent with the charter and bylaws of NL;

Consultation and assistance in maintenance of financial records and controls, including preparation and review of periodic financial statements and reports to be filed with public and regulatory entities and those required to be prepared for financial institutions or pursuant to indentures and credit agreements;

Consultation and assistance in cash management and in arranging financing necessary to implement the business plans of NL;

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

Such other services as may be requested by NL from time to time.

Section NL Services to be Provided. NL agrees to make available to Valhi, upon request, the following services (the "NL Services," and collectively with the Valhi Services, the "Services") to be rendered by the internal staff of NL:

The services of Joseph S. Compofelice to act as Executive Vice President of Valhi, which Valhi and NL agree shall involve substantially such time as has been allocated in the past and is currently being devoted;

The services of NL's internal audit personnel in providing consultation and assistance in performing internal audit projects as requested from time to time; and

Such other services as may be requested by Valhi from time to time.

Section Miscellaneous Services. It is the intent of the parties hereto that each party to this Agreement provide (a "Providing Party") only such Services as are requested by the other party (a "Receiving Party") in connection with routine management, financial and administrative functions related to the ongoing operations of the Receiving Party and not with respect to special projects, including corporate investments, acquisitions and divestitures. The parties hereto contemplate that the Services rendered by a Providing Party in connection with the conduct of each Receiving Party's business will be on a scale compared to that existing on the effective date of this Agreement, adjusted for internal corporate growth or contraction, but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects. Each Receiving Party will continue to bear all other costs required for outside services including, but not limited to, the outside services of attorneys, auditors, trustees, consultants, transfer agents and registrars, and it is expressly understood that each Providing Party assumes no liability for any expenses or services other than those stated in this Agreement to be provided by such party. In addition to the amounts charged to a Receiving Party for Services provided pursuant to this Agreement, such Receiving Party will pay the Providing Party the amount of out-of-pocket costs incurred by the Providing Party in rendering such Services.

Section Net Fee for Services. Valhi agrees to pay to NL a net fee of \$2,500 quarterly, commencing as of January 1, 1996, pursuant to this Agreement, which net fee includes reimbursements of \$36,000 for certain NL Services provided in 1995. In addition to the net fee:

Valhi shall pay to NL an additional amount equal to the sum of:



the product of (x) \$600, (y) the number of days devoted by NL's internal auditors to providing NL Services described in Subsection 2(b) and (z) the number of internal auditors providing such NL Services; and

all related out-of-pocket expenses;

Valhi shall pay to NL additional amounts plus all related out-of-pocket costs, all as agreed to by the parties, for all NL Services provided under Subsection 2(c); and

NL shall credit or pay to Valhi additional amounts plus all related out-of-pocket costs, all as agreed to by the parties, for all Valhi Services provided under Subsection 1(f).

Section Original Term. Subject to the provisions of Section 6 hereof, the original term of this Agreement shall be from January 1, 1996 to December 31, 1996.

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

Section Limitation of Liability. In providing Services hereunder, each Providing Party shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but no Providing Party nor any officer, director, employee or agent of such party nor or its affiliates shall be liable to a Receiving Party for any error of judgment or mistake of law or for any loss incurred by the Receiving Party in connection with the matter to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Providing Party.

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

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

Section Notices. All communications hereunder shall be in writing and shall be addressed, if intended for Valhi, to Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240, Attention: President, or such other address as it shall have furnished to NL in

writing, and if intended for NL, to Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas 77060, Attention: President, or such other address as it shall have furnished to Valhi in writing.

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

Section Successor and Assigns. This Agreement shall be binding upon and inure to the benefit of Valhi and NL and their respective successors and assigns, except that neither party may assign its rights under this Agreement without the prior written consent of the other party.

Section Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Texas.

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

VALHI, INC.

By: /s/ Steven L. Watson  
Steven L. Watson  
Vice President

NL INDUSTRIES, INC.

By: /s/ J. Landis Martin  
J. Landis Martin  
President and Chief Executive Officer



## INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement"), effective as of January 1, 1996, amends and supersedes that certain Intercorporate Services Agreement effective as of January 1, 1995 by and between CONTRAN CORPORATION, a Delaware corporation ("Contran"), and NL INDUSTRIES, INC., a New Jersey corporation ("Recipient"),

## Recitals

Harold C. Simmons, an employee of Contran and a director and the Chairman of the Board of Recipient, performs certain advisory functions for Recipient, which functions are unrelated to his function as a director and the Chairman of the Board of Recipient, without direct compensation from Recipient.

Recipient does not separately maintain the full internal capability to perform all necessary advisory functions that Recipient requires.

The cost of engaging the advisory services of someone possessing Mr. Simmons' expertise and the cost of maintaining the personnel necessary to perform the functions provided for by this Agreement would exceed the fee set forth in Section 3 of this Agreement and the terms of this Agreement are no less favorable to Recipient than could otherwise be obtained from a third party for comparable services.

Recipient desires to continue receiving the advisory services of Harold C. Simmons and Contran is willing to continue to provide such services under the terms of this Agreement.

## Agreement

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

Section Services to be Provided. Contran agrees to make available to Recipient, upon request, the following services (the "Services") to be rendered by Harold C. Simmons:

Consultation and assistance in the development and implementation of Recipient's corporate business strategies, plans and objectives; and

Such other services as may be requested by Recipient from time to time.

This Agreement does not apply to and the Services provided for herein do not include any services that Harold C. Simmons may provide in his role as a director on Recipient's Board of Directors, as Chairman of such Board of Directors or any other activity related to such Board of Directors.

Section Miscellaneous Services. It is the intent of the parties hereto that Contran provide only the Services requested by Recipient in connection with routine functions related to the ongoing operations of Recipient and not with respect to special projects, including corporate investments, acquisitions and divestitures. The parties hereto contemplate that the Services rendered in connection with the conduct of Recipient's business will be on a scale compared to that existing on the effective date of this Agreement, adjusted for internal corporate growth or contraction, but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects. Recipient will continue to bear all other costs required for outside services including, but not limited to, the outside services of attorneys, auditors, trustees, consultants, transfer agents and registrars, and it is expressly understood that Contran assumes no liability for any expenses or services other than those stated in Section 1. In addition to the fee paid to Contran by Recipient for the Services provided pursuant to this Agreement, Recipient will pay to Contran the amount of out-of-pocket costs incurred by Contran in rendering such Services.

Section Fee for Services. Recipient agrees to pay to Contran \$100,000.00 quarterly, commencing as of January 1, 1996, pursuant to this Agreement.

Section Original Term. Subject to the provisions of Section 5 hereof, the original term of this Agreement shall be from January 1, 1996 to December 31, 1996.

Section Extensions. This Agreement shall be extended on a quarter-to-quarter basis after the expiration of its original term unless written notification is given by Contran or Recipient thirty (30) days in advance of the first day of each successive quarter or unless it is superseded

by a subsequent written agreement of the parties hereto.

Section Limitation of Liability. In providing its Services hereunder, Contran shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither Contran nor any officer, director, employee or agent of Contran or its affiliates shall be liable to Recipient for any error of judgment or mistake of law or for any loss incurred by Recipient in connection with the matter to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of Contran.

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

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

Section Notices. All communications hereunder shall be in writing and shall be addressed, if intended for Contran, to Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240, Attention: President, or such other address as it shall have furnished to Recipient in writing, and if intended for Recipient, to Two Greenspoint Plaza, 16825 Northchase Drive, Suite 1200, Houston, Texas 77060, Attention: President or such other address as it shall have furnished to Contran in writing.

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

Section Successor and Assigns. This Agreement shall be binding upon and inure to the benefit of Contran and Recipient and their respective successors and assigns, except that neither party may assign its rights under this Agreement without the prior written consent of the other party.

Section Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Texas.

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

CONTRAN CORPORATION

By: /s/ Steven L. Watson  
Steven L. Watson  
Vice President

NL INDUSTRIES, INC.

By: /s/ J. Landis Martin  
J. Landis Martin  
President and Chief Executive Officer





## EXHIBIT C

## INTERCORPORATE SERVICES AND REIMBURSEMENT AGREEMENT

INTERCORPORATE SERVICES AND REIMBURSEMENT AGREEMENT effective as of January 1, 1996, by and between Tremont Corporation ("Tremont"), a Delaware corporation, and NL Industries, Inc. ("NL"), a New Jersey corporation.

WHEREAS, Tremont desires that NL provide certain services to Tremont, and NL is willing to provide such services to Tremont, as provided in this Agreement.

NOW, THEREFORE, in consideration of the premises and promises set forth herein, the parties to this Agreement agree as follows:

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

- a. certain administration and management services with respect to Tremont's insurance and risk management needs, including:
  - (i) management of claims (including insured and self-insured workers compensation and liability claims);
  - (ii) budgeting and related activities;
  - (iii) administration of Tremont's captive insurance company;
  - (iv) coordination of property loss control program; and
  - (v) administration of Tremont's insurance program, excluding all employee benefit and welfare related programs.
- b. certain administration and management services with respect to Tremont's real properties and interests.
- c. consultation and assistance in performing internal audit projects, as requested.
- d. certain executive secretarial and administrative services.

2. Fees for Services and Reimbursement of Expenses. Tremont shall pay to NL an annual fee of \$88,400 (the "Annual Fee") for the Services described in paragraphs 1.a, 1.b, and 1.d above payable in quarterly installments of \$22,100 during the term of this Agreement plus all out-of-pocket expenses incurred in connection with the performance of such Services. In addition, Tremont will pay to NL within thirty (30) days after receipt of an invoice (such invoices to occur no more frequently than once per month)

1

an amount equal to the product of \$600 multiplied by the number of days devoted by NL's internal auditors to providing Services described in paragraph 1.c above times the number of internal auditors providing such Services plus all out-of-pocket expenses incurred in the performance of such Services; provided, however, in the event that Tremont determines, in its sole discretion, that it no longer desires certain of the Services or NL determines, in its sole discretion, that it no longer desires to provide certain of the Services, then Tremont or NL, as appropriate, shall provide the other party with a ninety (90) day prior written notice of cancellation describing the Services to be terminated or discontinued and Tremont and NL during such ninety-day period shall agree to a pro-rata reduction of the fees due hereunder for such terminated or discontinued Services.

3. Limitation of Liability. In providing Services hereunder, NL shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither NL nor any officer, director, employee or agent of NL shall be liable to Tremont or its subsidiaries for any error of judgment or mistake of law or for any loss incurred by Tremont or its subsidiaries in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of NL or from NL's reckless disregard of obligations and duties under this Agreement.

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

5. Further Assurance. Each of the parties will make, execute, acknowledge

and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

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

If to NL:               NL Industries, Inc.  
                          16825 Northchase Drive, Suite 1200  
                          Houston, Texas 77060  
                          Attention: General Counsel

If to Tremont:       Tremont Corporation  
                          1999 Broadway, Suite 4300  
                          Denver, Colorado 80202  
                          Attention: General Counsel

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

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

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

9. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. This Agreement shall be governed in all respects, including validity, interpretation and affect, by the laws of the State of Texas.

10. Term of Agreement. This Agreement shall be effective as of January 1, 1996, and shall remain in effect until December 31, 1996, subject to a renewal by mutual written agreement for succeeding one-year terms commencing January 1, 1997. This Agreement may be terminated at any time by mutual consent of the parties and by either party upon ninety (90) days prior written notice to the other party. Upon such termination or upon the expiration of this Agreement, the parties' rights and obligations hereunder shall cease and terminate except with respect to rights and obligations arising on or prior to the date of expiration or termination and the rights and obligations arising under paragraph 4 above.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the 24th day of July, 1996, which Agreement will be deemed to be effective as of January 1, 1996.

NL INDUSTRIES, INC.

By: /s/ Dennis G. Newkirk  
Dennis G. Newkirk  
Vice President

TREMONT CORPORATION

By: /s/ Mark A. Wallace  
Mark A. Wallace  
Vice President



## SUBSIDIARIES OF THE REGISTRANT

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

\* Unconsolidated joint venture accounted for by the equity method.

\*\* Registrant indirectly owns 100% with 50% owned by Kronos and 50% owned by Rheox.

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 which is dated February 7, 1997 on our audits of the consolidated financial statements and financial statement schedules of NL Industries, Inc. as of December 31, 1995 and 1996, and for each of the three years in the period ended December 31, 1996, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Houston, Texas  
March 20, 1997

This schedule contains summary financial information extracted from NL Industries Inc.'s consolidated financial statements for the twelve months ended December 31, 1996, and is qualified in its entirety by reference to such consolidated financial statements.

1,000

12-MOS		
	DEC-31-1996	
	JAN-01-1996	
	DEC-31-1996	
		114,115
		0
		126,995
		3,813
		232,510
	500,246	
		956,897
		490,851
	1,221,358	
290,345		
		737,100
	0	
		0
		8,355
		(211,836)
1,221,358		
		986,074
	986,074	
		738,438
		738,438
		0
		30
	75,039	
		25,613
		(14,833)
10,817		
		0
		0
		0
		10,817
		0.21
		0.21