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NL Industries, Inc. Annual Report 1972

N L Industries, Inc.

Ten year highlights

in thousands of dollars, except per share amounts

	1972	1971	1970	1969	[illegible]6[illegible]	19[illegible]
Net sales	**$1,013,698**	**$925,008**	$915,877	$929,785	$8[illegible]8,1[illegible]	$81[illegible]
Income before taxes and extraordinary items	**62,134**	**39,047**	62,605	95,435	[illegible]5,4	9[illegible]
Income before extraordinary items	**36,814**	**22,757**	35,618	50,842	9,1	52
Net income	**36,814**	**3,257**	35,618	50,842	9,1[illegible]	5[illegible]
Per common share						
Income before extraordinary items	**1.53**	**.95**	1.50	2.13	2.[illegible]	[illegible]
Net income	**1.53**	**.14**	1.50	2.13	2.	[illegible]
Dividends paid on common shares	**24,003**	**23,948**	36,261	40,272	[illegible]9,0[illegible]	3[illegible]
Per common share	**1.00**	**1.00**	1.525	1.70	1.6[illegible]	[illegible]
Current assets	**367,371**	**359,836**	368,253	348,333	[illegible]2,[illegible]	32[illegible]
Current liabilities	**127,609**	**109,557**	126,514	161,457	1[illegible]8,[illegible]	101
Working capital	**239,762**	**250,279**	241,739	186,876	2[illegible]4,[illegible]	218
Property, plant and equipment, net	**363,776**	**326,025**	303,801	273,169	2[illegible]2,[illegible]	226
Property expenditures	**59,771**	**83,990**	58,462	37,161	9,[illegible]	30
Depreciation	**23,743**	**26,344**	25,319	22,651	[illegible]8	20
Total assets	**868,991**	**782,420**	769,808	714,872	[illegible]2.	597
Shareholders' equity	**420,897**	**409,034**	426,074	423,587	[illegible]24	419

All per share amounts reflect the 2 for 1 stock split which took place in 1969.

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INDUSTRIES

N L Industries, Inc. Annual Report 1972

19[illegible]	1966	1965	1964	1963
$818.905	$865,687	$837,215	$735,189	$664,606
95.122	115,686	114,986	110,014	98,205
52.842	63,941	61,601	58,691	51,433
55.891	63,941	61,601	58,691	51,433
2.21	2.66	2.55	2.51	2.19
2.34	2.66	2.55	2.51	2.19
38.786	38,295	38,378	38,036	38,049
1.625	1.625	1.625	1.625	1.625
320.171	310,311	296,548	300,974	276,069
101.855	97,721	97,599	99,600	91,461
218.3[illegible]6	212,590	198,949	201,374	184,608
226.060	214,725	196,134	174,961	170,263
30.867	32,440	41,096	20,447	14,558
20.266	18,302	17,249	16,286	15,523
597.044	589,425	537,225	513,311	481,351
419.893	407,257	373,320	355,759	334,960

Contents

Shareholders are cordially invited to attend the eighty-first annual meeting of N L Industries, Inc., Tuesday, April 24, 1973, at the Gateway Downtowner Motor Inn in Newark, New Jersey at 2:00 p.m.

To our shareholders

Net earnings of N L Industries, Inc. for the year 1972 were $36,814,000, equivalent to $1.53 per common share. In 1971, earnings had been $22,757,000, or 95 cents per share, before an extraordinary charge of $19,500,000 due to the abandonment of unprofitable facilities. Net 1971 earnings after the extraordinary charge were $3,257,000, equivalent to 14 cents per share. Thus, 1972 earnings represent an increase of 62% over 1971 profits before the extraordinary charge.

This improvement was contributed to by all major operations of the company, domestic and international. Several of the conditions that had depressed results in 1971—notably industry-wide price weakness in titanium dioxide and several key metals—were largely corrected in 1972, as the sustained improvement in the general economy brought about increased demand for all products.

Sales of N L Industries for 1972 were $1,013,698,000, compared with $925,008,000 in the preceding year, an increase of 9.6%.

A billion dollars in annual sales is a major benchmark for any American company—and as such, it offers an ideal point from which to review where this company has been and where it may be going.

N L Industries is now 81 years old. It has been predominantly a supplier of metals and chemicals to other industries. For most of its history, growth has been steady and consistent. In the last decade alone, annual sales volume has risen by 65%.

Growth will continue. The company produces a widely diversified range of essential products whose future use is expected to more than match the anticipated development of the national economy. In addition, we have been branching out into new areas—the basic production of magnesium, for one—with the potential for much greater than average growth.

In recent years, however, our earnings have not kept pace. Between 1967 and 1971, profits declined, due largely to a general economic slump that hit particularly hard at basic producers such as N L.

That factor has tended to obscure a fundamental management improvement emerging within the company.

As late as 1968, most of N L's divisional and subsidiary units still operated on a highly decentralized semi-autonomous basis as they had historically. Many of the practices and procedures that had developed over a half-century failed to provide the flexibility needed in these days of constant—and very rapid—business, social and technological change.

Much of the effort of the current management has been devoted to modernizing those traditional methods.

Over the past four years, our accounting, purchasing, production and distribution systems have been extensively reorganized. Policy making and staff services have been centralized, and efficiency has been improved at operating units. Our latest move, in 1972, concentrates most of our widely diversified operations within five major groups—Chemicals, Metals, Pigments, Fabricated Products and Industrial Specialties—to provide greater marketing thrust and consolidation of parallel functions.

Since 1969, we have invested some $76 million in research to improve existing products and develop new ones, and in sales technical support. Expenditures for these areas in 1972 were $20 million, and will be about the same in 1973.

In the same four year period, we have invested approximately $307 million for acquisitions, expansions, improved facilities, environmental controls and for such new endeavors as our magnesium operation, which went into limited production in December of 1972. (Details on the status of the magnesium operation will be found in the operations section.) Capital expenditures in 1972 amounted to $60 million and are anticipated to be at that approximate level again in 1973.

These efforts are now beginning to show results.

During 1972, all major divisions and subsidiaries of N L Industries were profitable, including the 50% owned Titanium Metals Corporation of America (TMCA). N L Industries' part of TMCA earnings amounted to three cents per N L share. In 1971, this jointly owned subsidiary had operated at a loss, and N L's portion of that loss had amounted to 21 cents per N L share. TMCA earnings for 1972 included the results of Standard Steel Division since it was acquired in July, 1972.

Dividends totaling $1 per common share were paid to shareholders in 1972. N L Industries has paid cash dividends for 66 consecutive years. At year end, we had 59,598 shareholders, an increase of almost 4% over the year before.

Our manpower planning program is showing progress in the training and upgrading of existing employees and in the recruitment of the best available personnel directly from colleges.

A number of executive promotions were made during the year. As part of the latest reorganization, the following persons, who have been corporate vice presidents and general managers of major divisions, were named group vice presidents: John A. Mardick, Metals Group; Edgar J. Hagstette, Jr., Chemicals Group; and J. Murray Johnston Industrial Specialties Group. Vincent R. McLean was appointed vice president, Finance. Mr. McLean, who joined N L in 1969, has been treasurer of the company since 1970.

In January, 1973, Richard K. Martin, who has been general manager of the Southern Screw Division since 1969, was named a corporate vice president. In the same month, Rudolph E. Carlson, Jr., was appointed vice-president for Corporate Planning and Development. In March, 1973, Glenn A. Wilson joined N L Industries as group vice president, Pigments.

In February, 1973, John O. Logan, president and chief executive officer of Universal Oil Products Company, and Augustine R. Marusi, president, chairman and chief executive officer of Borden, Inc., were elected directors of N L Industries, Inc.

The management and Board of Directors of N L Industries would like to express their sincere regret for the untimely death in July, 1972 of J. Frank Forster, who had very ably served this company as a director since April, 1971.

Relations with our 27,750 employees have been generally good, although a 17-week strike at our St. Louis titanium pigment plant hampered production there. A total of 34 collective bargaining agreements were successfully negotiated in 1972, covering 3,500 employees. Manhours lost to strikes represented 1% of total manhours worked. The company's Total Accident Control Program continued to reflect its value in reducing accident frequency and severity.

Environmental protection continues to be of major importance to N L Industries. During 1972, the company added approximately $5 million in new environmental protection facilities, and has committed an additional $25 million for further environmental facilities to be completed by the end of 1974.

The national economy is strong, and all indicators point to another rise in production and consumption next year. Demand for our particular products is good, and we are intensifying marketing efforts. We have a sound base in our financial structure. Our employees have a vast reserve of experience, and the management team has enlarged its capability. We see strong potential for further growth both in existing product lines and through carefully selected new areas.

We know the coming year will bring us new challenges and new opportunities; we face them with confidence.

E. R. ROWLEY
Chairman of the Board

J. B. HENRICH
President

March 2, 1973

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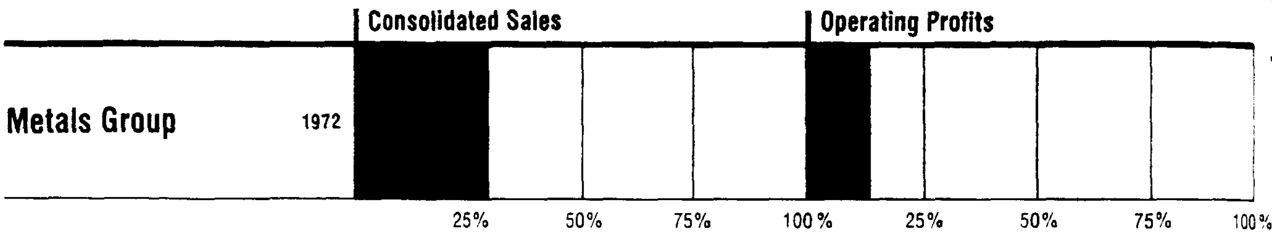
Operations



Metal Division, New York, N.Y.
Antimony, cadmium, lead and zinc metals; fabricated lead products and lead oxides.

Magnesium Division, Salt Lake City, Utah
Magnesium metal; chlorine.

Goldsmith Division, Chicago, Ill.
Precious metals and metal oxides.

Morris P. Kirk & Son, Inc., Los Angeles, Calif.
Aluminum, lead and zinc alloys, fabricated lead products and lead oxides.

Pioneer Metals, Inc., Los Angeles, Calif.
Aluminum and sheet aircraft extrusions and cast aluminum tooling plate.

American Bearing Division, Indianapolis, Ind.
Precision sleeve bearings, bearing seals, bushings and machine parts.

Magnus Roller Bearing Division, Cincinnati, Ohio
Precision tapered roller bearings.

Magnus Metal Division, Chicago, Ill.
Brass and bronze journal bearings and castings.

Jonathan Manufacturing Company, Fullerton, Calif.
Precision steel slides.

Jonathan Systems Division, Arlington, Texas
Automated transfer systems.

The Bunting Brass and Bronze Company, Toledo, Ohio
Brass, bronze, iron and aluminum parts.

Anaheim Citrus Products Company, Anaheim, Calif.
Dry citrus peel products.

Lee Metal Products Company, Philipsburg, Penna.
Corrosion resistant processing equipment.

Regal Molds, Inc., Toledo, Ohio
Metal dies for plastics and forgings.

Screw Machine Division, Chicago, Ill.
Hydraulic brake cylinders and pistons.

Steel Package Division, St. Louis, Mo.
Small steel shipping containers.

Texas Mining & Smelting Division, Laredo, Texas
Antimony metal and oxide.

***The Canada Metal Company, Limited** (50%), Toronto, Canada
Lead oxides, lead and zinc alloys, brass and bronze products, fabricated lead products.

***Cia Minera y Refinadora, S.A.** (49%), Mexico City, Mexico
Antimony mining.

***R-N Corporation** (50%), New York, N.Y.
Process for the direct reduction and beneficiation of iron ores.

***Titanium Metals Corporation of America** (50%),
Timet Division, West Caldwell, N.J.
Titanium metal sponge, ingot and mill products.
Standard Steel Division, Burnham, Penna.
Specialty steels, wheels and axles.

*Affiliates included in consolidation on an equity basis only, therefore not included in consolidated sales or operating profits percentages.
Figures in parentheses represent percentage of voting securities owned.

N L Industries' new magnesium plant at Rowley, Utah, began limited production in December, 1972.

Initial production has been relatively small, and will be increased in increments during 1973 until the plant reaches its capacity rate of 45,000 tons of magnesium metal and 80,000 tons of chlorine annually. When in full operation, it will increase the United States supply of the metal by about one-third.

Although the new plant is expected to reach a break-even point with an optimum production rate in 1973, it is not practical at this point to predict a precise date. The operation will not be a contributor to the corporation's earnings for the 1973 year.

This project was initially undertaken on the premise that magnesium, the lightest of common structural metals, has been underutilized because of limited availability. Until now, there has been only one major producer in this country. Potential users, who had been hesitant to commit to a material with a single source of supply, indicated that they will accelerate magnesium consumption when a new source is available. Now that the new plant is completed, customer interest in the metal, and in N L Industries as a supplier, is keen. Although we have been making magnesium metal at the plant for a very short time, we expect to experience a receptive market environment.

Sales of other base metals in 1972 were well above 1971 levels. Results in the prior year had been depressed by sharp drops in the market price of several key metals, particularly lead and antimony. With demand up in 1972, prices have firmed, but still remain well below 1970 levels. However, with a continuing program to improve efficiency and reduce operating costs, all products in the base metals group, including grid metal, lead shot and solder, registered significant gains in earnings.

A new secondary lead smelting plant at Pedricktown, New Jersey, incorporating the most modern technology in materials handling, smelting and environmental

Molten metal is poured into ingots at a secondary smelter.

[redacted]

control, was completed in January, 1973.

A substantial part of our antimonial lead and lead oxides is sold to battery producers for the automotive after-market. The high production rate of new automobiles is continuing, and sales of replacement batteries are expected to increase in the future.

N L Industries, through its Magnus Bearings operation, has long been the leading producer of solid journal bearings for the railroad industry. This has become largely a stable replacement business for repairs to rail cars with similar equipment. Under recent regulations, all new freight cars, as well as cars undergoing major overhaul, must be equipped with roller bearings. We have been producing roller bearings on a limited basis for several years for the qualification tests of the Association of American Railroads, and production is being expanded.

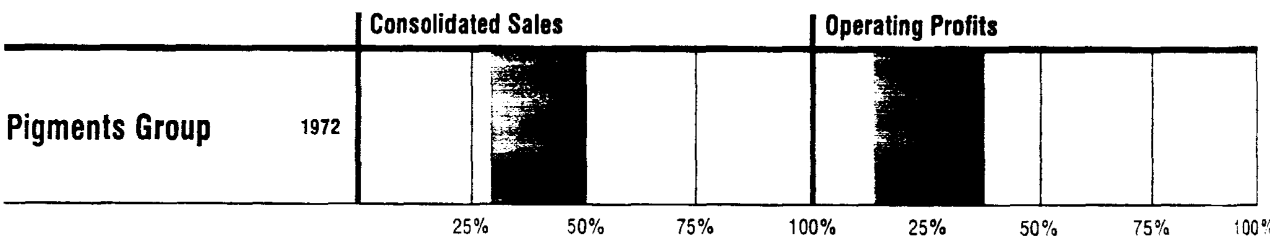
With the electronics industry almost totally converted to solid state circuitry, demand for flux systems and solders designed specifically for solid state printed circuits has been growing, and our line of Hy-Pure solders has been outpacing the industry generally.

Precision automated material handling systems for delicate operations, made by our Jonathan Systems operation, were until recently custom-designed exclusively for the military. They are now being offered to commercial producers and are receiving considerable interest.

Titanium Metals Corporation of America (TMCA), a subsidiary jointly owned by the company and Allegheny Ludlum Industries, Inc., reported a profit of $1,398,000 on sales of $65,262,000 for 1972. In the previous year, TMCA had reported a loss of $9,853,000 on sales of $37,277,000. In July, 1972, TMCA acquired the Standard Steel Division of B-L-H, Inc.; results for the year include the sales and earnings of Standard Steel since that date.

TMCA's Timet Division produces titanium sponge, ingot and mill products. Losses from titanium metal operations were substantially reduced from levels of the two previous years. Shipments of titanium mill products rose approximately 13%. Procurement or ordering of aircraft, which represents the major market for titanium metal, began to rise in 1972 after a lull of several years, with some indications for stepped up ordering in the near future. Industrial uses of titanium, the smaller part of the market, are continuing to grow at a rapid rate.

Standard Steel Division produces machined steel rolled wheels and axles for rail cars, seamless rings and a variety of types of forgings for industry, and makes its own specialty high-strength steels. Standard Steel Division's sales were held to 1971 levels primarily because hurricane-induced floods halted production for several weeks. New orders during the year and year-end backlog, however, represented records, and a further increase in shipments and new orders is expected for 1973. Products which have been showing strength include specialized forgings for nuclear power-generating installations, and low-noise mounted wheels designed specifically for urban mass transit systems.



Titanium Pigment Division, Sayreville, N.J.
Titanium pigments and chemicals.

Kronos Titan—GmbH, Leverkusen, West Germany
Titanium pigments; gellants; lead pigments.

Canadian Titanium Pigments, Limited, Montreal, Canada
Titanium pigments; gellants; lead pigments; stabilizers; zirconium and titanium compounds.

Kronos Titanium Pigments, Limited, London, England
Titanium pigments.

Kronos SA/NV, Brussels, Belgium
Titanium pigments; gellants; lead pigments.

Kronos Titan A/S, Fredrikstad, Norway
Titanium pigments; gellants; lead pigments; stabilizers.

Titania A/S, Hauge i Dalane, Norway
Ilmenite ore mining.

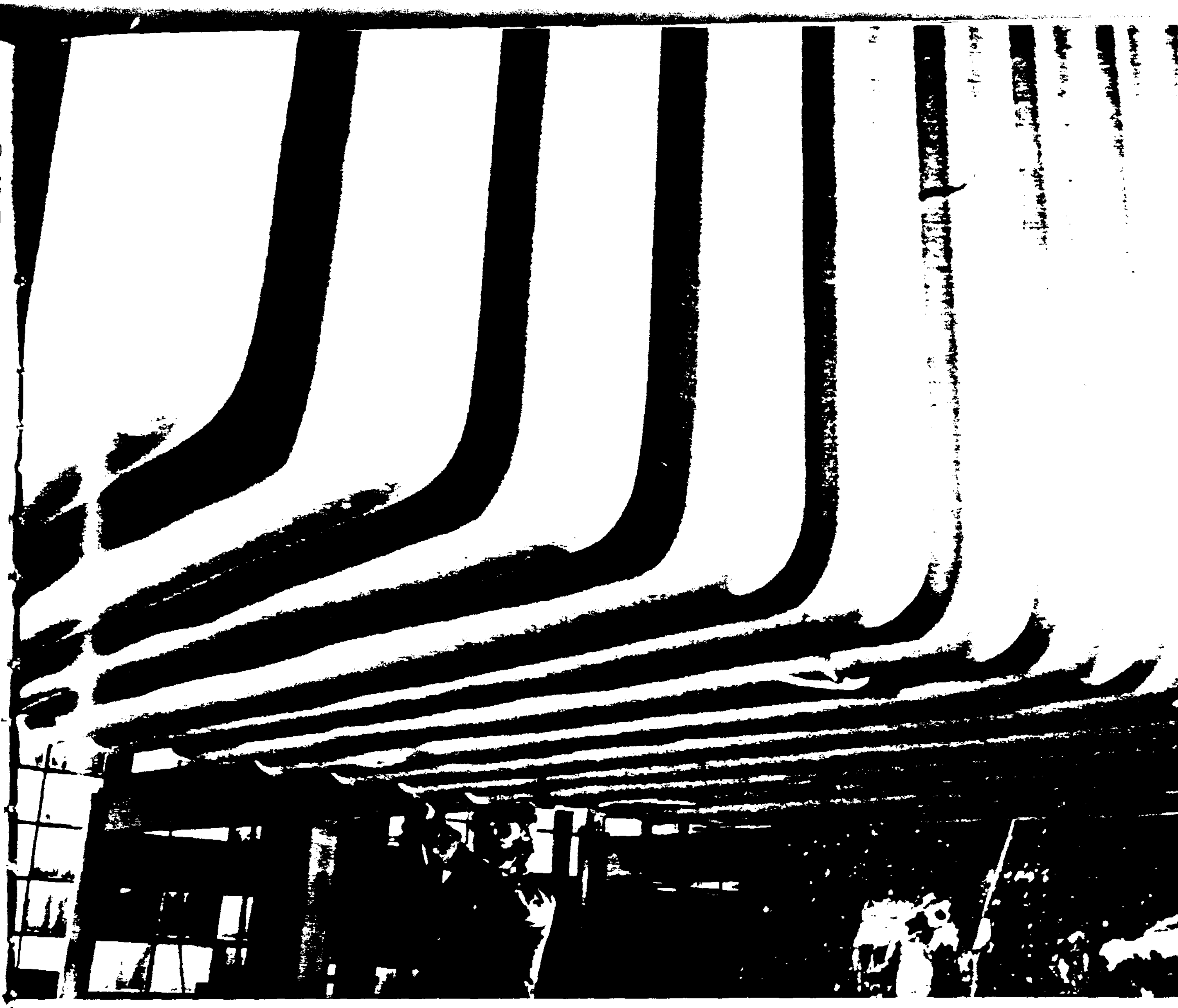
***Societe Industrielle du Titane S.A.** (93%), Paris, France
Titanium and lead pigments.

*Affiliates included in consolidation on an equity basis only, therefore not included in consolidated sales or operating profits percentages.
Figures in parentheses represent percentage of voting securities owned.

Earnings of the Pigments Group were substantially improved during 1972, as consumer demand for the products of our major pigment-using customers—manufacturers of paint, paper, plastics, rubber and ceramics—picked up.

The industry-wide overcapacity that had plagued the titanium dioxide industry for several years disappeared in the latest year. Current supply and demand are in relatively close balance.

In late 1971, we ended our unprofitable calcium-extended pigment and chloride process operations, which together had represented some 9% of our then theoretical North American capacity. A 17-week strike during 1972 at our St. Louis pigment plant impaired pro-



Vacuum filtration is a key step in the production of titanium pigments.

duction there. Nevertheless, titanium dioxide sales for 1972 exceeded those of the previous years.

During the long strike, commitments to customers were met. Although a strike is seldom desirable, the settlement at St. Louis brought positive benefits to both sides and has helped to bring about operational efficiencies that are providing more productive operations.

Titanium pigments have a firm place in the production of consumer goods as a brightening and opacifying pigment. Worldwide consumption since 1960 has doubled; continued growth in overall volume is projected at an approximate 4% annual rate for the next decade. The plastics industry is using proportionately larger amounts. Titanium dioxide makes plastics more colorful and prevents ultraviolet degradation, allowing a much wider range of outdoor applications.

International consumption has been growing more rapidly than in the United States. In 1972, international operations accounted for approximately half of the Pigments Group's net sales, compared with a third a decade ago. Capacity of our plant at Langerbrugge, Belgium, will be increased from 17,500 tons to 40,000 tons of titanium dioxide annually when it becomes fully operational in early 1973.

Mining operations in Norway have been expanded, and processing facilities in our New York State mines upgraded, to help supply the growing worldwide need for titanium pigment feed materials.

Construction will begin this year at our large titanium pigment plant in Sayreville, New Jersey on two new high efficiency units to make sulfuric acid, essential to the production of titanium dioxide. These will replace five existing older units at the plant. The new facilities represent a major step in the implementation of our total environmental control program. They will reduce sulfur dioxide emissions to a level within any foreseeable requirements under federal and state regulations. Construction cost will be approximately $11 million, with completion scheduled for the end of 1974.

With demand continuing strong and increased operating efficiency in our pigments plants, sales and earnings for the pigments group are expected to improve again in 1973.

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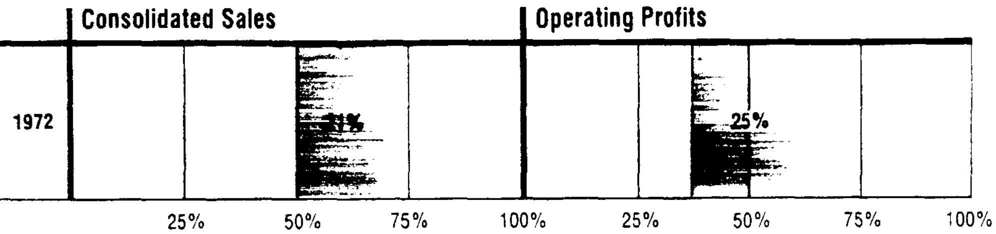
Fabricated Products Group



Doehler-Jarvis Division, Toledo, Ohio
Die castings of aluminum, zinc, brass and magnesium; finishing and assembly services.

Southern Screw Division, Statesville, N.C.
Complete line of screws and metal fasteners.

Amos-Thompson Corporation, Edinburg, Indiana
Molded plastics; wood veneer and lumber.

Cochrane Foundry, Inc., York, Penna.
Sand castings.

Floating Floors, Inc., Toledo, Ohio
Elevated flooring and site environmental systems for computer rooms.

Tool & Engineering Division, Chicago, Ill.
Dies tooling; prototype assembly and engineering services.
Kirksite castings.

Doehler Canada Limited, Hamilton, Canada
Aluminum, brass, magnesium, zinc die castings.

Industrias Doehler do Brasil, S.A., Sao Paulo, Brazil
Die castings.

Metal Castings Doehler, Ltd., Worcester, England
Die castings.

***Doehler-Australia Pty. Ltd.** (70%), Auburn, Australia
Die castings.

***Schraubenfabrik Neustadt Goetz & Cie GmbH** (99%),
Neustadt/Schwarzwald, West Germany
Screws and metal fasteners.

*Affiliates included in consolidation on an equity basis only, therefore not included in consolidated sales or operating profits percentages.
Figures in parentheses represent percentage of voting securities owned.

Competition among independent die casters increased sharply in the past year, as major automotive and other customers tended to increase the use of their own captive facilities rather than buy from outside producers. Nevertheless, sales volume for our Doehler-Jarvis Division, which has always been the leader in this metalworking technique, continued to rise.

The relative proportions of materials being used at any given time vary as requirements change. Zinc castings have been showing a downward trend due to the search for lighter materials and simpler decorative trim. Aluminum die castings, however, continued to show steady growth, both in total volume and in new applications. Aluminum castings are becoming the prime alternative for many structural parts where the combination of strength, light weight, cost and volume is important.

Although magnesium still represents a relatively small base, magnesium die castings are showing the most rapid proportionate growth of all. Volume in 1972 approximately doubled that of the previous year. In part, this has been because of our particular expertise in working with magnesium, but we are also helping manufacturers and designers to find new applications for this metal now that larger supplies are becoming available.

International die casting operations also showed gains during 1972. Our Canadian die casting units, Barber Die Casting Co. and Lakeshore Die Casting, marked up record sales and earnings. On Dec. 31, 1972, Barber and Lakeshore were amalgamated as Doehler Canada Limited. In the United Kingdom, a nationwide coal strike in early 1972—and the attendant reduction in automotive demand there—was compensated by a sharp recovery in the second half. In Brazil, the infusion of major new automotive business, as well as government-approved price increases in the second half of the year, brought satisfactory results for the year.

During 1972, Doehler-Jarvis received an initial contract for U.S. Postal Service lock boxes, with projected 1973 deliveries of $2.5 million. Shipments of magnesium die cast baseball bats began toward the end of the year. These bats, which are being marketed by a leading producer of wood bats, offer many qualities of traditional wood bats and are more damage resistant.

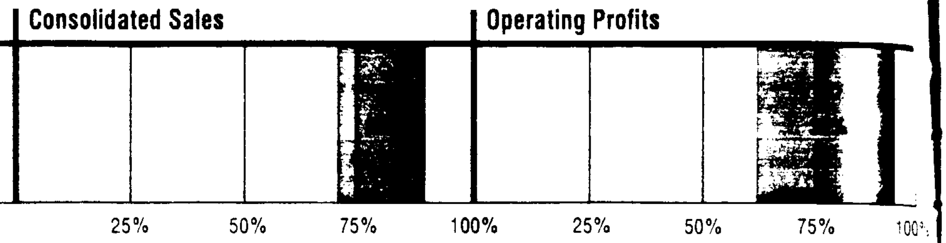
Fastener business of our Southern Screw Division showed an improvement in both sales and earnings. Demand from the jobber, appliance, furniture and automotive markets has been strong, especially in sheet metal and wood screws, and is expected to continue so through 1973. A reduction in imports—particularly from Japan after currency revaluation—eased markets where simple price competition for standard sizes and configurations had been a major consideration.

Design engineers have been placing greater emphasis on well-engineered high-performance fasteners. Our new Rolok and Plasti-Lok fasteners, which simplify installation and resist vibration under rigorous conditions, are finding wide use in both metals and plastics applications where technical requirements are above average.

Genuine wood veneers have come under steady pressure in recent years from photographic finishes and synthetic materials, but an apparent upgrading in consumer tastes has resulted in a sharp improvement in 1972 in demand for the hardwood lumbers and veneers supplied by our Amos-Thompson unit. Amos-Thompson's plastics operation also has a good technical position in the rotational molding process, which is expanding particularly in the area of tanks for agricultural and recreational vehicle use. A proprietary line of injection molded drawers for furniture is showing excellent market potential.

Complex automotive transmissions typify die casting standards.

Chemicals Group



Baroid Division, Houston, Texas
Oil well drilling materials and services. Chemicals for petroleum industry, gellants for grease; water treating chemicals. Well perforation and completion, nuclear well logging.

Pigments & Chemicals Division, Hightstown, N.J.
Antimony and lead oxides; chemicals; anti-corrosive pigments; gellants and stabilizers.

The Baker Castor Oil Company, Bayonne, N.J.
Castor oils and chemical derivatives, polyurethane products.

DeLore Products, St. Louis, Mo.
Barium and calcium pigments.

Baroid do Brasil, Ltda., Salvador, Brazil
Oil well drilling materials.

Baroid of Canada, Ltd., Calgary, Canada
Oil well drilling materials, services.

Baroid International, S.p.A., Rome, Italy
Oil well drilling materials.

Baroid of Nigeria, Limited, Lagos, Nigeria
Oil well drilling materials.

Baroid (U.K.) Limited, London, England
Oil well drilling materials.

Oncor SA/NV, Langerbrugge, Belgium
Anti-corrosive pigments.

Perubar, S.A., Lima, Peru
Barite mining.

Pigmentos Minerais Industrial e Commercial Pigmina, S.A., Salvador, Brazil
Barite mining.

***Abbey Chemicals Limited** (70%), London, England
Gellants and stabilizers.

***Baroid Australia Pty., Limited** (99%), Sydney, Australia
Oil well drilling materials.

***Baroid of Libya, Ltd.** (49%), Benghazi, Libya
Oil well drilling materials.

***Baroid de Venezuela, S.A.** (92%), Maracaibo, Venezuela
Oil well drilling materials.

***Bentone-Chemie GmbH** (70%), Nordenham, West Germany
Gellants.

***The Carter White Lead Company of Canada, Limited** (50%), Montreal, Canada
Lead pigments; oxides; stabilizers.

***Baroid Trinidad Services, Ltd.** (50%), Trinidad, West Indies
Oil well drilling services.

*Affiliates included in consolidation on an equity basis only, therefore not included in consolidated sales or operating profits percentages.
Figures in parentheses represent percentage of voting securities owned.

The steadily expanding demand for energy, along with an already pinching shortage of oil and gas, has spurred an increase in exploratory and drilling activity throughout the world, particularly in Canada, the North Sea, Nigeria, Southeast Asia and the Middle East.

The upsurge in this activity, accentuated by our own growing penetration of this market, provided an increase in both sales and earnings for our Baroid operations in 1972. This trend is expected to continue. The shortage of energy reserves will require increased exploration and improved technology in stimulating deeper drilling. Both aspects call for greater use of essential drilling fluids and for our specialty engineering services.

The largest part of our Baroid Division's supplies and services to the oil industry is oriented to drilling new wells, but there has been growing acceptance for our ancillary chemicals for the treatment of crude oil on the surface, and for our specialty engineering services, which use sophisticated electronic and physical techniques to make drilling operations more efficient and economical.

One new system allows certain types of drilling operations to be carried out in offshore areas without danger of polluting the surrounding waters. It has already been used successfully in the North Sea, the most active area of new offshore drilling activity today.

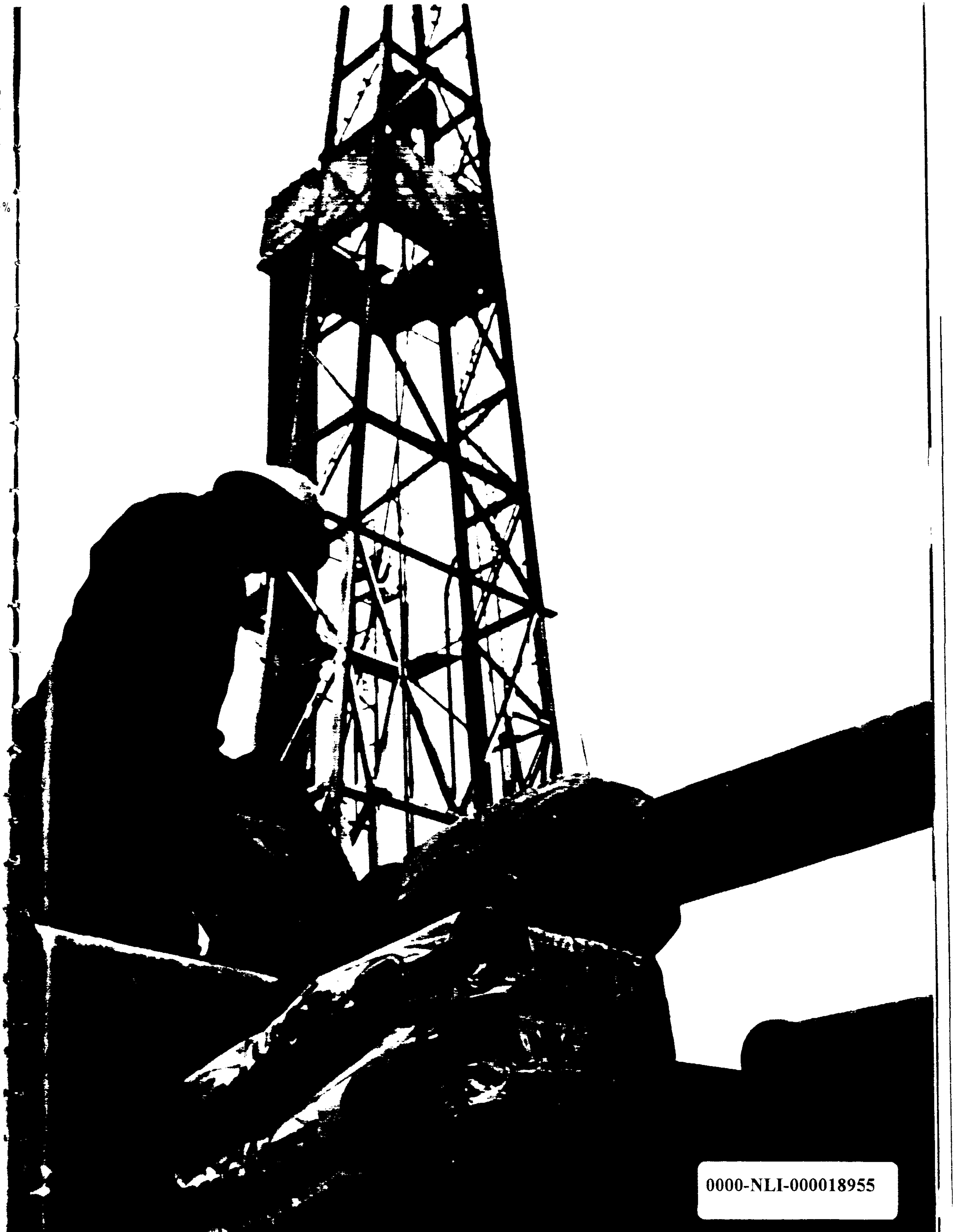
Treating chemicals originally developed for oil field use have been amplified into a range of chemicals for use by other industries. BAROCHEM and SURFLO Brand products for industrial water treatment are expected to have a good growth rate because of tighter environmental controls and greater penetration of this market.

In 1972, the sales volume of our Pigments & Chemicals Division increased in pigments, gellants, plastic additives and flame retardants. Although these chemical compounds go into a wide range of end uses, many of those, in turn, are used ultimately within the broad contexts of the automotive and construction industries. In both those industries, current demand is high and is expected to remain so for the future.

The use of flame retardants is growing rapidly as the result of government regulations and consumer concern over safety in inherently flammable materials. N L Industries' antimony-based retardants are highly effective in retarding combustion in flammable plastic materials. Two new and more sophisticated types of antimony-based flame retardants were introduced this year with considerable success.

More stringent heat resistant requirements for wiring used in domestic and industrial construction, as well as in electronic, automotive and other equipment, are prompting demand for such new plastic additives as

Chemicals for drilling fluids are vital to develop new energy sources.



Lectro® 125 for high-temperature wire insulation. Other additives for rigid plastic products are being introduced.

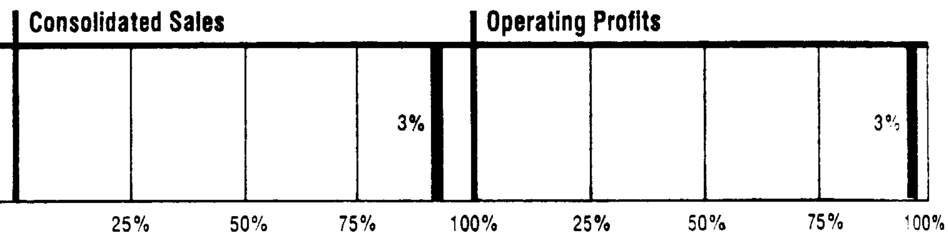
Productive capacity for Bentone® gellants—used widely for flow control and as suspending agents in paints and coatings, adhesives, inks, cosmetics and special purpose lubricants—is being expanded with a new facility in Charleston, West Virginia.

For the past several years, lead-based pigments have been used in exterior latex primer paint coatings for common residential wood sidings such as cedars and redwoods, to prevent the natural wood tannins from staining through paint. Late in the year, we introduced a new non-lead stain control agent for use in latex exterior house paints, Nalzin® SC-1, which inhibits these staining agents, and which will make it easier for latex paint producers to meet Federal "no-lead" requirements.

Sales of our Baker Castor Oil operation were up in 1972. Poor growing conditions in Brazil cut sharply into the castor bean crop, causing higher prices on imported castor oil. Federal price controls made it difficult to completely recover these costs in our own final products, but earnings were still somewhat ahead of the previous year. Crop conditions for 1973 seem better at this time, although the probable cost of the imported raw material is still uncertain.

Thixotropes and urethanes derived from castor oil are showing steady gains. Urethanes, which have doubled in volume over the past three years, are extremely useful for outdoor adhesive applications because they can tolerate wide variations in temperature and climatic conditions. When used in electrical insulation, particularly for communication equipment, urethanes offer an unusual combination of moisture repellency, electrical resistance, shock absorption and economy.

Industrial Specialties Group



TAM Division, Niagara Falls, N.Y.
Zirconium oxide, silicates and chemicals, zirconates, stannates and opacifiers.

Chas. Taylor Sons Company, Cincinnati, Ohio
Specialized high temperature refractories.

Bell Clay Company, Gleason, Tenn.
Ball clays, brick clays and lignite.

Cambridge Nuclear Radiopharmaceutical Corp., Billerica, Mass.
Radiological products for nuclear medicine.

Industrial Reactor Laboratories, Inc., Plainsboro, N.J.
Radiological products, for nuclear medicine.

Edgar Plastic Kaolin Co., Edgar, Fla.
Kaolin clay and glass sand.

Electronics Department, Muskegon, Mich.
Specialty ceramic resistors.

National Lead Company of Ohio, Fernald, Ohio
Contract operator for U.S. Atomic Energy Commission's uranium ore concentration plant.

Nuclear Division, New York, N.Y.
Depleted uranium; nuclear services.

Chas. Taylor Sons, S.A., Brussels, Belgium
High temperature refractories.

The Titanium Alloy Manufacturing Co. Pty., Limited,
Southport, Queensland, Australia

***Mineral Deposits, Limited** (85%), Southport, Queensland, Australia
Mining of rutile, zircon ores.

***Queensland Titanium Mines Pty., Ltd.** (75%), Southport, Queensland, Australia
Mining of rutile, zircon ores.

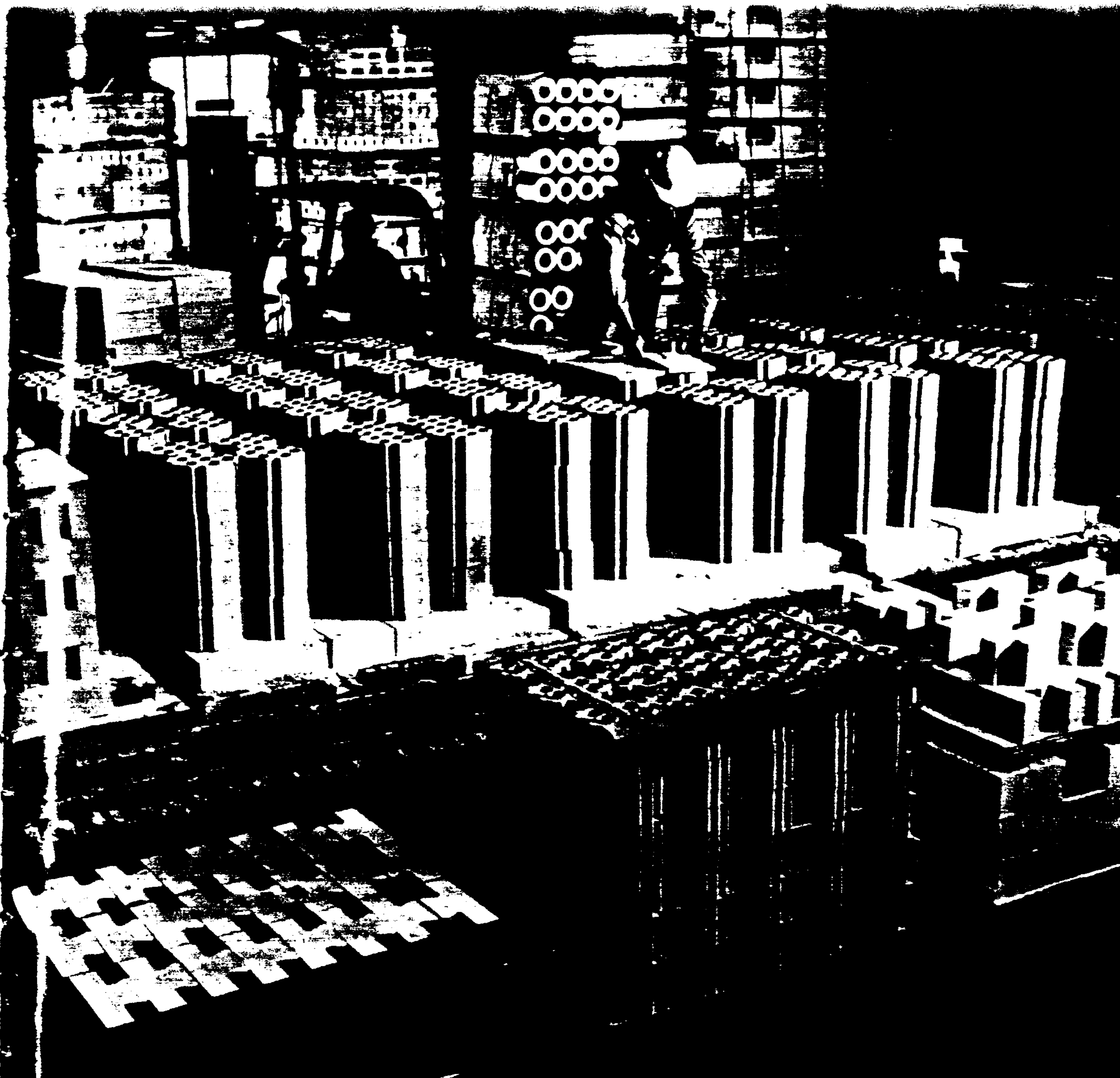
***Wilson-Snead Mining Company, Inc.** (50%), Eufaula, Ala.
Bauxite mining.

*Affiliates included in consolidation on an equity basis only, therefore not included in consolidated sales or operating profits percentages.
Figures in parentheses represent percentage of voting securities owned.

The growing use of capacitors—devices to store electricity for rapid discharge—in a wide range of products from automobiles to cameras stimulated demand in 1972 for our line of electronic dielectric raw materials. These compounds represented a large part of the sales increase of our TAM Division this year. Polishing compounds for optical and ophthalmic use and bubbled zirconium oxide, a high purity, economical zirconium source for the production of zirconium metal, abrasives and refractories, are also showing gains.

Sales of Chas. Taylor Sons' refractory materials, used in glass, metallurgical, chemical and ceramic processing, were slightly higher than in the preceding year.

Acceptance is increasing for several of our unique refractory products, particularly the Zirmul® line for the glass industry and Tiger synthetic mullite brick for steel mills. Emphasis is being given to refractory materials in cement moldable and castable forms for applications using monolithic construction rather than high-labor-intensive brick and shape techniques. This market is



Refractories in many shapes are prepared for international distribution.

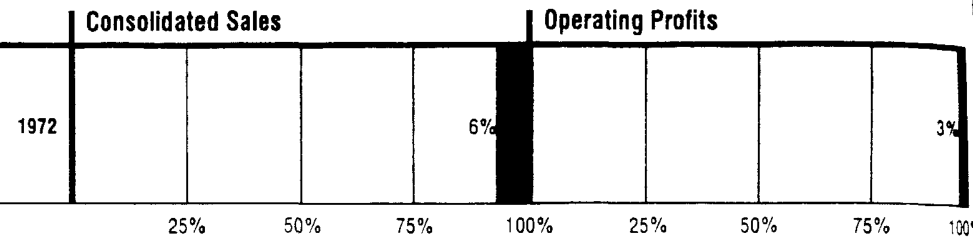
growing at a faster rate than the balance of the refractories industry.

Chas. Taylor Sons, which sells its super-refractories in 42 other countries as well as the United States, was awarded the President's "E" Award for excellence in exporting during 1972.

The Electronics Department, which makes specialized components for other manufacturers of electronic equipment, doubled its sales of varistors and temperature coefficient thermistors in 1972. The wider application of electronic equipment in automobiles, especially because of new emission control requirements, is expected to stimulate use of these devices. Positive temperature coefficient thermistors, which can be effectively used as solid-state switching devices in many kinds of solid-state electronic equipment, seem to have considerable potential.

In October, N L Industries acquired Cambridge Nuclear Radiopharmaceutical Corp. and Industrial Reactor Laboratories, Inc. The two operations produce a variety of radiological materials used for diagnostic nuclear medicine. Facilities include a five megawatt pool-type nuclear reactor as well as extensive laboratory facilities in two locations. The new acquisitions complement other activities of our Nuclear Division, which include the transport of nuclear fuels, fabrication of spent uranium and processing of feed material as a contract operator for the Atomic Energy Commission.

Other Activities



Paint Division, West Caldwell, N.J.
Dutch Boy paints.

National Lead Company, S.A., Buenos Aires, Argentina
Lead products.

Industrias Deriplom, S.A., Buenos Aires, Argentina
Lead oxides.

***Lake View Trust and Savings Bank** (99%), Chicago, Ill.
Commercial bank.

***National Lead Company (Philippines), Inc.** (51%), Manila, Philippines
Paints and related products.

*Affiliates included in consolidation on an equity basis only, therefore not included in consolidated sales or operating profits percentages.
Figures in parentheses represent percentage of voting securities owned.

DUTCH BOY® paint—our major direct consumer product—accounts for slightly less than 5% of N L Industries' total sales. Although paint sales, made predominantly through independent dealers to the general public, held up well relative to earlier years, the level of earnings declined.

Stringent new regulations by federal and state authorities on paint formulations led to discontinuance of some product lines and rapid reformulation of others. These costs, and other rising expenses in distribution and sales efforts, were not fully recoverable.

Reformulation efforts are now complete, and all DUTCH BOY paints being delivered meet all federal and state regulations. Promotional activities, through broadcast and print advertising and cooperative dealer and point of purchase promotion, are being stepped up. The DUTCH BOY label has a solid market position on both Coasts and in the Midwest. Intensive marketing efforts are now being devoted toward greater penetration of southern and southwestern states.

Investigations into new kinds of coatings are also being expanded. During the year, the Paint Division opened a new general office and research center in West Caldwell, N.J. to facilitate overall research and development activities.

With new construction and home renovation continuing strong, prospects for 1973 are for increases in both sales and earnings.

Net earnings of Lake View Trust and Savings Bank in 1972 were $2,997,000, compared to $4,137,000 in 1971. The decline was due mainly to a decrease in gains from the sale of securities. Although the spread between cost of funds and lending rates was reduced in 1971, the bank's operating income was maintained at a level close to that of the previous year.

Deposit growth continued through 1972, with daily averages amounting to $313 million as compared with $293 million in 1971. Total deposits at year end were $324 million, which retains the bank's position among the ten largest in the State of Illinois. Efforts are continuing to encourage deposit growth, account retention and customer services.

The Bank Holding Company Act Amendments of 1970 provide that a bank holding company such as N L Industries, Inc. shall not after December 31, 1980 engage in any activities other than banking or activities closely related to banking, subject to conditions that the Federal Reserve Board may impose. The company must divest itself of control of the Bank by December 31, 1980.

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Dutch Boy continues to be the standard of excellence in paints.

[redacted]

Financial Report

N L Industries, Inc.

SUMMARY OF ACCOUNTING POLICIES:

BASIS OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company and all wholly-owned domestic and foreign subsidiaries.

The Company's investments in unconsolidated partially-owned domestic and foreign companies and Lake View Trust and Savings Bank are stated at cost, adjusted for subsequent changes in equity. The Company includes in income its equity in the net income of such companies.

TRANSLATION OF FOREIGN CURRENCIES. Assets and liabilities (except net property, plant and equipment) are stated at rates of exchange prevailing at the end of the period. Net property, plant and equipment is translated at the rates in effect on the dates of acquisition of the related assets.

Revenues, costs and expenses are translated at the average exchange rates for the year, except that depreciation is translated at the exchange rates prevailing at the time the related assets were acquired.

INVENTORY VALUATION. Inventories are valued at the lower of cost (principally average cost) or market. Certain metal inventories are valued using the last-in, first-out method, which results in such inventories being stated at less than current replacement cost. The valuation of a portion of these same inventories is further reduced by the use of the base stock method.

TAXES ON INCOME. Income taxes are provided in the year transactions enter into the determination of net income regardless of when such transactions are recognized for tax purposes. The resulting deferred income taxes are due principally to accelerated depreciation utilized for tax purposes, the capitalization of interest expense on funds borrowed to construct the magnesium plant, deferred start-up costs relating to the magnesium plant and investment tax credits which are being amortized to income over the useful lives of the applicable fixed assets.

The Company's policy with respect to dividend distributions by subsidiaries and controlled partially-owned companies has been, and is, to require such companies to remit to the Company the maximum amount of allowable dividends, after taking into consideration operating requirements and applicable tax laws. The current financial status of these companies indicates that substantially all undistributed earnings have been reinvested. Accordingly, the Company believes that its reserves for income taxes have adequately provided for any future years' taxes to be paid in connection with dividends of undistributed earnings of subsidiaries and controlled partially-owned companies.

START-UP COSTS. The Company has deferred start-up costs relating to the construction of the magnesium plant in Rowley, Utah. Production, and amortization of start-up costs, commenced in December 1972. Amortization will be completed over a period of five years.

PROPERTY, PLANT AND EQUIPMENT. Interest expense on funds borrowed to finance the construction of the magnesium plant has been capitalized and is included in property, plant and equipment. The amounts capitalized are being amortized over the lives of the applicable fixed assets.

Manufacturing properties are depreciated principally on the straight-line method; mining properties are depleted on either the unit of production or the straight-line method.

PENSIONS. The Company and its subsidiaries have various pension plans covering the majority of their employees. Current service costs are being funded. The major portion of the prior service costs is being charged to income and funded over a period of thirty years.

RESERVE FOR FOREIGN OPERATIONS. The Company maintains this reserve to absorb losses and to be credited with gains resulting from major foreign exchange adjustments and other major unpredictable occurrences involving foreign operations.

SALES: Sales in 1972 reached an all time high of $1,013,698,000, representing a 9.6% increase over 1971, with sales increases being recorded in all major categories, both United States and foreign.

	1972	1971
United States	$ 839,240,000	$762,001,000
Foreign	174,458,000	163,007,000
	$1,013,698,000	$925,008,000

EARNINGS: Net income for 1972 totaled $36,814,000 or $1.53 per share.

Comparative net income of United States and foreign

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operations, before extraordinary charges for 1971, was as follows:

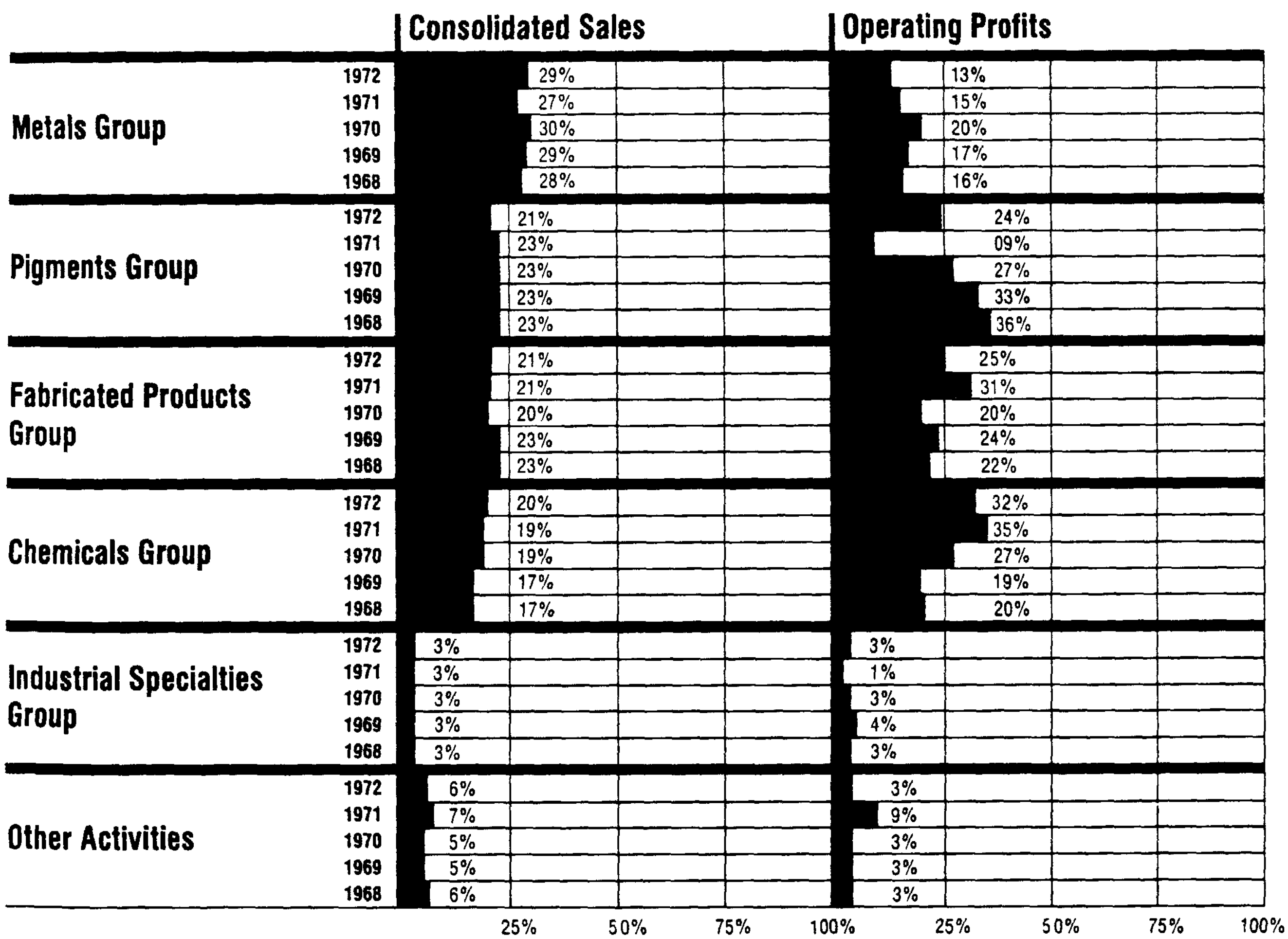
	1972	1971
United States	$22,407,000	$12,788,000
Foreign	14,407,000	9,969,000
	$36,814,000	$22,757,000

Per share of common stock (based on the average number of shares outstanding):

	1972	1971
Income before extraordinary charges	$1.53	$.95
Extraordinary charges, net of tax	—	(.81)
Net income	$1.53	$.14

DIVIDENDS: Dividend payments per share totaled $1.00 for 1972 and 1971. A dividend of $.25 per share was paid in each of the four quarters of both years.

LINES OF BUSINESS: During 1972, organizational changes were made that will group most operating units into closely related product or activity categories. Accordingly, the Company's primary lines of business, based on the revised groupings, accounted for approximately the percentages of consolidated net sales and of income before extraordinary charges and income taxes (before allocation of net executive office expense, parent company interest expense and the net contribution of the Lake View Trust and Savings Bank and other companies carried on an equity basis) as indicated on the following chart.



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START-UP COSTS: Total deferred start-up costs, relating to the construction of the magnesium plant, amounted to $7,488,000. Of this amount $6,678,000 of start-up costs were incurred in 1972. Commencing in December 1972, $125,000 of these costs have been amortized and the remaining $7,363,000 of deferred costs are included in other assets at December 31, 1972.

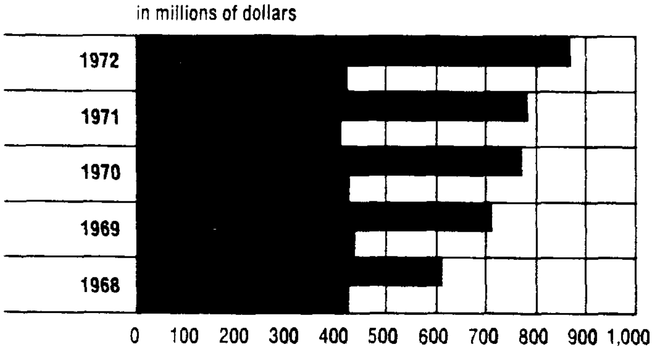
TAXES ON INCOME: The provision for United States and foreign taxes on income amounted to $25,320,000 in 1972, compared to $16,290,000 in 1971 (exclusive of the income taxes related to the 1971 extraordinary charges). The provision for deferred income taxes amounted to $16,048,000 and $5,191,000 for 1972 and 1971, respectively. The amount of unamortized investment tax credit, which is being amortized to income over the useful lives of the related assets, aggregated $3,034,000 at December 31, 1972.

The Company's United States income tax returns have been examined and settled through 1969. The liability for taxes on income covers consolidated United States and foreign subsidiaries and the Company believes that adequate provision has been made for all years not yet examined.

FINANCIAL POSITION: Total assets increased to $868,991,000 and shareholders' equity, exclusive of treasury stock, increased to $425,793,000.

The following chart illustrates the changes in total assets and shareholders' equity, exclusive of treasury stock, over the past five years:

Total Assets
and Shareholders' Equity
in millions of dollars



At December 31, 1972, net assets and retained earnings of consolidated foreign subsidiaries aggregated $116,528,000 and $58,528,000, respectively.

Book value per share amounted to $17.53 at the end of 1972, compared with $17.05 at the beginning of the year. Working capital at year end amounted to $239,762,000 as compared with $250,279,000 at December 31, 1971. Working capital at year end 1972 and 1971 follows:

	1972	1971
United States	$186,963,000	$204,259,000
Foreign	52,799,000	46,020,000
	$239,762,000	$250,279,000

The source and utilization of working capital is shown in the Consolidated Statement of Changes in Financial Position on page 22.

Inventories at the end of 1972 amounted to $175,697,000 as compared to $184,236,000 at the end of 1971.

The valuation of a portion of inventories is reduced by the use of the base stock method. Pursuant to such method, an inventory reserve (amounting to $10,371,000 in 1972 and $10,356,000 in 1971) is maintained.
A comparative summary of inventories follows:

	1972	1971
Raw materials	$ 45,833,000	$ 42,795,000
Finished and in process	108,481,000	120,668,000
Supplies	21,383,000	20,773,000
	$175,697,000	$184,236,000

PROPERTY, PLANT AND EQUIPMENT: During the year the Company invested $59,771,000 in property, plant and equipment.

Major expenditures were made for the Magnesium Division's plant in Utah; the construction of a metal processing plant in Pedricktown, New Jersey; expansion of the titanium pigment plant in Belgium and the Norwegian mining facility; transportation and well logging equipment for the Baroid Division; and expenditures in connection with the Company's environmental control program.

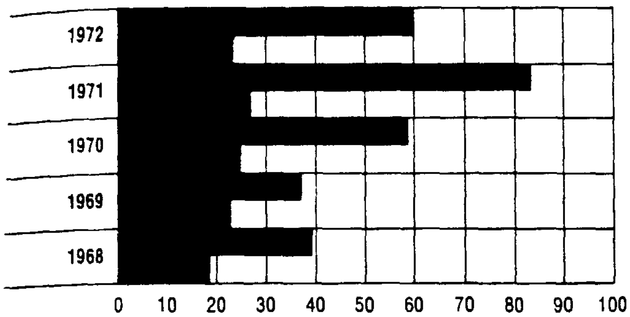
Interest expense on funds borrowed to finance the construction of the magnesium plant has been capitalized and is included in property, plant and equipment. The amounts capitalized aggregated $8,956,000 at December 31, 1972, of which $5,342,000 was capitalized in 1972.

A summary of property accounts follows:

	1972	1971
Manufacturing properties		
Land	$ 17,515,000	$ 14,451,000
Buildings	158,462,000	145,393,000
Machinery and equipment	473,344,000	429,600,000
Mining properties	49,505,000	48,131,000
Intangibles not being amortized	22,492,000	22,492,000
	721,318,000	660,067,000
Less reserves	357,542,000	334,042,000
	$363,776,000	$326,025,000

Capital Expenditures and Depreciation

in millions of dollars



LONG-TERM DEBT: At December 31, 1972 long-term debt amounted to $274,800,000, compared with $234,050,000 at the end of 1971. The composition of long-term debt at December 31 follows:

	1972	1971
7½% debentures—due in annual sinking fund installments of $5,000,000 commencing in 1976 through December 1995	$100,000,000	$100,000,000
4⅜% subordinated debentures—due in annual installments of $850,000 through 1973 and minimum installments of $1,297,000 thereafter to April 1988	23,110,000	24,676,000
6½% deutsche mark bearer bonds—due 1973 through 1979	13,950,000	15,750,000
Loans from banks under the terms of a $135,000,000 credit agreement, at prime rates—due in equal semi-annual installments from 1974 through 1978	94,000,000	72,500,000
6¾% loans from insurance companies—due in equal annual installments of $800,000 through 1988 and balance in 1989	13,400,000	—
Bank loans—4½% to 9% ...	15,299,000	11,735,000
Other	15,041,000	9,389,000
	$274,800,000	$234,050,000

The 4⅜% subordinated debentures outstanding at December 31, 1972 and 1971 are after deducting $1,653,000 and $937,000 respectively, representing the principal amount of debentures held by the Company.

Under the terms of the Company's June 1, 1971 revolving credit agreement with fourteen banks, which provides for the borrowing of up to a maximum of $135,000,000, the Company may, on or before June 1, 1974, convert such borrowings as it may have made to a long-term loan repayable over a 4-year period in eight equal semi-annual installments. The agreement provides that the Company must maintain consolidated working capital of at least $150,000,000 and contains certain restrictions on additional borrowings. These restrictions at December 31, 1972 would limit increases in long-term debt to approximately $62,000,000. Also, the working capital restriction would limit the amount of retained earnings available for cash dividend declarations to approximately $90,000,000.

In accordance with the terms of an agreement dated May 26, 1972, $30,000,000 of Titanium Metals Corporation of America's debt to two insurance companies has been assumed by N L Industries, Inc. and Allegheny Ludlum Industries, Inc. (each owns 50% of Titanium Metals). Each of the 50% stockholders has assumed $15,000,000 of debt in exchange for 150,000 shares of Titanium Metals preferred stock, par value $100 per share. Under the terms of the agreement, principal payments of $800,000 per annum are payable by the Company commencing July 1, 1972 through July 1, 1988 with the balance due and payable July 1, 1989. The Company has a further option to make prepayments, which will be subject to a prepayment charge.

The construction of a plant in West Virginia, which will manufacture Bentone gellants, is being financed by $3,700,000 of Industrial Development Revenue Bonds, issued by Kanawha County, West Virginia. $2,000,000 of principal is due in annual installments of $200,000 commencing October 1, 1973 through October 1, 1982 at interest rates ranging from 3½% to 5% per annum. The remaining $1,700,000 of principal is due in annual installments of $115,000 commencing October 1, 1983 through October 1, 1996 with the final installment of $90,000 due October 1, 1997, all of which bear interest at 5⅞% per annum.

Under the terms of the lease agreement with Kanawha County, West Virginia, the Company is obligated to make semi-annual payments in amounts sufficient to pay the principal and interest coming due on the Bonds and has the option to purchase the plant at a nominal price on the October 1, 1997 lease expiration date. The Company has therefore recorded capitalized lease obligations of $3,700,000, which amount is included in other long-term debt.

Consolidated statement of income and retained earnings

N L Industries, Inc.

	Years ended December 31 1972	1971
Revenues:		
Net sales	**$1,013,698,000**	$925,008,000
Equity in partially-owned companies	**4,603,000**	(1,179,000)
Equity in Lake View Trust and Savings Bank	**1,862,000**	2,898,000
Other income	**3,835,000**	3,831,000
	1,023,998,000	930,558,000
Costs and expenses:		
Costs of goods sold	**793,117,000**	729,866,000
Selling, general and administrative	**158,175,000**	150,140,000
Interest	**10,572,000**	11,505,000
	961,864,000	891,511,000
Income before United States and foreign income taxes	**62,134,000**	39,047,000
Provision for United States and foreign income taxes (Page 18)	**25,320,000**	16,290,000
Income before extraordinary charges	**36,814,000**	22,757,000
Extraordinary charges, net of applicable income taxes of $19,489,000 (Note 5)	**—**	19,500,000
Net income	**36,814,000**	3,257,000
Income per share of common stock (based on average shares outstanding):		
Income before extraordinary charges	**$1.53**	$.95
Extraordinary charges, net of tax	**—**	(.81)
Net income	**$1.53**	$.14
Retained earnings at beginning of year	**322,507,000**	345,295,000
	359,321,000	348,552,000
Less:		
Dividends paid—$1.00 per share	**24,003,000**	23,948,000
Adjustments relating to acquisitions (Note 2)	**1,937,000**	2,097,000
Retained earnings at end of year	**$ 333,381,000**	$322,507,000

REFERENCE IS MADE TO ACCOMPANYING NOTES AND FINANCIAL REPORT

SUMMARY OF ACCOUNTING POLICIES APPEARS ON PAGE 16

Consolidated balance sheet

N L Industries, Inc.

	December 31 1972	1971
Assets		
Current assets:		
Cash, including time deposits	**$ 27,964,000**	$ 25,653,000
Accounts and notes receivable, less allowances of $2,397,000 in 1972 and $2,704,000 in 1971	**158,197,000**	146,075,000
Inventories (Page 18)	**175,697,000**	184,236,000
Prepaid expenses	**5,513,000**	3,872,000
Total current assets	**367,371,000**	359,836,000
Investments: (Note 1)		
Lake View Trust and Savings Bank	**43,292,000**	43,894,000
Partially-owned companies, at equity, and other investments, at cost	**75,411,000**	42,215,000
Property, plant and equipment, at cost, less accumulated depreciation and depletion of $357,542,000 in 1972 and $334,042,000 in 1971 (Page 18)	**363,776,000**	326,025,000
Other assets (Page 18)	**19,141,000**	10,450,000
	$868,991,000	$782,420,000
Liabilities		
Current liabilities:		
Loans payable	**$ 24,323,000**	$ 22,988,000
Accounts payable and accrued liabilities	**90,259,000**	77,355,000
Taxes on income	**13,027,000**	9,214,000
Total current liabilities	**127,609,000**	109,557,000
Long-term debt (Page 19)	**274,800,000**	234,050,000
Deferred taxes on income (Page 18)	**35,547,000**	19,499,000
Other liabilities and reserves	**10,138,000**	10,280,000
Shareholders' Equity		
(Notes 2, 3 and Page 19)		
Common stock, par value $2.50; shares authorized 60,000,000; shares issued 24,177,168	**60,443,000**	60,443,000
Capital surplus	**31,969,000**	32,141,000
Retained earnings	**333,381,000**	322,507,000
	425,793,000	415,091,000
Less treasury stock at cost: 1972, 171,125 shares; 1971, 185,258 shares	**4,896,000**	6,057,000
	420,897,000	409,034,000
	$868,991,000	$782,420,000

REFERENCE IS MADE TO ACCOMPANYING NOTES AND FINANCIAL REPORT
SUMMARY OF ACCOUNTING POLICIES APPEARS ON PAGE 16

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Consolidated statement of changes in financial position

N L Industries, Inc.

	Years ended December 31 1972	1971
Sources of funds:		
Income before extraordinary charges	**$ 36,814,000**	$ 22,757,000
Items not requiring the use of funds:		
Depreciation	**23,743,000**	26,344,000
Deferred income taxes	**16,048,000**	5,191,000
Equity in income of partially-owned companies, net of dividends received	**(1,011,000)**	5,257,000
	75,594,000	59,549,000
Extraordinary charges:		
Loss, net of applicable income taxes	**—**	(19,500,000)
Net property, plant and equipment abandoned	**—**	31,178,000
Reduction in deferred taxes	**—**	(9,569,000)
Funds provided from operations	**75,594,000**	61,658,000
Treasury stock issued for companies acquired	**1,902,000**	5,729,000
Long-term borrowings, net	**40,750,000**	53,148,000
Disposal of fixed assets	**2,726,000**	5,166,000
Increase (decrease) in other liabilities and reserves	**(142,000)**	1,548,000
Other	**231,000**	142,000
	121,061,000	127,391,000
Application of funds:		
Dividends	**24,003,000**	23,948,000
Capital expenditures	**59,771,000**	83,990,000
Acquisition of minority interest	**—**	3,709,000
Cost of treasury stock issued in excess of its par value or fair value of companies acquired	**1,980,000**	2,097,000
Investments	**31,962,000**	503,000
Fixed assets and other non-current assets of acquired companies	**4,573,000**	834,000
Purchase of treasury stock	**741,000**	—
Other	**8,548,000**	3,770,000
	131,578,000	118,851,000
Increase (decrease) in working capital	**$ (10,517,000)**	$ 8,540,000
Details of the above increases (decreases) are as follows:		
Cash, including time deposits	**$ 2,311,000**	$ (253,000)
Accounts and notes receivable	**12,122,000**	4,060,000
Inventories	**(8,539,000)**	(12,169,000)
Prepaid expenses	**1,641,000**	(55,000)
	7,535,000	(8,417,000)
Loans payable	**(1,335,000)**	16,214,000
Accounts payable and accrued liabilities	**(12,904,000)**	2,029,000
Taxes on income	**(3,813,000)**	(1,286,000)
	(18,052,000)	16,957,000
	$ (10,517,000)	$ 8,540,000

REFERENCE IS MADE TO ACCOMPANYING NOTES AND FINANCIAL REPORT

SUMMARY OF ACCOUNTING POLICIES APPEARS ON PAGE 16

Notes to financial statements

N L Industries, Inc.

1. PARTIALLY-OWNED COMPANIES. Financial data regarding certain partially-owned companies, the investments in which are accounted for on an equity basis, is as follows:

	Titanium Metals Corp. of America	Mineral Deposits, Limited	Canada Metal Co., Ltd.
% owned by NL	50%	85%	50%
Assets		(IN THOUSANDS)	
1972	$98,746	$13,422	$13,888
1971	65,343	11,767	12,448
Liabilities			
1972	53,326	6,830	3,088
1971	51,321	5,765	1,955
Net income (loss) as reported			
1972	1,398	1,267	1,101
1971	(9,853)	1,678	930

In 1972, Titanium Metals changed its method of accounting for investments in unconsolidated affiliated companies from the cost to the equity method and has given retroactive effect to this change in its financial statements. No adjustment has been made to the Company's 1971 financial statements as a result of this change since the effect would not be material.

On July 17, 1972, Titanium Metals purchased for cash the Standard Steel Division of B-L-H, Inc., wholly-owned subsidiary of Armour and Company (a subsidiary of Greyhound Corporation). In connection therewith, the two 50% stockholders (N L Industries, Inc. and Allegheny Ludlum Industries, Inc.) advanced a total of $27,000,000 evidenced by notes. Of this total, the Company advanced Titanium Metals $12,500,000 evidenced by a note for the same amount. The operations of Standard Steel Division, included from date of purchase in the results of operations for Titanium Metals for the year 1972, are not material in relation to the Company's financial statements.

In addition, the Company's equity in the earnings of the other companies included in the income statement caption "Equity in partially-owned companies" aggregated $2,276,000.

Summarized financial information relating to the Lake View Trust and Savings Bank follows:

	1972 (IN THOUSANDS)	1971
Assets	$358,704	$345,462
Deposits and other liabilities	$334,889	$320,972
N L's equity in Bank's net income ...	$ 2,994	$ 4,133
Less: Interest cost to N L, after applicable tax benefit of $1,044,000 in 1972 and $1,141,000 in 1971, on funds borrowed to purchase bank .	1,132	1,235
Net income attributable to Bank	$ 1,862	$ 2,898

For comments relating to the Bank Holding Company Act of 1970, see page 14.

2. ACQUISITIONS. During 1972, the Company exchanged 64,646 shares of its treasury stock for the outstanding stock of the Bell Clay Company. This acquisition has been accounted for as a pooling of interests and, accordingly, the results of operations for 1972 include the net income of Bell Clay Company for the entire year. No adjustment has been made for prior years since the effect would not be material. As a result of this transaction, capital surplus and retained earnings were charged $172,000 and $1,937,000, respectively, representing principally the excess of the cost of treasury shares issued over the carrying value of the net assets acquired. Also during 1972, the Company acquired, for cash, certain of the assets of Cambridge Nuclear Corporation and the outstanding stock of Cambridge Nuclear Radiopharmaceutical Corporation and Industrial Reactor Laboratories, Inc., subsidiaries of Cambridge Nuclear Corporation. This acquisition has been accounted for as a purchase and, accordingly, the amount of the purchase price in excess of the carrying value of the net assets acquired has been assigned principally to the value of property, plant and equipment and will be amortized over the life of the related assets. The results of operations since date of purchase are included for 1972 and are not material in relation to the Company's financial statements.

3. CAPITAL STOCK AND STOCK OPTIONS. Under provisions of the 1968 Stock Option Incentive Plan, 700,000 shares of the Company's common stock have been reserved for issuance to officers and to other key employees. Under the plan, options may be granted to purchase common stock at 100% of the market price at the date of grant and are exercisable over a period of five years from date of grant. Details of shares under option at December 31, 1972 and transactions during the year follow:

Balance at January 1, 1972	368,600
Granted	131,900
Less: Exercised	—
Expired	19,500
Balance at December 31, 1972	481,000
Price per share of shares granted and outstanding at December 31, 1972	$15 to $36
Shares exercisable	481,000
Available for future options at December 31, 1972	217,300

The Company purchased 50,513 of its own shares during 1972.

The Company is authorized to issue 5,000,000 shares of preferred stock without par value. The rights of the preferred stock as to dividends, redemption, liquidation and conversion will be determined upon issuance.

4. PENSIONS. Total pension costs approximated $11,700,000 in 1972 and $10,900,000 in 1971. With respect to one of the major plans, amendments of certain benefits during the year resulted in an increase of unfunded vested benefits approximating $9,200,000. The effect of these amendments on pension cost and net income was not material. Unfunded vested benefits at December 31, 1972 amounted to approximately $23,539,000.

5. EXTRAORDINARY CHARGES. The 1971 extraordinary charges resulted from the abandonment of facilities that manufactured certain types of titanium pigments in the United States and Canada. These facilities had become unprofitable because of high operating costs for the pigment grades manufactured. Closing these facilities did not have a significant effect on sales and did not significantly diminish the Company's output of titanium pigments.

Auditors' report

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants
1251 Avenue of the Americas, New York, N.Y.

To the Shareholders of
N L Industries, Inc.
New York, N.Y.

We have examined the consolidated balance sheet of N L Industries, Inc. and its Consolidated Subsidiaries as of December 31, 1972 and the related consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries in 1972 and 1971 whose total assets and total sales were not material in relation to the corresponding consolidated totals. In addition, we did not examine the financial statements of certain partially-owned companies, for which the Company's equity in the earnings is included in the income statement caption "Equity in partially-owned companies," which statements reflect net income (loss) of $1,487,000 and ($4,307,000) for 1972 and 1971, respectively, applicable to the Company. All of these statements were examined by other certified public accountants whose reports thereon were furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries and partially-owned companies, is based solely upon such reports. We made a similar examination of the financial statements of the Company and its Consolidated Subsidiaries for the year 1971.

In our opinion, based upon our examination and the reports of other certified public accountants, the aforementioned financial statements present fairly the consolidated financial position of N L Industries, Inc. and its Consolidated Subsidiaries at December 31, 1972 and 1971, and the consolidated results of their operations and of changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

New York, February 20, 1973

Board of Directors

RAY C. ADAM
Executive Vice President

ALFRED F. BAUER
Vice President

EDGAR J. HAGSTETTE, JR.
Group Vice President

EDWARD J. HANLEY
Director,
Chairman of Finance Committee
Allegheny Ludlum Industries, Inc.

JOHN B. HENRICH
President

J. MURRAY JOHNSTON
Group Vice President

JOHN O. LOGAN
President,
Chief Executive Officer, Director
Universal Oil Products Company

AUGUSTINE R. MARUSI
Chairman, President,
Chief Executive Officer
Borden, Inc.

ERIC G. ORLING
Former Vice President

RICHARD M. PAGET
President, Director,
Cresap, McCormick and Paget, Inc.

E. R. ROWLEY
Chairman

MORRIS H. WRIGHT
General Partner,
Kuhn, Loeb & Co.

Executive Committee

E. R. ROWLEY
Chairman

RAY C. ADAM

JOHN B. HENRICH

J. MURRAY JOHNSTON

ERIC G. ORLING

Corporate Officers

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Chairman of the Board, Chief Executive Officer

JOHN B. HENRICH
President

RAY C. ADAM
Executive Vice President, Chief Operating Officer

EDGAR J. HAGSTETTE, JR.
Group Vice President, Chemicals

J. MURRAY JOHNSTON
Group Vice President, Industrial Specialties

JOHN A. MARDICK
Group Vice President, Metals

GLENN A. WILSON
Group Vice President, Pigments

ALFRED F. BAUER
Vice President;
General Manager, Doehler-Jarvis Division

RUDOLPH E. CARLSON, JR.
Vice President, Corporate Planning and Development

RICHARD A. DONOVAN
Vice President, Employee Relations

VINCENT R. McLEAN
Vice President, Finance, and Treasurer

RICHARD K. MARTIN
Vice President;
General Manager, Southern Screw Division

CLAUDE M. MERRELL
Vice President, International Operations

KENNETH C. SPECHT
Vice President;
General Manager, Paint Division

HENRY J. WHITSON
Vice President;
General Manager, Pigments and Chemicals Division

THOMAS P. MESICK
Secretary

EDWARD J. GALVIN
Controller

JOHN T. RAFFERTY
Assistant Secretary

A. A. GARRABRANT
Assistant Treasurer

JOHN H. WATT
Assistant Treasurer

MALTE ERICSON
Assistant Controller

G. WARREN WAITE
Assistant Controller

Common Stock

Stock symbol: NL—Listed on the New York and Pacific Coast Stock Exchanges

TRANSFER AGENTS:

The Chase Manhattan Bank, N.A.
One New York Plaza
New York, N.Y. 10015

The First National Bank of Boston
100 Federal Street
Boston, Massachusetts 02110

National Trust Company, Limited
21 King Street East
Toronto 1, Canada

Crocker National Bank
One Montgomery Street
San Francisco, California 94138

REGISTRARS:

Bankers Trust Company
One Battery Park Plaza
New York, N.Y. 10004

The National Shawmut Bank of Boston
40 Water Street
Boston, Massachusetts 02109

The Royal Trust Company
The Royal Trust Tower
Toronto Dominion Center
Toronto 116, Canada

United California Bank
95 Hawthorne Street
San Francisco, California 94105

4¾ % Subordinated Debentures

TRUSTEE AND INTEREST PAYING AGENT:
Irving Trust Company
One Wall Street
New York, N.Y. 10006

7½ % Debentures

TRUSTEE AND INTEREST PAYING AGENT:
The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, N.Y. 10015

Counsel

ALEXANDER & GREEN
120 Broadway, New York, N.Y. 10005

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