

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A-2

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 - For the fiscal year ended December 31, 2002

OR

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

Commission file number 1-640  
-----

NL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey

13-5267260

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer  
Identification No.)

5430 LBJ Freeway, Suite 1700 Dallas, Texas

75240-2697

-----  
(Address of principal executive offices)

-----  
(Zip Code)

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

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

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

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

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

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

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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

As of June 28, 2002, 48,831,984 shares of common stock were outstanding. The aggregate market value of the 8,345,399 shares of voting stock held by non-affiliates of the registrant at June 28, 2002, approximated \$127 million.

There were 47,693,884 shares of common stock outstanding at March 12, 2003.

Documents incorporated by reference:

Certain of 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.

This Amendment No. 2 to the Annual Report on Form 10-K for the year ended December 31, 2002 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 contained primarily in "Business," "Properties," "Legal Proceedings," "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 Annual Report as clarified. No other modifications have been made to the Annual Report except as described above.

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 "Industry," "Products and operations," "Manufacturing process and raw materials," "Competition," "Patents and Trademarks," "Foreign Operations," and "Regulatory and Environmental Matters," all contained in Item 1. Business; (ii) under the captions "Lead pigment litigation," "Environmental matters and litigation," and "Other Litigation," all contained in Item 3. Legal Proceedings; (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; (iv) under the captions "Currency exchange rates," "Marketable equity security prices," and "Other," all contained in Item 7A. Quantitative and Qualitative Disclosures About Market Risk; and (v) in Note 23, "Commitments and contingencies - Legal proceedings" to the Consolidated Financial Statements, are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "will," "should," "anticipates," "expects," "could" 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 that could significantly affect expected results, and actual future results could differ materially from those described in such forward-looking statements.

Among the factors that could cause actual future results to differ

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

materially are the risks and uncertainties discussed in this Annual Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission ("SEC"). While it is not possible to identify all factors, the Company continues to face many 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), recoveries from insurance claims and the timing thereof, the ultimate resolution of pending or possible future lead pigment litigation and legislative developments related to the lead paint litigation, the outcome of other litigation and tax controversies, and other risks and uncertainties included in the Company's filings with the SEC. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

### PART I

#### ITEM 1. BUSINESS

##### General

NL Industries, Inc., organized as a New Jersey corporation in 1891, conducts its operations through its principal wholly owned subsidiary, Kronos Worldwide, Inc (formerly known as Kronos, Inc.). The Company is the world's fifth largest producer of titanium dioxide pigments ("TiO<sub>2</sub>") with an estimated 12% share of worldwide TiO<sub>2</sub> sales volume in 2002. Approximately one-half of the Company's 2002 sales volume was in Europe, where the Company is the second largest producer of TiO<sub>2</sub>. NL and its consolidated subsidiaries are sometimes referred to herein collectively as the "Company."

The Company's primary objective is to maximize total shareholder return. The Company continues to take steps towards achieving its objective, including (i) controlling costs, (ii) investing in certain cost effective debottlenecking projects to increase TiO<sub>2</sub> production capacity and efficiency, (iii) improving its capital structure, and (iv) continuing to pay cash dividends. The Company periodically considers mergers or acquisitions, which may be within or outside the chemical industry, and acquisitions of additional TiO<sub>2</sub> production capacity to meet its objective.

##### 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 a "quality-of-life" product with demand affected by gross domestic product in various regions of the world.

Pricing within the global TiO<sub>2</sub> industry over the long term is cyclical, and changes in industry economic conditions, especially in Western industrialized nations, can significantly impact the Company's earnings and operating cash

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

flows. The Company's average TiO<sub>2</sub> selling price on a billing currency basis increased from the preceding quarter during the third and fourth quarters of 2002, reversing the downward trend in prices that began in the first quarter of 2001 and continued through the first quarter of 2002. Industry-wide demand for TiO<sub>2</sub> strengthened throughout 2002, with full year demand estimated as 9% higher than the previous year. This is believed to have been the result of economic growth and restocking of customer inventory levels. Volume demand in 2003 is expected to increase moderately over 2002 levels.

The Company has an estimated 18% share of European TiO<sub>2</sub> sales volume and an estimated 14% share of North American TiO<sub>2</sub> sales volume. Per capita consumption of TiO<sub>2</sub> 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 TiO<sub>2</sub>. Significant regions for TiO<sub>2</sub> consumption could emerge in Eastern Europe, the Far East or China if the economies in these regions develop to the point that quality-of-life products, including TiO<sub>2</sub>, are in greater demand. The Company believes that, due to its strong presence in Western Europe, it is well positioned to participate in growth in consumption of TiO<sub>2</sub> in Eastern Europe. Geographic segment information is contained in Note 4 to the Consolidated Financial Statements.

### Products and operations

TiO<sub>2</sub> is produced in two crystalline forms: rutile and anatase. Rutile TiO<sub>2</sub> is a more tightly bound crystal that has a higher refractive index than anatase TiO<sub>2</sub> and, therefore, provides better opacification and tinting strength in many applications. Although many end-use applications can use either form of TiO<sub>2</sub>, rutile TiO<sub>2</sub> is the preferred form for use in coatings, plastics and ink. Anatase TiO<sub>2</sub> has a bluer undertone and is less abrasive than rutile TiO<sub>2</sub>, and it is often preferred for use in paper, ceramics, rubber and man-made fibers.

The Company believes that there are no effective substitutes for TiO<sub>2</sub>. 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 TiO<sub>2</sub>. The use of extenders has not significantly changed TiO<sub>2</sub> consumption over the past decade because, to date, extenders generally have failed to match the performance characteristics of TiO<sub>2</sub>. As a result, the Company believes that the use of extenders will not materially alter the growth of the TiO<sub>2</sub> business in the foreseeable future.

The Company currently produces over 40 different TiO<sub>2</sub> grades, sold under the Kronos trademark, which provide a variety of performance properties to meet customers' specific requirements. The Company's major customers include domestic and international paint, plastics and paper manufacturers.

The Company is one of the world's leading producers and marketers of TiO<sub>2</sub>. 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. TiO<sub>2</sub> is distributed by rail, truck and ocean carrier in either dry or slurry form. The Company's manufacturing facilities are located in Germany, Canada, Belgium and Norway and the Company owns a one-half interest in a TiO<sub>2</sub> manufacturing joint venture located in Louisiana, U.S.A. The Company has sales and marketing activities in over 100 countries worldwide. The Company and its predecessors have produced and marketed TiO<sub>2</sub> in North America and Europe for

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

over 80 years. As a result, the Company 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 the Company's 2002 TiO<sub>2</sub> sales were to Europe, with 39% to North America and the balance to export markets.

The Company is also engaged in the mining and sale of ilmenite ore (a raw material used as a feedstock by sulfate-process TiO<sub>2</sub> plants) pursuant to a governmental concession with an unlimited term that allows the Company to operate an ilmenite mine in Norway. The ore body, owned by the Norwegian government, has estimated ilmenite reserves that are expected to last at least 20 years. The Company is also engaged in the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the pigment production processes). The Company's water treatment chemicals (marketed under the name Ecochem) 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 the Company using both the chloride process and the sulfate process. Approximately 72% of Kronos' current production capacity is based on its chloride process which generates less waste than the sulfate process. The chloride process is a continuous process in which chlorine is used to extract rutile TiO<sub>2</sub>. In general, the chloride process is also less intensive than the sulfate process in terms of capital investment, labor and energy. Because much of the chlorine is recycled and higher titanium-containing feedstock is used, the chloride process produces less waste. The sulfate process is a batch chemical process that uses sulfuric acid to extract TiO<sub>2</sub>. Sulfate technology normally produces either anatase or rutile pigment. Once an intermediate TiO<sub>2</sub> pigment has been produced by either the chloride or sulfate process, it is 'finished' into products with specific performance characteristics for particular end-use applications through proprietary processes involving various chemical surface treatments and intensive milling and micronizing.

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 and, in 2002, chloride-process production facilities represented approximately 62% of industry capacity.

The Company produced a Company record 442,000 metric tons of TiO<sub>2</sub> in 2002, compared to 412,000 metric tons produced in 2001 and 441,000 metric tons in 2000. The Company's average production capacity utilization rate in 2002 was 96%, up from 91% in 2001. Capacity utilization rates in 2001 were down due in part to lost sulfate production volume resulting from the Leverkusen fire. The Company believes its current annual attainable production capacity is approximately 470,000 metric tons, including its one-half interest in the joint venture-owned Louisiana plant (see "TiO<sub>2</sub> manufacturing joint venture"). The Company expects its production capacity will be increased by approximately 10,000 metric tons primarily at its chloride facilities, with moderate capital expenditures, bringing Kronos' capacity to approximately 480,000 metric tons during 2005.

The primary raw materials used in the TiO<sub>2</sub> chloride production process are titanium-containing feedstock derived from beach sand ilmenite, natural rutile

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

ore, chlorine and coke. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited number of suppliers around the world, principally in Australia, South Africa, Canada, India and the United States.

The Company purchases slag refined from ilmenite sand from Richards Bay Iron and Titanium (Proprietary) Limited (South Africa), a 51%-owned subsidiary of Rio Tinto plc (U.K.), under a long-term supply contract that expires at the end of 2007. Natural rutile ore is purchased primarily from Iluka Resources, Limited (Australia), a company formed through the merger of Westralian Sands Limited (Australia) and RGC Mineral Sands, Ltd., under a long-term supply contract that expires at the end of 2004. The Company does not expect to encounter difficulties obtaining long-term extensions to existing supply contracts prior to the expiration of the contracts. Raw materials purchased under these contracts and extensions thereof are expected to meet Kronos' chloride feedstock requirements over the next several years.

The primary raw materials used in the TiO<sub>2</sub> sulfate production process are titanium-containing feedstock derived primarily from rock and beach sand ilmenite and sulfuric acid. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. As one of the few vertically integrated producers of sulfate-process pigments, Kronos operates a rock ilmenite mine in Norway, which provided all of the Company's feedstock for its European sulfate-process pigment plants in 2002. For its Canadian sulfate-process plant, the Company also purchases sulfate grade slag primarily from Q.I.T. Fer et Titane Inc. (Canada), a wholly owned subsidiary of Rio Tinto Iron & Titanium, Inc., under a long-term supply contract that expires at the end of 2006.

The Company believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate for the next several years. Kronos does not expect to experience any interruptions of its raw material supplies because of its long-term supply contracts. However, political and economic instability in certain countries from which the Company purchases its raw material supplies could adversely affect the availability of such feedstock. Should the Company's vendors not be able to meet their contractual obligations or should the Company be otherwise unable to obtain necessary raw materials, the Company may incur higher costs for raw materials or may be required to reduce production levels, which may have a material adverse effect on the Company's financial position, results of operations or liquidity.

The following table presents certain information regarding the amounts of TiO<sub>2</sub> raw materials procured or mined during 2002.

Production Process/Raw Material	Quantity ('000 Metric Tons)- 2002
---------------------------------	-----------------------------------

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

-----  
 Chloride process plants:  
 -----

Purchased slag refined from ilmenite beach sands(1)	199
Purchased natural rutile ore(2)	70

-----  
 Sulfate process plants:  
 -----

Purchased slag refined from rock and beach sand ilmenite(3)	29
Mined raw ilmenite ore consumed internally(4)	297

Mined raw ilmenite ore sold to third parties(4)	536
---	-----

- (1) Purchased primarily from Richards Bay Iron and Titanium (Proprietary) Limited.
- (2) Purchased primarily from Iluka Resources, Limited.
- (3) Purchased primarily from Q.I.T. Fer et Titane Inc.
- (4) Obtained from the rock ilmenite mine in Norway operated by Kronos. The TiO2 content of raw ilmenite ore is substantially lower than the TiO2 content of purchased slag and natural rutile ore. Accordingly, the tonnage of raw ilmenite ore mined is not directly comparable to the tonnage of purchased slag or natural rutile ore.

TiO2 manufacturing joint venture

Subsidiaries of the Company and Huntsman International Holdings LLC ("Huntsman") each own a 50%-interest in a manufacturing joint venture, Louisiana Pigment Company ("LPC"). LPC owns and operates a chloride-process TiO2 plant located in Lake Charles, Louisiana. Production from the plant is shared equally by the Company and Huntsman (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 LPC including production and output decisions. Two general managers, one appointed and compensated by each Partner, manage the operations of the joint venture acting under the direction of the supervisory committee.

The manufacturing joint venture operates on a break-even basis and, accordingly, the Company reports no equity in earnings of the joint venture. The Company's cost for its share of the TiO2 produced is equal to its share of the joint venture's costs. The Company's share of net costs is reported as cost of sales as the related TiO2 acquired from the joint venture is sold. See Note 10 to the Consolidated Financial Statements.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

### Competition

The TiO<sub>2</sub> industry is highly competitive. The Company competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO<sub>2</sub> grades are considered specialty pigments, the majority of the Company's grades and substantially all of Kronos' production are considered commodity pigments with price generally being the most significant competitive factor. During 2002 Kronos had an estimated 12% share of worldwide TiO<sub>2</sub> sales volume, and the Company believes that it is the leading seller of TiO<sub>2</sub> in several countries, including Germany and Canada.

The Company's principal competitors are E.I. du Pont de Nemours & Co. ("DuPont"); Millennium Chemicals, Inc.; Huntsman; Kerr-McGee Corporation; and Ishihara Sangyo Kaisha, Ltd. Kronos' five largest competitors have estimated individual shares of TiO<sub>2</sub> production capacity ranging from 24% to 5%, and an estimated aggregate 70% share of worldwide TiO<sub>2</sub> production volume. DuPont has about one-half of total U.S. TiO<sub>2</sub> production capacity and is the Company's principal North American competitor.

Capacity additions that are the result of construction of greenfield plants in the worldwide TiO<sub>2</sub> market require significant capital and substantial lead time, typically three to five years in the Company's experience. As no new plants are currently under construction, additional greenfield capacity is not expected in the next three to five years, but industry capacity can be expected to increase as Kronos and its competitors debottleneck existing plants. In addition to potential capacity additions, certain competitors have either idled or shut down facilities. Based on the factors described under the caption "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 TiO<sub>2</sub> over the next three to five years.

No assurance can be given that future increases in the TiO<sub>2</sub> industry production capacity and future average annual demand growth rates for TiO<sub>2</sub> will conform to the Company's expectations. If actual developments differ from the Company's expectations, the Company and the TiO<sub>2</sub> industry's performance could be unfavorably affected.

### Research and Development

The Company's expenditures for research and development and certain technical support programs have averaged approximately \$6 million annually during the past three years. Research and development activities are conducted principally at the Leverkusen, Germany facility. Such activities are directed primarily toward improving both the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications.

### Patents and Trademarks

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

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



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

### Foreign Operations

The Company's chemical businesses have operated in non-U.S. markets since the 1920s. Most of Kronos' current production capacity is located in Europe and Canada with non-U.S. net property and equipment aggregating approximately \$372 million at December 31, 2002. Net property and equipment in the U.S., including 50% of the property and equipment of LPC, was approximately \$124 million at December 31, 2002. The Company's European operations include production facilities in Germany, Belgium and Norway. Approximately \$603 million of the Company's 2002 consolidated sales were to non-U.S. customers, including \$93 million to customers in areas other than Europe and Canada. Sales to customers in the U.S. aggregated \$272 million in 2002. 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" and Item 7A. "Quantitative and Qualitative Disclosures about Market Risk."

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 Annual 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. The Company's largest ten customers accounted for approximately 25% of net sales in 2002. 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, TiO<sub>2</sub> sales are generally higher in the first half of the year than in the second half of the year.

### Employees

As of December 31, 2002, the Company employed approximately 2,500 persons, excluding LPC employees, with approximately 100 employees in the United States and approximately 2,400 at sites outside the United States. Hourly employees in production facilities worldwide, including LPC, 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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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 maintain 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 ("RCRA"), 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 LPC and a slurry facility owned by the Company in Lake Charles, Louisiana are in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. The Company has no other U.S. plants. 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 and Belgium are members of the EU and follow its initiatives. Norway, although not a member, generally patterns its environmental regulatory actions after the EU. The Company believes that Kronos has obtained all required permits and is in substantial compliance with applicable EU requirements, including EU Directive 92/112/EEC regarding establishment of procedures for reduction and eventual elimination of pollution caused by waste from the TiO<sub>2</sub> industry.

At all of the Company's sulfate plant facilities other than Fredrikstad, Norway, the Company recycles spent acid either through contracts with third parties or using the Company's own facilities. At its Fredrikstad, Norway plant, the Company ships its spent acid to a third party location where it is treated and disposed. The Company has a contract with a third party to treat certain by-products of its German sulfate-process plants. Either party may terminate the contract after giving four years advance notice with regard to its Nordenham, Germany plant. Under certain circumstances, Kronos may terminate the contract after giving six months notice with respect to treatment of by-products from the Leverkusen, Germany plant.

The Company's capital expenditures related to its ongoing environmental protection and improvement programs in 2002 were approximately \$5 million, and are currently expected to be approximately \$5 million in 2003.

The Company has been named as a defendant, potentially responsible party ("PRP"), or both, pursuant to CERCLA and similar state laws in approximately 70 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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." Principal Shareholders

At December 31, 2002, Valhi, Inc. ("Valhi") and Tremont Corporation ("Tremont"), each affiliates of Contran Corporation ("Contran"), held approximately 63% and 21%, respectively, of NL's outstanding common stock. At December 31, 2002, Contran and its subsidiaries held approximately 93% of Valhi's outstanding common stock, and a company 80% owned by Valhi and 20% owned by NL held approximately 80% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is the sole trustee. Mr. Simmons, the Chairman of the Board of each of Contran, Valhi and NL and a director of Tremont, may be deemed to control each of such companies. See Notes 7, 8 and 22 to the Consolidated Financial Statements.

### Website and other available information

The Company maintains a website on the Internet with the address of [www.nl-ind.com](http://www.nl-ind.com). Copies of this Annual Report on Form 10-K for the year ended December 31, 2002 and copies of the Company's Quarterly Reports on Form 10-Q for 2002 and 2003 and any Current Reports on Form 8-K for 2002 and 2003, and any amendments thereto, are or will be available free of charge as soon as reasonably practical after they are filed with the SEC at such website. Information contained on the Company's website is not part of this report.

The general public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer, and the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company. The Internet address of the SEC's website is [www.sec.gov](http://www.sec.gov).

### ITEM 2. PROPERTIES

The Company currently operates five TiO<sub>2</sub> plants in Europe (two in Leverkusen, Germany; one in Nordenham, Germany; one in Langerbrugge, Belgium; and one in Fredrikstad, Norway). In North America, the Company has a TiO<sub>2</sub> plant in Varennes, Quebec, Canada and, through the manufacturing joint venture described above, a one-half interest in a TiO<sub>2</sub> plant in Lake Charles, Louisiana. The Company operates an ilmenite ore mine in Hauge i Dalane, Norway pursuant to a governmental concession and also owns a TiO<sub>2</sub> slurry plant in Lake Charles, Louisiana. See Note 13 to the Consolidated Financial Statements.

The Company's 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. Rent for the Leverkusen facility is periodically established by agreement with Bayer AG for periods of at least two years at a time. Under a separate supplies and services agreement expiring in 2011, Bayer provides some raw materials, including chlorine and certain amounts of sulfuric acid, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. The lease has certain restrictions regarding Kronos' ability to transfer ownership or use of the Leverkusen facility.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

The Company owns all of its principal production facilities described above, except for the land under the Leverkusen and Fredrikstad facilities and the ilmenite ore mine. The Company has a governmental concession with an unlimited term to operate the ilmenite mine in Norway.

The Company has under lease various corporate and administrative offices located in the U.S. and various sales offices located in the U.S., France, the Netherlands, Denmark and the U.K. In 2002 the Company closed its New York administrative office.

### 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. During the past 15 years, the Company has been named as a defendant or third party defendant in various legal proceedings alleging that the Company and approximately seven other companies that formerly manufactured lead pigments for use in paint (together, the "former pigment manufacturers") and lead-based paint are responsible for personal injury, property damage and governmental expenditures allegedly associated with the use of these products. These cases assert a combination of claims that generally include negligent product design, negligent failure to warn, supplier negligence, fraud and deceit, public and private nuisance, restitution, indemnification, conspiracy, concert of action, aiding and abetting, strict liability/failure to warn, and strict liability/defective design, violations of state consumer protection statutes, enterprise liability, market share liability, and similar claims. The Company has neither lost nor settled any of these cases. Considering the Company's previous involvement in the lead pigment and lead-based paint businesses, the Company expects that additional lead pigment and lead-based paint litigation, asserting similar or different legal theories and seeking similar or different types of damage and relief to that described below, may be filed. In addition, various other cases are pending (in which the Company is not a defendant) seeking recovery for injury allegedly caused by lead pigment and lead-based paint. Although the Company is not a defendant in these cases, the outcome of these cases may have an impact on additional cases being filed against the Company.

The Company has not accrued any amounts for this 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 cases are without merit and will continue to defend the cases vigorously. 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 against the former 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. All but two of these actions, Hall v. HANO, et al. (No. 89-3552) and Allen v. HANO, et al. (No. 89-427) Civil District Court for the Parish of Orleans, State of Louisiana, have been dismissed. These two cases have been inactive since 1992.

In June 1989 a complaint was filed in the Supreme Court of the State of New York, County of New York, against the former pigment manufacturers and the LIA. Plaintiffs sought damages 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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

buildings, the costs of educating city residents to the hazards of lead paint, and liability in personal injury actions against New York City and the New York City 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). As a result of pre-trial motions, the New York City Housing Authority is the only remaining plaintiff in the case and is pursuing damage claims only with respect to two housing projects. Discovery is proceeding.

In August 1992 the Company was served with an amended complaint in Jackson, et al. v. The Glidden Co., et al., Court of Common Pleas, Cuyahoga County, Cleveland, Ohio (Case No. 236835). Plaintiffs seek compensatory and punitive damages for personal injury caused by the ingestion of lead, and an order directing defendants to abate lead-based paint in buildings. Plaintiffs purport to represent a class of similarly situated persons throughout the State of Ohio. The trial court has denied plaintiffs' motion for class certification. Discovery and pre-trial proceedings are continuing with respect to the individual plaintiffs. Defendants have filed a motion for summary judgment on all claims. The court has not yet ruled on the motion.

In December 1998 the Company was served with a complaint on behalf of four children and their guardians in Sabater, et al. v. Lead Industries Association, et al. (Supreme Court of the State of New York, County of Bronx, Index No. 25533/98). Plaintiffs purport to represent a class of all children and mothers similarly situated in New York State. The complaint seeks damages from the LIA and other former pigment manufacturers for establishment of property abatement and medical monitoring funds and compensatory damages for alleged injuries to plaintiffs. Discovery regarding class certification is proceeding.

In September 1999 an amended complaint was filed in Thomas v. Lead Industries Association, et al. (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411), adding as defendants the former pigment manufacturers to a suit originally filed against plaintiff's landlords. Plaintiff, a minor, alleges injuries purportedly caused by lead on the surfaces of premises in homes in which he resided. Plaintiff seeks compensatory and punitive damages, and the Company has denied liability. In January 2003 the trial court granted defendants' motion for summary judgment, dismissing all counts of the complaint. The time for plaintiff to appeal has not yet expired.

In October 1999 the Company was served with a complaint in State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). The State seeks compensatory and punitive damages for medical and educational expenses, and public and private building abatement expenses that the State alleges were caused by lead paint, and for funding of a public education campaign and health screening programs. Plaintiff seeks judgments of joint and several liability against the former pigment manufacturers and the LIA. Trial began in phase I of this case before a Rhode Island state court jury on September 4, 2002 on the question of whether lead pigment in paint on Rhode Island buildings is a public nuisance. On October 29, 2002 the trial judge declared a mistrial in the case when the jury was unable to reach a verdict on the question, with the jury reportedly deadlocked 4-2 in the defendants' favor. No date has been set for any further proceedings, including any possible retrial of the public nuisance issue. Other claims made by the Attorney General, including violation of the Rhode Island Unfair Trade Practices and Consumer Protection Act, strict liability, negligence, negligent and fraudulent misrepresentation, civil conspiracy, indemnity, and unjust enrichment remain pending and were not the subject of this trial. Post-trial motions by plaintiff and defendants for judgment notwithstanding the mistrial are pending.

In October 1999 the Company was served with a complaint in Smith, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004490). Plaintiffs, seven minors from four families, each seek

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

compensatory damages of \$5 million and punitive damages of \$10 million for alleged injuries due to lead-based paint. Plaintiffs allege that the former pigment manufacturers and other companies alleged to have manufactured paint and/or gasoline additives, the LIA, and the National Paint and Coatings Association are jointly and severally liable. The Company has denied liability, and all defendants filed motions to dismiss various of the claims. In February 2002 the trial court dismissed all claims except those relating to product liability for lead paint and the Maryland Consumer Protection Act. In November 2002 the trial court granted summary judgment against the children from the first of the plaintiff families and plaintiffs have appealed. Pre-trial proceedings and discovery against the other plaintiffs are continuing.

In February 2000 the Company was served with a complaint in City of St. Louis v. Lead Industries Association, et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 002-245, Division 1). Plaintiff seeks compensatory and punitive damages for its expenses discovering and abating lead-based paint, detecting lead poisoning and providing medical care and educational programs for City residents, and the costs of educating children suffering injuries due to lead exposure. Plaintiff seeks judgments of joint and several liability against the former pigment manufacturers and the LIA. In November 2002 defendants' motion to dismiss was denied. Discovery is proceeding.

In April 2000 the Company was served with a complaint in County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. CV788657), brought against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara seeks to represent a class of California governmental entities (other than the state and its agencies) to recover compensatory damages for funds the plaintiffs have expended or will in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. Santa Cruz, Solano, Alameda, San Francisco, and Kern counties, the cities of San Francisco and Oakland, the Oakland and San Francisco unified school districts and housing authorities and the Oakland Redevelopment Agency have joined the case as plaintiffs. Pre-trial proceedings and discovery are continuing. In February 2003 defendants filed a motion for summary judgment.

In June 2000 two complaints were filed in Texas state court, Spring Branch Independent School District v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2000-31175), and Houston Independent School District v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2000-33725). The School Districts seek past and future damages and exemplary damages for costs they have allegedly incurred or will incur due to the presence of lead-based paint in their buildings from the former pigment manufacturers and the LIA. The Company has denied all liability. In June 2002, the trial court granted the Company's motion for summary judgment in the Spring Branch Independent School District case. Plaintiffs have appealed. The Houston Independent School District case has been abated, or stayed, pending appellate review of the trial court's dismissal of the Spring Branch Independent School District case or certain other events.

In June 2000 a complaint was filed in Illinois state court, Lewis, et al. v. Lead Industries Association, et al. (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). Plaintiffs seek to represent two classes, one of all minors between ages six months and six years who resided in housing in Illinois built before 1978, and one of all individuals between ages six and twenty years who lived between ages six months and six years in Illinois housing built before 1978 and had blood lead levels of 10 micrograms/deciliter or more. The complaint seeks damages jointly and severally from the former pigment manufacturers and the LIA to establish a medical screening fund for the first class to determine blood lead levels, a medical monitoring fund for the second class to detect the onset of latent diseases, and

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

a fund for a public education campaign. In March 2002 the trial court dismissed all claims. Plaintiffs have appealed.

In October 2000 the Company was served with a complaint filed in California state court, Justice, et al. v. Sherwin-Williams Company, et al. (Superior Court of California, County of San Francisco, No. 314686). Plaintiffs are two minors who seek general, special and punitive damages from the former pigment manufacturers and the LIA for injuries alleged to be due to ingestion of paint containing lead in their residence. The Company has denied all liability. In February 2003, plaintiffs moved to dismiss the case without prejudice. In February 2001 the Company was served with a complaint in Borden, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-587). The complaint seeks joint and several liability for compensatory and punitive damages from more than 40 manufacturers and retailers of lead pigment and/or paint, including the Company, on behalf of 18 adult residents of Mississippi who were allegedly exposed to lead during their employment in construction and repair activities. One plaintiff has dropped his claims and the court has ordered that the claims of nine of the plaintiffs be transferred to Holmes County, Mississippi, state court. Pre-trial proceedings are continuing with respect to the eight plaintiffs remaining in Jefferson County. Trial is scheduled to begin in October 2003.

In May 2001 the Company was served with a complaint in City of Milwaukee v. NL Industries, Inc. and Mautz Paint (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV003066). The City of Milwaukee seeks compensatory and equitable relief for lead hazards in Milwaukee homes, restitution for amounts it has spent to abate lead, and punitive damages. The Company has denied all liability. Pre-trial proceedings are continuing. Trial is scheduled to begin in October 2003.

In May 2001 the Company was served with a complaint in Harris County, Texas v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2001-21413). The complaint seeks actual and punitive damages and asserts claims jointly and severally against the former pigment manufacturers and the LIA for past and future damages due to the presence of lead paint in County-owned buildings. The Company has denied all liability. The case has been abated, or stayed, pending appellate review of the trial court's dismissal of the Spring Branch Independent School District case or certain other events.

In December 2001 the Company was served with a complaint in Quitman County School District v. Lead Industries Association, et al. (Circuit Court of Quitman County, Mississippi, Case No. 2001-0106). The complaint asserts joint and several liability and seeks compensatory and punitive damages for the abatement of lead paint in Quitman County schools from the former pigment manufacturers, local paint retailers and others. Plaintiffs subsequently dismissed with prejudice all defendants except NL. The case has been removed to the United States District Court for the Northern District of Mississippi. The Company has denied all liability and has filed a motion for summary judgment. Pre-trial proceedings are continuing.

In January and February 2002 the Company was served with complaints by 25 New Jersey municipalities and counties which have been consolidated as In re: Lead Paint Litigation, (Superior Court of New Jersey, Middlesex County, Case Code 702). Each complaint seeks abatement of lead paint from all housing and all public buildings in each jurisdiction and punitive damages jointly and severally from the former pigment manufacturers and the LIA. In November 2002 the trial court dismissed the cases with prejudice. Plaintiffs have appealed.

In January 2002 the Company was served with a complaint in Jackson, et al., v. Phillips Building Supply of Laurel, et al. (Circuit Court of Jones County, Mississippi, Dkt. Co. 2002-10-CV1). The complaint seeks joint and several liability from three local retailers and six non-Mississippi companies that sold

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

paint for compensatory and punitive damages on behalf of four adults for injuries alleged to have been caused by the use of lead paint. After removal to federal court, in February 2003 the case was remanded to state court. The Company has denied all allegations of liability, and pre-trial proceedings are continuing.

In February 2002 the Company was served with a complaint in Liberty Independent School District v. Lead Industries Association, et al. (District Court of Liberty County, Texas, No. 63,332). The school district seeks compensatory and punitive damages jointly and severally from the former pigment manufacturers and the LIA for property damage to its buildings. The complaint was amended to add Liberty County, the City of Liberty, and the Dayton Independent School District as plaintiffs and drop the Lead Industries Association as a defendant. The Company has denied all allegations of liability. The case has been abated, or stayed, pending appellate review of the trial court's dismissal of the Spring Branch Independent School District case or certain other events.

In May 2002 the Company was served with a complaint in Brownsville Independent School District v. Lead Industries Association, et al. (District Court of Cameron County, Texas, No. 2002-052081 B), seeking compensatory and punitive damages jointly and severally from the former lead pigment manufacturers and LIA for property damage. The Company has denied all allegations of liability. The case has been abated, or stayed, pending appellate review of the trial court's dismissal of the Spring Branch Independent School District case or certain other events.

In September 2002 the Company was served with a complaint in City of Chicago v. American Cyanamid, et al. (Circuit Court of Cook County, Illinois, No. 02CH16212), seeking damages to abate lead paint in a single-count complaint alleging public nuisance against the Company and seven other former manufacturers of lead pigment. Defendants have filed a motion to dismiss. The court has not yet ruled on the motion.

In October 2002 the Company was served with a complaint in Walters v. NL Industries, et al. (Kings County Supreme Court, New York, No. 28087/2002), in which an adult seeks compensatory and punitive damages from the Company and five other former lead pigment manufacturers for childhood exposure to lead paint. The complaint alleges negligence and strict product liability, and seeks joint and several liability with claims of civil conspiracy, concert of action, enterprise liability, and market share or alternative liability. Defendants have moved to dismiss certain of the counts.

The Company is also aware of three personal injury complaints filed in state court in LeFlore County Mississippi in December 2002. In Russell v. NL Industries, Inc., et al. (No. No.2002-0235-CICI), six painters have sued NL, four paint companies, and a local retailer, alleging strict liability, negligence, fraudulent concealment, misrepresentation, and conspiracy, and seeking compensatory and punitive damages for alleged injuries caused by lead paint. In Stewart v. NL Industries, Inc., et al. (No. 2002-0266-CICI), a child has sued NL, four paint companies, two local retailers, and two landlords, alleging strict liability, negligence, fraudulent concealment, and misrepresentation, and seeking compensatory and punitive damages for alleged injuries caused by lead paint. In Jones v. NL Industries, Inc., et al. (No. 2002-0241-CICI), fourteen children from five families have sued NL and one landlord alleging strict liability, negligence, fraudulent concealment, and misrepresentation, and seeking compensatory and punitive damages for alleged injuries caused by lead paint. The Company has not been served in any of the cases.

In addition to the foregoing litigation, various legislation and administrative regulations have, from time to time, been enacted or proposed



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn court decisions in which the Company and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date which are expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity, the imposition of market share liability or other legislation could have such an effect.

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") sought to recover defense costs incurred in the City of New York lead pigment case and two other lead pigment cases which have since been resolved in the Company's favor. The action relating to lead paint litigation defense costs in these specified cases has been settled. The Company has also settled insurance coverage claims concerning environmental claims with certain of the defendants in the environmental coverage litigation, including the Company's principal former carriers, as more fully described below under "Environmental matters and litigation." The settled claims are to be dismissed from the New Jersey litigation in accordance with the terms of the settlement agreements. The Company also continues to negotiate with the remaining insurance carriers with respect to possible settlement of claims that are being asserted in the New Jersey environmental litigation, although there can be no assurance that settlement agreements can be reached with these other carriers. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

The issue of whether insurance coverage for defense costs or indemnity or both will be found to exist for lead pigment litigation depends upon a variety of factors, and there can be no assurance that such insurance coverage will be available. 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 70 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by the Company, or its subsidiaries, or their predecessors, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable. See Note 23 to the Consolidated Financial Statements.

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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

adequate accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 2002, the Company had accrued \$98 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 reasonably possible costs to the Company. Such costs include, among other things, expenditures for remedial investigations, monitoring, managing, studies, certain legal fees, cleanup, removal and remediation. 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 \$140 million. The Company's estimate of such liability has not been discounted to present value and the Company has not reduced its accruals for 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 with respect to site cleanup costs or allocation of such costs among PRPs, the insolvency of other PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. Furthermore, there can be no assurance that additional environmental matters will not arise in the future. More detailed descriptions of certain legal proceedings relating to environmental matters are set forth below.

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 December 31, 2002, 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.

In June 2000 the Company recognized a \$43 million net gain from a settlement with one of the two principal former insurance carriers, and in December 2000 the Company recognized a \$26.5 million net gain from a settlement with certain members of the other principal former insurance carrier. The settlement gains are stated net of \$3.1 million in commissions, and the gross settlement proceeds of \$72.6 million were transferred by the carriers to special purpose trusts established to pay future remediation and other environmental expenditures of the Company. A settlement with remaining members of the second carrier group was reached in January 2001, and the Company recognized a \$10.3 million gain in the first quarter of 2001. In 2002 and 2001 the Company also recognized \$5.2 million and \$1.4 million, respectively, of other litigation settlement gains. The settlements resolved court proceedings that the Company

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

initiated to seek reimbursement for legal defense expenditures and indemnity coverage for certain of its environmental remediation expenditures. No further material settlements relating to litigation concerning environmental remediation coverage are expected. See Note 19 to the Consolidated Financial Statements.

In July 1991 the United States filed an action in the U.S. District Court for the Southern District of Illinois against the Company and others (United States of America v. NL Industries, Inc., et al., Civ. No. 91-CV 00578) with respect to the Granite City, Illinois lead smelter formerly owned by the Company. The complaint seeks injunctive relief to compel the defendants to comply with an administrative order issued pursuant to CERCLA, and fines and treble damages for the alleged failure to comply with the order. The Company and the other parties did not implement the order, believing that the remedy selected by the U.S. EPA was unlawful. 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. The Company and the U.S. EPA have entered into a consent decree settling the Company's liability at the site for \$31.5 million, which includes penalties of \$1 million. The consent decree is subject to court approval. The Company expects to pay the settlement in 2003 with restricted funds held by the Company's environmental trusts.

The Company reached an agreement in 1999 with the other PRPs at a formerly owned lead smelter site in Pedricktown, New Jersey to settle the Company's liability for \$6 million, all of which has been paid as of December 31, 2002. The settlement does not resolve issues regarding the Company's potential liability in the event site costs exceed \$21 million. The Company does not presently expect site costs to exceed such amount and has not provided accruals for such contingency.

In 2000 the Company reached an agreement with the other PRPs at the Baxter Springs subsite in Cherokee County, Kansas, to resolve the Company's liability. The Company and others formerly mined lead and zinc in the Baxter Springs subsite. Under the agreement, the Company agreed to pay a portion of the cleanup costs associated with the Baxter Springs subsite. The U.S. EPA has estimated the total cleanup costs in the Baxter Springs subsite to be \$5.4 million. The cleanup is underway.

In 1996 the U.S. EPA ordered the Company to perform a removal action at a formerly owned facility in Chicago, Illinois. The Company has complied with the order and has completed the on-site work at the facility. The Company is conducting an investigation regarding potential offsite contamination.

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. In December 1994 the jury returned a verdict in favor of the Company and the verdict was affirmed on appeal. 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 RCRA, and also asserting pendent common law claims for strict

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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 above-described state court litigation.

In 2000 the Company reached an agreement with the other PRPs at the Batavia Landfill Superfund Site in Batavia, New York to resolve the Company's liability. The Batavia Landfill is a former industrial waste disposal site. Under the agreement, the Company agreed to pay 40% of the future cleanup costs, which the U.S. EPA has estimated to be approximately \$11 million in total. Under the settlement, the Company is not responsible for costs associated with the operation and maintenance of the remedy. In addition, the Company received approximately \$2 million from settling PRPs. The cleanup is underway.

In October 2000 the Company was served with a complaint in Pulliam, et al. v. NL Industries, Inc., et al, (No. 49F12-0104-CT-001301), filed in superior court in Marion County, Indiana, on behalf of an alleged class of all persons and entities who own or have owned property or have resided within a one-mile radius of an industrial facility formerly owned by a subsidiary of the Company in Indianapolis, Indiana. Plaintiffs allege that they and their property have been injured by lead dust and particulates from the facility and seek unspecified actual and punitive damages and a removal of all alleged lead contamination under various theories, including negligence, strict liability, battery, nuisance and trespass. The Company has denied all allegations of wrongdoing and liability. In 2002, the court dismissed plaintiffs' allegations that the case should be certified as a class action. The defendants have moved to dismiss the remainder of the case. The court has not yet ruled on this motion. Discovery is proceeding.

In November 2001, the Company was named as a defendant in Herd v. ASARCO, et al. (Case No. CJ-2001-443), filed in the District Court in and for Ottawa County, Oklahoma. The complaint was filed on behalf of a minor against the Company and other defendants and alleges that defendants' former mining operations near Picher, Oklahoma resulted in damage to the plaintiff as a result of the ingestion of lead from mining co-products. The Company has denied the material allegations of the complaint. The case was removed to federal court and the United States was added as a third-party defendant. Discovery is proceeding. Trial is scheduled for August 2003. In 2002, the Company was named as a defendant in four additional cases with substantially similar allegations to those in the Herd case. (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.) Each of these cases has been removed to federal court and the United States added as a third-party defendant. These cases have been consolidated with the Herd case for purposes of discovery. Discovery is proceeding.

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

### Other litigation

The Company has been named as a defendant in various lawsuits in a variety of jurisdictions, alleging personal injuries as a result of occupational exposure to asbestos, silica and/or mixed dust in connection with formerly owned operations. Approximately 350 of these cases involving a total of approximately 27,700 plaintiffs and their spouses remain pending. Of these plaintiffs, approximately 18,250 are represented by 8 cases pending in Texas and Mississippi state courts. The Company has not accrued any amounts for this litigation. In addition, from time to time, the Company has received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries of the Company, including notices provided to insurers with which the Company has entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from the Company.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

In August and September 2000 the Company and one of its subsidiaries, NLO, Inc. ("NLO"), were named as defendants in four lawsuits filed in federal court in the Western District of Kentucky against the Department of Energy ("DOE") and a number of other defendants alleging that nuclear materials supplied by, among others, the Feed Materials Production Center ("FMPC") in Fernald, Ohio, owned by the DOE and formerly managed under contract by NLO, harmed employees and others at the DOE's Paducah, Kentucky Gaseous Diffusion Plant ("PGDP"). With respect to each of the cases, the Company believes that the DOE is obligated to provide defense and indemnification pursuant to its contract with NLO, and pursuant to its statutory obligation to do so, as the DOE has in several previous cases relating to management of the FMPC and the Company has so advised the DOE. Three of the cases have been settled and dismissed with prejudice, with the DOE paying the settlement amount. In the fourth case, Dew, et al. v. Bill Richardson, et al., described below, the parties have settled the case, subject to court approval which was granted in March 2003. The DOE has indicated that it will reimburse the settlement amount. In Dew, et al. v. Bill Richardson, et al., No. 5:00CV-221-M, plaintiffs purport to represent classes of all PGDP employees who sustained pituitary tumors or cancer as a result of exposure to radiation and seek actual and punitive damages of \$2 billion each for alleged violation of constitutional rights, assault and battery, fraud and misrepresentation, infliction of emotional distress, negligence, ultra-hazardous activity/strict liability, strict products liability, conspiracy, concert of action, joint venture and enterprise liability, and equitable estoppel.

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, 2002.

## PART II

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

NL's common stock is listed and traded on the New York Stock Exchange and the Pacific Exchange under the symbol "NL." As of March 12, 2003, there were approximately 5,900 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 12, 2003, the closing price of NL common stock according to the NYSE Composite Tape was \$14.78.

	High		Low
	-----		-----
Year ended December 31, 2002:			
First quarter	\$ 17.47	\$	13.01
Second quarter	18.80		14.84
Third quarter	16.10		13.07
Fourth quarter	18.83		13.80
Year ended December 31, 2001:			

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

First quarter	\$	24.31	\$	16.25
Second quarter		18.00		11.60
Third quarter		16.75		13.80
Fourth quarter		15.70		12.04

The Company paid four quarterly \$.20 per share cash dividends and one additional \$2.50 per share cash dividend in 2002. On February 5, 2003, the Company's Board of Directors declared a regular quarterly dividend of \$.20 per share to shareholders of record as of March 14, 2003 to be paid on March 26, 2003. The declaration and payment of future dividends is discretionary, and the amount, if any, 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.

Pursuant to its share repurchase program, the Company purchased 1,384,000 shares of its common stock in the open market at an aggregate cost of \$21.3 million in 2002, 1,059,000 shares of its common stock in the open market at an aggregate cost of \$15.5 million in 2001 and 1,682,000 shares of its common stock at an aggregate cost of \$30.9 million in 2000. In October 2002, the Company's Board of Directors authorized a 1,500,000 share extension of the repurchase program. Approximately 1,323,000 additional shares are available for purchase under the Company's share repurchase program. The available shares may be purchased over an unspecified period of time, and are to be held as treasury shares available for general corporate purposes.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain amounts have been reclassified from amounts previously reported to conform with the current year's consolidated financial statement presentation and due to the Company's adoption of Statement of Financial Accounting Standards No. 145 effective April 1, 2002. See Note 2 to the Consolidated Financial Statements. Such reclassification had no effect on the Company's previously reported net income.

	Years ended December,			
	2002	2001	2000	19
	(In millions, except per share a			
<b>INCOME STATEMENT DATA:</b>				
Net sales	\$ 875.2	\$ 835.1	\$ 922.3	\$
Income from continuing operations	36.8	121.4	154.6	
Net income	36.8	121.4	154.6	
<b>Earnings per share:</b>				
<b>Basic:</b>				
Income from continuing operations	\$ .76	\$ 2.44	\$ 3.07	\$
Net income	.76	2.44	3.07	
<b>Diluted:</b>				
Income from continuing operations	\$ .76	\$ 2.44	\$ 3.05	\$
Net income	.76	2.44	3.05	
Cash dividends per share	\$ 3.30	\$ .80	\$ .65	\$

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

BALANCE SHEET DATA at year end:

Cash, cash equivalents, current and noncurrent restricted cash equivalents and current and noncurrent restricted marketable debt securities	\$ 130.4	\$ 199.0	\$ 207.6	\$
Current assets	486.3	561.8	554.9	
Total assets	1,111.5	1,151.1	1,120.8	1,
Current liabilities	238.0	299.1	298.0	
Long-term debt including current maturities	325.9	196.5	196.1	
Shareholders' equity	265.3	386.9	344.5	

CASH FLOW DATA:

Operating activities	\$ 98.3	\$ 129.7	\$ 139.7	\$
Investing activities	(27.2)	(57.2)	(56.2)	
Financing activities	(132.5)	(75.5)	(95.7)	
Operating, investing and financing activities	(61.4)	(3.0)	(12.2)	

Years ended December,

2002	2001	2000	1999
------	------	------	------

(In millions, except per share amo

TiO2 OPERATING STATISTICS:

Average selling price

index (1983=100)	142	156	161	
Sales volumes*	455	402	436	
Production volume*	442	412	441	
Production capacity at beginning of year*	455	450	440	
Production rate as a percentage of capacity	96%	91%	Full	9

\* Metric tons in thousands

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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" are based upon the Company's consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments 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 reported period. On an on-going basis, the Company evaluates its estimates, including those related to inventory reserves, impairments of investments in marketable equity securities and investments accounted for by the equity method, the recoverability of other long-lived assets, pension and other postretirement benefit obligations and the underlying actuarial assumptions related thereto, and the realization of deferred income tax assets and accruals for environmental remediation, litigation, income tax and other contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from previously-estimated amounts under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

- o Inventory allowances. The Company provides reserves for estimated obsolescence or unmarketable finished goods inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand for its products and market conditions. If actual market conditions are less favorable than those projected by management, additional finished goods inventory reserves may be required. The Company provides reserves for tools and supplies inventory generally based on both historical and expected future usage requirements.
- o Valuation and impairment of marketable equity securities. The Company owns investments in certain companies that are accounted for either as marketable equity securities or under the equity method. For all of such investments, the Company records an impairment charge when it believes an investment has experienced a decline in fair value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

At December 31, 2002, the carrying value of all of the Company's marketable securities exceeded the cost basis of each of such investments. With respect to the Company's direct and indirect investment in Tremont, which represented approximately 75% of the aggregate carrying value of all of the Company's marketable equity securities at December 31, 2002, the \$30.9 million aggregate carrying value of such investment exceeded its \$26.5 million cost basis by about 17%. In February 2003 Valhi completed a series of merger transactions pursuant to which, among other things, Tremont Group, Inc. ("Tremont Group") and 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



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

approximately 27,770 shares of Valhi common 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.

- o Impairments of long-lived assets. The Company recognizes an impairment charge associated with its long-lived assets, including property and equipment, whenever it determines that recovery of such long-lived asset is not probable. Such determination is made in accordance with applicable GAAP requirement associated with the long-lived asset, and is based upon, among other things, estimates of the amount of future net cash flows to be generated by the long-lived asset and estimates of the current fair value of the asset. Adverse changes in such estimates of future net cash flows or estimates of fair value could result in an inability to recover the carrying value of the long-lived asset, thereby possibly requiring an impairment charge to be recognized in the future.

Under applicable GAAP (Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"), property and equipment is not assessed for impairment unless certain impairment indicators, as defined, are present. During 2002, no such impairment indicators were present with respect to the Company's net property and equipment.

Under applicable GAAP (SFAS No. 142, "Goodwill and Other Intangible Assets"), goodwill is required to be reviewed for impairment at least on an annual basis. The Company's goodwill relates to an acquisition completed in January 2002, and such goodwill will initially be reviewed for impairment during 2003.

- o Deferred income tax valuation allowance. The Company records a valuation allowance to reduce its deferred income tax assets to the amount that is believed to be realizable under the "more-likely-than-not" recognition criteria. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, it is possible that in the future the Company may change its estimate of the amount of the deferred income tax assets that would "more-likely-than-not" be realized, resulting in an adjustment to the deferred income tax asset valuation allowance that would either increase or decrease, as applicable, reported net income in the period such change in estimate was made.
- o Defined benefit pension and postretirement benefit plans. The Company's defined benefit pension and postretirement benefits other than pensions ("OPEB") expenses and obligations are calculated based on several estimates, including discount rates, expected rates of returns on plan assets and expected healthcare trend rates. The Company reviews these rates annually with the assistance of its actuaries. See further discussion of the potential effect of these estimates in the Assumptions on defined benefit pension plans and OPEB plans sections in the Liquidity and Capital Resources section of this MD&A.
- o Other contingencies. The Company records an accrual for environmental, legal, income tax and other contingencies when estimated future expenditures associated with such contingencies become probable, and the amounts can be reasonably estimated. However, new information may become available, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount required to be accrued for such matters (and therefore a decrease or increase in reported net income in the period of such change).

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Other significant accounting policies and use of estimates are described in the Notes to the Consolidated Financial Statements.

### RESULTS OF OPERATIONS

#### General

The Company's operations are conducted by Kronos in the TiO2 business. As discussed below, average TiO2 selling prices in billing currencies (which excludes the effects of foreign currency translation) were generally increasing during most of 2000, were generally decreasing during all of 2001 and the first quarter of 2002, were flat during the second quarter of 2002 and were generally increasing during the third and fourth quarters of 2002.

Many factors influence TiO2 pricing levels, including (i) competitor actions, (ii) industry capacity, (iii) worldwide demand growth, (iv) customer inventory levels and purchasing decisions and (v) relative changes in foreign currency exchange rates. Kronos believes that the TiO2 industry has long-term growth potential, as discussed in "Item 1. Business - Industry" and "Competition."

	Years ended December 31,			
	2002	2001	2000	2002-0
	(In millions)			
Net sales	\$875.2	\$835.1	\$922.3	
Cost of sales	671.8	578.1	610.4	
	-----	-----	-----	
Gross margin	203.4	257.0	311.9	
Selling, general and administrative expense	107.7	98.7	107.5	
Insurance recoveries, net	-	7.2	-	
Currency transaction gains (losses), net	(.5)	1.2	6.5	
Litigation settlement gains, net	5.2	11.7	69.5	
Noncompete agreement income	4.0	4.0	4.0	
Corporate expense	(37.9)	(25.8)	(29.6)	
Other operating income (expense), net	(.3)	.7	(.6)	
	-----	-----	-----	
Income from operations	\$66.2	\$157.3	\$254.2	
	=====	=====	=====	

#### TiO2 operating statistics

Percent change in average selling prices:  
 Using actual foreign currency  
 exchange rates  
 Impact of changes in foreign currency  
 exchange rates

In billing currencies

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Sales volume (metric tons in thousands)	455	402	436
Production volume (metric tons in thousands)	442	412	441
Production rate as a percent of capacity	96%	91%	Full

The Company's sales increased \$40.1 million (5%) in 2002 compared to 2001 due primarily to higher TiO2 sales volumes, offset by lower average TiO2 selling prices. The Company's record TiO2 sales volumes in 2002 were 13% higher compared to 2001 primarily due to higher volumes in European and North American markets of 14% and 17%, respectively. By volume, approximately one-half of the Company's 2002 TiO2 sales volumes were attributable to markets in Europe, with 39% attributable to North America and the balance to export markets. The lower TiO2 sales volumes in 2001 were due in part to the effect of a fire at the Company's Leverkusen, Germany facility in March 2001 that disrupted operations discussed in Note 20 to the Consolidated Financial Statements.

The Company's cost of sales increased \$93.8 million (16%) in 2002 compared to 2001 due to the higher sales volume partially offset by lower unit costs, which resulted primarily from the higher production levels. The effects of lower TiO2 sales and production volumes in 2001 were partially offset by receipt of the business interruption proceeds discussed above. The Company's cost of sales, as a percentage of net sales, increased from 69% in 2001 to 77% in 2002 primarily due to the impact on net sales of the lower average selling prices partially offset by lower unit costs.

The Company's gross margin declined \$53.6 million (21%) in 2002 compared to 2001 as the effect of lower average TiO2 selling prices (which decreased gross margin by \$81.4 million) more than offset the effect of higher TiO2 sales and production volumes (which combined increased gross margin by \$46.7 million). The effect of the higher sales and production volumes was offset in part by the \$27.3 million of business interruption proceeds received in 2001, as discussed below. 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 2002 was 9% lower than 2001, with prices lower in all major regions. While the Company's average TiO2 selling prices had generally been declining during all of 2001 and the first quarter of 2002, and were flat during the second quarter of 2002, average TiO2 selling prices increased during the third and fourth quarters of 2002. The Company's average TiO2 selling prices in the fourth quarter of 2002 were 2% higher compared to the third quarter of the year, with increases in all major markets. 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 2002 decreased 7% compared to 2001.

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 Kronos 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 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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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 7% decrease in the Company's average TiO2 selling prices during 2002 as compared to 2001 using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure) and the 9% percentage decrease 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. As discussed above, the Company discloses percentage changes in its average TiO2 prices in billing currencies because Kronos 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. 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 Kronos 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 average selling prices in the fourth quarter of 2002 were higher than the third quarter of the year, with increases in all major markets. Selling prices have continued to trend upward in the first quarter of 2003 and the Company expects higher average selling prices for full-year 2003 compared to full-year 2002.

The Company's record TiO2 production volume in 2002 was 7% higher than 2001. Kronos' operating rates in 2001 were lower as compared to 2002 primarily due to lost production resulting from the Leverkusen fire.

The Company's income from operations in 2001 includes \$27.3 million of business interruption insurance proceeds as payment for losses (unallocated period costs and lost margin) caused by the Leverkusen fire. The effects of the lower TiO2 sales and production volumes were offset in part by the business interruption insurance proceeds. Of such \$27.3 million of business interruption insurance proceeds, \$20.1 million was recorded as a reduction of cost of sales to offset unallocated period costs that resulted from lost production, and the remaining \$7.2 million, presenting recovery of lost margin, is included in income from operations (as shown on the table above). The business interruption insurance proceeds distorted the income from operations margin percentage in 2001 as there are no sales associated with the \$7.2 million of lost margin recognized. See Note 20 to the Consolidated Financial Statements.

The Company also recognized insurance recoveries of \$29.1 million in 2001 for property damage and related cleanup and other extra expenses related to the Leverkusen fire, resulting in an insurance gain of \$17.5 million, as the insurance recoveries exceeded the carrying value of the property destroyed and the cleanup and other extra expenses incurred. Such insurance gain is not reported as a component of income from operations but is included in other income and expense, as discussed below. The Company does not expect to recognize any additional insurance recoveries related to the Leverkusen fire. See Note 20 to the Consolidated Financial Statements.

The Company's selling, general and administrative expenses ("SG&A expenses") increased \$9.0 million (9%) in 2002 as compared to 2001 primarily due to higher distribution expenses (\$600,000) associated with the higher sales volume in 2002 and higher administrative expenses of \$5.8 million, as well as the impact of relative changes in foreign currency exchange rates, which increased Kronos' expenses in 2002 compared to 2001. SG&A expenses were approximately 12% of sales in both 2001 and 2002.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

The Company's sales decreased \$87.2 million (9%) in 2001 compared to 2000 due primarily to lower TiO<sub>2</sub> sales volumes and lower TiO<sub>2</sub> average selling prices. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, the Company's average TiO<sub>2</sub> selling prices (in billing currencies) during 2001 were 3% lower compared to 2000, with prices lower in all major regions. When translated from billing currencies to U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, The Company's average TiO<sub>2</sub> selling prices in 2001 decreased 5% compared to 2000. The difference between the 5% decrease in the Company's average TiO<sub>2</sub> selling prices during 2001 as compared to 2000 using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure) and the 3% decrease in Kronos' average TiO<sub>2</sub> selling price in billing currencies (the non-GAAP measure) during such periods is due to the effect of changes in foreign currency exchange rates. As discussed above, the Company discloses percentage changes in its average TiO<sub>2</sub> prices in billing currencies because Kronos 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. The above table presents in a tabular format (i) the percentage change in the Company's average TiO<sub>2</sub> selling prices using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), (ii) the percentage change in the Company average TiO<sub>2</sub> 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 TiO<sub>2</sub> sales volumes in 2001 were 8% lower than the prior record sales volumes of 2000, primarily due to lower volumes in North America and Europe of 6% and 13%, respectively.

The Company's cost of sales decreased \$32.4 million (5%) in 2001 compared to 2000 primarily due to the lower sales volume, partially offset by higher unit costs, which resulted primarily from lower production levels. The Company's cost of sales, as a percentage of net sales, increased from 66% in 2000 to 69% in 2001 primarily due to the impact on net sales of the lower average selling prices and higher unit costs, partially offset by business interruption insurance recoveries.

The Company's gross margin in 2001 decreased \$54.9 million (18%) compared to 2000 due primarily to the lower TiO<sub>2</sub> sales volumes and average selling prices as well as lower TiO<sub>2</sub> production volume. The Company's TiO<sub>2</sub> production volume was 6% lower in 2001 compared to the prior record production volume in 2000. The lower production volume in 2001 was due primarily to the effects of the Leverkusen fire. The lower average TiO<sub>2</sub> selling prices decreased gross margin by \$19.2 million in 2001 compared to 2000, while the lower TiO<sub>2</sub> sales and production volumes decreased gross margin by \$22.3 million and \$21.8 million, respectively. The effect of the lower sales and production volumes was offset in part by the \$27.3 million of business interruption proceeds received in 2001, as discussed above.

The Company's SG&A expenses decreased by \$8.9 million (8%) in 2001 compared to 2000 due to lower selling expenses (\$3.2 million) associated with the lower 2001 sales volume and lower administrative expenses of \$3.7 million, as well as the effect of relative changes in foreign currency exchange rates, which decreased Kronos' expenses in 2001 as compared to 2000. SG&A expenses were approximately 12% of sales in both 2000 and 2001.

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 flows. The average TiO<sub>2</sub> selling price index (using 1983 = 100) of

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

142 in 2002 was 9% lower than the 2001 index of 156 (2001 was 3% lower than the 2000 index of 161). In comparison, the 2002 index was 19% below the 1990 price index of 176 and 9% higher than the 1993 price index of 130. Many factors influence TiO<sub>2</sub> pricing levels, including industry capacity, worldwide demand growth and customer inventory levels and purchasing decisions.

The Company's efforts to debottleneck its production facilities to meet long-term demand continue to prove successful. The Company expects its TiO<sub>2</sub> production capacity will increase by about 10,000 metric tons (primarily at its chloride-process facilities), with moderate capital expenditures, to increase its aggregate production capacity to about 480,000 metric tons during 2005.

As discussed above, the Company has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased the Company's sales in 2002 by a net \$21 million compared to 2001, and decreased the Company's sales by a net \$19 million in 2001 compared to 2000. Overall, the net impact of currency exchange rate fluctuations decreased the Company's gross margin by \$1.6 million in 2002 compared to 2001, and decreased the Company's gross margin by \$8.2 million in 2001 compared to 2000.

Litigation settlement gains of \$5.2 million, \$11.7 million and \$69.5 million in 2002, 2001 and 2000, respectively, related principally to settlements with former insurance carrier groups. No further material settlements relating to litigation concerning environmental remediation coverage are expected. See Note 19 to the Consolidated Financial Statements. The Company recognized \$4.0 million in each of 2002, 2001, 2000 of income related to the straight-line, five-year amortization of \$20 million of proceeds received in conjunction with the 1998 sale of its specialty chemicals business attributable to a five-year agreement by the Company not to compete in the rheological products business. The agreement became fully amortized in January 2003 with 2003 income totaling \$.3 million.

Corporate expenses in 2002 increased \$12.1 million from 2001, primarily as a result of higher legal expenses related to lead paint defense costs and the stock option compensation expense discussed below. Corporate expenses are expected to be higher in 2003 as compared to 2002 due to higher expected legal expenses associated with the defense of lead pigment litigation, including two trials scheduled for 2003.

During the fourth quarter of 2002, and following the Company's cash settlement of options to purchase NL common stock held by certain individuals, the Company commenced accounting for its stock options using the variable accounting method because the Company could not overcome the presumption that it would not similarly cash settle its remaining stock options. Under the variable accounting method, 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) are accrued as an expense over their vesting period, with subsequent increases (decreases) in NL's market price resulting in additional compensation expense (income). See Notes 2 and 22 to the Consolidated Financial Statements. The Company recognized \$3.2 million of compensation expense in the fourth quarter of 2002 related to its stock options (including those options which were cash settled during the quarter), of which \$1.6 million was charged to income from operations and \$1.6 million was charged to other expenses. Subsequent increases or decreases in the price of the Company's stock will result in an adjustment to the previously accrued compensation expense until all stock options are exercised, cancelled or forfeited.

The Company expects TiO<sub>2</sub> industry demand in 2003 to increase slightly over

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

2002 levels. The Company's TiO<sub>2</sub> production volume in 2003 is expected to approximate the Company's 2003 TiO<sub>2</sub> sales volume. In December 2002 and January 2003, the Company announced additional price increases in Europe and North America which averaged 8% in Europe and 7% in North America. The Company is hopeful that it will realize price increases, but the extent to which Kronos can realize price increases during 2003 will depend on improving market conditions and global economic recovery, which may be negatively impacted by the potential for international conflict. The Company's expectations as to the future prospects of the Company and the TiO<sub>2</sub> industry are based upon a number of factors beyond the Company's control, including worldwide growth of gross domestic product, competition in the market place, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from the Company's expectations, the Company's results of operations could be unfavorably affected.

### Other Income (Expense)

The following table sets forth certain information regarding other income and expense items .

	Years ended December 31,			
	2002	2001	2000	2002-0
	(In millions)			
Trade interest income	\$ 1.7	\$ 2.3	\$ 2.3	\$
Other interest income	5.7	8.9	8.3	(
Securities transactions, net	(.1)	(1.1)	2.5	(
Currency transaction gains	6.3	-	-	(
Insurance recoveries, net	-	17.5	-	(1
Interest expense	(29.8)	(27.6)	(32.4)	(
	\$ (16.2)	\$ - (	\$ (19.3)	\$ (1
	=====	=====	=====	=====

Interest income, including noncash interest income on restricted cash balances and restricted marketable debt securities, fluctuates in part based upon the amount of funds invested and yields thereon. Aggregate interest and dividend income declined \$3.8 million in 2002 compared with 2001 primarily due to lower average yields on invested funds. Average funds invested in 2001 and 2000 were higher compared with the respective prior year primarily due to the increase in restricted cash related to litigation settlement proceeds received in January 2001 and July 2000. See Note 19 to the Consolidated Financial Statements. The Company expects interest income will be lower in 2003 than 2002 due to lower average yields and lower average levels of funds available for investment.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Securities transactions, net in 2001 related to a second-quarter \$1.1 million noncash securities loss related to an other-than-temporary decline in value of certain available-for-sale securities held by the Company. Securities transactions, net in 2000 included a second-quarter \$5.6 million securities gain related to common stock received from the demutualization of an insurance company from which the Company had purchased certain insurance policies and a fourth-quarter \$3.1 million noncash securities loss related to an other-than-temporary decline in value of certain available-for-sale securities held by the Company. See Note 7 to the Consolidated Financial Statements.

In June 2002 Kronos International, Inc. ("KII"), an indirect wholly owned subsidiary of the Company, completed a private placement offering of (euro)285 million 8.875% Senior Secured Notes (the "Notes") due 2009. KII used the net proceeds of the Notes offering to repay certain intercompany indebtedness owed to the Company, a portion of which the Company used to redeem at par all of its outstanding 11.75% Senior Secured Notes due 2003, plus accrued interest. As a result of the refinancing, the Company recognized a foreign currency transaction gain of \$6.3 million in 2002 related to the extinguishment of certain intercompany indebtedness. See Note 13 to the Consolidated Financial Statements.

The insurance recoveries, net of \$17.5 million in 2001 related to insurance proceeds received from property damage resulting from the Leverkusen fire, as the insurance proceeds received exceeded the carrying value of the property destroyed and cleanup costs incurred. See Note 20 to the Consolidated Financial Statements.

Interest expense in 2002 increased \$2.2 million compared with the prior year primarily due to \$2.0 million of additional second-quarter 2002 interest expense related to the early extinguishment of the Company's 11.75% Senior Secured Notes. See Note 13 to the Consolidated Financial Statements. Excluding this item, interest expense in 2002 was comparable to 2001. Interest expense in 2001 declined \$4.8 million compared to 2000 due to reduced levels of its outstanding 11.75% Senior Secured Notes and lower euro-denominated debt. Assuming no significant change in interest rates, interest expense in 2003 is expected to be higher compared with 2002 due to higher levels of outstanding indebtedness, partially offset by lower average interest rates.

### 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 17 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 2002 the Company's effective income tax rate varied from the normally expected rate in part due to a reduction in the Belgian income tax rate and the recognition of certain deductible tax assets which previously did not meet the "more-likely-than-not" recognition criteria. In 2001 the Company's effective income tax rate varied from the normally expected rate primarily due to the recognition of certain German income tax attributes which previously did not meet the "more-likely-than-not" recognition criteria and incremental U.S. taxes on undistributed earnings of certain non-U.S. subsidiaries. In 2000 the Company's effective income tax rate varied from the normally expected rate primarily due to the geographic mix of income, changes in the German income tax "base" rate and the recognition of certain deductible tax assets which previously did not meet the "more-likely-than-not" recognition criteria. Also in 2000 the Company recognized certain one-time benefits related to German tax settlements.



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Effective January 1, 2001, the Company and its qualifying subsidiaries were included in the consolidated U.S. federal tax return of Contran (the "Contran Tax Group"). As a member of the Contran Tax Group, the Company is a party to a tax sharing agreement (the "Contran Tax Agreement"). The Contran Tax Agreement provides that the Company compute its provision for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the Contran Tax Agreement and using the tax elections made by Contran, the Company makes payments to or receives payments from Valhi in amounts it would have paid to or received from the U.S. Internal Revenue Service had it not been a member of the Contran Tax Group. Refunds are limited to amounts previously paid under the Contran Tax Agreement unless the Company was entitled to a refund from the U.S. Internal Revenue Service on a separate-company basis. Pursuant to the Contran Tax Agreement, the Company received \$2.3 million from Valhi in 2002 related to capital loss carrybacks which would have been recoverable from the U.S. Internal Revenue Service. See Note 17 to the Consolidated Financial Statements.

Other

Minority interest

Minority interest primarily relates to the Company's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS"). EMS was established in 1998, at which time EMS contractually assumed certain of the Company's environmental liabilities. EMS' earnings are based, in part, upon its ability to favorably resolve these liabilities on an aggregate basis. The minority interest shareholders of EMS actively manage the environmental liabilities and share in 39% of EMS' cumulative earnings, as defined in the formation documents. The Company includes liabilities contractually assumed by EMS in its consolidated balance sheet.

Related party transactions

The Company is a party to certain transactions with related parties. See "Liquidity and Capital Resources - Investing Cash Flows" and Note 22 to the Consolidated Financial Statements.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows for each of the past three years are presented below.

	Years ended Decem	
	2002	2001
	(In millio	
Operating activities	\$ 98.3	\$ 129.7
Investing activities	(27.2)	(57.2)
Financing activities	(132.5)	(75.5)

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Net cash used by operating, investing and financing activities

-----  
 \$ (61.4) \$ (3.  
 =====

Operating cash flows

Certain items included in the determination of net income do not represent current inflows or outflows of cash. For example, the net litigation settlement proceeds of \$10.3 million received in 2001 that were transferred by the insurance carriers to special purpose trusts did not result in an increase in operating cash flow. Further, insurance recoveries, net of \$17.5 million in 2001 are excluded from the determination of operating cash flow. These insurance proceeds are shown in the statement of cash flows under investing activities to partially offset the cash outflow impact of capital expenditures related to the Leverkusen sulfate plant reconstruction. Noncash interest income consists of earnings on restricted cash and restricted marketable debt securities which is not available for general corporate purposes. Certain other items included in the determination of net income have an impact on cash flows from operating activities, but the impact of such items on cash will differ from their impact on net income. For example, the amount of income or expense recorded for pension and OPEB assets and obligations (which depend upon a number of factors, including actuarial assumptions used to value obligations) will generally differ from the outflows of cash for such benefits. See Note 14 to the Consolidated Financial Statements.

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of the Company. Cash flow from operations is considered 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.

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. In addition, accruals for environmental remediation costs may be recognized in one period but paid out over several future periods.

Cash flows from operating activities decreased from \$129.7 million in 2001 to \$98.3 million in 2002. This \$31.4 million decrease was due primarily to the net effect of (i) lower net income of \$84.6 million, (ii) higher depreciation expense of \$3.6 million, (iii) legal settlement gains of \$10.3 million in 2001 as compared to nil in 2002, (iv) insurance recoveries, net of \$17.5 million in 2001 as compared to nil in 2002, (v) lower distributions from the manufacturing joint venture of \$3.4 million in 2002 and (vi) a higher amount of net cash generated from relative changes in Kronos' inventories, receivables, payables and accruals and accounts with affiliates of \$26.7 million in 2002 as compared to 2001. 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. Relative changes in accrued environmental costs are affected by, among other things, the period in which recognition of the environmental

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

accrual is recognized and the period in which the remediation expenditure is actually made.

Cash flows from operating activities decreased from \$139.8 million in 2000 to \$129.7 million in 2001. This \$10.1 million decrease was due primarily to the net effect of (i) lower net income of \$33.2 million, (ii) lower deferred income tax expense of \$36.9 million in 2001 as compared to 2000, (iii) higher distributions from the manufacturing joint venture of \$3.8 million in 2001, (iv) legal settlement gains of \$10.3 million in 2001 as compared to \$69.5 million in 2000, (v) insurance recoveries, net of \$17.5 million in 2001 as compared to nil in 2000 and (vi) a lower amount of net cash used from relative changes in Kronos' inventories, receivables, payables and accruals and accounts with affiliates of \$14.8 million in 2001 as compared to 2000. 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. Relative changes in accrued environmental costs are affected by, among other things, the period in which recognition of the environmental accrual is recognized and the period in which the remediation expenditure is actually made.

### Investing cash flows

The Company's capital expenditures were \$32.6 million, \$53.7 million and \$31.1 million in 2002, 2001 and 2000, respectively. Capital expenditures in 2002 and 2001 included an aggregate of \$3.1 million and \$22.3 million, respectively, for the rebuilding of the Company's Leverkusen, Germany sulfate plant. In 2001 the Company received \$23.4 million of insurance proceeds for property damage resulting from the Leverkusen fire and paid \$3.2 million of expenses related to repairs and clean-up costs. Capital expenditures at LPC were approximately \$4.0 million in each of 2002, 2001 and 2000 and are not included in the Company's capital expenditures.

The Company's capital expenditures during the past three years include an aggregate of approximately \$18.2 million (\$5.0 million in 2002) for the Company's ongoing environmental protection and compliance programs. The Company's estimated 2003 capital expenditures are \$34.0 million and include approximately \$5.0 million in the area of environmental protection and compliance.

In February 2001 EMS loaned \$13.4 million to Tremont under a revolving loan agreement that matured in March 2003. See Notes 1 and 8 to the Consolidated Financial Statements. The loan was approved by special committees of the Company's and EMS's Boards of Directors. In October 2002 a special committee of the Company's Board of Directors approved new loan terms proposed by Tremont, whereby Tremont repaid the outstanding principal and interest balance on the EMS loan with proceeds from a new \$15 million revolving loan agreement with the Company. As such, the EMS loan was extinguished and cancelled. Similar to the EMS loan, the Company's loan to Tremont bears interest at prime plus 2% (6.25% at December 31, 2002 with interest payable quarterly), and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The loan is due December 31, 2004, with no principal payments required prior to that date. The maximum amount available to Tremont under the revolving loan agreement is \$15 million. The creditworthiness of Tremont is dependent in part on the value of the Company as Tremont's interest in the Company is Tremont's most substantial asset. At December 31, 2002, no amounts were outstanding under this facility and Tremont had \$15 million of borrowing availability. As a result of the merger of Tremont with Valhi in February 2003, the revolving loan agreement is now between Tremont LLC (a wholly owned

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

subsidiary of Valhi and successor to Tremont) and NL. See Note 7 to the Consolidated Financial Statements.

In May 2001 a wholly owned subsidiary of EMS loaned \$20.0 million to the Harold C. Simmons Family Trust No. 2 (the "Family Trust"), one of the trusts described in Notes 1 and 8 to the Consolidated Financial Statements, 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 December 31, 2002), 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. In November 2002 the Family Trust repaid \$2 million principal amount of the revolving credit agreement. At December 31, 2002, \$7.0 million was available for additional borrowing by the Family Trust. The loan was classified as noncurrent at December 31, 2002, as the Company does not expect to demand repayment within one year.

In November 2001 \$7.9 million of restricted cash related to certain letters of credit supporting certain insurance related contracts was released.

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. See Note 3 to the Consolidated Financial Statements.

During 2000 the Company purchased 1,000,000 shares of Tremont's common stock in market transactions for an aggregate of \$26 million. At December 31, 2002, Tremont owned 10.2 million shares, or 21%, of NL's outstanding common stock. See Notes 1 and 7 to the Consolidated Financial Statements.

### Financing cash flows

In March 2002 the Company redeemed \$25 million principal amount of its 11.75% Senior Secured Notes using available cash on hand, and in June 2002 the Company redeemed the remaining \$169 million principal amount of such 11.75% Senior Secured Notes using a portion of the proceeds from the June 2002 issuance of the (euro)285 million principal amount of the KII 8.875% Senior Secured Notes (\$280 million when issued). Also in June 2002, KII's operating subsidiaries in Germany, Belgium and Norway entered into a new three-year (euro)80 million secured revolving credit facility ("European Credit Facility") and borrowed (euro)13 million (\$13 million) and NOK 200 million (\$26 million) which, along with available cash, was used to repay and terminate KII's short term notes payable (\$53.2 million when repaid). In the third and fourth quarters of 2002, the Company repaid a net euro-equivalent 12.7 million (\$12.4 million when repaid) and 1.7 million (\$1.6 million when repaid), respectively, of the European Credit Facility. See Note 13 to the Consolidated Financial Statements.

In September 2002 the Company's U.S. operating subsidiaries entered into a three-year \$50 million asset-based revolving credit facility ("U.S. Credit Facility"). As of December 31, 2002, no borrowings were outstanding under the U.S. Credit Facility and Borrowing Availability was approximately \$30 million. See Note 13 to the Consolidated Financial Statements.

Deferred financing costs of \$10.7 million for the Notes, the European Credit Facility and the U.S. Credit Facility are being amortized over the life of the respective agreements and are included in other noncurrent assets as of December 31, 2002.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

In 2001 the Company repaid (euro)7.6 million (\$6.5 million when paid) and (euro)16.4 million (\$14.9 million when paid), respectively, of its euro-denominated short-term debt with excess cash flow from operations.

In 2000 the Company repaid (euro)17.9 million (\$16.7 million when paid) and (euro)13.0 million (\$12.2 million when paid), respectively, of its euro-denominated short-term debt with cash flow from operations. In December 2000 the Company borrowed \$43 million of short-term non-U.S. dollar-denominated bank debt and used the proceeds along with cash on hand to redeem \$50 million (par value) of the Company's 11.75% Senior Secured Notes.

Other than operating lease commitments disclosed in Note 23 to the Consolidated Financial Statements, the Company is not party to any off-balance sheet financing arrangements.

Dividends paid during 2002, 2001 and 2000 totaled \$158.0 million (including an additional \$2.50 per share cash dividend paid in December 2002 aggregating \$119.2 million), \$39.8 million and \$32.7 million, respectively. On February 5, 2003, the Company's Board of Directors declared a regular quarterly dividend of \$.20 per share to shareholders of record as of March 14, 2003 to be paid on March 26, 2003. Pursuant to its share repurchase program, the Company purchased 1,384,000 shares of its common stock in the open market at an aggregate cost of \$21.3 million in 2002, 1,059,000 shares of its common stock at an aggregate cost of \$15.5 million in 2001 and 1,682,000 shares of its common stock in the open market at an aggregate cost of \$30.9 million in 2000. In October 2002 the Company's Board of Directors authorized a 1,500,000 share extension of the repurchase program. Approximately 1,323,000 additional shares are available for purchase under the Company's share repurchase program. The available shares may be purchased over an unspecified period of time, and 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 December 31, 2002, the Company had current cash and cash equivalents aggregating \$58.1 million (\$25 million held by non-U.S. subsidiaries). At December 31, 2002, The Company's U.S. and non-U.S. subsidiaries had current restricted cash equivalents of \$52.1 million, current restricted marketable debt securities of \$9.7 million, noncurrent restricted cash equivalents of \$1.3 million and noncurrent restricted marketable debt securities of \$9.2 million. At December 31, 2002, certain of the Company's subsidiaries had approximately \$87 million available for borrowing with approximately \$57 million available under non-U.S. credit facilities (including approximately \$54 million under the European Credit Facility) and approximately \$30 million available under the U.S. Credit Facility (based on Borrowing Availability). At December 31, 2002, KII had approximately \$36 million available for payment of dividends and other restricted payments as defined in the Notes indenture. At December 31, 2002, the Company had complied with all financial covenants governing its debt agreements.

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, debt service and current dividend policy. To the extent that actual developments differ from Company's expectations, the Company's liquidity could be adversely affected.

### Income taxes

A reduction in the German "base" income tax rate from 30% to 25%, enacted in October 2000, became effective January 1, 2001. The reduction in the German

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

income tax rate resulted in \$5.7 million of additional deferred income tax expense in the fourth quarter of 2000 due to a reduction of the Company's deferred income tax asset related to certain German tax attributes.

A reduction in the Belgian income tax rate from 40.17% to 33.99%, enacted in December 2002, became effective January 1, 2003. The reduction in the Belgian income tax rate resulted in a \$2.3 million decrease in deferred income tax expense in the fourth quarter of 2002 due to a reduction of the Company's deferred income tax liabilities related to certain Belgian temporary differences.

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. See Note 17 to the Consolidated Financial Statements.

The Company's and EMS' 1998 U.S. federal income tax returns are currently 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 such returns until September 30, 2003. Based upon the course of the examination to date, the Company anticipates that the IRS may propose a substantial tax deficiency. The Company has 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 December 31, 2002) relating to 1998 through 2000. The Company has objected to this proposed assessment in a written response to the Norwegian tax authorities.

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately (euro)10.4 million (\$10.8 million at December 31, 2002). 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.

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 December 31, 2002, the Company had net deferred tax liabilities of \$134 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 \$185 million at December 31, 2002, principally related to Germany, partially offsetting deferred tax assets which the Company believes do not currently meet the "more-likely-than-not" recognition criteria.

At December 31, 2002, the Company had the equivalent of approximately \$414 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. The German federal government has proposed certain changes to its income tax law, including certain changes that would impose limitations on the annual utilization of income tax loss carryforwards that, as proposed, would become effective retroactively to January 1, 2003. Since the Company has provided a deferred income tax asset valuation allowance against substantially all of the German tax loss carryforwards, any limitation on the Company's ability to utilize such carryforwards resulting from enactment of any of these

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

proposals would not have a material impact on the Company's net deferred income tax liability. However, if enacted, the proposed changes could have a material impact on the Company's ability to make full annual use of its German income tax loss carryforwards, which would significantly affect the Company's future income tax expense and future income tax payments.

At December 31, 2002, the Company had, for U.S. federal income tax purposes, a net operating loss carryforward of approximately \$45 million, of which \$3 million expires in 2019, \$23 million expires in 2021 and \$19 million expires in 2022 and approximately \$7.4 million of alternative minimum tax credit carryforwards with no expiration date.

### Environmental matters and litigation

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, including sites for which EMS has contractually assumed the Company's obligation. 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, the allocation of such costs among PRPs, and the solvency of other 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 and in the aggregate, should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. Considering the Company's previous involvement in the lead pigment and lead-based paint businesses, the Company expects that additional lead pigment and lead-based paint litigation, asserting similar or different legal theories and seeking similar or different types of damage and relief to that described in Item 3. "Legal Proceedings," may be filed. See Item 3. "Legal Proceedings" and Note 23 to the Consolidated Financial Statements.

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 December 31, 2002, 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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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.

### Foreign operations

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. As of January 1, 2001, the functional currency of the Company's German, Belgian, Dutch and French operations have been converted to the euro from their respective national currencies. At December 31, 2002, the Company had substantial net assets denominated in the euro, Canadian dollar, Norwegian kroner and United Kingdom pound sterling.

### New accounting principles not yet adopted

See Note 2 to the Consolidated Financial Statements.

### 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; issue additional securities; repurchase shares of its common stock; modify its dividend policy; restructure ownership interests; sell interests in subsidiaries or other assets; or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, the Company may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals or other industries, as well as the acquisition of interests in 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. See Note 13 to the Consolidated Financial Statements.

### Summary of debt and other contractual commitments

As more fully described in the Notes to the Consolidated Financial Statements, the Company is a party to various debt, lease and other agreements which contractually and unconditionally commit the Company to pay certain amounts in the future. See Notes 13 and 23 to the Consolidated Financial Statements. The Company's obligations related to the long-term supply contract for the purchase of chloride-process TiO<sub>2</sub> feedstock and certain landfills are more fully described in Note 23 to the Consolidated Financial Statements. The following table summarizes such contractual commitments that are unconditional both in terms of timing and amount by the type and date of payment.

Unconditional Payment Due Date



Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Contractual Commitment	2003	2004 - 2005	2006 - 2007	2008 and after
			(In millions)	
Indebtedness	\$ 1.3	\$ 27.5	\$ .2	\$ 296.9
Property and equipment	6.4	-	-	-
Operating leases	4.7	7.0	3.8	19.4
Long-term supply contract for the purchase of chloride-process TiO2 feedstock	172.0	308.0	145.0	-
Landfills	1.3	2.1	-	3.1
	\$ 185.7	\$ 344.6	\$ 149.0	\$ 319.4

The timing and amount shown for the Company's commitments related to indebtedness, property and equipment and operating leases are based upon the contractual payment amount and the contractual payment date for such commitments. The timing and amount shown for the Company's commitment related to the long-term supply contract is based upon the Company's current estimate of the quantity of feedstock that will be purchased in each time period shown, and the contractual payment that would be due based upon such estimated purchased quantity. The actual amount of feedstock purchased, and therefore the actual amount that would be payable by the Company, may vary from such estimated amounts. The timing and amount shown for the Company's commitment related to certain landfills is based upon the Company's current estimate of when such payments will be made. The actual timing of such payments may vary depending upon the actual timing of the closure activities for such landfills.

Assumptions on defined benefit pension plans and OPEB plans

Defined benefit pension plans. The Company maintains various defined benefit pension plans in the U.S., Europe and Canada. The Company accounts for its defined benefit pension plans using SFAS No. 87, "Employer's Accounting for Pensions." Under SFAS No. 87, defined benefit pension plan expense and prepaid and accrued pension cost are each recognized based on certain actuarial assumptions, principally the assumed discount rate, the assumed long-term rate of return on plan assets and the assumed increase in future compensation levels. The Company recognized consolidated defined benefit pension plan expense of \$7.0 million in 2002, \$4.6 million in 2001 and \$4.7 million in 2000. The amount of funding requirements for these defined benefit pension plans is generally based upon applicable regulation (such as ERISA in the U.S.), and will generally differ from pension expense recognized under SFAS No. 87 for financial reporting purposes. Contributions made by the Company to all of its defined benefit

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

pension plans aggregated \$9.3 million in 2002, \$7.6 million in 2001 and \$16.6 million in 2000.

The discount rates the Company utilizes for determining defined benefit pension expense and the related pension obligations are based on current interest rates earned on long-term bonds that receive one of the two highest ratings given by recognized rating agencies in the applicable country where the defined benefit pension benefits are being paid. In addition, the Company receives advice about appropriate discount rates to use based upon discussions with the Company's third-party actuaries, who may in some cases utilize their own market indices. The discount rates are adjusted as of each valuation date (September 30th for the Company's plans) to reflect then-current interest rates on such long-term bonds. Such discount rates are used to determine the actuarial present value of the pension obligations as of December 31st of that year, and such discount rates are also used to determine the interest component of defined benefit pension expense for the following year.

At December 31, 2002, approximately 17%, 53%, 10% and 14% of the projected benefit obligations for all of the Company's defined benefit pension plans were attributable to the U.S., Germany, Canada and Norway, respectively. Because the Company maintains defined benefit pension plans in several different countries in North America and Europe, and because the interest rate environment differs from country to country, the Company uses several different discount rate assumptions in determining its defined benefit pension plan obligations and expense.

The Company used the following discount rates for its defined benefit pension plans:

Discount rates used for the following periods:

	Obligation at December 31, 2002 and expense in 2003	Obligation at December 31, 2001 and expense in 2002	Obligation at December 31, 2000 expense in 2000
U.S. ....	6.5%	7.3%	7.8%
Germany ....	5.5%	5.8%	6.0%
Canada ....	7.0%	7.3%	7.5%
Norway ....	6.0%	6.0%	6.0%

The assumed long-term rate of return on plan assets represents the estimated average rate of earnings expected to be earned on the funds invested or to be invested in the plans' assets provided to fund the benefit payments inherent in the projected benefit obligation. Unlike the discount rate, which is adjusted each year based on changes in current long-term interest rates, the assumed long-term rate of return on plan assets will not necessarily change based upon the actual, short-term performance of the plan assets in any given year. Defined benefit pension expense each year is based upon the assumed long-term rate of return on plan assets for each plan and the actual fair value of the plan assets as of the beginning of the year. Differences between the expected return on plan assets for a given year and the actual return are deferred and amortized over future periods based either upon the expected average remaining service life of the active plan participants (for plans for which benefits are still being earned by active employees) or the average remaining life expectancy of the inactive participants (for plans for which benefits are not still being earned by active employees).

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

At December 31, 2002, approximately 19%, 50%, 8% and 18% related to plan assets for the Company's plans in the U.S., Germany, Canada and Norway, respectively. Because the Company maintains defined benefit pension plans in several different countries in North America and Europe, because the plan assets in different countries are invested in a different mix of investments and because the long-term rates of return for different investments differs from country to country, the Company uses several different long-term rate of return on plan asset assumptions in determining its defined benefit pension plan expense.

In determining the expected long-term rate of return on plan asset assumptions, the Company considers the long-term asset mix (e.g. equity vs. fixed income) for the assets for each of its plans and the expected long-term rates of return for such asset components. In addition, the Company receives advice about appropriate long-term rates of return to use based upon discussions with the Company's third-party actuaries. Such assumed asset mixes are summarized below:

- o In the U.S., the Company currently has a plan asset target allocation of 50% to equity managers and 50% to fixed income managers (current plan asset allocation at December 31, 2002 was 39% to equity managers and 61% to fixed income managers), with an expected long-term rate of return for such investments of approximately 10% and 6%, respectively.
- o In Germany, the composition of plan assets is established to satisfy the requirements of the German insurance commissioner. The current plan asset allocation at December 31, 2002 was 30% to equity managers and 70% to fixed income managers.
- o In Canada, the Company currently has a plan asset target allocation of 65% to equity managers and 35% to fixed income managers, with an expected long-term rate of return for such investments to average approximately 125 basis points above the applicable equity or fixed income index. The current plan asset allocation at December 31, 2002 was 54% to equity managers and 46% to fixed income managers.
- o In Norway, the Company currently has a plan asset target allocation of 15% to equity managers and 85% to fixed income managers, with an expected long-term rate of return for such investments of approximately 8% and 6%, respectively. The current plan asset allocation at December 31, 2002 was 13% to equity managers and 87% to fixed income managers.

The Company regularly reviews its actual asset allocation for each of its plans, and will periodically rebalance the investments in each plan to more accurately reflect the targeted allocation when considered appropriate.

The Company's assumed long-term rates of return on plan assets for 2002, 2001 and 2000 were as follows:

	2002	2001
U.S.	8.5%	8.5%
Germany	6.8%	7.3%
Canada	7.0%	7.8%
Norway	7.0%	7.0%

The Company currently expects to utilize the same long-term rate of return

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

on plan asset assumptions in 2003 as it used in 2002 for purposes of determining the 2003 defined benefit pension plan expense.

To the extent that a plan's particular pension benefit formula calculates the pension benefit in whole or in part based upon future compensation levels, the projected benefit obligation and the pension expense will be based in part upon expected increases in future compensation levels. For all of the Company's plans for which the benefit formula is so calculated, the Company generally bases the assumed expected increase in future compensation levels based upon average long-term inflation rates for the applicable country.

In addition to the actuarial assumptions discussed above, because the Company maintains defined benefit pension plans outside the U.S. the amount of recognized defined benefit pension expense and the amount of prepaid and accrued pension cost will vary based upon relative changes in foreign currency exchange rates.

Based on the actuarial assumptions described above and the Company's current expectation for what actual average foreign currency exchange rates will be during 2003, the Company expects its defined benefit pension expense will approximate \$8 million in 2003. In comparison, the Company expects to be required to make approximately \$12 million of contributions to such plans during 2003.

Defined benefit pension expense and the amount recognized as prepaid and accrued pension costs are based upon the actuarial assumptions discussed above. The Company believes all of the actuarial assumptions used are reasonable and appropriate. If the Company had lowered the assumed discount rate by 25 basis points for all of its plans as of December 31, 2002, the Company's aggregate projected benefit obligation would have increased by approximately \$10.5 million at that date, and the Company's defined benefit pension expense would be expected to increase by approximately \$1.4 million during 2003. Similarly, if the Company lowered the assumed long-term rate of return on plan assets by 25 basis points for all of its plans, the Company's defined benefit pension expense would be expected to increase by approximately \$.6 million during 2003.

OPEB plans. Certain subsidiaries of the Company currently provide certain health care and life insurance benefits for eligible retired employees. The Company provides such OPEB benefits to retirees in the U.S. and Canada. The Company accounts for such OPEB costs under SFAS No. 106, "Employers Accounting for Postretirement Benefits other than Pensions." Under SFAS No. 106, OPEB expense and accrued OPEB costs are based on certain actuarial assumptions, principally the assumed discount rate and the assumed rate of increases in future health care costs. The Company recognized consolidated OPEB expense (income) of \$.1 million in 2002, \$(.2) million in 2001 and \$.2 million in 2000. Similar to defined benefit pension benefits, the amount of funding will differ from the expense recognized for financial reporting purposes, and contributions to the plans to cover benefit payments aggregated \$3.5 million in 2002, \$.5 million in 2001 and \$7.8 million in 2000. Company contributions were lower in 2002 and 2001 compared with 2000 due to the contribution by the Company to a trust in 2000 of shares of common stock received from demutualization of an insurance company from which the Company had purchased certain insurance policies. The shares were sold by the trust for \$7.8 million in 2000 and the proceeds were used to pay OPEB benefit claims in 2002, 2001 and 2000.

The assumed discount rates the Company utilizes for determining OPEB expense and the related accrued OPEB obligation is generally based on the same discount rates the Company utilizes for its U.S. and Canadian defined benefit pension plans.

In estimating the health care cost trend rate, the Company considers its actual healthcare cost experience, future benefit structures, industry trends

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

and advice from its third-party actuaries. During each of the past three years, the Company has assumed that the relative increase in health care costs will generally trend downward over the next several years, reflecting, among other things, assumed increases in efficiency in the health care system and industry-wide cost containment initiatives. For example, at December 31, 2002, the expected rate of increase in future health care costs ranges from 9% in 2003, declining to 5.5% in 2007 and thereafter.

Based on the actuarial assumptions described above and the Company's current expectation for what actual average foreign currency exchange rates will be during 2003, the Company expects its OPEB expense will approximate \$.3 million in 2003. In comparison, the Company expects to be required to make approximately \$4.8 million of contributions to such plans during 2003.

OPEB expense and the amount recognized as accrued OPEB costs are based upon the actuarial assumptions discussed above. The Company believes all of the actuarial assumptions used are reasonable and appropriate. If the Company had lowered the assumed discount rate by 25 basis points for all of its OPEB plans as of December 31, 2002, the Company's aggregate accumulated OPEB obligation would have increased by approximately \$.7 million at that date, and the Company's OPEB expense would be expected to increase by a nil amount during 2003. Similarly, if the assumed future health care cost trend rate had been increased by 100 basis points, the Company's accumulated OPEB obligation would have increased by approximately \$2.1 million at December 31, 2002, and OPEB expense would have increased by \$.1 million in 2002.

### 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 TiO<sub>2</sub> prices in billing currencies, which excludes the effects of foreign currency translation. Such disclosure of the percentage change in the Company's average TiO<sub>2</sub> selling price in billing currencies is considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in the Company's average TiO<sub>2</sub> selling prices using actual foreign currency exchange rates prevailing during the respective periods is considered the most directly comparable GAAP measure. The Company discloses percentage changes in its average TiO<sub>2</sub> 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.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### General

The Company is exposed to market risk from changes in currency exchange rates, interest rates and equity security prices. In the past, the Company has

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

periodically entered into interest rate swaps or other types of contracts in order to manage a portion of its interest rate market risk. Otherwise, the Company has not generally entered into forward or option contracts to manage such market risks, nor has the Company entered into any such contract or other type of derivative instrument for trading purposes. The Company was not a party to any forward or derivative option contracts related to currency exchange rates, interest rates or equity security prices at December 31, 2002 or 2001. See Notes 2 and 24 to the Consolidated Financial Statements.

### Interest rates

The Company is exposed to market risk from changes in interest rates, primarily related to indebtedness. At December 31, 2002, the Company's aggregate indebtedness was split between 92% of fixed-rate instruments and 8% of variable-rate borrowings (2001 - 81% fixed-rate and 19% variable-rate). The large percentage of fixed-rate debt instruments minimizes earnings volatility which would result from changes in interest rates. The following table presents principal amounts and weighted-average interest rates, by contractual maturity dates, for the Company's aggregate indebtedness at December 31, 2002 and 2001. At December 31, 2002, all outstanding fixed-rate indebtedness was denominated in euros (2001-all fixed-rate indebtedness denominated in U.S. dollars), and all outstanding variable-rate indebtedness was denominated in either euros or Norwegian kroner. Information shown below for such euro- and Norwegian kroner-denominated indebtedness is presented in its U.S. dollar equivalent at December 31, 2002 using that date's exchange rate of .96 euro per U.S. dollar (2001 - 1.13 euro per U.S. dollar) and 6.99 Norwegian kroner per U.S. dollar (2001 - 9.02 Norwegian kroner per U.S. dollar). Certain Norwegian kroner-denominated capital leases totaling \$1.9 million in 2002 have been excluded from the table below.

Indebtedness	Amount		Interest rate
	Carrying value	Fair value	
	(In millions)		
Fixed-rate indebtedness (euro-denominated):			
KII Notes	\$ 296.9	\$ 299.9	8.875%
	296.9	299.9	8.875%
Variable-rate indebtedness (non U.S. dollar denominated):			
European Credit Facility:			
euro-denominated	15.6	15.6	4.8%
Norwegian kroner-denominated	11.5	11.5	8.9%
	27.1	27.1	6.5%
	\$ 324.0	\$ 327.0	8.7%

At December 31, 2001, fixed-rate indebtedness aggregated \$194.0 million (fair value - \$194.9 million) with a weighted-average interest rate of 11.75%;

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

variable rate indebtedness at such date aggregated \$46.2 million, which approximated fair value, with a weighted-average interest rate of 5.45%. All of such fixed rate indebtedness was denominated in U.S. dollars. Such variable rate indebtedness was denominated in the euro (52%) and the Norwegian kroner (48%). Certain Norwegian kroner-denominated capital leases totaling \$2.5 million at December 31, 2001 have been excluded from the above analysis.

### Currency exchange rates

The Company is exposed to market risk arising from changes in currency exchange rates as a result of manufacturing and selling its products worldwide. Earnings are primarily affected by fluctuations in the value of the U.S. dollar relative to the euro, Canadian dollar, Norwegian kroner and the United Kingdom pound sterling. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of risks and uncertainties related to the conversion of certain of these currencies to the euro.

At December 31, 2002, the Company had \$312.5 million of indebtedness denominated in euros (2001 - \$24.0 million) and \$11.5 million of indebtedness denominated in Norwegian kroner (2001 - \$22.2 million). The potential increase in the U.S. dollar equivalent of the principal amount outstanding resulting from a hypothetical 10% adverse change in exchange rates would be approximately \$32.4 million (2001 - \$4.6 million).

### Marketable equity and marketable debt security prices

The Company is exposed to market risk due to changes in prices of the marketable equity securities which are held. The fair value of such equity securities at December 31, 2002 and 2001 was \$40.9 million and \$45.2 million, respectively. The potential change in the aggregate fair value of these investments, assuming a 10% change in prices, would be \$4.1 million and \$4.5 million, respectively. The fair value of restricted marketable debt securities at December 31, 2002 and 2001 was \$18.9 million and \$19.7 million, respectively. The potential change in the aggregate fair value of these investments assuming a 10% change in prices would be \$1.9 million and \$2.0 million, respectively.

### Other

The Company believes there are certain shortcomings in the sensitivity analyses presented above, which analyses are required under the SEC's regulations. For example, the hypothetical effect of changes in interest rates discussed above ignores the potential effect on other variables which affect the Company's results of operations and cash flows, such as demand for the Company's products, sales volumes and selling prices and operating expenses. Contrary to the above assumptions, changes in interest rates rarely result in simultaneous parallel shifts along the yield curve. Accordingly, the amounts presented above are not necessarily an accurate reflection of the potential losses the Company would incur assuming the hypothetical changes in market prices were actually to occur.

The above discussion and estimated sensitivity analysis amounts include forward-looking statements of market risk which assume hypothetical changes in market prices. Actual future market conditions could differ materially from such assumptions. Accordingly, such forward-looking statements should not be considered to be projections by the Company of future events, gains or losses.

## 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.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

### 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 SEC 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 22 to the Consolidated Financial Statements.

#### ITEM 14. 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 December 31, 2002. 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:



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

- 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 December 31, 2002 that has materially affected, or is reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

### PART IV

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT 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

There were no Reports on Form 8-K filed during the quarter ended December 31, 2002.

January 31, 2003 - 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 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.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

- 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 governing the 8.875% Senior Secured Notes due 2009, dated June 28, 2002, between Kronos International, Inc. and The Bank of New York, as Trustee - incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.3 Form of certificate of 8.875% Senior Secured Notes due 2009 of Kronos International, Inc. (included as Exhibit A to Exhibit 4.1) - incorporated by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.4 Form of certificate of 8.875% Senior Secured Notes due 2009 of Kronos International, Inc. (included as Exhibit B to Exhibit 4.1) - incorporated by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.5 Purchase Agreement, dated June 19, 2002, among Kronos International, Inc., Deutsche Bank AG London, Dresdner Bank AG London Branch and Commerzbank Aktiengesellschaft, London Branch - incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.6 Registration Rights Agreement, dated June 28, 2002, among Kronos International, Inc., Deutsche Bank AG London, Dresdner Bank AG London and Commerzbank Aktiengesellschaft, London Branch - incorporated by reference to Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.7 Collateral Agency Agreement, dated June 28, 2002, among The Bank of New York, U.S. Bank, N.A. and Kronos International, Inc. - incorporated by reference to Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.8 Security Over Shares Agreement, dated June 28, 2002, between Kronos International, Inc. and The Bank of New York - incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.9 Pledge of Shares (shares in Kronos Denmark ApS), dated June 28, 2002, between Kronos International, Inc. and U.S. Bank, N.A. - incorporated by reference to Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.10 Pledge Agreement (shares in Societe Industrielle du Titane S.A.), dated June 28, 2002, between Kronos International, Inc. and U.S. Bank, N.A. - incorporated by reference to Exhibit 4.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.11 Partnership Interest Pledge Agreement (relating to fixed capital contribution in Kronos Titan GmbH & Co.), dated June 28, 2002, between Kronos International, Inc. and U.S. Bank, N.A. - incorporated by reference to Exhibit 4.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 4.12 Deposit Agreement, dated June 28, 2002, among NL Industries, Inc. and JP Morgan Chase Bank, as trustee - incorporated by reference to Exhibit 4.11 to the Registrant's Quarterly Report on Form 10-Q for the

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

quarter ended June 30, 2002.

- 4.13 Satisfaction and Discharge of Indenture, Release, Assignment and Transfer, dated June 28, 2002, made by JP Morgan Chase Bank pursuant to the Indenture for NL Industries, Inc.'s 11 3/4% Senior Secured Notes due 2003 - incorporated by reference to Exhibit 4.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 10.1 (euro)80,000,000 Facility Agreement, dated June 25, 2002, among Kronos Titan GmbH & Co. OHG, Kronos Europe S.A./N.V., Kronos Titan A/S and Titania A/S, as borrowers, Kronos Titan GmbH & Co. OHG, Kronos Europe S.A./N.V. and Kronos Norge AS, as guarantors, Kronos Denmark ApS, as security provider, Deutsche Bank AG, as mandated lead arranger, Deutsche Bank Luxembourg S.A., as agent and security agent, and KBC Bank NV, as fronting bank, and the financial institutions listed in Schedule 1 thereto, as lenders - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 10.2 Lease Contract dated June 21, 1952, between Farbenfabriken 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.
- 10.3 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.
- 10.4\*\* 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.
- 10.5\*\* Amendment to Richards Bay Slag Sales Agreement dated May 1, 1999 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
- 10.6\*\* Amendment to Richards Bay Slag Sales Agreement dated June 1, 2001 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.7\*\* Amendment to Richards Bay Slag Sales Agreement dated December 20, 2002 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. 10.8 Agreement between Sachtleben Chemie GmbH and Kronos Titan-GmbH effective December 30, 1986 - incorporated by reference to Exhibit 10.1 of KII's Quarterly Report on Form 10-Q (File No. 333-100047) for the quarter ended September 30, 2002.
- 10.9 Supplementary Agreement to the Agreement of December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH dated May 3, 1996 - incorporated by reference to Exhibit 10.2 of KII's Quarterly Report on Form 10-Q (File No. 333-100047) for the quarter ended September 30, 2002.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

- 10.10 Second Supplementary Agreement to the Contract dated December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH dated January 8, 2002 - incorporated by reference to Exhibit 10.3 of KII's Quarterly Report on Form 10-Q (File No. 333-100047) for the quarter ended September 30, 2002.
- 10.11 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.
- 10.12 JointVenture 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.
- 10.13 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.
- 10.14 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.
- 10.15 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.
- 10.16 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.
- 10.17 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. 10.18 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.
- 10.19 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.
- 10.20 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.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

- 10.21 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.
- 10.22 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.
- 10.23\* 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.
- 10.24\* 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.
- 10.25\* NL Industries, Inc. Variable Compensation Plan - incorporated by reference to Exhibit B to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 9, 2001.
- 10.26\* 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.
- 10.27\* NL Industries, Inc. 1998 Long-Term Incentive Plan - incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A for the annual meeting of shareholders held on May 6, 1998.
- 10.28\* 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.
- 10.29\* Executive severance agreement effective as of July 24, 1996 by and between the Registrant and J. Landis Martin - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.
- 10.30\* 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.
- 10.31\* Amended and Restated Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. effective as of May 1, 2001 - incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.32\* Agreement to Defer Bonus Payment dated February 20, 1998 between the Registrant and Lawrence A. Wigdor and related trust agreement - incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

- 10.33\* Agreement to Defer Bonus Payment dated January 10, 2002 between the Registrant and Lawrence A. Wigdor and related trust agreements - incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.34\* Agreement to Defer Bonus Payment dated February 20, 1998 between the Registrant and J. Landis Martin and related trust agreement - incorporated by reference to Exhibit 10.49 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10.35 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.
- 10.36 Tax Agreement between Valhi, Inc. and NL Industries, Inc. effective as of January 1, 2001- incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.37 Subscription Agreement by and among Valhi, Inc., Tremont Holdings, LLC and Tremont Group, Inc. effective as of December 31, 2000 - incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10.38 Intercorporate Services Agreement by and between Contran Corporation and the Registrant effective as of January 1, 2002 - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002. 10.39 Intercorporate Services Agreement by and between Tremont Corporation and the Registrant effective as of January 1, 2002 - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.
- 10.40 Intercorporate Services Agreement by and between Titanium Metals Corporation and the Registrant effective as of January 1, 2002 - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.
- 10.41 Revolving Loan Note dated May 4, 2001 with Harold C. Simmons Family Trust No. 2 and EMS Financial, Inc. - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- 10.42 Security Agreement dated May 4, 2001 by and between Harold C. Simmons Family Trust No. 2 and EMS Financial, Inc. - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- 10.43 Revolving Loan Note Agreement dated October 22, 2002 with Tremont Corporation as Maker and NL Industries, Inc. as Payee - incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
- 10.44 Security Agreement dated October 22, 2002 by and between Tremont Corporation and NL Industries, Inc. - incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
- 10.45 Purchase Agreement dated January 4, 2002 by and among Kronos, Inc. as

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

the Purchaser, and Big Bend Holdings LLC and Contran Insurance Holdings, Inc., as Sellers regarding the sale and purchase of EWI RE, Inc. and EWI RE, Ltd. - incorporated by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

10.46\* Stock Option Purchase Agreement dated November 20, 2002 between the Registrant (Purchaser) and J. Landis Martin (Seller).

10.47\* Stock Option Purchase Agreement dated November 20, 2002 between the Registrant (Purchaser) and Dr. Lawrence A. Wigdor (Seller).

10.48\* Stock Option Purchase Agreement dated November 20, 2002 between the Registrant (Purchaser) and David B. Garten (Seller).

10.49\* Stock Option Purchase Agreement dated November 20, 2002 between the Registrant (Purchaser) and Robert D. Hardy (Seller).

21.1 Subsidiaries of the Registrant.

23.1 Consent of Independent Accountants.

31.11 Certification

31.2 Certification

32.1 Certification

99.3 Annual Report of NL Industries, Inc. Retirement Savings Plan (Form 11-K) to be filed under Form 10-K/A to the Registrant's Annual Report on Form 10-K within 180 days after December 31, 2002.

All documents in the Exhibit Index above that have been incorporated by reference were previously filed by the Registrant under SEC File Number 1-640.

\* Management contract, compensatory plan or arrangement.

\*\* Portions of the exhibit have been omitted pursuant to a request for confidential treatment.

### 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/ Gregory M. Swalwell  
-----

# Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Gregory M. Swalwell  
October 31, 2003  
Vice President, Finance  
Principal Financial and  
Accounting Officer

NL INDUSTRIES, INC.

ANNUAL REPORT ON FORM 10-K

Items 8, 15(a) and 15(d)

Index of Financial Statements and Schedules

Financial Statements	Pages
Report of Independent Accountants	F-2
Consolidated Balance Sheets - December 31, 2002 and 2001	F-3 / F-4
Consolidated Statements of Income - Years ended December 31, 2002, 2001 and 2000	F-5
Consolidated Statements of Comprehensive Income - Years ended December 31, 2002, 2001 and 2000	F-6
Consolidated Statements of Shareholders' Equity - Years ended December 31, 2002, 2001 and 2000	F-7
Consolidated Statements of Cash Flows - Years ended December 31, 2002, 2001 and 2000	F-8 / F-10
Notes to Consolidated Financial Statements	F-11 / F-50
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



# Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the consolidated financial position of NL Industries, Inc. at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Houston, Texas  
February 12, 2003

## NL INDUSTRIES, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

(In thousands, except per share data)

ASSETS	2002
	-----
Current assets:	
Cash and cash equivalents	\$ 58,091
Restricted cash equivalents	52,089
Restricted marketable debt securities	9,670
Accounts and other receivable	136,858
Receivable from affiliates	207
Refundable income taxes	1,782
Inventories	209,882

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Prepaid expenses	7,207
Deferred income taxes	10,511
	-----
Total current assets	486,297
	-----
Other assets:	
Marketable equity securities	40,901
Receivable from affiliates	18,000
Investment in TiO2 manufacturing joint venture	130,009
Prepaid pension cost	17,572
Restricted marketable debt securities	9,232
Other	30,671
	-----
Total other assets	246,385
	-----
Property and equipment:	
Land	29,072
Buildings	150,406
Machinery and equipment	640,297
Mining properties	84,778
Construction in progress	8,702
	-----
	913,255
Less accumulated depreciation and depletion	534,436
	-----
Net property and equipment	378,819
	-----
	\$1,111,501
	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2002 and 2001

(In thousands, except per share data)

LIABILITIES AND SHAREHOLDERS' EQUITY

2002

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Current liabilities:

Notes payable	\$	-	\$
Current maturities of long-term debt		1,298	
Accounts payable and accrued liabilities		167,574	
Payable to affiliates		8,027	
Accrued environmental costs		51,307	
Income taxes		6,624	
Deferred income taxes		3,219	
		-----	
		-----	

Total current liabilities		238,049	
		-----	
		-----	

Noncurrent liabilities:

Long-term debt		324,608	
Deferred income taxes		143,518	
Accrued environmental costs		47,189	
Accrued pension cost		43,757	
Accrued postretirement benefits cost		26,477	
Other		14,060	
		-----	
		-----	

Total noncurrent liabilities		599,609	
		-----	
		-----	

Minority interest

		8,516	
		-----	
		-----	

Shareholders' equity:

Preferred stock - 5,000 shares authorized, no shares issued or outstanding		-	
Common stock - \$.125 par value; 150,000 shares authorized; 66,845 and 66,845 shares issued		8,355	
Additional paid-in capital		777,819	
Retained earnings		101,554	
Accumulated other comprehensive income (loss):			
Currency translation		(170,670)	
Marketable securities		5,896	
Pension liabilities		(21,447)	
Treasury stock, at cost (19,155 and 17,808 shares)		(436,180)	
		-----	
		-----	

Total shareholders' equity		265,327	
		-----	
		-----	

	\$	1,111,501	
		=====	

Commitments and contingencies (Notes 8, 17 and 23)

# Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2002, 2001 and 2000

(In thousands, except per share data)

	2002	2001
Net sales	\$ 875,188	\$ 835,099
Cost of sales	671,830	578,060
	-----	-----
Gross margin	203,358	257,039
Selling, general and administrative expense	107,675	98,667
Other operating income (expense):		
Currency transaction gains (losses), net	(547)	1,188
Disposition of property and equipment	(625)	(735)
Insurance recoveries, net	-	7,222
Noncompete agreement income	4,000	4,000
Litigation settlement gains, net	5,225	11,730
Other income	544	1,454
Corporate expense	(37,860)	(25,845)
Other expense	(172)	(78)
	-----	-----
Income from operations	66,248	157,308
Other income (expense):		
Currency transaction gain	6,271	-
Insurance recoveries, net	-	17,468
Trade interest income	1,709	2,332
Other interest income	5,739	8,886
Securities gains (losses), net	(105)	(1,133)
Interest	(29,752)	(27,569)
	-----	-----
Income before income taxes and minority interest	50,110	157,292
Income tax expense	12,036	34,925
	-----	-----
Income before minority interest	38,074	122,367
Minority interest	1,264	960
	-----	-----
Net income	\$ 36,810	\$ 121,407

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Net income per share:		
Basic	\$ .76	\$ 2.44
	=====	=====
Diluted	\$ .76	\$ 2.44
	=====	=====
Weighted average shares used in the calculation of net income per share:		
Basic	48,530	49,732
Dilutive impact of stock options	82	124
	-----	-----
Diluted	48,612	49,856
	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years ended December 31, 2002, 2001 and 2000  
(In thousands)

	2002	2001
	-----	-----
Net income	\$ 36,810	\$ 121,407
	-----	-----
Other comprehensive (loss) income, net of tax: Marketable securities adjustment:		
Unrealized holding (losses) gains arising during the period	(2,454)	(1,275)
Add: reclassification adjustment for loss included in net income	-	740
	-----	-----
	(2,454)	(535)
Minimum pension liabilities adjustment	(15,095)	(6,352)
Currency translation adjustment	37,679	(17,592)
	-----	-----
Total other comprehensive income (loss)	20,130	(24,479)
	-----	-----
Comprehensive income	\$ 56,940	\$ 96,928
	=====	=====

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2002, 2001 and 2000

(In thousands, except per share data)

	Additional		Retained earnings	Accumulated other comprehensive income	
	Common stock	paid-in capital		Currency translation	Pension liabilities
Balance at December 31, 1999	\$8,355	\$774,304	\$ 19,150	\$ (160,022)	\$ (1,756)
Net income	-	-	154,609	-	-
Other comprehensive (loss) income, net of tax	-	-	-	(30,735)	1,756
Common dividends declared - \$.65 per share	-	-	(32,686)	-	-
Tax benefit of stock options exercised	-	3,224	-	-	-
Treasury stock:					
Acquired	-	-	-	-	-
Reissued	-	-	-	-	-
Balance at December 31, 2000	8,355	777,528	141,073	(190,757)	-
Net income	-	-	121,407	-	-
Other comprehensive loss, net of tax	-	-	-	(17,592)	(6,352)
Common dividends declared - \$.80 per share	-	-	(39,758)	-	-
Tax benefit of stock options exercised	-	69	-	-	-
Treasury stock:					
Acquired	-	-	-	-	-
Reissued	-	-	-	-	-
Balance at December 31, 2001	8,355	777,597	222,722	(208,349)	(6,352)
Net income	-	-	36,810	-	-
Other comprehensive income (loss), net of tax	-	-	-	37,679	(15,095)
Common dividends declared - \$3.30 per share	-	-	(157,978)	-	-
Tax benefit of stock options exercised	-	222	-	-	-
Treasury stock:					
Acquired	-	-	-	-	-
Reissued	-	-	-	-	-
Balance at December 31, 2002	\$8,355	\$777,819	\$101,554	\$ (170,670)	\$ (21,447)

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2002, 2001 and 2000

(In thousands)

	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 36,810	\$ 121,407
Depreciation, depletion and amortization	33,221	29,599
Noncash interest income on restricted cash and restricted marketable debt securities	(1,762)	(3,580)
Noncash interest expense	1,768	467
Deferred income taxes	1,506	3,256
Minority interest	1,264	960
Net losses (gains) from:		
Securities transactions	105	1,133
Disposition of property and equipment	625	735
Pension cost, net	(2,316)	(2,967)
Other postretirement benefits, net	(3,385)	531
Distributions from TiO2 manufacturing joint venture	7,950	11,313
Litigation settlement gains, net	-	(10,307)
Insurance recoveries, net	-	(17,468)
Other, net	-	261
Change in assets and liabilities:		
Accounts and other receivable	4,788	902
Inventories	42,249	(32,698)
Prepaid expenses	(545)	(2,200)
Accounts payable and accrued liabilities	(32,310)	31,091
Income taxes	(2,036)	4,107
Accounts with affiliates	3,800	(5,670)
Accrued environmental costs	8,913	7,068
Other noncurrent assets	150	(263)
Other noncurrent liabilities	(2,544)	(7,944)
	-----	-----
Net cash provided by operating activities	98,251	129,733
	-----	-----

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2002, 2001 and 2000

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

(In thousands)

	2002	2001
	-----	-----
Cash flows from investing activities:		
Capital expenditures	\$ (32,600)	\$ (53,669)
Loans to affiliates:		
Loans	-	(33,400)
Collections	14,650	750
Acquisition of business	(9,149)	-
Property damaged by fire:		
Insurance proceeds	-	23,361
Other, net	-	(3,205)
Purchase of Tremont Corporation common stock	-	-
Change in restricted cash equivalents and restricted marketable debt securities, net	(960)	8,509
Proceeds from disposition of property and equipment	873	419
Proceeds from disposition of marketable securities	-	4
Other, net	-	-
	-----	-----
Net cash used by investing activities	(27,186)	(57,231)
	-----	-----
Cash flows from financing activities:		
Indebtedness:		
Borrowings	335,768	1,437
Principal payments	(278,814)	(22,428)
Deferred financing fees	(10,706)	-
Dividends paid	(157,978)	(39,758)
Treasury stock:		
Purchased	(21,254)	(15,502)
Reissued	454	718
Distributions to minority interests	(11)	(5)
	-----	-----
Net cash used by financing activities	(132,541)	(75,538)
	-----	-----
Net change during the year from operating, investing and financing activities	\$ (61,476)	\$ (3,036)
	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2002, 2001 and 2000

(In thousands)



Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

	2002	2001
	-----	-----
Cash and cash equivalents: Net change during the year from:		
Operating, investing and financing activities	\$ (61,476)	\$ (3,036)
Currency translation	3,334	(1,305)
Acquisition of business	196	-
	-----	-----
	(57,946)	(4,341)
Balance at beginning of year	116,037	120,378
	-----	-----
Balance at end of year	\$ 58,091	\$ 116,037
	=====	=====
Supplemental disclosures - cash paid for:		
Interest	\$ 32,896	\$ 27,143
Income taxes	9,715	29,770
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	\$ -
	=====	=====

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. ("Kronos"). At December 31, 2002, Valhi, Inc. ("Valhi") and Tremont Corporation ("Tremont"), each affiliates of Contran Corporation ("Contran"), held approximately 63% and 21%, respectively, of NL's outstanding common stock. At December 31, 2002, Contran and its subsidiaries held approximately 93% of Valhi's outstanding common stock, and Tremont Group, Inc. ("Tremont Group"), which is 80% owned by Valhi and 20% owned by NL, held approximately 80% of Tremont's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board of each of Contran, Valhi and NL and a director of Tremont, may be deemed to control each of such companies. See Notes 7, 8 and 22.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Note 2 - Summary of significant accounting policies:

### Principles of consolidation and management's estimates

The accompanying consolidated financial statements include the accounts of NL and its majority-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. Certain prior-year amounts have been reclassified to conform to the current year presentation. The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. ("GAAP") 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. Actual results may differ from previously estimated amounts under different assumptions or conditions. The Company has no involvement with any variable interest entity covered by the scope of FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities."

### Translation of foreign currencies

Assets and liabilities of subsidiaries whose functional currency is 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 are included in other comprehensive income (loss), net of related income taxes. Currency transaction gains and losses are recognized in income currently, and in 2002 included a \$6.3 million gain related to the extinguishment of certain intercompany indebtedness that is classified as a component of other income (expense) in the accompanying consolidated statement of income.

### Cash equivalents

Cash equivalents include U.S. Treasury securities purchased under short-term agreements to resell and bank deposits with original maturities of three months or less.

### Restricted cash equivalents and restricted marketable debt securities

Restricted cash equivalents and restricted marketable debt securities are primarily invested in U.S. government securities and money market funds that invest primarily in U.S. government securities. At December 31, 2002 and 2001, restricted cash equivalents and restricted marketable debt securities of approximately \$9.6 million and \$8.6 million, respectively, collateralized undrawn letters of credit, and restricted cash equivalents and restricted marketable debt securities of approximately \$59.0 million and \$74.4 million, respectively, were held by trusts established to pay future environmental remediation obligations and other environmental expenditures of the Company. Generally, restricted cash and restricted marketable debt securities are classified as either a current or noncurrent asset depending upon the classification of the liability to which the restricted amount relates. Additionally, restricted marketable debt securities are generally classified as either current or noncurrent assets depending upon the maturity date of each restricted marketable debt security and are carried at market which approximates cost. Unrealized gains and losses on available-for-sale debt securities are included in other comprehensive income (loss), net of related deferred income taxes. See Note 7. Gains and losses on available-for-sale debt securities are recognized in income upon realization and are computed based on specific identification of the debt securities sold.

### Marketable equity securities and securities transactions

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Marketable equity securities are carried at market based on quoted market prices. Unrealized gains and losses on available-for-sale equity securities are included in other comprehensive income (loss), net of related deferred income taxes. See Note 7. Gains and losses on available-for-sale equity securities are recognized in income upon realization and are computed based on specific identification of the equity securities sold. Declines in value that are judged to be other-than-temporary are reported in other income, net.

### Inventories and cost of goods sold

Inventories are stated at the lower of cost (principally average cost) or market. Amounts are removed from inventories at average cost. Cost of goods sold includes costs for materials, packing and finishing, utilities, salary and benefits, maintenance and depreciation.

### Investment in TiO2 manufacturing joint venture

Investment in a 50%-owned manufacturing joint venture is accounted for by the equity method.

### 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. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized.

The Company has a governmental concession with an unlimited term to operate an ilmenite mine in Norway. Mining properties consist of buildings and equipment used in the Company's Norwegian ilmenite mining operations. The Company does not own the ilmenite reserves associated with the mine.

Depreciation of property and equipment (including mining properties) 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.

When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed to determine if an impairment exists. Such events or changes in circumstances include, among other things, (i) significant current and prior periods or current and projected periods with operating losses, (ii) a significant decrease in the market value of an asset or (iii) a significant change in the extent or manner in which an asset is used. All relevant factors are considered. The test for impairment is performed by comparing the estimated future undiscounted cash flows (exclusive of interest expense) associated with the asset to the asset's net carrying value to determine if a write-down to market value or discounted cash flow value is required. Effective January 1, 2002, the Company commenced accounting for impairment of other long-lived assets (such as property and equipment and mining properties) in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 as discussed under "Accounting principles adopted in 2002."

### Long-term debt

Amortization of deferred financing costs, included in interest expense, is computed by the interest method over the term of the applicable issue.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

### Employee benefit plans

Accounting and funding policies for retirement plans and postretirement benefits other than pensions ("OPEB") are described in Note 14.

The Company has elected the disclosure alternative prescribed by 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, and following the Company's cash settlement of options to purchase NL common stock held by certain individuals, the Company commenced accounting for its stock options using the variable accounting method because the Company could not overcome the presumption that it would not similarly cash settle its remaining stock options. Under the variable accounting method, 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) are accrued as an expense over their vesting period, with subsequent increases (decreases) in NL's market price resulting in additional compensation expense (income). Aggregate compensation cost related to NL stock options recognized by the Company was \$3.2 million in 2002, nil in 2001 and \$1.7 million in 2000.

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.

	Years ended December	
	2002	2001
	(In thousands except per share)	
Net income - as reported	\$ 36,810	\$ 121,407
Add back: Stock-based compensation cost, net of tax, included in reported net income	2,137	-
Deduct: Stock-based compensation cost, net of tax, determined under fair value based method for all awards	(1,082)	(1,651)
Net income - pro forma	\$ 37,865	\$ 119,756
Net income per basic common share:		
As reported	\$ .76	\$ 2.44
Pro forma	\$ .78	\$ 2.41
Net income per diluted common share:		
As reported	\$ .76	\$ 2.44
Pro forma	\$ .78	\$ 2.40

Environmental remediation costs

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Environmental remediation costs are accrued when estimated future expenditures are probable and reasonably estimable. The estimated future expenditures are generally 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, 2002 and 2001, no receivables for recoveries have been recognized.

### Net sales

The Company adopted the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," as amended, in 2000. Revenue generally is realized or realizable and earned when all of the requirements of SAB No. 101 are met, including when title and the risks and rewards of ownership passes to the customer (generally at the time the product is shipped to the customer). The impact of adopting SAB No. 101 was not material. Amounts charged to customers for shipping and handling are included in net sales. Sales are stated net of price, early payment and distributor discounts and volume rebates.

### Repair and maintenance costs

The Company performs planned major maintenance activities during the year. Repair and maintenance costs estimated to be incurred in connection with planned major maintenance activities are accrued in advance and are included in cost of goods sold. Accrued repair and maintenance costs, included in other current liabilities (see Note 11), was \$4.0 million and \$3.4 million at December 31, 2002 and 2001, respectively.

### Selling, general and administrative expenses; Shipping and handling costs

Selling, general and administrative expenses include costs related to marketing, sales, distribution, shipping and handling, research and development and administrative functions such as accounting, treasury and finance, and includes costs for salary and benefits, travel and entertainment, promotional materials and professional fees. Shipping and handling costs are included in selling, general and administrative expense and were \$51 million in 2002, \$49 million in 2001 and \$50 million in 2000.

### 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 in the various taxing jurisdictions in which it operates and adjusts any related valuation allowance. The Company's valuation allowance is equal to the amount of deferred tax assets which the Company believes do not meet the "more-likely-than-not" recognition criteria.

Effective January 1, 2001, the Company and its qualifying subsidiaries were included in the consolidated U.S. federal tax return of Contran (the "Contran

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Tax Group"). As a member of the Contran Tax Group, the Company is a party to a tax sharing agreement (the "Contran Tax Agreement"). The Contran Tax Agreement provides that the Company compute its provision for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the Contran Tax Agreement and using the tax elections made by Contran, the Company makes payments to or receives payments from Valhi in amounts it would have paid to or received from the U.S. Internal Revenue Service had it not been a member of the Contran Tax Group. Refunds are limited to amounts previously paid under the Contran Tax Agreement unless the Company was entitled to a refund from the U.S. Internal Revenue Service on a separate company basis. Pursuant to the Contran Tax Agreement, the Company received \$2.3 million in 2002 from Valhi related to capital loss carrybacks generated in 2001 which would have been recoverable from the U.S. Internal Revenue Service.

### Derivatives and hedging activities

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, effective January 1, 2001. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, all derivatives are recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives is dependent upon the intended use of the derivative. As permitted by the transition requirements of SFAS No. 133, as amended, the Company exempted from the scope of SFAS No. 133 all host contracts containing embedded derivatives which were issued or acquired prior to January 1, 1999. At December 31, 2002 and 2001, the Company was not a party to any significant derivative or hedging instrument covered by SFAS No. 133. There was no impact on the Company's financial statements from adopting SFAS No. 133.

The Company periodically uses interest rate swaps, currency swaps and other types of contracts to manage interest rate and foreign exchange risk with respect to financial assets or liabilities. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does it currently anticipate doing so in the future. The Company was not a party to any such contracts during 2002, 2001 and 2000.

### 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. The weighted average number of outstanding stock options, which were excluded from the calculation of diluted earnings per share because their impact would have been antidilutive, aggregated 788,000, 876,000 and 222,000 in 2002, 2001 and 2000, respectively. There were no adjustments to net income in the computation of the diluted earnings per share amounts.

### Accounting principles adopted in 2002

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. Under SFAS No. 142, goodwill, including goodwill arising from the difference between the cost of an investment accounted for by the equity method and the amount of the underlying equity in net assets of such equity method investee ("equity method goodwill"), will not be amortized on a periodic basis. Instead, goodwill (other than equity method goodwill) will be subject to an impairment test to be performed at least on an annual basis, and impairment reviews may result in future periodic write-downs charged to earnings. Equity method goodwill will not be tested for impairment in accordance with SFAS No. 142; rather, the overall carrying amount of an equity method investee will continue to be reviewed for impairment in accordance with existing GAAP. There is currently no equity method goodwill associated with the Company's

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

equity method investee. All goodwill arising in a purchase business combination (including step acquisitions) completed on or after July 1, 2001 would not be periodically amortized from the date of such combination. The Company had goodwill of \$6.4 million at December 31, 2002 which was generated during January 2002. The Company had no goodwill recognized as of the January 1, 2002 date of adoption of SFAS No. 142. See Note 3.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. SFAS No. 144 retains the fundamental provisions of existing GAAP with respect to the recognition and measurement of long-lived asset impairment contained in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." However, SFAS No. 144 provides new guidance intended to address certain significant implementation issues associated with SFAS No. 121, including expanded guidance with respect to appropriate cash flows to be used to determine whether recognition of any long-lived asset impairment is required, and if required how to measure the amount of the impairment. SFAS No. 144 also requires that any net assets to be disposed of by sale to be reported at the lower of carrying value or fair value less cost to sell, and expands the reporting of discontinued operations to include any component of an entity with operations and cash flows that can be clearly distinguished from the rest of the entity. The adoption of SFAS No. 144 effective January 1, 2002 did not have a material effect on the Company's consolidated financial position, results of operations or liquidity.

The Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" effective April 1, 2002. SFAS No. 145, among other things, eliminated the prior requirement that all gains and losses from the early extinguishment of debt were to be classified as an extraordinary item. Upon adoption of SFAS No. 145, gains and losses from the early extinguishment of debt are now classified as an extraordinary item only if they meet the "unusual and infrequent" criteria contained in APBO No. 30. In addition, upon adoption of SFAS No. 145, all gains and losses from the early extinguishment of debt that had previously been classified as an extraordinary item are to be reassessed to determine if they would have met the "unusual and infrequent" criteria of APBO No. 30; any such gain or loss that would not have met the APBO No. 30 criteria are retroactively reclassified and reported as a component of income before extraordinary item. The Company has concluded that all of its previously-recognized gains and losses from the early extinguishment of debt that occurred on or after January 1, 1998 would not have met the APBO No. 30 criteria for classification as an extraordinary item, and accordingly such previously-reported gains and losses from the early extinguishment of debt have been retroactively reclassified and reported as a component of income before extraordinary item. The effect of adoption for the year ended December 31, 2002 was a second-quarter 2002 reclassification of a first-quarter 2002 loss of \$92,000 (\$60,000, net of income tax benefit) from extraordinary item to interest expense. The effect of adoption for the year ended December 31, 2000 was a reclassification of a \$1,126,000 loss (\$732,000, net of income tax benefit) from extraordinary item to interest expense. Previously reported net income did not change as a result of adopting SFAS No. 145.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize a liability at the inception of a guarantee covered by the scope of FIN No. 45, equal to the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures requirements with respect to certain guarantees. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis for any guarantees issued or modified after December 31, 2002, while the disclosure requirements were effective upon issuance. The Company is not a party to any guarantees covered by the scope of

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

FIN No. 45 as of December 31, 2002.

Accounting principles not yet adopted

The Company will adopt 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 would be 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 would be accreted to its present value, and the capitalized cost would be 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 will recognize (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 are measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost is 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, is 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, if any, between the amounts to be recognized as described above and any associated amounts recognized in the Company's balance sheet as of December 31, 2002 would be recognized as a cumulative effect of a change in accounting principles as of the date of adoption. The effect of adopting SFAS No. 143 as of January 1, 2003 as summarized in the table below is not expected to have a material effect on the Company's consolidated financial position, results of operations or liquidity:

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

Cost
Accumulated depreciation
Decrease in liabilities previously accrued for closure and post closure activities
Asset retirement obligation recognized

Net impact

The Company will adopt SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective January 1, 2003 for exit or disposal activities initiated on or after the date of adoption. Under SFAS No. 146, costs associated with exit activities, as defined, that are covered by the scope of SFAS No. 146 will be recognized and measured initially at fair value, generally in the period in which the liability is incurred. Costs covered by the scope of SFAS No. 146 include termination benefits provided to employees, costs to consolidate facilities or relocate employees, and costs to terminate contracts



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

(other than a capital lease). Under existing GAAP, a liability for such an exit cost is recognized at the date an exit plan is adopted, which may or may not be the date at which the liability has been incurred. The Company believes the adoption of SFAS No. 146 will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

### Note 3 - Business combination

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 acquisition costs of \$.2 million. An entity controlled by one of Harold C. Simmons' daughters owned a majority of EWI, and a wholly owned subsidiary of Contran owned the remainder of EWI. Through December 31, 2000, Harold C. Simmons' son-in-law managed the operations of EWI. Subsequent to December 31, 2000 and pursuant to an agreement that, as amended, is effective until terminated by either party with 90 days notice, such son-in-law provides advisory services to EWI as requested by EWI, for which such son-in-law is paid \$11,875 per month and receives certain other benefits under EWI's benefit plans. EWI provides reinsurance brokerage services for insurance policies of the Company, its joint venture and other affiliates of Contran as well as external third-party customers. The purchase was approved by a special committee of the Company's Board of Directors consisting of two of its directors unrelated to Contran, and the purchase price was negotiated by the special committee based upon its consideration of relevant factors, including but not limited to due diligence performed by independent consultants and an appraisal of EWI conducted by an independent third party selected by the special committee.

EWI's results of operations and cash flows are included in the Company's consolidated results of operations and cash flows beginning January 2002. The pro forma effect on the Company's results of operations at December 31, 2001, assuming the acquisition of EWI had occurred as of January 1, 2001, is not material. The aggregate cash purchase price of \$9.2 million (including acquisition costs of \$.2 million) has been allocated to the assets acquired and liabilities assumed, including definite-lived, customer list intangible asset of \$2.6 million and goodwill of \$6.4 million, based upon estimates of fair value. The intangible asset and goodwill were included in other noncurrent assets at December 31, 2002. See Note 9. The intangible asset will be amortized on a straight-line basis over a period of seven years (approximately six years remaining at December 31, 2002) with no assumed residual value. Goodwill will not be amortized on a periodic basis but instead will subject to periodic impairment tests in accordance with the requirements of SFAS No. 142. See Note 2.

### Note 4 - Geographic segments:

The Company's operations are conducted by Kronos and are associated with the production and sale of TiO<sub>2</sub>. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. At December 31, 2002 and 2001, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated \$159 million and \$394 million, respectively.

For geographic information, net sales are attributed to the place of manufacture (point of origin) and the location of the customer (point of destination); property and equipment are attributed to their physical location.

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

	Years ended December	
	2002	2001
	(In thousands)	
Geographic areas		
Net sales - point of origin:		
Germany	\$ 404,299	\$ 398,470
United States	291,823	278,624
Canada	157,773	149,412
Belgium	123,760	126,782
Norway	111,811	102,843
Other	89,560	82,320
Eliminations	(303,838)	(303,352)
	\$ 875,188	\$ 835,099
Net sales - point of destination:		
Europe	\$ 456,834	\$ 425,338
United States	271,865	258,347
Canada	53,371	47,061
Latin America	19,970	25,514
Asia	47,549	46,169
Other	25,599	32,670
	\$ 875,188	\$ 835,099
	December 31,	
	2002	2001
	(in thousands)	
Identifiable assets		
Net property and equipment:		
Germany	\$ 213,170	\$ 182,387
Canada	54,719	54,676
Belgium	54,625	46,841
Norway	49,737	38,549
Other	6,568	7,297
	\$ 378,819	\$ 329,750

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Note 5 - Accounts and other receivable:

	December
	-----
	2002
	-----
	(In thou
Trade receivables	\$ 124,044
Insurance claims receivable	2,558
Recoverable VAT and other receivables	12,861
Allowance for doubtful accounts	(2,605)
	-----
	\$ 136,858
	=====

Note 6 - Inventories:

	December
	-----
	2002
	-----
	(In thou
Raw materials	\$ 54,077
Work in process	15,936
Finished products	109,203
Supplies	30,666
	-----
	\$ 209,882
	=====

Note 7- Marketable equity securities and securities transactions:

	December
	-----
	2002
	-----
	(in thou
Available-for-sale marketable equity securities:	
Tremont Group	\$ 30,634
Valhi	9,845
Tremont	243
Other	179
	-----
Aggregate fair value	\$ 40,901

At both December 31, 2002 and 2001, the aggregate cost basis of the Company's investment in Tremont Group, Valhi, Tremont and all other marketable equity securities was \$26.4 million, \$5.9 million, \$.1 million and nil, respectively.

At December 31, 2002 and 2001, the Company owned 20% of Tremont Group and Valhi owned the remaining 80%. Tremont Group's only asset is an 80% ownership interest in Tremont. The Company's stock of Tremont Group was redeemable at the option of the Company for fair value based on the value of the underlying Tremont shares, and the Company accounted for its investment in Tremont Group as an available-for-sale marketable security carried at fair value based on the fair value of such underlying Tremont shares. At December 31, 2002 and 2001, the Company also directly held a nominal number of Tremont shares, and owned 1,186,200 shares of Valhi common stock (approximately 1% of Valhi's outstanding shares at each date). The Company accounts for its investment in its parent companies as available-for-sale marketable securities carried at fair value. See Note 1.

In February 2003 Valhi completed a series of merger transactions pursuant to which, among other things, Tremont Group and 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 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 will report a pre-tax securities transaction gain of approximately \$2.3 million in the first quarter of 2003 which represents 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. The shares of Valhi common stock cannot be voted by the Company under Delaware Corporation Law, but the Company does receive dividends from Valhi on these shares. For financial reporting purposes, Valhi reports its proportional interest in these shares as treasury stock.

In 2001 the Company recognized noncash securities losses of \$1.1 million related to other-than-temporary declines in value of certain available-for-sale marketable equity securities held by the Company. See Note 18.

Note 8 - Receivable from affiliates:

In February 2001 NL Environmental Management Services, Inc. ("EMS"), the Company's majority-owned environmental management subsidiary, loaned \$13.4 million to Tremont under a reducing revolving loan agreement that matured in March 2003. See Note 1. The loan was approved by special committees of the Company's and EMS's Boards of Directors. In October 2002 a special committee of the Company's Board of Directors approved new loan terms proposed by Tremont, whereby Tremont repaid the outstanding principal and interest balance on the EMS loan with proceeds from a new \$15 million revolving loan agreement with the Company. As such, the EMS loan was extinguished and cancelled. Similar to the

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

EMS loan, the Company's loan to Tremont bears interest at prime plus 2% (6.25% at December 31, 2002 with interest payable quarterly), and is collateralized by 10.2 million shares of NL common stock owned by Tremont. The loan is due December 31, 2004, with no principal payments required prior to that date. The maximum amount available to Tremont under the revolving loan agreement is \$15 million. The creditworthiness of Tremont is dependent in part on the value of the Company as Tremont's interest in the Company is Tremont's most substantial asset. At December 31, 2002, no amounts were outstanding under this facility and Tremont had \$15 million of borrowing availability. As a result of the merger of Tremont with Valhi in February 2003, the revolving loan agreement is now between Tremont LLC (a wholly owned subsidiary of Valhi and successor to Tremont) and NL.

In May 2001 a wholly owned subsidiary of 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 December 31, 2002), 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. In November 2002 the Family Trust repaid \$2 million principal amount of the revolving credit agreement. At December 31, 2002, \$7.0 million was available for additional borrowing by the Family Trust. The loan was classified as noncurrent at December 31, 2002, as the Company does not expect to demand repayment within one year.

Note 9 - Other noncurrent assets:

	December
	----- 2002 -----
	(In thous
Deferred financing costs, net (see Note 13)	\$ 10,550
Goodwill (see Note 3)	6,406
Unrecognized net pension obligations (see Note 14)	5,561
Intangible asset, net of accumulated amortization of \$372 and nil (see Note 3)	2,230
Restricted cash equivalents	1,344
Other	4,580
	-----
	\$ 30,671
	=====

Note 10 - Investment in TiO2 manufacturing joint venture:

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 Americas Inc. ("Tioxide"), a wholly owned subsidiary of Huntsman International Holdings LLC, a 60%-owned subsidiary of Huntsman Corporation. LPC owns and operates a chloride-process TiO2 plant in Lake Charles, Louisiana.

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

KLA is required to purchase one-half of the TiO2 produced by LPC. LPC operates on a break-even basis and, accordingly, the Company reports no equity in earnings of LPC. Kronos' cost for its share of the TiO2 produced is equal to its share of LPC's costs. Kronos' share of net costs is reported as cost of sales as the related TiO2 acquired from LPC is sold. Distributions from LPC, which generally relate to excess cash generated by LPC from its non-cash production costs, and contributions to LPC, which generally relate to cash required by LPC when it builds working capital, are reported as part of cash generated by operating activities in the Company's Consolidated Statements of Cash Flows. Such distributions are reported net of any contributions made to LPC during the periods. Net distributions of \$8.0 million in 2002, \$11.3 million in 2001 and \$7.6 million in 2000 are stated net of contributions of \$14.2 million in 2002, \$6.2 million in 2001 and nil in 2000.

LPC made cash distributions of \$15.9 million in 2002, \$22.6 million in 2001 and \$15.1 million in 2000, equally split between the partners.

Summary balance sheets of LPC are shown below.

	December
	----- 2002 -----
	(In thou
ASSETS	
Current assets	\$ 56,745
Property and equipment, net	235,739
	-----
	\$ 292,484
	=====
LIABILITIES AND PARTNERS' EQUITY	
Other liabilities, primarily current	\$ 29,716
Partners' equity	262,768
	-----
	\$ 292,484
	=====

Summary income statements of LPC are shown below.

	Years ended December 31,	
	----- 2002 -----	----- 2001 -----
	(In thousands)	

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Revenues and other income:

Kronos	\$ 92,428	\$ 93,393
Tioxide	93,833	94,009
Interest	53	303
	-----	-----
	186,314	187,705
	-----	-----
Cost and expenses:		
Cost of sales	185,946	187,295
General and administrative	368	410
	-----	-----
	186,314	187,705
	-----	-----
Net income	\$ -	\$ -
	=====	=====

Note 11 - Accounts payable and accrued liabilities:

	December
	-----
	2002
	-----
	(In thou
Accounts payable	\$ 97,140
	-----
Accrued liabilities:	
Employee benefits	34,349
Interest	240
Deferred income	333
Other	35,512
	-----
	70,434
	-----
	\$ 167,574
	=====

Note 12 - Other noncurrent liabilities:

	December
	-----
	2002
	-----
	(In thou
Insurance claims expense	\$ 7,674
Employee benefits	4,025

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Deferred income	-
Other	2,361
	-----
	\$ 14,060
	=====

Note 13 - Notes payable and long-term debt:

	December
	-----
	2002
	-----
	(In thou
Notes payable - Kronos International, Inc. and subsidiaries	\$ -
	=====
Long-term debt:	
NL Industries, Inc.:	
11.75% Senior Secured Notes	\$ -
Kronos International, Inc. and subsidiaries:	
8.875% Senior Secured Notes	296,942
Revolving credit facility	27,077
Other	1,887
	-----
	325,906
Less current maturities	1,298
	-----
	\$ 324,608
	=====

Notes payable at December 31, 2001, consisted of (euro)27 million (\$24.0 million) and NOK 200 million (\$22.2 million). Notes payable totaling \$53.2 million were repaid on June 28, 2002 with proceeds from the revolving credit facility and available cash and the agreements were terminated. See description of revolving credit facility below.

In June 2002 Kronos International, Inc. ("KII"), issued (euro)285 million (\$280 million when issued and \$297 million at December 31, 2002) principal amount of 8.875% Senior Secured Notes (the "Notes") due 2009. The Notes are collateralized by first priority liens on 65% of the common stock or other equity interests of certain of KII's first-tier subsidiaries. The Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among other things, restricts the ability of KII 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. In addition, the indenture contains customary cross-default provisions with respect to other debt and obligations of KII or its subsidiaries. The Notes are redeemable, at KII's option, on or after December 30, 2005 at redemption prices ranging from 104.437% of the principal amount, declining to 100% on or after December 30, 2008. In addition, on or before June 30, 2005, KII may redeem up to 35% of its Notes with the net proceeds of a qualified public equity offering at 108.875% of the principal amount. In the event of a change of control of KII, as defined, KII would be required to make an offer to purchase



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

its Notes at 101% of the principal amount. KII would also be required to make an offer to purchase a specified portion of its Notes at par value in the event KII generates a certain amount of net proceeds from the sale of assets outside the ordinary course of business, and such net proceeds are not otherwise used for specified purposes within a specified time period. At December 31, 2002, KII was in compliance with all the covenants, and the quoted market price of the Notes was (euro)1,010 per (euro)1,000 principal amount. The Notes require cash interest payments on June 30 and December 30, commencing on December 30, 2002. KII completed an exchange offer on November 18, 2002 to exchange the Notes for registered publicly traded notes that have substantially identical terms as the Notes.

In March 2002 the Company redeemed \$25 million principal amount of its 11.75% Senior Secured Notes due October 2003 at par value, using available cash on hand. In addition, the Company used a portion of the net proceeds from the issuance of the Notes to redeem in full the remaining \$169 million principal amount of the Company's 11.75% Senior Secured Notes. In accordance with the terms of the indenture governing the 11.75% Senior Secured Notes, on June 28, 2002, the Company irrevocably placed on deposit with the trustee funds in an amount sufficient to pay in full the redemption price plus all accrued and unpaid interest due on the July 28, 2002 redemption date. Immediately thereafter, the Company was released from its obligations under such indenture, the indenture was discharged and all collateral was released to the Company. Because the Company had been released as being the primary obligor under the indenture as of June 30, 2002, the 11.75% Senior Secured Notes were derecognized as of that date along with the funds placed on deposit with the trustee to effect the July 28, 2002 redemption. The Company recognized a loss on the early extinguishment of debt of approximately \$2 million in the second quarter of 2002, consisting primarily of the interest on the 11.75% Senior Secured Notes for the period from July 1 to July 28, 2002. Such loss was recognized as a component of interest expense.

In June 2002 KII's operating subsidiaries in Germany, Belgium and Norway (the "European Borrowers"), entered into a three-year (euro)80 million secured revolving credit facility ("European Credit Facility"). The European Credit Facility is available in multiple currencies, including U.S. dollars, euros and Norwegian kroner. In addition, the European Credit Facility has a (euro)5.0 million sub limit available for issuance of letters of credit. As of December 31, 2002, (euro)15 million (\$15.6 million) and NOK 80 million (\$11.5 million) were outstanding under the European Credit Facility and (euro)1.8 million (\$1.8 million) of letters of credit was also outstanding under the European Credit Facility. At December 31, 2002, approximately (euro)52 million (approximately \$54 million) was available for additional borrowings. Borrowings bear interest at the applicable interbank market rate plus 1.75%. As of December 31, 2002, the interest rate was 4.80% and 8.86% on the euro and Norwegian kroner borrowings, respectively, and the weighted average interest rate was 6.51%.

The European Credit Facility is collateralized by accounts receivable and inventory of the European Borrowers, plus a limited pledge of certain other assets of the Belgian borrower. The European Credit Facility contains, among others, various restrictive covenants, including restrictions on incurring liens, asset sales, additional financial indebtedness, mergers, investments and acquisitions, transactions with affiliates and dividends. In addition, the European Credit Facility contains customary cross-default provisions with respect to other debt and obligations of the European Borrowers, KII and its other subsidiaries. The European Borrowers were in compliance with all the covenants as of December 31, 2002.

Under the cross-default provisions of the Notes, the Notes may be accelerated prior to their stated maturity if KII or any of KII's subsidiaries default under any other indebtedness in excess of \$20 million due to a failure

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). Under the cross-default provisions of the European Credit Facility, any outstanding borrowings under the European Credit Facility may be accelerated prior to their stated maturity if the European Borrowers or KII default under any other indebtedness in excess of (euro)5 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). In the event the cross-default provisions of either the Notes or the European Credit Facility become applicable, and such indebtedness is accelerated, the Company would be required to repay such indebtedness prior to their stated maturity.

In September 2002 the Company's U.S. operating subsidiaries (the "U.S. Borrowers") entered into a three-year \$50 million asset-based revolving credit facility ("U.S. Credit Facility"). Under the terms of the U.S. Credit Facility, the amount available for borrowing is based on a formula-derived borrowing base using eligible accounts receivable and eligible inventory and is subject to maintaining \$5 million of minimum excess availability ("Borrowing Availability"). The maximum amount available under the U.S. Credit Facility is \$45 million. Borrowings bear interest at either prime rate or eurodollar rates plus a margin spread based on average excess availability under the U.S. Credit Facility or certain levels of EBITDA (as defined) of the U.S. Borrowers. Margin spreads range from 0.25% to 1.00% for prime rate borrowings and 2.00% to 2.75% for eurodollar rate borrowings. The U.S. Credit Facility is available for future working capital requirements and general corporate purposes of the U.S. Borrowers, including dividend distributions. The U.S. Borrowers were in compliance with all the covenants as of December 31, 2002. The U.S. Credit Facility is collateralized by accounts receivable, inventory and certain fixed assets of the U.S. Borrowers. The U.S. Credit Facility contains, among other things, various restrictive and financial covenants including restrictions on incurring liens, asset sales, mergers, and minimum EBITDA (as defined) of the U.S. Borrowers and Kronos. As of December 31, 2002, no borrowings were outstanding under the U.S. Credit Facility and Borrowing Availability was approximately \$30 million.

Deferred financing costs of \$10.7 million for the Notes, the European Credit Facility and the U.S. Credit Facility are being amortized over the life of the respective agreements and are included in other noncurrent assets as of December 31, 2002.

Unused lines of credit available for borrowing under the Company's non-U.S. credit facilities approximated \$57 million at December 31, 2002 (including approximately \$54 million under the European Credit Facility of which approximately \$3.2 million is available for letters of credit).

The aggregate maturities of long-term debt at December 31, 2002 are shown in the table below.

Years ending December 31,  
-----

2003  
2004  
2005  
2006

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

2007  
2008 and thereafter

Note 14 - Employee benefit plans:

Company-sponsored pension plans

The Company maintains various defined benefit and defined contribution pension plans covering substantially all employees. Non-U.S. employees are covered by plans in their respective countries and a majority of U.S. employees are eligible to participate in a contributory savings plan. The Company amended its defined benefit pension plans in Belgium and Norway in 2002 to exclude the admission of new employees to the plans. New employees of these particular locations are eligible to participate in Company-sponsored defined contribution plans.

The Company contributes to eligible U.S. employees' accounts an amount equal to approximately 4% (in each of 2002, 2001 and 2000) of the employee's annual eligible earnings and partially matches employee contributions to the U.S. contributory savings plan. The Company also has a nonqualified defined contribution plan covering certain executives, and participants receive benefits based on a formula involving eligible earnings. The Company's expense related to the U.S. and non-U.S. plans was \$.4 million in 2002, \$.8 million in 2001 and \$1.6 million in 2000.

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

	December 31,	
	2002	2001
	(Percentages)	
Discount rate	5.5 to 7.0	5.8 to 7.3
Rate of increase in future compensation levels	2.5 to 4.5	2.8 to 4.5
Long-term rate of return on plan assets	6.8 to 8.5	6.8 to 8.5

Plan assets are comprised primarily of investments in U.S. and non-U.S. corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

SFAS No. 87, "Employers' Accounting for Pension Costs" requires that an additional pension liability be recognized when the unfunded accumulated pension benefit obligation exceeds the unfunded accrued pension liability. Variances from actuarially assumed rates will change the actuarial valuation of accrued pension liabilities, pension expense and funding requirements in future periods.

The components of the net periodic defined benefit pension cost are set forth below.

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

	Years ended December	
	2002	2001
	(In thousands)	
Net periodic pension cost:		
Service cost benefits	\$ 4,538	\$ 3,976
Interest cost on projected benefit obligation ("PBO")	16,510	15,605
Expected return on plan assets	(16,099)	(16,143)
Amortization of prior service cost	307	201
Amortization of net transition obligation	515	510
Recognized actuarial losses	1,223	443
	\$ 6,994	\$ 4,592
	\$ 6,994	\$ 4,592

The funded status of the Company's defined benefit pension plans is set forth below.

	December
	2002
	(In thousand)
Change in PBO:	
Beginning of year	\$ 261,805
Service cost	4,538
Interest	16,510
Participant contributions	1,057
Amendments	-
Actuarial loss (gain)	(1,704)
Benefits paid	(16,862)
Change in currency exchange rates	37,033
	302,377
Change in fair value of plan assets:	
Beginning of year	208,267
Actual return on plan assets	(3,087)
Employer contributions	9,310
Participant contributions	1,057
Benefits paid	(16,862)
Change in currency exchange rates	28,076
	226,761
Funded status at year end:	
Plan assets less than PBO	\$ (75,616)
Unrecognized actuarial loss	68,390
Unrecognized prior service cost	4,881

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Unrecognized net transition obligation	5,011
	-----
	\$ 2,666
	=====
Amounts recognized in the balance sheet:	
Prepaid pension cost	\$ 17,572
Accrued pension cost:	
Current	(7,019)
Noncurrent	(43,757)
Unrecognized net pension obligations	5,561
Accumulated other comprehensive loss	30,309
	-----
	\$ 2,666
	=====

Selected information related to the Company's defined benefit pension plans that have accumulated benefit obligations in excess of fair value of plan assets is presented below. At December 31, 2002 and 2001, 79% and 78%, respectively, of the projected benefit obligations of such plans relate to non-U.S. plans.

	Decem
	-----
	2002
	-----
	(In th
Projected benefit obligation	\$ 252,316
Accumulated benefit obligation	229,373
Fair value of plan assets	179,437

Incentive bonus programs

Certain employees are eligible to participate in the Company's various incentive bonus programs. The programs provide for annual payments, which may be in the form of cash or NL common stock. The amount of the annual payment paid to an employee, if any, is based on formulas involving the profitability of Kronos in relation to the annual operating plan and, for most of these employees, individual performance.

Postretirement benefits other than pensions

In addition to providing pension benefits, the Company currently provides certain health care and life insurance benefits for eligible retired employees. Certain of the Company's 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 active U.S. employees over a ten-year period and U.S. employees retiring after 1998 are not entitled to any such benefits. 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, 2002, the expected rate of increase in health care costs is 9% in 2003 decreasing to 5.5% in 2007 and thereafter. Other

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

weighted-average assumptions used to measure the liability and expense are presented below.

	December	
	2002	2001
	(Percent)	
Discount rate	6.5	7.
Long-term rate for compensation increases	6.0	6.
Long-term rate of return on plan assets	6.0	7.

Variances from actuarially assumed rates will change accrued OPEB liabilities, net periodic OPEB expense and funding requirements in future periods. If the health care cost trend rate was increased (decreased) by one percentage point for each year, postretirement benefit expense would have increased approximately \$.1 million (decreased by \$.1 million) in 2002, and the projected benefit obligation at December 31, 2002 would have increased by approximately \$2.1 million (decreased by \$1.8 million).

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

	Years ended December	
	2002	2001
	(In thousands)	
Net periodic OPEB cost (benefit):		
Service cost benefits	\$ 103	\$ 94
Interest cost on PBO	2,028	2,536
Expected return on plan assets	(3)	(773)
Amortization of prior service cost	(2,075)	(2,075)
Recognized actuarial losses	27	27
	\$ 80	\$ (191)

	December
	2002
	(In th
Change in PBO:	
Beginning of year	\$ 35,137
Service cost	103
Interest cost	2,028

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Actuarial losses	5,436
Release of insurance obligations	(5,778)
Plan asset reimbursements	-
Benefits paid:	
Company funds	(3,464)
Plan assets	(595)
Change in currency exchange rates	32
	-----
End of year	32,899
	-----
Change in fair value of plan assets:	
Beginning of year	6,400
Actual return on plan assets	(27)
Employer contributions	-
Benefits paid	(595)
Release of insurance obligations	(5,778)
	-----
End of year	-
	-----
Funded status at year end:	
Plan assets less than PBO	(32,899)
Unrecognized actuarial gain	5,345
Unrecognized prior service cost	(3,708)
	-----
	\$ (31,262)
	=====
Amounts recognized in the balance sheet:	
Current	\$ (4,785)
Noncurrent	(26,477)
	-----
	\$ (31,262)
	=====

Based on communications with a certain insurance provider of retiree benefits, and consultations with the Company's actuaries, the Company has been released from certain life insurance retiree benefit obligations totaling \$5.8 million as of December 31, 2002 through the use of an equal amount of plan assets.

Note 15 - Minority interest:

Minority interest primarily relates to the Company's majority-owned environmental management subsidiary, EMS. EMS was established in 1998, at which time EMS contractually assumed certain of the Company's environmental liabilities. EMS' earnings are based, in part, upon its ability to favorably resolve these liabilities on an aggregate basis. The minority interest shareholders of EMS actively manage the environmental liabilities and share in 39% of EMS' cumulative earnings, as defined in the formation documents. The Company includes liabilities contractually assumed by EMS in its consolidated balance sheet.

Note 16 - Shareholders' equity:

Common stock

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

	Shares of common stock	
	Issued	Treasury stock
		(In thousands)
Balance at December 31, 1999	66,839	15,555
Treasury shares acquired	-	1,682
Treasury shares reissued	-	(450)
Balance at December 31, 2000	66,839	16,787
Treasury shares acquired	-	1,059
Treasury shares reissued	-	(38)
Other	6	-
Balance at December 31, 2001	66,845	17,808
Treasury shares acquired	-	1,384
Treasury shares reissued	-	(37)
Balance at December 31, 2002	66,845	19,155

Pursuant to its share repurchase program, the Company purchased 1,384,000 shares of its common stock at an aggregate cost of \$21.3 million in 2002, 1,059,000 shares of its common stock in the open market at an aggregate cost of \$15.5 million in 2001 and 1,682,000 shares of its common stock at an aggregate cost of \$30.9 million in 2000. Approximately 1,323,000 additional shares are available for purchase under the Company's share repurchase program. The available shares may be purchased over an unspecified period of time, and are to be held as treasury shares available for general corporate purposes.

In February 2000 the Company increased the regular quarterly dividend to \$.15 per share and subsequently paid three quarterly \$.15 per share cash dividends in the first nine months of 2000. In October 2000 the Company increased the regular quarterly dividend to \$.20 per share and subsequently paid a quarterly \$.20 per share cash dividend in the fourth quarter of 2000. The Company paid four quarterly \$.20 per share cash dividends in each of 2001 and 2002. In December 2002 the Company paid an additional cash dividend of \$2.50 per share (aggregating \$119.2 million). On February 5, 2003, the Company's Board of Directors declared a regular quarterly dividend of \$.20 per share to shareholders of record as of March 14, 2003 to be paid on March 26, 2003.

Common stock options

The NL Industries, Inc. 1998 Long-Term Incentive Plan ("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 and non-employee directors. Although certain stock options granted pursuant to a similar plan which preceded the NL Option Plan ("Predecessor Option Plan") remain outstanding at December 31, 2002, no additional options may be granted under the Predecessor Option Plan.



Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Up to five million shares of NL common stock may be issued pursuant to the NL Option Plan and, at December 31, 2002, 3,651,000 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.

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	Weight aver exerc pri
		Low	High		
(In thousands, except per share amounts)					
Outstanding at December 31, 1999	2,437	\$ 5.00	\$ 24.19	\$ 34,943	\$ 1
Granted	432	14.25	14.44	6,165	1
Exercised	(918)	5.00	17.97	(9,508)	1
Forfeited	(349)	8.69	24.19	(7,237)	2
Outstanding at December 31, 2000	1,602	5.00	21.97	24,363	1
Granted	484	20.11	20.51	9,737	2
Exercised	(38)	11.28	21.97	(627)	1
Forfeited	(34)	11.28	20.11	(513)	1
Outstanding at December 31, 2001	2,014	5.00	21.97	32,960	1
Granted	12	13.81	13.81	166	1
Exercised	(545)	5.00	15.75	(7,444)	1
Forfeited	(220)	11.88	21.97	(3,623)	1
Outstanding at December 31, 2002	1,261	\$ 8.69	\$ 21.97	\$ 22,059	\$ 1

At December 31, 2002, 2001 and 2000 options to purchase 428,400, 658,560 and 363,480 shares, respectively, were exercisable and options to purchase



Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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	
	2002	2001
	(In thousands)	
Pretax income (loss):		
U.S.	\$ (17,439)	\$ 3,267
Non-U.S.	67,549	154,025
	-----	-----
	\$ 50,110	\$ 157,292
	=====	=====
Expected tax expense	\$ 17,539	\$ 55,052
Non-U.S. tax rates	(3,235)	(3,887)
Resolution of German income tax audits	-	-
Change in valuation allowance:		
Corporate restructuring in Germany and other	-	(23,247)
Recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria	(3,382)	(1,460)
Incremental tax on income of companies not included in the NL Tax Group	548	6,009
Rate change adjustment of deferred taxes	(2,332)	-
U.S. state income taxes	(148)	459
Tax contingency reserve adjustments, other, net	2,860	985
Other, net	186	1,014
	-----	-----
Income tax expense	\$ 12,036	\$ 34,925
	=====	=====
Provision for income taxes:		
Current income tax expense (benefit):		
U.S. federal	\$ (453)	\$ 1,352
U.S. state	558	1,309
Non-U.S.	10,425	29,008
	-----	-----
	10,530	31,669
	-----	-----
Deferred income tax expense (benefit):		
U.S. federal	(3,294)	12,369
U.S. state	(752)	(850)
Non-U.S.	5,552	(8,263)
	-----	-----
	1,506	3,256
	-----	-----

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

	\$ 12,036	\$ 34,925
	=====	=====
Comprehensive provision (benefit) for income taxes allocable to:		
Pretax income	\$ 12,036	\$ 34,925
Additional paid-in capital	(222)	(69)
Acquired definite-lived intangible asset	908	-
Other comprehensive income (loss):		
Marketable equity securities	(1,318)	(287)
Pension liabilities	(7,171)	(2,160)
	-----	-----
	\$ 4,233	\$ 32,409
	=====	=====

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

	December 31,		
	-----		
	2002		
	-----		
	Deferred tax		Defer
	-----		
	Assets	Liabilities	Assets
	-----		
	(In thousands)		
Tax effect of temporary differences relating to:			
Inventories	\$ 3,427	\$ (3,302)	\$ 3,202
Property and equipment	44,255	(59,058)	42,721
Accrued postretirement benefits cost	10,594	-	11,398
Accrued (prepaid) pension cost	8,486	(24,785)	2,711
Accrued environmental costs	32,914	-	35,508
Noncompete agreement	117	-	1,517
Other accrued liabilities and deductible differences	16,368	-	18,647
Other taxable differences	-	(137,713)	-
Tax on unremitted earnings of non-U.S. subsidiaries	-	(4,156)	-
Tax loss and tax credit carryforwards	163,844	-	118,828
Valuation allowance	(185,283)	-	(154,437)
	-----	-----	-----
Gross deferred tax assets (liabilities)	94,722	(229,014)	80,095
Reclassification, principally netting by tax jurisdiction	(82,277)	82,277	(68,398)
	-----	-----	-----
Net total deferred tax assets (liabilities)	12,445	(146,737)	11,697
Net current deferred tax assets (liabilities)	10,511	(3,219)	11,011
	-----	-----	-----

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Net noncurrent deferred tax assets (liabilities)	\$ 1,934	\$ (143,518)	\$ 686
	=====	=====	=====

Changes in the Company's deferred income tax valuation allowance are summarized below.

	Years ended December	
	2002	2001
	(In thousands)	
Balance at the beginning of year	\$ 154,437	\$ 190,312
Recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria	(3,382)	(24,707)
Offset to the change in gross deferred income tax assets due principally to redeterminations of certain tax attributes and implementation of certain tax planning strategies	12,610	(3,681)
Foreign currency translation	21,618	(7,487)
	-----	-----
Balance at the end of year	\$ 185,283	\$ 154,437
	=====	=====

A reduction in the German "base" income tax rate from 30% to 25%, enacted in October 2000, became effective January 1, 2001. The reduction in the German income tax rate resulted in \$5.7 million of additional deferred income tax expense in the fourth quarter of 2000 due to a reduction of the Company's deferred income tax asset related to certain German tax attributes.

A reduction in the Belgian income tax rate from 40.17% to 33.99%, enacted in December 2002, became effective January 1, 2003. The reduction in the Belgian income tax rate resulted in a \$2.3 million decrease in deferred income tax expense in the fourth quarter of 2002 due to a reduction of the Company's deferred income tax liabilities related to certain Belgian temporary differences.

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 currently 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 such returns until September 30, 2003. Based upon the course of the examination to date, the Company anticipates that the IRS may propose a substantial tax deficiency.

The Company has received a notification from the Norwegian tax authorities

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately (euro)10.4 million (\$10.8 million at December 31, 2002). 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.

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.

During the fourth quarter of 2001, the Company completed a restructuring of its German subsidiaries, and as a result recognized a \$17.6 million net income tax benefit. This benefit is comprised of a \$23.2 million decrease in the valuation allowance due to a change in estimate of the Company's ability to utilize certain German income tax attributes that did not previously meet the "more-likely-than-not" recognition criteria offset by \$5.6 million of incremental U.S. taxes on undistributed earnings of certain foreign subsidiaries.

At December 31, 2002, the Company had the equivalent of approximately \$414 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. The German federal government has proposed certain changes to its income tax law, including certain changes that would impose limitations on the annual utilization of income tax loss carryforwards that, as proposed, would become effective retroactively to January 1, 2003. Since the Company has provided a deferred income tax asset valuation allowance against substantially all of the German tax loss carryforwards, any limitation on the Company's ability to utilize such carryforwards resulting from enactment of any of these proposals would not have a material impact on the Company's net deferred income tax liability. However, if enacted, the proposed changes could have a material impact on the Company's ability to make full annual use of its German income tax loss carryforwards, which would significantly affect the Company's future income tax expense and future income tax payments.

At December 31, 2002, the Company had, for U.S. federal income tax purposes, a net operating loss carryforward of approximately \$45 million, of which \$3 million expires in 2019, \$23 million expires in 2021 and \$19 million expires in 2022 and approximately \$7.4 million of alternative minimum tax credit carryforwards with no expiration date.

Note 18 - Noncompete agreement income :

The Company received a \$20 million fee as part of the sale of Rheox in January 1998 in payment for entering into a five-year covenant not to compete in the rheological products business. The Company is amortizing the fee to income using the straight-line method over the five-year noncompete period beginning January 30, 1998. The agreement became fully amortized in January 2003 with 2003 income totaling \$.3 million.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

### Note 19 - Litigation settlement gains, net:

In June 2000 the Company recognized a \$43 million net gain from a settlement with one of its two principal former insurance carriers, and in December 2000 the Company recognized a \$26.5 million net gain from a settlement with certain members of the other principal former insurance carrier. The settlement gains are stated net of \$3.1 million in commissions, and the gross settlement proceeds of \$72.6 million were transferred by the carriers to trusts established to pay future remediation and other environmental expenditures of the Company.

A settlement with remaining members of the second carrier group was reached in January 2001, and the Company recognized a \$10.3 million gain in the first quarter of 2001. The gross settlement proceeds of \$10.7 million were transferred by the carriers to the above mentioned trusts. In 2002 and 2001 the Company recognized \$5.2 million and \$1.4 million, respectively, of other litigation settlement gains.

The settlements resolved court proceedings that the Company initiated to seek reimbursement for legal defense expenditures and indemnity coverage for certain of its environmental remediation expenditures. No further material settlements relating to litigation concerning environmental remediation coverage are expected.

### Note 20 - Leverkusen fire and insurance claim:

A fire on March 20, 2001 damaged a section of the Company's Leverkusen, Germany 35,000 metric ton sulfate-process TiO<sub>2</sub> plant ("Sulfate Plant") and, as a result, production of TiO<sub>2</sub> at the Leverkusen facility was halted. The fire did not enter the Company's adjacent 125,000 metric ton chloride-process TiO<sub>2</sub> plant ("Chloride Plant"), but did damage certain support equipment necessary to operate that plant. The damage to the support equipment resulted in a temporary shutdown of the Chloride Plant.

On April 8, 2001, repairs to the damaged support equipment were substantially completed and full production resumed at the Chloride Plant. The Sulfate Plant became approximately 50% operational in September 2001 and became fully operational in late October 2001. The damages to property and the business interruption losses caused by the fire were covered by insurance as noted below, but the effect on the financial results of the Company on a quarter-to-quarter basis was impacted by the timing and amount of insurance recoveries.

The Company reached an agreement and settled the coverage claim involving the Leverkusen fire for \$56.4 million during the fourth quarter of 2001 (\$46.9 million received as of December 31, 2001, with the remaining \$9.5 million received in January 2002), of which \$27.3 million related to business interruption and \$29.1 million related to property damage, clean-up costs and other extra expenses. The Company recognized a \$17.5 million pre-tax gain in 2001 related to the property damage recovery after deducting \$11.6 million of clean-up costs and other extra expenses incurred and the carrying value of assets destroyed in the fire. The gain was excluded from the determination of income from operations. The \$27.3 million of business interruption proceeds recognized in 2001 were allocated between other income, excluding corporate, which reflects recovery of lost margin (\$7.2 million) and as a reduction of cost of sales to offset unallocated period costs (\$20.1 million). No additional recoveries related to the Leverkusen fire are expected to be received.

### Note 21 - Other items:

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Advertising costs are expensed as incurred and were \$1 million in each of 2002, 2001 and 2000.

Research, development and certain sales technical support costs are expensed as incurred and approximated \$6 million in each of 2002, 2001 and 2000.

Interest capitalized in connection with long-term capital projects was nil in each of 2002, 2001 and 2000.

Corporate expense include environmental, legal and other costs attributable to formerly owned business units, as well as certain administrative expenses (primarily legal, finance accounting and tax).

### Note 22 - 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, tax sharing agreements, 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 continuously 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 various intercorporate services agreements ("ISA") with various related parties discussed below. Under the ISA's, employees of one company will provide certain management, tax planning, financial and administrative services to the other company on a fee basis. Such charges are based upon estimates of the time devoted by the employees of the provider of the services to the affairs of the recipient, and the compensation of such persons. Because of the number of companies affiliated with Contran, the Company believes it benefits from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. These ISA's are reviewed and approved by the Company's Board of Directors including members who are not officers or directors of any other entity that may be deemed to be related to the Company.

The Company is a party to an intercorporate services agreement with Contran ("Contran ISA") whereby Contran provides certain management services to the Company on a fee basis. Intercorporate services fee expense related to the



## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Contran ISA was \$1.5 million in 2002, \$1.2 million in 2001 and \$1.0 million in 2000.

The Company was a party in 2000 to an intercorporate services agreement with Valhi ("Valhi ISA") whereby Valhi and the Company provided certain management, financial and administrative services to each other on a fee basis. Net intercorporate services fee expense related to the Valhi ISA was \$.2 million in 2000.

The Company is party to an intercorporate services agreement with Tremont ("Tremont ISA"). Under the terms of the contract, the Company provides certain management and financial services to Tremont on a fee basis. Intercorporate services fee income related to the Tremont ISA was \$.1 million in each of 2002, 2001 and 2000. See Note 7.

The Company is party to an intercorporate services agreement ("TIMET ISA") with Titanium Metals Corporation ("TIMET"), approximately 39% of the outstanding common stock of which is currently held by Tremont at December 31, 2002. Under the terms of the contract, the Company provides certain management and financial services to TIMET on a fee basis. Intercorporate services fee income related to the TIMET ISA was \$.3 million in 2002, \$.2 million in 2001 and \$.4 million in 2000.

The Company was party in 2000 to an intercorporate services agreement ("CompX ISA") with CompX International, Inc. ("CompX"), a subsidiary of Valhi. Under the terms of the contract, the Company provided certain management and administrative services to CompX on a fee basis. Intercorporate services fee income related to the CompX ISA was \$.2 million in 2000.

Purchases of TiO<sub>2</sub> from LPC were \$92.4 million in 2002, \$93.4 million in 2001 and \$92.5 million in 2000.

The Company and Tall Pines Insurance Company ("Tall Pines") (formerly NL Insurance, Ltd. of Vermont), a wholly owned subsidiary of Tremont, are parties to an Insurance Sharing Agreement with respect to certain loss payments and reserves established by Tall Pines that (i) arise out of claims against other entities for which the Company is contractually responsible and (ii) are subject to payment by Tall Pines under certain reinsurance contracts. Also, Tall Pines will credit the Company with respect to certain underwriting profits or credit recoveries that Tall Pines receives from independent reinsurers that relate to retained liabilities. At December 31, 2002, the Company has \$1.6 million of restricted cash that collateralizes certain of Tall Pines' outstanding letters of credit.

Tall Pines, Valmont Insurance Company ("Valmont") and EWI RE, Inc. and EWI RE, Ltd. (collectively "EWI") provide for or broker certain of the Company's, its joint venture's and its affiliates' insurance policies. Valmont is a wholly owned insurance company of Valhi. An entity controlled by one of Harold C. Simmons' daughters and Contran owned all of the outstanding common stock of EWI at December 31, 2001. On January 7, 2002, the Company purchased EWI for \$9.2 million. See Note 3. Through December 31, 2000, Harold C. Simmons' son-in-law managed the operations of EWI. Subsequent to December 31, 2000 and pursuant to an agreement that, as amended, is effective until terminated by either party with 90 days notice, such son-in-law provides advisory services to EWI as requested by EWI, for which such son-in-law is paid \$11,875 per month and receives certain other benefits under EWI's benefit plans. Consistent with insurance industry practices, Tall Pines, Valmont and EWI receive commissions from the insurance and reinsurance underwriters for the policies that they provide or broker. The Company and its joint venture paid approximately \$11.2 million, \$10.1 million and \$5.7 million in 2002, 2001 and 2000, respectively, for policies provided or brokered by Tall Pines, Valmont and EWI. The premiums paid by affiliates (other than the Company and its joint venture) for policies

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

provided or brokered by EWI in 2002 was approximately \$6.5 million. These amounts principally included payments for reinsurance and insurance premiums paid to unrelated third parties, but also included commissions paid to Tall Pines, Valmont and EWI. In the Company's opinion, the amounts that the Company paid for these insurance policies and the allocation among the Company and its affiliates of relative insurance premiums are reasonable and similar to those they could have obtained through unrelated insurance companies and/or brokers. The Company expects that these relationships with Tall Pines, Valmont and EWI will continue in 2003.

During 2002 the Company and certain officers of the Company entered into agreements whereby stock options held by such officers to purchase an aggregate of 513,800 shares of the Company's common stock were exercised or canceled for value. The officers tendered 52,179 shares of their own Company common stock, held by such officers for at least six months, to pay for a portion of the stock option exercise price, and such shares were valued at the market price of the Company's common stock on the date of exercise. The remaining aggregate exercise price was paid by such officers by tendering of a portion of the shares acquired upon exercise of the options, also based on the market price of the Company's common stock on the date of exercise. On a net basis, the Company made aggregate cash payments to the officers of approximately \$2.2 million, of which approximately \$1.7 million was recorded as compensation expense and approximately \$.5 million (equal to the intrinsic value of the options exercised through the tender of the 52,179 shares) was recorded as a direct reduction to equity through treasury stock. The aggregate number of treasury shares held by the Company did not change as a result of these transactions. Payment of required tax withholding related to these transactions were funded by the officers using a portion of the cash payments made to them.

During 2000 the Company and certain officers and directors of the Company entered into agreements whereby stock options held by such officers to purchase an aggregate of 755,800 shares of the Company's common stock were exercised. The officers and directors tendered 298,709 shares of their own Company common stock, held by such officers and directors for at least six months, to pay for a portion of the stock option exercise price, and such shares were valued at the market price of the Company's common stock on the date of exercise. The remaining aggregate exercise price was paid by such officers and directors through the tendering of 39,721 shares acquired upon exercise of the options, also based on the market price of the Company's common stock on the date of exercise. In addition, (i) 139,118 shares acquired upon exercise of the options were tendered to the Company to pay required tax withholding related to these transactions, (ii) 150,501 additional shares held by such officers for at least six months were sold to the Company and (iii) 123,902 shares acquired upon exercise of the options were also sold to the Company, with such shares valued in each case at the market price of the Company's common stock on the date of exercise. On a net basis, the Company made aggregate cash payments to the officers and directors of approximately \$9.4 million, of which approximately \$1.7 million was recorded as compensation expense and approximately \$7.7 million (equal to the sum of (i) the intrinsic value of the options exercised through the tender of the 298,709 shares and (ii) the market value of the 150,501 shares sold to the Company) was recorded as a direct reduction to equity through treasury stock. Overall, these transactions resulted in a net 274,403 increase in the number of the Company's treasury shares and a net 3,844 increase in the number of the Company's common shares outstanding. See Note 2.

From time to time, the Company loans funds to related parties. See Note 8. These loans permit the Company to earn a higher rate of return on cash not needed at the time for use in its operations than it could otherwise earn. While such loans are of a lesser credit quality than cash equivalent instruments otherwise available to the Company, the Company believes that it has evaluated the credit risks involved, and that those risks are reasonable and reflected in the terms of the loans.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Amounts receivable from and payable to affiliates are summarized in the following table.

	Decem
	2002
	(In th
<b>Current receivable from affiliates:</b>	
Tremont	\$ -
Valhi - income taxes	-
TIMET	84
CompX	20
Other	103
	\$ 207
<b>Noncurrent receivable from affiliates (see Note 8):</b>	
Family Trust	\$ 18,000
Tremont	-
	\$ 18,000
<b>Current payable to affiliates:</b>	
Tremont	\$ 181
LPC	7,614
Other	232
	\$ 8,027

Amounts payable to LPC are generally for the purchase of TiO<sub>2</sub> (see Note 10), and amounts payable to Tremont principally relate to the Company's Insurance Sharing Agreement described above.

### Note 23 - 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 TiO<sub>2</sub> production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO<sub>2</sub> production capacity, is located within the lessor's extensive manufacturing complex. Rent for the Leverkusen facility is periodically established by agreement with the lessor for periods of at least two years at a time. Under a

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, including chlorine and certain amounts of sulfuric acid, 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 \$10 million in 2002 and \$9 million in each of 2001 and 2000. At December 31, 2002, minimum rental commitments under the terms of noncancellable operating leases were as follows:

	Real Estate
Years ending December 31,	(In thousands)
2003	\$ 2,449
2004	2,406
2005	1,982
2006	1,672
2007	1,534
2008 and thereafter	18,706
	\$ 28,749

Approximately \$16.5 million of the \$28.7 million real estate minimum rental commitment is attributable to the Leverkusen, Germany facility. The minimum commitment is determined by taking the current annual rental rate in effect at December 31, 2002 and extending out the annual rate to the year 2050.

### Capital expenditures

At December 31, 2002, the estimated cost to complete capital projects in process approximated \$6 million.

### Purchase commitments

The Company has long-term supply contracts that provide for the Company's chloride feedstock requirements through 2006. The agreements require the Company purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately \$156 million.

### Legal proceedings

Lead pigment litigation. Since 1987 the Company, other former 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 states, large U.S. cities or their public housing authorities, school districts and certain others have been asserted as class actions. These legal proceedings seek recovery under a variety of theories, including public and private nuisance, negligent product design, failure to warn, strict liability, breach of warranty, conspiracy/concert of action, enterprise liability, market share liability, intentional tort, and fraud and misrepresentation.

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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; some 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 pigment and lead-based paint businesses, the Company expects that additional lead pigment and lead-based paint litigation, asserting similar or different legal theories and seeking similar or different types of damage and relief to that described in Item 3. "Legal Proceedings," may be filed.

Environmental matters and litigation. The Company's operations are governed by various foreign and domestic environmental laws and regulations. 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 maintain compliance with applicable foreign and domestic environmental laws and regulations at all of its facilities and to strive to improve its environmental performance. It is possible that future changes in 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 adversely affect the Company's consolidated financial position, results of operations or liquidity.

The Company's production facilities operate within an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers which allow them to issue operating permits under which the plants must operate. The Company believes all of its plants are in substantial compliance with applicable environmental laws. With respect to the Company's plants, neither the Company nor any of its subsidiaries have been notified of any environmental claim in the United States or any foreign jurisdiction by the U.S. EPA or any applicable foreign authority or any state, provincial or local authority.

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 and Belgium are members of the EU and follow its initiatives. Norway, although not a member, generally patterns its environmental regulatory actions after the EU. The Company believes it has obtained all required permits and is in substantial compliance with applicable EU requirements, including EU Directive 92/112/EEC regarding establishment of procedures for reduction and eventual elimination of pollution caused by waste from the TiO<sub>2</sub> industry.

At all of the Company's sulfate plant facilities other than Fredrikstad, Norway, the Company recycles spent acid either through contracts with third parties or using the Company's own facilities. At its Fredrikstad, Norway plant, the Company ships its spent acid to a third party location where it is treated and disposed. The Company has a contract with a third party to treat certain by-products of its German sulfate-process plants. Either party may terminate the contract after giving four years advance notice with regard to its Nordenham,

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Germany plant. Under certain circumstances, Kronos may terminate the contract after giving six months notice with respect to treatment of by-products from the Leverkusen, Germany plant.

The Company landfills waste generated at its Nordenham, Germany and Langerbrugge, Belgium plants and mine tailings waste generated at its mining facility in Norway. The Company maintains reserves, as required under GAAP, to cover the anticipated cost of closure of these landfills, which were approximately \$.1 million and \$.5 million as of December 31, 2001 and 2002, respectively.

The Company is responsible for certain closure costs at landfills used and formerly used by its Leverkusen, Germany TiO<sub>2</sub> plants. The Company has a reserve of approximately \$5 million and \$6 million related to such landfills as of December 31, 2001 and 2002, respectively.

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 as a defendant, potential responsible party ("PRP") or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") and similar state laws in approximately 70 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 Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable.

At December 31, 2002, the Company had accrued \$98 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 \$140 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 other than the settlements in 2001 and 2000 discussed in Note 19.

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 December 31, 2002, 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

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

to the Company.

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, solvency of other 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. 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. 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.

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 maintain compliance with applicable environmental laws and regulations at all of 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.

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. See Item 3. "Legal Proceedings."

### Concentrations of credit risk

Sales of TiO<sub>2</sub> accounted for more than 90% of net sales from continuing operations during each of the past three years. The remaining sales result from 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 TiO<sub>2</sub> production processes). TiO<sub>2</sub> is generally sold to the paint, plastics and paper industries. Such markets are generally considered "quality-of-life" markets whose demand for TiO<sub>2</sub> is influenced by the relative economic well-being of the various geographic regions. TiO<sub>2</sub> is sold to over 4,000 customers, with the top ten customers approximating 25% of net sales in each of the last three years. Approximately one-half of the Company's TiO<sub>2</sub> sales by volume were to Europe in each of the past three years and approximately 39% in 2002, 38% in 2001 and 37% in 2000 of sales were attributable to North America.

Consolidated cash, cash equivalents, current and noncurrent restricted cash equivalents includes \$80 million and \$121 million invested in U.S. Treasury

## Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

securities purchased under short-term agreements to resell at December 31, 2002 and 2001, respectively, of which \$24 million and \$62 million, respectively, of such securities are held in trust for the Company by a single U.S. bank.

### Note 24 - Financial instruments:

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

	December 31, 2002		
	Carrying Amount	Fair Value	Carry Amou
	(In millions)		
Cash, cash equivalents, current and noncurrent restricted cash equivalents and current and noncurrent restricted marketable debt securities	\$ 130.4	\$ 130.4	\$ 1
Marketable equity securities - classified as available-for-sale	40.9	40.9	
Notes payable and long-term debt: Fixed rate with market quotes:			
8.875% Senior Secured Notes	\$ 296.9	\$ 299.9	\$
11.75% Senior Secured Notes	-	-	1
Variable rate debt	29.0	29.0	
Common shareholders' equity	\$ 265.3	\$ 810.7	\$ 3

Fair value of the Company's marketable equity securities, restricted marketable debt securities, Notes and 11.75% Senior Secured Notes are based upon quoted market prices and the fair value of the Company's common shareholder's equity is based upon quoted market prices for NL's common stock at the end of the year. The Company held no derivative financial instruments at December 31, 2002 or 2001.

### Note 25 - Quarterly financial data (unaudited):

	Quarter ended		
	March 31	June 30	Sept. 30
	(In thousands, except per share amo		
Year ended December 31, 2002:			
Net sales	\$ 202,357	\$ 226,909	\$ 234,061
Cost of sales	156,253	176,247	177,521
Net income	6,384	14,048 (a)	8,782
Net income per share:			
Basic	\$ .13	\$ .29 (a)	\$ .18
Diluted	\$ .13	\$	\$ .18



Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

.29(a)

Weighted average common shares and potential common shares outstanding:			
Basic	48,870	48,827	48,623
Diluted	48,938	48,953	48,681
Year ended December 31, 2001:			
Net sales	\$ 226,060	\$220,105	\$206,952
Cost of sales	149,902	151,320	145,945
Net income	34,55934,559	25,424	20,538
Net income per share:			
Basic	\$ .69	\$ .51	\$ .41
Diluted	\$ .69	\$ .51	\$ .41
Weighted average common shares and potential common shares outstanding:			
Basic	50,079	49,932	49,621
Diluted	50,349	50,027	49,705

The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted average number of shares used in the per share computations.

- (a) Net income in the second quarter of 2002 included a one-time foreign currency transaction gain of \$6.3 million related to the extinguishment of certain intercompany indebtedness. Net income in second quarter 2002 also included \$2.0 million pretax of additional interest expense related to the early extinguishment of the Company's 11.75% Senior Secured Notes.
- (b) Net income in the fourth quarter of 2001 included \$16.6 million of pretax insurance recoveries for business interruption related to prior 2001 quarters due to the Leverkusen fire. Net income in the fourth quarter of 2001 also included \$11.6 million net of pretax insurance recoveries for property damage related to the Leverkusen fire and a \$17.6 million net income tax benefit related to a restructuring of the Company's German subsidiaries.

REPORT OF INDEPENDENT ACCOUNTANTS  
ON FINANCIAL STATEMENT SCHEDULES

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

Our audits of the consolidated financial statements referred to in our report dated February 12, 2003 appearing on page F-2 in the 2002 Annual Report to Shareholders on Form 10-K of NL Industries, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

listed in Item 15(a) and (d) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Houston, Texas  
February 12, 2003

NL INDUSTRIES, INC. AND SUBSIDIARIES  
SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
Condensed Balance Sheets  
December 31, 2002 and 2001  
(In thousands)

	2002
	-----
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,034
Restricted cash equivalents	50,798
Restricted marketable debt securities	9,670
Accounts and other receivable	2,476
Receivable from subsidiaries	1,467
Prepaid expenses	1,055
Deferred income taxes	6,107
	-----
Total current assets	72,607
	-----
Other assets:	
Marketable equity securities	31,056
Notes receivable from subsidiary	-
Investment in subsidiaries	329,460
Restricted marketable debt securities	6,740
Prepaid pension cost	-
Other	2,327
	-----
Total other assets	369,583
	-----
Property and equipment, net	3,033
	-----
	\$ 445,223
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 17,344
Payable to affiliates	1,656

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Accrued environmental costs	11,904
Income taxes	325
	-----
Total current liabilities	31,229
	-----
Noncurrent liabilities:	
Long-term debt	-
Notes payable to affiliates	44,600
Deferred income taxes	64,509
Accrued environmental costs	7,989
Accrued pension cost	10,659
Accrued postretirement benefits cost	14,671
Other	6,239
	-----
Total noncurrent liabilities	148,667
	-----
Shareholders' equity	265,327
	-----
	\$ 445,223
	=====
Contingencies (Note 5)	

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Income

Years ended December 31, 2002, 2001 and 2000

(In thousands)

	2002	2001
	-----	-----
Revenues and other income:		
Equity in income from continuing operations of		
subsidiaries	\$ 68,911	\$ 154,410
Interest and dividends	2,494	4,354
Interest income from subsidiaries	12,165	22,969
Securities transactions, net	(105)	(1,133)
Litigation settlement gains, net	5,225	11,730
Other income, net	4,081	4,597
	-----	-----
	92,771	196,927
	-----	-----
Costs and expenses:		

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

General and administrative	35,431	13,831
Interest	34,217	58,263
	-----	-----
	69,648	72,094
	-----	-----
Income before income taxes	23,123	124,833
Income tax expense (benefit)	(13,687)	3,426
	-----	-----
Net income	\$ 36,810	\$ 121,407
	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows

Years ended December 31, 2002, 2001 and 2000

(In thousands)

	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 36,810	\$ 121,407
Equity in income of subsidiaries	(68,911)	(154,410)
Distributions from Kronos	111,000	30,500
Noncash interest expense (income), net	15,704	(3,113)
Deferred income taxes	(9,119)	7,498
Securities gains, net	105	1,133
Litigation settlement gains, net	-	(10,307)
Other, net	(1,899)	1,824
	-----	-----
	83,690	( 5,468)
Change in assets and liabilities, net	4,480	1,563
	-----	-----
Net cash provided (used) by operating activities	88,170	(3,905)
	-----	-----
Cash flows from investing activities:		
Change in restricted cash equivalents and restricted marketable debt securities, net	16,622	18,539
Capital expenditures	(2)	(13)
Purchase of Tremont Corporation common stock	-	-

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

Repayment of loans to affiliates	194,000	-
Investments in subsidiaries	-	-
Proceeds from disposition of marketable equity securities	-	4
Other, net	9	20
	-----	-----
Net cash provided by investing activities	210,629	18,550
	-----	-----

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I-CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows (Continued)

Years ended December 31, 2002, 2001 and 2000

(In thousands)

	2002	2001
	-----	-----
Cash flows from financing activities:		
Dividends	\$ (157,978)	\$ (39,758)
Treasury stock:		
Purchased	(21,254)	(15,502)
Reissued	454	718
Indebtedness - principal payments	(194,000)	-
Loans from affiliates	64,600	46,678
	-----	-----
Net cash used by financing activities	(308,178)	(7,864)
	-----	-----
Net change from operating, investing and financing activities	(9,379)	6,781
Balance at beginning of year	10,413	3,632
	-----	-----
Balance at end of year	\$ 1,034	\$ 10,413
	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Notes to Condensed Financial Information

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

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:

	Decembe
	-----
	2002
	-----
	(In thou
Current:	
Receivable from:	
Kronos:	
Income taxes	\$ -
Other, net	417
Valhi - income taxes	-
EWI - income taxes	350
153506 Canada	392
TIMET	84
CompX	20
Other	204
	-----
	\$ 1,467
	=====
Payable to:	
Kronos - income taxes	\$ (978)
Tremont	(281)
EMS	(79)
Other	(318)
	-----
	\$ (1,656)
	=====
Noncurrent:	
Notes receivable from Kronos	\$ -
	=====
Notes payable to Kronos	\$ (44,600)
	=====

During 2002 the Company completed certain capital restructuring transactions whereby Kronos distributed to the Company certain affiliate notes receivable, net and the Company recorded a corresponding decrease in its investment in Kronos. See Note 3.

Note 3 - Investment in subsidiaries:

Decem

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

	2002
	-----
	(In thousands)
Investment in:	
Kronos	\$ 313,479
Other	15,981
	-----
	\$ 329,460
	=====

	Years ended December	
	2002	2001
	-----	-----
	(In thousands)	
Equity in income from continuing operations of subsidiaries:		
Kronos	\$ 66,264	\$ 150,742
Other	2,647	3,668
	-----	-----
	\$ 68,911	\$ 154,410
	=====	=====

Note 4 - Long-term debt:

The Company's \$194 million of 11.75% Senior Secured Notes at December 31, 2001 were redeemed at par value in 2002.

Note 5 - Contingencies:

See Legal proceedings in Note 23 to the Consolidated Financial Statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Charges
	Balance at (credits)
	beginning to costs and

Edgar Filing: NL INDUSTRIES INC - Form 10-K/A

	of year	expenses	Deduction
	-----	-----	-----
Year ended December 31, 2002:			
Allowance for doubtful accounts and other receivable	\$ 2,358 =====	\$481 =====	\$ (533) ( ) =====
Amortization of intangibles .....	\$ -- =====	\$372 =====	\$ -- =====
Year ended December 31, 2001:			
Allowance for doubtful accounts and other receivable	\$ =====	\$485 =====	\$ (245) ( ) =====
Amortization of intangibles .....	\$ -- =====	\$-- =====	\$ -- =====
Year ended December 31, 2000:			
Allowance for doubtful accounts and other receivable	\$ 2,075 =====	\$342 =====	\$ (67) ( ) =====
Amortization of intangibles .....	\$22,095 =====	\$113 =====	\$ (20,429) =====

(a) Amounts written off, less recoveries.

Certain prior-year amounts have been reclassified to conform to the current year presentation. Certain information has been omitted because it is included in the Notes to the Consolidated Financial Statements.