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NL INDUSTRIES INC
Form 10-Q/A
October 31, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A-1

X
----- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 - For the quarterly period ended March 31, 2003

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.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas

(Address of principal executive offices)

75240

(Zip Code)

Registrant's telephone number, including area code: (972) 233-1700

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 whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No

Number of shares of common stock outstanding on May 9, 2003: 47,694,784

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This Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 of NL Industries, Inc. is filed to revise certain disclosures, and reclassify the Company's Consolidated Statement of Income, as requested by the Securities and Exchange Commission. There was no impact on net income as a result of the reclassification of the Consolidated Statement of Income. The revised disclosures are primarily contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and the Company's Consolidated Financial Statements. This Amendment is being filed solely to provide the information referenced above. For the convenience of the reader, the Company is re-filing the entire Quarterly Report as clarified. No other modifications have been made to the Quarterly Report except as described above.

NL INDUSTRIES, INC. AND SUBSIDIARIES

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	March 31, 2003	December 31, 2002
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 46,713	\$ 58,091
Restricted cash equivalents	47,107	52,089
Restricted marketable debt securities	9,715	9,670
Accounts and other receivable	168,613	136,858
Receivable from affiliates	156	207
Refundable income taxes	781	1,782
Inventories	195,936	209,882
Prepaid expenses	5,844	7,207
Deferred income taxes	10,068	10,511
	-----	-----
Total current assets	484,933	486,297
	-----	-----
Other assets:		
Marketable equity securities	51,929	40,901
Receivable from affiliate	18,000	18,000
Investment in TiO2 manufacturing joint venture ...	131,259	130,009
Prepaid pension cost	17,424	17,572
Restricted marketable debt securities	9,600	9,232
Other	26,571	30,671
	-----	-----
Total other assets	254,783	246,385
	-----	-----
Property and equipment:		
Land	30,175	29,072
Buildings	155,673	150,406
Machinery and equipment	655,720	640,297
Mining properties	81,813	84,778
Construction in progress	9,307	8,702
	-----	-----
	932,688	913,255
Less accumulated depreciation and depletion	547,746	534,436
	-----	-----

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Net property and equipment	384,942	378,819
	-----	-----
	\$1,124,658	\$1,111,501
	=====	=====

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

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31, 2003	December 31, 2002
	-----	-----
Current liabilities:		
Current maturities of long-term debt	\$ 1,238	\$ 1,298
Accounts payable and accrued liabilities ...	137,049	167,574
Payable to affiliates	10,131	8,027
Accrued environmental costs	50,439	51,307
Income taxes	5,773	6,624
Deferred income taxes	1,594	3,219
	-----	-----
Total current liabilities	206,224	238,049
	-----	-----
Noncurrent liabilities:		
Long-term debt	349,021	324,608
Deferred income taxes	149,416	143,518
Accrued environmental costs	53,296	47,189
Accrued pension cost	43,094	43,757
Accrued postretirement benefits cost	25,571	26,477
Other	14,829	14,060
	-----	-----
Total noncurrent liabilities	635,227	599,609
	-----	-----
Minority interest	8,551	8,516
	-----	-----
Shareholders' equity:		
Common stock	8,355	8,355
Additional paid-in capital	777,819	777,819
Retained earnings	101,445	101,554
Accumulated other comprehensive loss	(176,860)	(186,221)

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Treasury stock	(436,103)	(436,180)
	-----	-----
Total shareholders' equity	274,656	265,327
	-----	-----
	\$ 1,124,658	\$ 1,111,501
	=====	=====

Commitments and contingencies (Note 13)

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Three months ended March 31, 2003 and 2002

(In thousands, except per share data)

	2003	2002
	-----	-----
Net sales	\$ 252,973	\$ 202,357
Cost of sales	188,417	156,253
	-----	-----
Gross margin	64,556	46,104
Selling, general and administrative expenses	29,379	24,728
Other operating income (expense):		
Currency transaction gains (losses), net	(1,098)	598
Disposition of property and equipment	(61)	(46)
Noncompete agreement income	333	1,000
Litigation settlement gains, net	--	1,920
Other income	148	21
Corporate expense	(15,315)	(10,117)
	-----	-----
Income from operations	19,184	14,752
Other income (expense):		
Trade interest income	163	222
Other interest income and dividend income	948	1,280
Securities gains, net	2,234	--
Interest expense	(7,985)	(6,535)
	-----	-----
Income before income taxes and minority interest	14,544	9,719

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Income tax expense	5,090	3,151
	-----	-----
Income before minority interest	9,454	6,568
Minority interest	24	184
	-----	-----
Net income	\$ 9,430	\$ 6,384
	=====	=====
Basic and diluted net income per share	\$.20	\$.13
	=====	=====
Weighted average shares used in the calculation of net income per share:		
Basic	47,693	48,870
Dilutive impact of stock options	51	68
	-----	-----
Diluted	47,744	48,938
	=====	=====

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31, 2003 and 2002

(In thousands)

	2003	2002
	-----	-----
Net income	\$ 9,430	\$ 6,384
	-----	-----
Other comprehensive income (loss), net of tax:		
Marketable securities adjustment:		
Unrealized holding gain (loss) arising during the period	7,093	(1,523)
Less reclassification adjustment for realized gain		
included in net income	(1,474)	--
	-----	-----
	5,619	(1,523)
Currency translation adjustment	3,742	(2,609)
	-----	-----
Total other comprehensive income (loss)	9,361	(4,132)
	-----	-----

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Comprehensive income	\$ 18,791	\$ 2,252
	=====	=====

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Three months ended March 31, 2003

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated ot comprehensive inco Currency translation	Pension liabiliti
	-----	-----	-----	-----	-----
Balance at December 31, 2002	\$ 8,355	\$ 777,819	\$ 101,554	\$ (170,670)	\$ (21,447)
Net income	--	--	9,430	--	--
Other comprehensive income, net of tax	--	--	--	3,742	--
Dividends	--	--	(9,539)	--	--
Treasury stock - reissued	--	--	--	--	--
	-----	-----	-----	-----	-----
Balance at March 31, 2003	\$ 8,355	\$ 777,819	\$ 101,445	\$ (166,928)	\$ (21,447)
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, 2003 and 2002

(In thousands)

2003	2002
-----	-----

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Cash flows from operating activities:		
Net income	\$ 9,430	\$ 6,384
Depreciation, depletion and amortization	9,691	7,782
Deferred income taxes	1,630	687
Distributions from (contributions to) TiO2 manufacturing joint venture	(1,250)	900
Other, net	(3,968)	(578)
Change in assets and liabilities:		
Accounts and other receivable	(31,545)	(25,282)
Insurance receivable	2,247	10,909
Inventories	18,702	43,049
Prepaid expenses	1,960	(845)
Accrued environmental costs	8,678	3,384
Accounts payable and accrued liabilities	(33,174)	(36,161)
Income taxes	339	(629)
Other, net	3,569	3,196
	-----	-----
Net cash (used) provided by operating activities	(13,691)	12,796
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(6,503)	(5,461)
Collection of loans to affiliates	--	250
Acquisition of business	--	(9,149)
Change in restricted cash equivalents and restricted marketable debt securities, net	2,050	110
Other, net	42	36
	-----	-----
Net cash used by investing activities	(4,411)	(14,214)
	-----	-----

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

Three months ended March 31, 2003 and 2002

(In thousands)

	2003	2002
	-----	-----
Cash flows from financing activities:		
Dividends paid	\$ (9,539)	\$ (9,764)
Treasury stock:		
Purchased	--	(3,271)
Reissued	77	140
Indebtedness:		
Borrowings	16,106	--
Principal payments	(342)	(25,263)

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	-----	-----
Net cash provided (used) by financing activities .	6,302	(38,158)
	-----	-----
Cash and cash equivalents:		
Net change from:		
Operating, investing and financing activities	(11,800)	(39,576)
Currency translation	422	(273)
Acquisition of business	--	196
	-----	-----
	(11,378)	(39,653)
	-----	-----
Balance at beginning of period	58,091	116,037
	-----	-----
Balance at end of period	\$ 46,713	\$ 76,384
	=====	=====
Supplemental disclosures - cash paid for:		
Interest	\$ 674	\$ 1,976
Income taxes, net	\$ 3,121	\$ 3,095
Acquisition of business:		
Cash and cash equivalents	\$ --	\$ 196
Restricted cash	--	2,685
Goodwill and other intangible assets	--	9,007
Other noncash assets	--	1,259
Liabilities	--	(3,998)
	-----	-----
Cash paid	\$ --	\$ 9,149
	=====	=====

See accompanying notes to consolidated financial statements.

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NL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

NL Industries, Inc. ("NL") conducts its titanium dioxide pigments ("TiO2") operations through its wholly owned subsidiary, Kronos Worldwide Inc. (formerly known as Kronos, Inc.). At March 31, 2003, Valhi, Inc., ("Valhi") and its subsidiaries held approximately 85% of NL's outstanding common stock, and Contran Corporation ("Contran") and its subsidiaries held approximately 90% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board of each of Contran, Valhi and NL, may be deemed to control each of such companies. See Notes 6 and 7.

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The consolidated balance sheet of NL Industries, Inc. and Subsidiaries (collectively, the "Company") at December 31, 2002 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at March 31, 2003 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the interim periods ended March 31, 2003 and 2002 have been prepared by the Company without audit. In the opinion of management all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") have been condensed or omitted. Certain prior-year amounts have been reclassified to conform to the current year presentation. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 Annual Report").

The Company has elected the disclosure alternative prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," and to account for its stock-based employee compensation related to stock options 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. During the fourth quarter of 2002, following the cash settlement of certain stock options held by employees of the Company, the Company commenced accounting for its remaining stock options using the variable accounting method, which requires the intrinsic value of all unexercised stock options (including those with an exercise price at least equal to the market price on the date of grant) to be accrued as an expense, with subsequent increases (decreases) in the Company's market price resulting in additional compensation expense (income). Net compensation income recognized by the Company in accordance with APBO No. 25 in the first quarter of 2003 was \$.5 million and net compensation cost recognized by the Company in the first quarter of 2002 was nil.

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The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

Three months ended March 31,	
-----	-----
2003	2002
-----	-----
(In thousands, except per share amounts)	

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Net income - as reported	\$ 9,430	\$ 6,384
Deduct: Stock-based compensation income, net of tax, included in reported net income	(339)	--
Deduct: Stock-based compensation cost, net of tax, determined under fair value based method for all awards	(120)	(271)
	-----	-----
Net income - pro forma	\$ 8,971	\$ 6,113
	=====	=====
Net income per basic common share:		
As reported	\$.20	\$.13
Pro forma	\$.19	\$.13
Net income per diluted common share:		
As reported	\$.20	\$.13
Pro forma	\$.19	\$.12

The Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation covered under the scope of SFAS No. 143 is recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its future value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement.

Under the transition provisions of SFAS No. 143, at the date of adoption on January 1, 2003 the Company recognized (i) an asset retirement cost capitalized as an increase to the carrying value of its property, plant and equipment, (ii) accumulated depreciation on such capitalized cost and (iii) a liability for the asset retirement obligation. Amounts resulting from the initial application of SFAS No. 143 were measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost was measured as of the date the asset retirement obligation was incurred. Cumulative accretion on the asset retirement obligation, and accumulated depreciation on the asset retirement cost, were recognized for the time period from the date the asset retirement cost and liability would have been recognized had the provisions of SFAS No. 143 been in effect at the date the liability was incurred, through January 1, 2003. The difference between the amounts recognized as described above and the associated amounts recognized in the Company's balance sheet as of December 31, 2002 was recognized as a cumulative effect of change in accounting principle as of January 1, 2003. The effect of adopting SFAS No. 143 as of January 1, 2003, as summarized in the table below, did not have a material effect on the Company's consolidated financial position, results of operations or liquidity, and is not separately recognized in the accompanying statement of income.

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Amount

(In millions)

Increase in carrying value of net property, plant and equipment:

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Cost	\$.4
Accumulated depreciation	(.1)
Decrease in liabilities previously accrued for closure and post closure activities3
Asset retirement obligation recognized	(.6)

Net impact	\$ --
	=====

At March 31, 2003, the asset retirement obligation was approximately \$.6 million and was included in other noncurrent liabilities. Accretion expense on the asset retirement obligation during the first quarter of 2003, included in cost of sales, was not material. If the Company had adopted SFAS No. 143 as of January 1, 2002, the asset retirement obligation would have been approximately \$.5 million at each of January 1, 2002 and March 31, 2002, and the effect on the Company's reported net income for the three months ended March 31, 2002 would not have been material.

Note 2 - Earnings per share:

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

Note 3 - Other operations income (expense):

In the first quarter of 2002, the Company recognized litigation settlement gains with former insurance carrier groups of \$1.9 million to settle certain insurance coverage claims related to environmental remediation. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

The noncompete agreement income relates to a covenant not to compete agreement related to the sale of Rheox in 1998. The agreement became fully amortized in January 2003.

Corporate expense includes environmental, legal and other costs attributable to formerly owned business units, as well as certain administrative expenses (primarily legal, finance, accounting and tax). Corporate expense for the first quarter of 2003 increased of \$5.2 million compared with the first quarter of 2002 primarily due to higher environmental expenses related to remediation of formerly owned business units.

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Note 4 - Accounts and other receivable:

March 31, 2003	December 31, 2002
-----	-----
(In thousands)	

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Trade receivables	\$ 161,431	\$ 124,044
Insurance claims receivable	311	2,558
Recoverable VAT and other receivables	9,561	12,861
Allowance for doubtful accounts	(2,690)	(2,605)
	-----	-----
	\$ 168,613	\$ 136,858
	=====	=====

Note 5 - Inventories:

	March 31, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Raw materials	\$ 34,046	\$ 54,077
Work in process	18,136	15,936
Finished products	112,786	109,203
Supplies	30,968	30,666
	-----	-----
	\$195,936	\$209,882
	=====	=====

Note 6 - Marketable equity securities:

	March 31, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Available-for-sale marketable equity securities:		
Valhi	\$51,801	\$ 9,845
Tremont Group	--	30,634
Tremont	--	243
Other	128	179
	-----	-----
Aggregate fair value	\$51,929	\$40,901
	=====	=====

In February 2003 Valhi completed a series of merger transactions pursuant to which, among other things, Tremont Group, Inc. ("Tremont Group") and Tremont Corporation ("Tremont") both became wholly owned subsidiaries of Valhi. Under these merger transactions, (i) Valhi issued 3.5 million shares of its common stock to the Company in return for the Company's 20% ownership interest in Tremont Group and (ii) Valhi issued 3.4 shares of its common stock (plus cash in lieu of fractional shares) to all Tremont stockholders (other than Valhi and Tremont Group) in exchange for each share of Tremont common stock held by such stockholders. The Company received approximately 27,770 shares of Valhi common

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stock in the second transaction. The number of shares of Valhi common stock issued to the Company in exchange for the Company's 20% ownership interest in Tremont Group was equal to the Company's 20% pro-rata interest in the shares of Tremont common stock held by Tremont Group, adjusted for the same 3.4 exchange ratio. The Valhi common stock owned by the Company is restricted under SEC Rule 144. The Company reported a pre-tax securities transaction gain of approximately \$2.3 million in the first quarter of 2003 which represented the difference between the market value of the shares of Valhi received and the cost basis of the Tremont Group and Tremont shares exchanged. Following these transactions, the Company owns approximately 4.7 million shares of Valhi's outstanding common stock (approximately 4% of Valhi's outstanding shares). The Company will continue to account for its shares of Valhi common stock as available-for-sale marketable equity securities carried at fair value (based on quoted market prices). The shares of Valhi common stock cannot be voted by the Company under

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Delaware Corporation Law, but the Company does receive dividends from Valhi on these shares, when declared. For financial reporting purposes, Valhi reports its proportional interest in these shares as treasury stock.

Note 7 - Receivable from affiliates:

In May 2001 a wholly owned subsidiary of the Company's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS") loaned \$20.0 million to the Harold C. Simmons Family Trust No. 2 (the "Family Trust"), one of the trusts described in Note 1, under a \$25.0 million revolving credit agreement. The loan was approved by special committees of the Company's and EMS's Boards of Directors. The loan bears interest at prime (4.25% at March 31, 2003), is due on demand with 60 days notice and is collateralized by 13,749 shares, or approximately 35%, of Contran's outstanding Class A voting common stock and 5,000 shares, or 100%, of Contran's Series E Cumulative preferred stock, both of which are owned by the Family Trust. The value of the collateral is dependent, in part, on the value of the Company as Contran's interest in the Company, through its beneficial ownership of Valhi, is one of Contran's more substantial assets. At March 31, 2003, the outstanding loan balance was \$18.0 million and \$7.0 million was available for additional borrowing by the Family Trust. The loan was classified as noncurrent at March 31, 2003, as the Company does not expect to demand repayment within one year.

Note 8 - Other noncurrent assets:

	March 31, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Deferred financing costs, net	\$10,338	\$10,550
Goodwill	6,406	6,406
Unrecognized net pension obligations	5,561	5,561
Intangible asset, net	2,168	2,230
Restricted cash equivalents	--	1,344
Other	2,098	4,580
	-----	-----
	\$26,571	\$30,671
	=====	=====

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Note 9 - Accounts payable and accrued liabilities:

	March 31, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Accounts payable	\$ 61,792	\$ 97,140
	-----	-----
Accrued liabilities:		
Employee benefits	31,024	34,349
Interest	7,057	240
Deferred income	--	333
Other	37,176	35,512
	-----	-----
	75,257	70,434
	-----	-----
	\$137,049	\$167,574
	=====	=====

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Note 10 - Other noncurrent liabilities:

	March 31, 2003	December 31, 2002
	-----	-----
	(In thousands)	
Insurance claims and expenses	\$ 7,876	\$ 7,674
Employee benefits	4,131	4,025
Other	2,822	2,361
	-----	-----
	\$14,829	\$14,060
	=====	=====

Note 11 - Long-term debt:

	March 31, 2003	December 31, 2002
	-----	-----
	(In thousands)	
8.875% Senior Secured Notes, (euro)285 million principal amount	\$305,691	\$296,942
Revolving credit facility	43,098	27,077
Other	1,470	1,887
	-----	-----

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	350,259	325,906
Less current maturities	1,238	1,298
	-----	-----
	\$349,021	\$324,608
	=====	=====

In March 2003 the Company borrowed (euro)15.0 million (\$16.1 million when borrowed) under the revolving credit facility. In April 2003 the Company repaid NOK 80 million (approximately \$11 million when repaid) under the revolving credit facility.

Note 12 - Income taxes:

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

	Three months ended March 31,	
	2003	2002
	-----	-----
	(In thousands)	
Expected tax expense	\$ 5,090	\$ 3,402
Non-U.S. tax rates	(382)	(346)
Incremental tax on income of companies not included in NL's consolidated U.S. federal income tax return	915	130
Valuation allowance	(727)	(67)
U.S. state income taxes	65	(17)
Other, net	129	49
	-----	-----
Income tax expense	\$ 5,090	\$ 3,151
	=====	=====

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Note 13 - Commitments and contingencies:

For descriptions of certain legal proceedings, income tax and other commitments and contingencies related to the Company, reference is made to (i) Management's Discussion and Analysis of Financial Condition and Results of Operations, (ii) Part II, Item 1 - "Legal Proceedings," and (iii) the 2002 Annual Report.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

	Three months ended March 31,		%
	2003	2002	Change
	-----	-----	-----
	(In millions, except percentages and metric tons)		
Net Sales	\$ 253.0	\$ 202.4	+25%
Cost of sales	188.4	156.3	+20%
	-----	-----	
Gross margin	64.6	46.1	+40%
Selling, general and administrative expense	29.4	24.7	+19%
Currency transaction gains (losses), net	(1.1)	.6	
Litigation settlement gain	--	1.9	
Noncompete agreement income3	1.0	
Other expense	--	(.1)	
Corporate expense	(15.3)	(10.1)	
	-----	-----	
Income from operations	\$ 19.1	\$ 14.7	+3%
	=====	=====	
TiO2 operating statistics			
Percent change in average selling price:			
Using actual foreign currency exchange rates			+18%
Impact of changes in foreign currency exchange rates			-12%

In billing currencies			+6%

Sales volume (metric tons in thousands)	118	112	+5%
Production volume (metric tons in thousands)	117	106	+11%

The Company's sales and gross margin increased \$50.6 million (25%) and \$18.5 million (40%), respectively, in the first quarter of 2003 compared to the first quarter of 2002 due primarily to higher average TiO2 selling prices as well as higher TiO2 sales and production volumes partially offset by higher operating costs (particularly energy costs, which increased by approximately \$2.9 million). Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, the Company's average TiO2 selling price in

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billing currencies in the first quarter of 2003 was 6% higher than the first quarter of 2002. When translated from billing currencies to U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, the Company's average TiO2 selling prices in the first quarter of 2003 increased 18% compared to the first quarter of 2002.

The Company's sales are denominated in various currencies, including the U.S. dollar, the euro, other major European currencies and the Canadian dollar. The disclosure of the percentage change in the Company's average TiO2 selling price in billing currencies (which excludes the effects of fluctuations in the value of the U.S. dollar relative to other currencies) is considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in the Company's average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods is considered the most directly comparable financial measure presented in accordance with accounting

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principles generally accepted in the United States ("GAAP measure"). The Company discloses percentage changes in its average TiO2 prices in billing currencies because the Company believes such disclosure provides useful information to investors to allow them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods. The difference between the 18% change in the Company's average TiO2 selling prices during the first quarter of 2003 as compared to the first quarter of 2002 using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure) and the 6% percentage change in the Company's average TiO2 selling price in billing currencies (the non-GAAP measure) during such periods is due to the effect of changes in foreign currency exchange rates. The above table presents in a tabular format (i) the percentage change in the Company's average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), (ii) the percentage change in the Company's average TiO2 selling price in billing currencies (the non-GAAP measure) and (iii) the percentage change due to changes in foreign currency exchange rates (or the reconciling item between the non-GAAP measure and the GAAP measure).

The Company's TiO2 sales volume in the first quarter of 2003 was a record and was 5% higher than the first quarter of 2002. The Company's TiO2 production volume in the first quarter of 2003, an all-time quarterly record for NL, was 11% higher than the first quarter of 2002, with operating rates at near full capacity in 2003 compared to 96% of capacity in 2002. These increases in TiO2 sales and production volume increased gross margin by \$4.6 million and \$6.2 million, respectively, while the increase in average TiO2 selling prices increased gross margin by \$10.1 million.

The Company's cost of sales increased \$32.2 million (21%) in the first quarter of 2003 compared to the first quarter of 2002. The Company's cost of sales as a percentage of net sales decreased 3% in the first quarter of 2003 primarily due to the higher average selling prices and higher production volume, partially offset by the higher energy costs. The Company's selling, general and administrative expenses in the first quarter of 2003 increased \$4.7 million

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(19%) as compared to the first quarter of 2002 due to higher distribution expenses in the first quarter of 2003 of \$2.3 million associated with the higher sales volume, as well as the impact of relative changes in foreign currency exchange rates which increased the Company's expenses in the 2003 period as compared to the same period in 2002. The Company's selling, general and administrative expenses were approximately 12% of sales in both the first quarter of 2003 and the first quarter of 2002.

The increase in the Company's gross margin quantified above is due to the net effect of the changes in sales and cost of sales during such period.

The Company has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). As discussed above, a significant amount of the Company's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the euro, other major European currencies and the Canadian dollar. In addition, a portion of the Company's sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of the Company's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased the Company's sales in the first quarter of 2003 by a net \$26.6 million compared to the same period in 2002. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted the Company's foreign currency-denominated operating expenses. The Company's operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were higher in the first six quarter of 2003 compared to the first quarter of 2002. Overall, the net impact of currency exchange rate fluctuations decreased the Company's gross margin by \$1.8 million in the first quarter of 2003 when compared to the year-earlier period.

The noncompete agreement income relates to a covenant not to compete agreement related to the sale of Rheox in 1998. The agreement became fully amortized in January 2003. The \$1.9 million litigation settlement gain in the

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first quarter of 2002 relates to a settlement with former insurance carrier groups. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

Corporate expense for the first quarter of 2003 was \$15.3 million, an increase of \$5.2 million compared with the first quarter of 2002 primarily due to higher environmental expenses related to remediation of formerly owned business units. Corporate expenses are expected to be higher for full-year 2003 as compared to full-year 2002 due to higher environmental expenses and higher legal expenses associated with the defense of lead pigment litigation, including two trials scheduled for 2003.

The Company currently expects TiO₂ industry demand in 2003 to increase slightly over 2002 levels. The Company currently expects its sales and production volumes for the full year of 2003 will be slightly higher than the full year of 2002. The Company's TiO₂ production volume in 2003 is expected to approximate the Company's 2003 TiO₂ sales volume. In December 2002 and January 2003, the Company announced additional price increases in Europe and North America which averaged approximately 8% in Europe and approximately 7% in North

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America. The Company is hopeful that it will realize additional price increases during the remainder of 2003, but the extent to which the Company can realize price increases will depend on market conditions and global economic recovery. The Company's expectations as to the future prospects of the Company and the TiO2 industry are based upon a number of factors beyond the Company's control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from the Company's expectations, the Company's results of operations could be unfavorably affected.

As a net result of the items discussed above, the Company's income from operations increased 30% from \$14.8 million in the first quarter of 2002 to \$19.2 million in the first quarter of 2003.

Other income (expense):

	Three months ended March 31,		Difference
	2003	2002	
	(In millions)		
Securities gains, net	\$ 2.2	\$--	\$ 2.2
Interest and dividend income9	1.3	(.4)
Other corporate income1	--	.1
Interest expense	(8.0)	(6.5)	(1.5)
	\$ (4.8)	\$ (5.2)	\$.4
	=====	=====	=====

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Securities gains for the first quarter of 2003 represents a \$2.3 million noncash securities transaction gain related to the exchange of the Company's holdings of Tremont Corporation common stock for shares of Valhi, Inc. common stock as a result of a series of merger transactions Valhi completed in February 2003. See Note 6 to the Consolidated Financial Statements. Interest and dividend income was lower by \$400,000 in the first quarter of 2003 as compared with first quarter 2002 due to lower levels of available funds invested and lower average yields. The Company expects interest income to be lower for full-year 2003 than full-year 2002 due to lower average yields and lower average levels of funds available for investment.

Interest expense in the first quarter of 2003 was \$8.0 million, an increase of \$1.5 million from the first quarter of 2002 primarily due to higher levels of outstanding debt and associated currency effects, partially offset by lower interest rates. Assuming no significant change in interest rates, interest expense for full-year 2003 is expected to be higher than full-year 2002 due to

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higher levels of outstanding indebtedness, partially offset by lower average interest rates.

Provision for income taxes

The Company reduced its deferred income tax valuation allowance by \$.7 million in the first quarter of 2003 and \$.1 million in the first quarter of 2002 primarily as a result of utilization of certain tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria.

Other

Minority interest in the first quarter of 2002 primarily related to EMS.

Recently adopted accounting principles

As described in Note 1 in the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows from operating, investing and financing activities for the three months ended March 31, 2003 and 2002 are presented below.

	Three months ended March 31,	
	2003	2002
	(In millions)	
Net cash provided (used) by:		
Operating activities	\$ (13.7)	\$ 12.8
Investing activities	(4.4)	(14.2)
Financing activities	6.3	(38.2)
	-----	-----
Net cash used by operating, investing, and financing activities	\$ (11.8)	\$ (39.6)
	=====	=====

Operating activities

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly affect the earnings and operating cash flows of the Company. Cash flows from operations is the primary source of liquidity for the Company. Changes in TiO2 pricing, production volume and customer demand, among other things, could significantly affect the liquidity of the Company.

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Relative changes in assets and liabilities generally result from the timing of production, sales, purchases and income tax payments. Such relative changes can significantly impact the comparability of cash flow from operations from period to period, as the income statement impact of such items may occur in a different period from when the underlying cash transaction occurs. For example, raw materials may be purchased in one period, but the payment for such raw materials may occur in a subsequent period. Similarly, inventory may be sold in one period, but the cash collection of the receivable may occur in a subsequent period.

Cash flows from operating activities decreased from a net generation of cash of \$12.8 million in the first quarter of 2002 to a net use of cash of \$13.7 million in the first quarter of 2003. This \$26.5 million decrease was due primarily to the net effect of (i) higher net income of \$3.0 million, (ii) higher depreciation expense of \$1.9 million and (iii) a higher amount of net cash used to fund changes in the Company's inventories, receivables and payables of \$31.0 million in the first quarter of 2003. Relative changes in accounts receivable are affected by, among other things, the timing of sales and the collection of the resulting receivable. Relative changes in inventories and accounts payable and accrued liabilities are affected by, among other things, the timing of raw material purchases and the payment for such purchases and the relative difference between production volume and sales volume.

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Investing activities

The Company's capital expenditures were \$6.5 million and \$5.5 million in the first three months of 2003 and 2002, respectively. Capital expenditures in first quarter 2002 included approximately \$1.2 million related to reconstruction of the Company's Leverkusen, Germany sulfate plant damaged in the March 2001 fire.

In March 2002, the Company redeemed \$25.0 million principal amount of the 11.75% Senior Secured Notes due October 2003 at par.

In January 2002, the Company acquired all of the stock and limited liability company units of EWI RE, Inc. and EWI RE, Ltd. (collectively "EWI"), respectively, for an aggregate of \$9.2 million in cash, including capitalized acquisition costs of \$.2 million.

Financing activities

In March 2003 the Company borrowed (euro)15.0 million (\$16.1 million when borrowed) under the European Credit Facility. In April 2003 the Company repaid NOK 80 million (approximately \$11 million when repaid) under the European Credit Facility.

In the first quarter of 2002 and 2003, the Company paid a regular quarterly dividend to shareholders of \$.20 per share, aggregating \$9.8 million and \$9.5 million, respectively.

In the first quarters of 2003 and 2002, the Company repurchased nil and \$3.3 million of treasury stock pursuant to its share repurchase program. The Company is authorized to repurchase approximately 1.3 million additional shares at May 9, 2003. The shares may be purchased over an unspecified period of time

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and, depending on market conditions, applicable legal requirements, available cash and other factors, the share repurchase program may be suspended at any time and could be terminated prior to completion. The repurchased shares are to be held as treasury shares available for general corporate purposes.

Cash, cash equivalents, restricted cash and restricted marketable debt securities and borrowing availability

At March 31, 2003, the Company had cash and cash equivalents aggregating \$46.7 million, current restricted cash equivalents of \$47.1 million, current restricted marketable debt securities of \$9.7 million and noncurrent restricted marketable debt securities of \$9.6 million. Of such aggregate \$113.1 million amount, \$22 million was held by non-U.S. subsidiaries. At March 31, 2003, certain of the Company's subsidiaries had \$83 million available for borrowing with approximately \$43 million available under non-U.S. credit facilities (including \$41 million under the European Credit Facility) and approximately \$40 million under the U.S. Credit Facility. At March 31, 2003, the Company had complied with all financial covenants governing its debt agreements.

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Income tax contingencies

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

The Company's and EMS' 1998 U.S. federal income tax returns are being examined by the U.S. Internal Revenue Service ("IRS") and the Company and EMS have each granted extensions of the statute of limitations for assessment of tax with respect to their 1998 and 1999 income tax returns until September 30, 2004. Based upon the course of the examination, the Company anticipated that the IRS would propose a substantial tax deficiency, including penalties and interest, related to a restructuring transaction. In an effort to avoid protracted litigation and minimize the hazards of such litigation, the Company applied to take part in an IRS settlement initiative applicable to transactions similar to the restructuring transaction, and in April 2003 the Company received notification from the IRS that it had been accepted into the settlement initiative. Under the initiative, no penalties will be assessed and final settlement with the IRS is to be reached through negotiation and, if necessary, through a specified arbitration procedure. The Company anticipates that settlement of the matter will likely occur in 2004, resulting in payments of federal and state tax and interest ranging from \$33 million to \$45 million. Additional payments in later years may be required as part of the settlement. The Company has provided adequate accruals to cover the currently expected range of settlement outcomes.

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately (euro)10.4 million (\$11.2 million at March 31, 2003). The Company has filed protests to the assessments for the years 1991 to 1997. The Company is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit. In April 2003 the Company received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999. The anticipated assessment, including interest, is expected to approximate (euro)12 million (\$12.9 million at March 31, 2003). The Company believes the proposed assessment related to 1999 is without merit and in April 2003 filed a written response in

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opposition to the notification of intent to assess.

In 2002, the Company received a notification from the Norwegian tax authorities of their intent to assess tax deficiencies of approximately NOK 12.2 million (\$1.7 million at March 31, 2003) relating to 1998 through 2000. The Company has objected to this proposed assessment in a written response to the Norwegian tax authorities.

In the first quarter of 2003, the Company was notified by the German Federal Fiscal Court (the "Court") that the Court had ruled in the Company's favor concerning a claim for refund suit in which the Company sought refunds of prior taxes paid during the periods 1990 through 1997. The Company expects to file amended German tax returns claiming such tax refunds for all years affected by the Court's decision, which is expected to result in a net refund of taxes and interest of approximately \$30 million. As of March 31, 2003, the Company has not reflected this tax refund in its consolidated financial statements and expects to reflect the refund in its consolidated financial statements once certain procedural requirements are satisfied, including a review of the amended German tax returns by the German tax authorities.

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

At March 31, 2003 the Company had the equivalent of approximately \$451 million of income tax loss carryforwards in Germany with no expiration date. However, the Company has provided a deferred tax valuation allowance against substantially all of these income tax loss carryforwards because the Company currently believes they do not meet the "more-likely-than-not" recognition criteria. In 2002, the German federal government proposed certain changes to its income tax law, including certain changes that would have imposed limitations on the annual utilization of income tax loss carryforwards. Such proposal, if enacted, would have significantly affected the Company's 2003 and future income tax expense and cash tax payments. In April 2003 the German federal government passed a new tax law which does not contain the provision that would have restricted the utilization of tax loss carryforwards. Furthermore, the provisions contained in the new law are not expected to materially impact the Company's income tax expense or cash tax payments.

At March 31, 2003, the Company had net deferred tax liabilities of \$141 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 \$188 million at March 31, 2003, principally related to Germany, partially offsetting deferred tax assets which the Company believes do not currently meet the "more-likely-than-not" recognition criteria.

Environmental matters and litigation

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, certain of which are on the U.S. Environmental Protection Agency's (the "U.S. EPA") Superfund

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National Priorities List or similar state lists. On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed the Company's obligation. The Company believes it has adequate accruals (\$104 million at March 31, 2003) 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, the allocations of such costs among PRPs, and the financial viability of other PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites for which it is possible to estimate costs is approximately \$145 million. The Company's estimates of such liabilities have not been discounted to present value. No assurance can be given that actual costs will not exceed either accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes with respect to site cleanup costs, or the 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

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in expenditures in excess of amounts currently estimated by the Company to be required for such matters. In addition, with respect to other PRPs and the fact that the Company may be jointly and severally liable for the total remediation cost at certain sites, the Company could ultimately be liable for amounts in excess of its accruals due to, among other things, reallocation of costs among PRPs or the insolvency of one of more PRPs. Furthermore, there can be no assurance that additional environmental matters will not arise in the future.

The exact time frame over which the Company makes payments with respect to its accrued environmental costs is unknown and is dependent upon, among other things, the timing of the actual remediation process which in part depends on factors outside the control of the Company. At each balance sheet date, the Company makes an estimate of the amount of its accrued environmental costs which will be paid out over the subsequent 12 months, and the Company classifies such amount as a current liability. The remainder of the accrued environmental costs are classified as a noncurrent liability.

At March 31, 2003, there are approximately 15 sites for which the Company is unable to estimate a range of costs. For these sites, generally the investigation is in the early stages, and it is either unknown as to whether or not the Company actually had any association with the site, or if the Company had association with the site, the nature of its responsibility, if any, for the contamination at the site and the extent of contamination. The timing on when information would become available to the Company to allow the Company to estimate a range of loss is unknown and dependent on events outside the control of the Company, such as when the party alleging liability provides information to the Company.

At March 31, 2003, the Company had approximately \$57 million in cash, cash equivalents and restricted marketable debt securities held by certain special purpose trusts, the assets of which can only be used to pay for certain of the Company's future environmental remediation and other environmental expenditures.

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Lead pigment litigation

The Company is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale of lead pigments and lead-based paints. There is no assurance that the Company will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, the Company believes that the pending lead pigment and paint litigation is without merit. The Company has not accrued any amounts for such pending litigation. Liability that may result, if any, cannot reasonably be estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn the precedent set by court decisions in which the Company and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. The Company currently believes the disposition of all claims and disputes, individually and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. The Company expects that additional lead pigment and lead-based litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief. See Item 1 - "Legal Proceedings."

Other

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

Non-GAAP Financial Measures

In an effort to provide investors with additional information regarding the Company's results as determined by GAAP, the Company has disclosed certain non-GAAP information which the Company believes provides useful information to investors:

- o As discussed above, the Company discloses percentage changes in its average TiO₂ prices in billing currencies, which excludes the effects of foreign currency translation. Such disclosure of the percentage change in the Company's average TiO₂ selling price in billing currencies is

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considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in the Company's average TiO2 selling prices using actual foreign currency exchange rates prevailing

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during the respective periods is considered the most directly comparable GAAP measure. The Company discloses percentage changes in its average TiO2 prices in billing currencies because the Company believes such disclosure provides useful information to investors to allow them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods.

Special note regarding forward-looking statements

The statements contained in this Report on Form 10-Q ("Quarterly Report") which are not historical facts, including, but not limited to, statements found under the captions "Results of Operations" and "Liquidity and Capital Resources" above, are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "will," "should," "could," "anticipates," "expects," or comparable terminology or by discussions of strategy or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve risks and uncertainties, including, but not limited to, the cyclical nature of the titanium dioxide industry, global economic and political conditions, global productive capacity, customer inventory levels, changes in product pricing, changes in product costing, changes in foreign currency exchange rates, competitive technology positions, operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled downtime, transportation interruptions, war and terrorist activities), the ultimate resolution of pending or possible future lead pigment litigation and legislative developments related to the lead paint litigation, the outcome of other litigation and tax controversies, and other risks and uncertainties included in this Quarterly Report and in the 2002 Annual Report, and the uncertainties set forth from time to time in the Company's filings with the Securities and Exchange Commission. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the Company's market risks, refer to the caption "Quantitative and Qualitative Disclosures About Market Risk" in the 2002 Annual Report. There have been no material changes to the information provided that would require additional information with respect to the quarter ended March 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the Securities and Exchange Commission ("SEC"), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Harold C. Simmons, the Company's Chief Executive Officer, and Gregory M. Swalwell, the Company's Vice President, Finance, have evaluated the Company's disclosure controls and procedures as of March 31, 2003. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

The Company also maintains a system of internal controls over financial reporting. The term "internal control over financial reporting," as defined by regulations of the SEC, means a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and includes those policies and procedures that:

- o Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company,
- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

There has been no change to the Company's system of internal controls over financial reporting during the quarter ended March 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

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ITEM 1. LEGAL PROCEEDINGS

Reference is made to the 2002 Annual Report for descriptions of certain previously reported legal proceedings.

State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). In March 2003 the court denied motions by plaintiffs and defendants for judgment notwithstanding the previously-described mistrial in this case in October 2002. A hearing to determine the scope and timing of a new trial is scheduled for May 2003.

City of Milwaukee v. NL Industries, Inc. and Mautz Paint (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV0030066). In April 2003 defendants filed a motion for summary judgment in this previously-described case. The court has not yet ruled on the motion. The case is scheduled for trial in October 2003.

Smith, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004490). In April, 2003, the court of appeals denied defendants' motion to dismiss plaintiffs' appeal as interlocutory, allowing the appeal in this previously-described case to proceed on behalf of the four plaintiff families.

Quitman County School District v. Lead Industries Association, et al. (Circuit Court of Quitman County, Mississippi, Case No. 2001-0106). In April 2003 the court denied defendants' motion for summary judgment in this previously-described case.

Russell v. NL Industries, Inc., et al. (Circuit Court of LeFlore County, Mississippi, Civil Action No. 2002-0235-CICI). In April 2003 the Company was served with the complaint in this previously-described case. The case has been removed to federal court.

Jones v. NL Industries, Inc., et al. (Circuit Court of LeFlore County, Mississippi, Civil Action No. 2002-0241-CICI). In April 2003 the Company was served with the complaint in this previously-described case. The case has been removed to federal court.

Stewart v. NL Industries, Inc., et al. (Circuit Court of LeFlore County, Mississippi, Civil Action No. 2002-0266-CICI). In March, 2003 plaintiff requested court approval to dismiss this previously-described case voluntarily.

The Company expects that additional lead pigment and lead-based paint litigation may be filed against the Company in the future asserting similar or different legal theories and seeking similar or different types of damages and relief.

Herd v. ASARCO, et al. (District Court in and for Ottawa County, Oklahoma, Case No. CJ-2001-443). Plaintiffs have moved that the claims in this previously-described case, involving alleged personal injury resulting from defendants' mining waste piles in and around Picher, Oklahoma, be consolidated for trial with four other similar cases (Reeves v. ASARCO et al., Case No. CJ-02-8; Carr v. ASARCO et al., Case No. CJ-02-59; Edens v. ASARCO et al., Case No. CJ-02-245; and Koger v. ASARCO et al., Case No. CJ-02-284). The Herd case

had previously been consolidated for discovery with those four cases. Trial in the Herd case is scheduled for August 2003. Plaintiffs have moved to dismiss

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their negligence claims. Defendants have moved for summary judgment. The Company understands that plaintiffs' counsel may file claims on behalf of additional plaintiffs.

Pulliam, et al. v. NL Industries, Inc., et al, (Superior Court, Marion County, Indiana, No. 49F12-0104-CT-001301). In April 2003 the court dismissed this previously-described case with prejudice. The time for plaintiffs to appeal has not yet expired.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification

31.2 Certification

32.1 Certification

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended March 31, 2003 through the date of this report:

April 30, 2003 - Reported Items 7 and 9.

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SIGNATURES

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

NL INDUSTRIES, INC.

(Registrant)

Date: October 31, 2003

By /s/ Gregory M. Swalwell

Gregory M. Swalwell
Principal Financial and Accounting Officer

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