

NL INDUSTRIES INC  
Form DEF 14A  
April 19, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by Registrant:   
Filed by a Party other than the Registrant:

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to § 240.14a-12

**NL Industries, Inc.**  
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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April 19, 2007

To Our Shareholders:

You are cordially invited to attend the 2007 Annual Meeting of Shareholders of NL Industries, Inc., which will be held on Friday, May 25, 2007, at 10:00 a.m., local time, at our corporate offices at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas. The matters to be acted upon at the meeting are described in the attached Notice of Annual Meeting of Shareholders and Proxy Statement.

Whether or not you plan to attend the meeting, please complete, date, sign and return the enclosed proxy card or voting instruction form in the accompanying envelope as promptly as possible to ensure that your shares are represented and voted in accordance with your wishes. Your vote, whether given by proxy or in person at the meeting, will be held in confidence by the inspector of election as provided in our by-laws.

Sincerely,

Harold C. Simmons  
*Chairman of the Board and  
Chief Executive Officer*

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**NL Industries, Inc.**  
**Three Lincoln Centre**  
**5430 LBJ Freeway, Suite 1700**  
**Dallas, Texas 75240-2697**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held May 25, 2007**

To the Shareholders of NL Industries, Inc.:

The 2007 Annual Meeting of Shareholders of NL Industries, Inc. will be held on Friday, May 25, 2007, at 10:00 a.m., local time, at our corporate offices at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas, for the following purposes:

- (1) To elect six directors to serve until the 2008 Annual Meeting of Shareholders; and
- (2) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The close of business on April 2, 2007 has been set as the record date for the meeting. Only holders of our common stock at the close of business on the record date are entitled to notice of, and to vote at, the meeting. A complete list of shareholders entitled to vote at the meeting will be available for examination during normal business hours by any of our shareholders, for purposes related to the meeting, for a period of ten days prior to the meeting at our corporate offices.

You are cordially invited to attend the meeting. Whether or not you plan to attend the meeting, please complete, date and sign the accompanying proxy card or voting instruction form and return it promptly in the enclosed envelope. If you choose, you may still vote in person at the meeting even though you previously submitted your proxy card.

By Order of the Board of Directors,

A. Andrew R. Louis, *Secretary*

Dallas, Texas  
April 19, 2007

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## TABLE OF CONTENTS

Page

TABLE OF CONTENTS

GLOSSARY OF TERMS

GENERAL INFORMATION

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

CONTROLLING SHAREHOLDER

SECURITY OWNERSHIP

Ownership of NL

Ownership of Related Companies

ELECTION OF DIRECTORS

Nominees for Director

EXECUTIVE OFFICERS

CORPORATE GOVERNANCE

Controlled Company Status, Director Independence and Committees

2006 Meetings and Standing Committees of the Board of Directors

Audit Committee

Management Development and Compensation Committee

Non-Management and Independent Director Meetings

Shareholder Proposals and Director Nominations for the 2008 Annual Meeting Shareholders

Communications with Directors

Compensation Committee Interlocks and Insider Participation

Code of Business Conduct and Ethics

Corporate Governance Guidelines

Availability of Corporate Governance Documents

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS AND OTHER INFORMATION

Compensation Discussion and Analysis

Compensation Committee Report

Summary of Cash and Certain Other Compensation of Executive Officers

2006 Grants of Plan-Based Awards  
Outstanding Equity Awards at December 31, 2006  
Option Exercises and Stock Vested  
Pension Benefits  
Nonqualified Deferred Compensation  
Director Compensation

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Related Party Transaction Policy  
Relationships with Related Parties  
Intercorporate Services Agreements  
Insurance Matters  
Tax Matters  
Simmons Family Matters

AUDIT COMMITTEE REPORT

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM MATTERS

Independent Registered Public Accounting Firm  
Fees Paid to PricewaterhouseCoopers LLP  
Preapproval Policies and Procedures

OTHER MATTERS

2006 ANNUAL REPORT ON FORM 10-K

ADDITIONAL COPIES

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## GLOSSARY OF TERMS

“*CDCT No. 2*” means the Contran Deferred Compensation Trust No. 2, an irrevocable “rabbi trust” established by Contran to assist it in meeting certain deferred compensation obligations that it owes to Harold C. Simmons.

“*CMRT*” means The Combined Master Retirement Trust, a trust Contran sponsors that permits the collective investment by master trusts that maintain assets of certain employee defined benefit plans Contran and related entities adopt.

“*Computershare*” means Computershare Investor Services L.L.C., our stock transfer agent.

“*CompX*” means CompX International Inc., one of our publicly held subsidiaries that manufactures precision slides, security products and ergonomic computer support systems.

“*CGP*” means CompX Group, Inc., one of our subsidiaries in which TFMC holds a minority interest and a parent corporation of CompX.

“*Contran*” means Contran Corporation, the parent corporation of our consolidated tax group.

“*Dixie Holding*” means Dixie Holding Company, one of our parent corporations.

“*Dixie Rice*” means Dixie Rice Agricultural Corporation, Inc., one of our parent corporations.

“*FAS 123R*” means Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment.

“*Foundation*” means the Harold C. Simmons Foundation, Inc., a tax-exempt foundation organized for charitable purposes.

“*independent directors*” means the following directors: Cecil H. Moore, Jr., Thomas P. Stafford and Terry N. Worrell.

“*ISA*” means an intercorporate services agreement between or among Contran related companies pursuant to which employees of one or more related companies provide certain services, including executive officer services, to another related company on a fixed fee basis.

“*Keystone*” means Keystone Consolidated Industries, Inc., one of our publicly held sister corporations that manufactures steel fabricated wire products, industrial wire and carbon steel rod.

“*Kronos Worldwide*” means Kronos Worldwide, Inc., one of our publicly held subsidiaries that is an international manufacturer of titanium dioxide pigments and that we account for on our financial statements using the equity method.

“*named executive officer*” means any person named in the Summary Compensation table in this proxy statement.

“*National*” means National City Lines, Inc., one of our parent corporations.

“*NL*,” “*us*,” “*we*” or “*our*” mean NL Industries, Inc.

“*NOA*” means NOA, Inc., one of our parent corporations.

“*non-management directors*” means the following directors who are not one of our executive officers: Cecil H. Moore, Jr., Glenn R. Simmons, Thomas P. Stafford, Terry N. Worrell and Steven L. Watson.

“*NYSE*” means the New York Stock Exchange.

“*PwC*” means PricewaterhouseCoopers LLP, our independent registered public accounting firm.

“*record date*” means the close of business on April 2, 2007, the date our board of directors set for the determination of shareholders entitled to notice of and to vote at the 2007 annual meeting of our shareholders.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Southwest*” means Southwest Louisiana Land Company, Inc., one of our parent corporations.

“*Tall Pines*” means Tall Pines Insurance Company, an indirect wholly owned captive insurance subsidiary of Valhi.

“*TFMC*” means TIMET Finance Management Company, a wholly owned subsidiary of TIMET.

“*TIMET*” means Titanium Metals Corporation, one of our publicly held sister corporations that is an integrated producer of titanium metals products.

“*TIMET series A preferred stock*” means TIMET’s 6 <sup>3</sup>/<sub>4</sub>% series A convertible preferred stock, par value \$0.01 per share.

“*Valhi*” means Valhi, Inc., our publicly held parent corporation that is a diversified holding company with principal investments in us and Kronos Worldwide.

“*VGI*” means Valhi Group, Inc., one of our parent corporations.

“*VHC*” means Valhi Holding Company, one of our parent corporations.

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**NL Industries, Inc.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697**

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**PROXY STATEMENT**

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**GENERAL INFORMATION**

This proxy statement and the accompanying proxy card or voting instruction form are being furnished in connection with the solicitation of proxies by and on behalf of our board of directors for use at our 2007 Annual Meeting of Shareholders to be held on Friday, May 25, 2007 and at any adjournment or postponement of the meeting. The accompanying notice of annual meeting of shareholders sets forth the time, place and purposes of the meeting. The notice, this proxy statement, the accompanying proxy card or voting instruction form and our Annual Report to Shareholders, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, are first being mailed on or about April 19, 2007 to the holders of our common stock at the close of business on April 2, 2007. Our principal executive offices are located at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

*Please refer to the Glossary of Terms on page ii for the definitions of certain capitalized or other terms used in this proxy statement.*

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

**Q: What is the purpose of the annual meeting?**

A: At the annual meeting, shareholders will vote on the election of six directors and any other matter that may properly come before the meeting.

**Q: How does the board recommend that I vote?**

A: The board of directors recommends that you vote FOR each of the nominees for director.

**Q: Who is allowed to vote at the annual meeting?**

A: The board of directors has set the close of business on April 2, 2007 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting. Only holders of record of our common stock as of the close of business on the record date are entitled to vote at the meeting. On the record date, 48,586,034 shares of our common stock were issued and outstanding. Each share of our common stock entitles its holder to one vote.

**Q: How do I vote?**

A: If your shares are held by a bank, broker or other nominee (*i.e.*, in "street name"), you must follow the instructions from your nominee on how to vote your shares.

If you are a shareholder of record, you may:

- vote in person at the annual meeting; or
-

·instruct the agents named on the proxy card how to vote your shares by completing, signing and mailing the enclosed proxy card in the envelope provided.

**If you execute a proxy card but do not indicate how you would like your shares voted for one or more of the nominees, the agents will vote FOR the election of each such nominee for director and, to the extent allowed by applicable law, in the discretion of the agents on any other matter that may properly come before the meeting.**

**Q: Who will count the votes?**

A: The board of directors has appointed Computershare, our transfer agent and registrar, to receive proxies and ballots, ascertain the number of shares represented, tabulate the vote and serve as inspector of election for the meeting.

**Q: Is my vote confidential?**

A: Yes. All proxy cards, ballots or voting instructions delivered to Computershare will be kept confidential in accordance with our by-laws.

**Q: May I change or revoke my proxy or voting instructions?**

A: If you are a shareholder of record, you may change or revoke your proxy instructions at any time before the meeting in any of the following ways:

- delivering to Computershare a written revocation;
- submitting another proxy card bearing a later date; or
- voting in person at the meeting.

If your shares are held by a bank, broker or other nominee, you must follow the instructions from your nominee on how to change or revoke your voting instructions.

**Q: What constitutes a quorum?**

A: A quorum is the presence, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock entitled to vote at the meeting. Under the applicable rules of the NYSE and the SEC, brokers or other nominees holding shares of record on behalf of a client who is the actual beneficial owner of such shares are authorized to vote on certain routine matters without receiving instructions from the beneficial owner of the shares. If such a broker/nominee who is entitled to vote on a routine matter delivers an executed proxy card and does not vote on the matter, such a vote is referred to in this proxy statement as a “broker/nominee non-vote.” Shares of common stock that are voted to abstain from any business coming before the meeting and broker/nominee non-votes will be counted as being in attendance at the meeting for purposes of determining whether a quorum is present.

**Q: What vote is required to elect a director nominee or approve any other matter?**

A: If a quorum is present, a plurality of the affirmative votes of the holders of our outstanding shares of common stock represented and entitled to be voted at the meeting is necessary to elect each nominee for director. The accompanying proxy card or voting instruction form provides space for you to withhold authority to vote for any of the nominees. Neither shares as to which the authority to vote on the election of directors has been withheld nor broker/nominee non-votes will be counted as affirmative votes to elect director nominees. However, since director

nominees need only receive the plurality of the affirmative votes from the holders represented and entitled to vote at the meeting to be elected, a vote withheld from a particular nominee will not affect the election of such nominee.

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Except as our amended and restated certificate of incorporation and applicable laws may otherwise provide, if a quorum is present, the approval of any other matter that may properly come before the meeting will require the affirmative votes of the holders of a majority of the outstanding shares represented and entitled to vote at the meeting. Shares of our common stock that are voted to abstain from any other business coming before the meeting and broker/nominee non-votes will not be counted as votes for or against any such other matter.

**Q: Who will pay for the cost of soliciting the proxies?**

A: We will pay all expenses related to the solicitation, including charges for preparing, printing, assembling and distributing all materials delivered to shareholders. In addition to the solicitation by mail, our directors, officers and regular employees may solicit proxies by telephone or in person for which such persons will receive no additional compensation. We have retained The Altman Group, Inc. to aid in the distribution of this proxy statement and related materials at an estimated cost of \$1,300. Upon request, we will reimburse banking institutions, brokerage firms, custodians, trustees, nominees and fiduciaries for their reasonable out-of-pocket expenses incurred in distributing proxy materials and voting instructions to the beneficial owners of our common stock that such entities hold of record.

**CONTROLLING SHAREHOLDER**

Valhi directly held approximately 83.1% of the outstanding shares of our common stock as of the record date. Valhi has indicated its intention to have its shares of our common stock represented at the meeting and voted FOR the election of each of the director nominees to our board of directors. If Valhi attends the meeting in person or by proxy and votes as indicated, the meeting will have a quorum present and the shareholders will elect all the nominees to the board of directors.

**SECURITY OWNERSHIP**

**Ownership of NL.** The following table and footnotes set forth as of the record date the beneficial ownership, as defined by regulations of the SEC, of our common stock held by each individual, entity or group known to us to own beneficially more than 5% of the outstanding shares of our common stock, each director, each named executive officer and all of our current directors and executive officers as a group. See footnote 4 below for information concerning the relationships of certain individuals and entities that may be deemed to own indirectly and beneficially more than 5% of the outstanding shares of our common stock. All information is taken from or based upon ownership filings made by such individuals or entities with the SEC or upon information provided by such individuals or entities.

| Name of Beneficial Owner             | NL Common Stock                               |                         |
|--------------------------------------|---|-------------------------|
|                                      | Amount and Nature of Beneficial Ownership (1) | Percent of Class (1)(2) |
| Harold C. Simmons (3)                | 554,300(4)                                    | 1.1%                    |
| Valhi, Inc. (3)                      | 40,387,531(4)                                 | 83.1%                   |
| TIMET Finance Management Company (3) | 222,100(4)                                    | *                       |
| Annette C. Simmons (3)               | 256,575(4)                                    | *                       |
|                                      | 41,420,506(4)                                 | 85.3%                   |
| Cecil H. Moore, Jr.                  | 2,000   | *                       |

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|   |               |       |
|---|---------------|-------|
| Glenn R. Simmons  | 10,000(4)     | *     |
| Thomas P. Stafford  | 7,000         | *     |
| Steven L. Watson  | 10,000(4)     | *     |
| Terry N. Worrell  | 3,000         | *     |
| Robert D. Graham  | -0-(4)        | -0-   |
| Gregory M. Swalwell   | -0-(4)        | -0-   |
| Kelly D. Luttmer  | -0-(4)        | -0-   |
| John A. St. Wrba  | -0-(4)        | -0-   |
| James W. Brown  | -0-(4)        | -0-   |
| All our current directors and executive officers as a group<br>(11 persons) | 41,452,506(4) | 85.3% |

\* Less than 1%.

- (1) Except as otherwise noted, the listed entities, individuals or group have sole investment power and sole voting power as to all shares set forth opposite their names. The number of shares and percentage of ownership for each individual or group assumes the exercise by such individual or group (exclusive of others) of stock options that such individual or group may exercise within 60 days subsequent to the record date.
- (2) The percentages are based on 48,586,034 shares of our common stock outstanding as of the record date.
- (3) The business address of Valhi and Harold C. and Annette C. Simmons is Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. The business address of TFMC is 1007 Orange Street, Suite 1400, Wilmington, Delaware 19801.
- (4) TIMET is the direct holder of 100% of the outstanding shares of TFMC common stock. VHC, Annette C. Simmons, the CMRT, Harold C. Simmons, we, the Foundation, the CDCT No. 2 and Valhi are the holders of approximately 31.0%, 11.5%, 9.5%, 3.2%, 1.4%, 0.3%, 0.1% and less than 0.1%, respectively, of the outstanding shares of TIMET common stock. Our percentage ownership of TIMET common stock includes 0.4% directly owned by a wholly owned subsidiary of ours. The ownership of TIMET common stock by Ms. Simmons includes 20,957,533 shares of TIMET common stock that she has the right to acquire upon conversion of 1,571,815 shares of TIMET series A preferred stock that she directly holds. The percentage ownership of TIMET common stock held by Ms. Simmons assumes the full conversion of only the shares of TIMET series A preferred stock she owns.

VHC, the Foundation, the CDCT No. 2 and the CMRT are the direct holders of approximately 92.1%, 0.9%, 0.4% and 0.1%, respectively, of the outstanding common stock of Valhi. VGI, National and Contran are the direct holders of 87.4%, 10.3% and 2.3%, respectively, of the outstanding common stock of VHC. National, NOA and Dixie Holding are the direct holders of approximately 73.3%, 11.4% and 15.3%, respectively, of the outstanding VGI common stock. Contran and NOA are the direct holders of approximately 85.7% and 14.3%, respectively, of the outstanding National common stock. Contran and Southwest are the direct holders of approximately 49.9% and 50.1%, respectively, of the

outstanding NOA common stock. Dixie Rice is the direct holder of 100% of the outstanding common stock of Dixie Holding. Contran is the holder of 100% of the outstanding common stock of Dixie Rice and approximately 90.1% of the outstanding common stock of Southwest.

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, or held by Mr. Simmons or persons or other entities related to Mr. Simmons. As sole trustee of these trusts, Mr. Simmons has the power to vote and direct the disposition of the shares of Contran stock held by these trusts. Mr. Simmons, however, disclaims beneficial ownership of any Contran shares these trusts hold.

The Foundation directly holds approximately 0.3% of the outstanding shares of TIMET common stock and 0.9% of the outstanding shares of Valhi common stock. The Foundation is a tax-exempt foundation organized for charitable purposes. Harold C. Simmons is the chairman of the board of the Foundation.

The CDCT No. 2 directly holds approximately 0.1% of the outstanding shares of TIMET common stock and 0.4% of the outstanding shares of Valhi common stock. U.S. Bank National Association serves as the trustee of the CDCT No. 2. Contran established the CDCT No. 2 as an irrevocable "rabbi trust" to assist Contran in meeting certain deferred compensation obligations that it owes to Harold C. Simmons. If the CDCT No. 2 assets are insufficient to satisfy such obligations, Contran must satisfy the balance of such obligations. Pursuant to the terms of the CDCT No. 2, Contran retains the power to vote the shares held by the CDCT No. 2, retains dispositive power over such shares and may be deemed the indirect beneficial owner of such shares.

The CMRT directly holds approximately 9.5% of the outstanding shares of TIMET common stock and 0.1% of the outstanding shares of Valhi common stock. Contran sponsors this trust to permit the collective investment by master trusts that maintain assets of certain employee defined benefit plans Contran and related entities adopt. Harold C. Simmons is the sole trustee of this trust and a member of the investment committee for this trust. Contran's board of directors selects the trustee and members of this trust's investment committee. All of our executive officers, Glenn R. Simmons and Steven L. Watson are participants in one or more of the employee defined benefit plans that invest through this trust. Each of such persons disclaims beneficial ownership of any of the shares this trust holds, except to the extent of his or her individual vested beneficial interest, if any, in the plan assets this trust holds.

Harold C. Simmons is the chairman of the board and chief executive officer of us and Kronos Worldwide and the chairman of the board of each of TIMET, Valhi, VHC, VGI, National, NOA, Dixie Holding, Dixie Rice, Southwest and Contran.

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By virtue of the holding of the offices, the stock ownership and his services as trustee, all as described above, (a) Harold C. Simmons may be deemed to control certain of such entities and (b) Mr. Simmons and certain of such entities may be deemed to possess indirect beneficial ownership of shares directly held by certain of such other entities. However, Mr. Simmons disclaims beneficial ownership of the shares beneficially owned, directly or indirectly, by any of such entities, except to the extent of his vested beneficial interest, if any, in shares held by the CMRT and his interest as a beneficiary of the CDCT No. 2. Mr. Harold Simmons disclaims beneficial ownership of all shares of our common stock beneficially owned, directly or indirectly, by Valhi or TFMC.

All of our directors or executive officers who are also directors or executive officers of Valhi, TFMC or their parent companies disclaim beneficial ownership of the shares of our common stock that such companies directly or indirectly hold.

Annette C. Simmons is the wife of Harold C. Simmons. She is the direct owner of 256,575 shares of our common stock, 152,627 shares of TIMET common stock, 1,571,815 shares of TIMET series A preferred stock and 43,400 shares of Valhi common stock. Mr. Simmons may be deemed to share indirect beneficial ownership of such shares. Mr. Simmons disclaims all such beneficial ownership.

The Annette Simmons Grandchildren's Trust, a trust of which Harold C. Simmons and Annette C. Simmons are co-trustees and the beneficiaries of which are the grandchildren of Annette C. Simmons, is the direct holder of 17,432 shares of TIMET common stock and 36,500 shares of Valhi common stock. Mr. Simmons, as co-trustee of this trust, has the power to vote and direct the disposition of the shares of Valhi common stock this trust directly holds. Mr. Simmons disclaims beneficial ownership of any shares that this trust holds.

Harold C. Simmons is the direct owner of 554,300 shares of our common stock, 5,114,515 shares of TIMET common stock and 3,383 shares of Valhi common stock.

We and a wholly owned subsidiary of ours directly hold 3,522,967 and 1,186,200 shares of Valhi common stock, respectively. Since we are a majority owned subsidiary of Valhi, and pursuant to Delaware law, Valhi treats the shares of Valhi common stock that we and our subsidiary hold as treasury stock for voting purposes. For the purposes of calculating the percentage ownership of the outstanding shares of Valhi common stock as of the record date in this proxy statement, such shares are not deemed outstanding.

Contran is the sole owner of Valhi's 6% series A preferred stock and VHC's 2% convertible preferred stock. Messrs. Harold and Glenn Simmons and Watson each own one director qualifying share of Dixie Rice and Southwest.

VHC has pledged 3,304,992 shares of TIMET common stock as security and 13,920,000 shares of Valhi common stock as security.

The business address of Contran, the CDCT No. 2, the CMRT, Dixie Holding, the Foundation, National, NOA, TIMET, VGI and VHC is Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. The business address of Dixie Rice is 600 Pasquiere Street, Gueydan, Louisiana 70542. The business address of Southwest is 402 Canal Street, Houma, Louisiana 70360.

We understand that Contran and related entities may consider acquiring or disposing of shares of our common stock through open market or privately negotiated transactions, depending upon future developments, including, but not limited to, the availability and alternative uses of funds, the performance of our common stock in the market, an assessment of our business and prospects, financial and stock market conditions and other factors deemed relevant by such entities. We may similarly consider acquisitions of shares of our common stock and acquisitions or dispositions of securities issued by related entities.





**Ownership of Related Companies.** Some of our directors and executive officers own equity securities of several companies related to us.

**Ownership of Kronos Worldwide and Valhi.** The following table and footnotes set forth the beneficial ownership, as of the record date, of the shares of Kronos Worldwide and Valhi common stock held by each of our directors, each named executive officer and all of our current directors and executive officers as a group. All information is taken from or based upon ownership filings made by such individuals or entities with the SEC or upon information provided by such individuals or entities.

| Name of Beneficial Owner              | Kronos Worldwide Common Stock                 |                         | Valhi Common Stock                            |                         |
|---------------------------------------|---|-------------------------|---|-------------------------|
|                                       | Amount and Nature of Beneficial Ownership (1) | Percent of Class (1)(2) | Amount and Nature of Beneficial Ownership (1) | Percent of Class (1)(3) |
| Harold C. Simmons                     | 5,255(4)                                      | *                       | 3,383(4)                                      | *                       |
| Valhi, Inc.                           | 28,995,021(4)                                 | 59.2%                   | n/a   | n/a                     |
| NL Industries, Inc.                   | 17,516,132(4)                                 | 35.8%                   | n/a(3)  | n/a                     |
| TIMET Finance Management Company.     | 5,203(4)                                      | *                       | -0-   | -0-                     |
| Valhi Holding Company                 | -0-(4)  | -0-                     | 105,098,763(4)                                | 92.1%                   |
| Contran Corporation                   | -0-(4)  | -0-                     | 439,400(4)(5)                                 | *                       |
| Harold Simmons Foundation, Inc        | -0-(4)  | -0-                     | 1,006,500(4)                                  | *                       |
| The Combined Master Retirement Trust  | -0-(4)  | -0-                     | 115,000(4)                                    | *                       |
| Annette C. Simmons                    | 36,356(4)                                     | *                       | 43,400(4)                                     | *                       |
| Annette Simmons Grandchildren's Trust | -0-(4)  | -0-                     | 36,500(4)                                     | *                       |
|                                       | 46,557,967                                    | 95.1%                   | 106,742,946                                   | 93.5%                   |
| Cecil H. Moore, Jr.                   | 1,512(4)                                      | *                       | -0-   | -0-                     |
| Glenn R. Simmons                      | 1,208(4)                                      | *                       | 22,247(4)(6)                                  | *                       |
| Thomas P. Stafford                    | 2,000(4)                                      | *                       | -0-   | -0-                     |
| Steven L. Watson                      | 5,233(4)                                      | *                       | 67,246(4)(7)                                  | *                       |

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|  |               |       |                         |       |
|--|---------------|-------|-------------------------|-------|
| Terry N. Worrell   | -0-(4)        | -0-   | -0-                     | -0-   |
| Robert D. Graham   | -0-(4)        | -0-   | -0-(4)                  | -0-   |
| Gregory M. Swalwell  | -0-(4)        | -0-   | 81,166(4)(7)            | *     |
| Kelly D. Luttmer   | -0-(4)        | -0-   | 65,000(4)(7)            | *     |
| John A. St. Wrba   | -0-(4)        | -0-   | -0-(4)                  | -0-   |
| James W. Brown   | -0-(4)        | -0-   | -0-                     | -0-   |
| All our current directors<br>and executive officers as<br>a group (11 persons) | 46,567,920(4) | 95.1% | 106,978,605(4)(5)(6)(7) | 93.6% |

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\* Less than 1%.

(1) Except as otherwise noted, the listed entities, individuals or group have sole investment power and sole voting power as to all shares set forth opposite their names. The number of shares and percentage of ownership for each individual or group assumes the exercise by such individual or group (exclusive of others) of stock options that such individual or group may exercise within 60 days subsequent to the record date.

(2) The percentages are based on 48,953,049 shares of Kronos Worldwide common stock outstanding as of the record date.

(3) The percentages are based on 114,156,078 shares of Valhi common stock outstanding as of the record date. For purposes of calculating the outstanding shares of Valhi common stock as of the record date, 3,522,967 and 1,186,200 shares of Valhi common stock held by us and a wholly owned subsidiary of ours, respectively, are treated as treasury stock for voting purposes and excluded from the amount of Valhi common stock outstanding.

(4) See footnote 4 to the Ownership of NL table above for a description of certain relationships among the individuals, entities or groups appearing in this table. All of our directors or executive officers disclaim beneficial ownership of any shares of Kronos Worldwide common stock that we directly or indirectly own. All of our directors or executive officers who are also directors or executive officers of any of our parent companies or the Foundation disclaim beneficial ownership of the shares of Kronos Worldwide or Valhi common stock that such entities directly or indirectly own.

Other than the securities he holds directly, Harold C. Simmons disclaims beneficial ownership of any and all securities that his wife, Annette C. Simmons, directly or indirectly owns.

Valhi has pledged 14,987,305 shares of Kronos Worldwide common stock as security.

(5) Represents the 439,400 shares of Valhi common stock the CDCT No. 2 directly holds.

(6) The shares of Valhi common stock shown as beneficially owned by Glenn R. Simmons include 800 shares his wife holds in her retirement account, with respect to which shares he disclaims beneficial ownership.

(7) The shares of Valhi common stock shown as beneficially owned by such person include the following number of shares such person has the right to acquire upon the exercise of stock options granted pursuant to Valhi's stock option plans that such person may exercise within 60 days subsequent to the record date:

| Name of Beneficial Owner | Shares of Valhi Common<br>Stock Issuable Upon the<br>Exercise of Stock Options<br>On or Before June 1, 2007 |
|--------------------------|---|
| Steven L. Watson         | 50,000  |
| Gregory M. Swalwell      | 80,000  |
| Kelly D. Luttmer         | 65,000  |

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*Ownership of CompX.* The following table and footnotes set forth the beneficial ownership, as of the record date, of the CompX class A and B common stock held by each of our directors, each named executive officer and all of our current directors and executive officers as a group. All information is taken from or based upon ownership filings made by such individuals or entities with the SEC or upon information provided by such individuals or entities.

| Beneficial Owner                    | CompX Class A<br>Common Stock                          |                               | CompX Class B<br>Common Stock (1)                      |                               | CompX<br>Class A<br>and Class<br>B<br>Common<br>Stock<br>Combined<br>Percent of<br>Class<br>(2)(3) |
|-------------------------------------|--|-------------------------------|--|-------------------------------|--|
|                                     | Amount and<br>Nature of<br>Beneficial<br>Ownership (2) | Percent<br>of Class<br>(2)(3) | Amount and<br>Nature of<br>Beneficial<br>Ownership (2) | Percent<br>of Class<br>(2)(3) |  |
| Harold C. Simmons                   | 56,900(4)  | 1.1%                          | -0-(4)   | -0-                           | *  |
| CompX Group, Inc.                   | 2,586,820(4)   | 49.1%                         | 10,000,000(4)  | 100.0%                        | 82.4%  |
| TIMET Finance<br>Management Company | 483,600(4)   | 9.2%                          | -0-(4)   | -0-                           | 3.2%   |
| NL Industries, Inc.                 | 381,004(4)   | 7.2%                          | -0-(4)   | -0-                           | 2.5%   |
| Annette C. Simmons                  | 20,000(4)  | *                             | -0-(4)   | -0-                           | *  |
|                                     | 3,528,324(4)   | 66.9%                         | 10,000,000(4)  | 100.0%                        | 88.6%  |
| Cecil H. Moore, Jr.                 | -0-(4)   | -0-                           | -0-(4)   | -0-                           | -0-  |
| Glenn R. Simmons                    | 72,500(4)(5)(6)  | 1.6%                          | -0-(4)   | -0-                           | *  |
| Thomas P. Stafford                  | -0-(4)   | -0-                           | -0-(4)   | -0-                           | -0-  |
| Steven L. Watson                    | 23,000(4)(5)   | *                             | -0-(4)   | -0-                           | *  |
| Terry N. Worrell                    | -0-(4)   | -0-                           | -0-(4)   | -0-                           | -0-  |
| Robert D. Graham                    | -0-(4)   | -0-                           | -0-(4)   | -0-                           | -0-  |
| Gregory M. Swalwell                 | 5,000(4)(5)  | *                             | -0-(4)   | -0-                           | *  |
| Kelly D. Luttmer                    | 4,200(4)(5)  | *                             | -0-(4)   | -0-                           | *  |

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|  |                    |       |               |        |       |
|--|--------------------|-------|---------------|--------|-------|
| John A. St. Wrba   | -0-(4)             | -0-   | -0-(4)        | -0-    | -0-   |
| James W. Brown   | -0-(4)             | -0-   | -0-(4)        | -0-    | -0-   |
| All our current directors and executive officers as a group (11 persons) | 3,633,024(4)(5)(6) | 67.9% | 10,000,000(4) | 100.0% | 89.3% |

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\* Less than 1%.

- (1) Each share of CompX class B common stock entitles the holder to one vote on all matters except the election of directors, on which each share is entitled to ten votes. In certain instances, shares of CompX class B common stock are automatically convertible into shares of CompX class A common stock.
- (2) Except as otherwise noted, the listed entities, individuals or group have sole investment power and sole voting power as to all shares set forth opposite their names. The number of shares and percentage of ownership for each individual or group assumes the exercise by such individual or group (exclusive of others) of stock options that such individual or group may exercise within 60 days subsequent to the record date.
- (3) The percentages are based on 5,271,780 shares of CompX class A common stock outstanding as of the record date and 10,000,000 shares of CompX class B common stock outstanding as of the record date.
- (4) We and TFMC directly hold 82.4% and 17.6%, respectively, of the outstanding shares of CGI common stock. Valhi holds indirectly through CGI, TFMC and us approximately 88.1% of the combined voting power of the outstanding shares of CompX class A and B common stock (approximately 98.3% for the election of directors).
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All of our directors or executive officers disclaim beneficial ownership of any shares of CompX common stock that we directly own. All of our directors or executive officers who are also directors or executive officers of CGI, TFMC or their parent companies disclaim beneficial ownership of the shares of CompX common stock that such entities directly hold.

Other than the securities he holds directly, Harold C. Simmons disclaims beneficial ownership of any and all securities that his wife, Annette C. Simmons, directly or indirectly owns.

(5) The shares of CompX class A common stock shown as beneficially owned by such person include the following number of shares such person has the right to acquire upon the exercise of stock options that such person or group may exercise within 60 days subsequent to the record date:

| Name of Beneficial Owner | Shares of CompX Class A<br>Common Stock Issuable<br>Upon the Exercise of<br>Stock Options<br>On or Before June 1, 2007 |
|--------------------------|--|
| Glenn R. Simmons         | 56,000   |
| Steven L. Watson         | 16,000   |
| Gregory M. Swalwell      | 5,000  |
| Kelly D. Luttmer         | 4,000  |

(6) The shares of CompX class A common stock shown as beneficially owned by Glenn R. Simmons include 500 shares his wife holds in her retirement account, with respect to which shares he disclaims beneficial ownership.

## ELECTION OF DIRECTORS

Our amended and restated certificate of incorporation provides that the board of directors shall consist of not less than seven nor more than 17 members as determined by our board of directors or shareholders. Our board of directors has currently set the number of directors at seven and recommended six director nominees for the 2007 annual meeting. The board of directors has determined that it can adequately represent our shareholders with six directors and one vacancy on the board of directors. Even though there is currently a vacancy of one directorship on the board of directors, you cannot vote for a greater number of persons than the six director nominees set forth in this proxy statement. The directors elected at the meeting will hold office until our 2008 Annual Meeting of Shareholders and until their successors are duly elected and qualified or their earlier removal or resignation.

All of the nominees are currently members of our board of directors whose terms will expire at the meeting. All of the nominees have agreed to serve if elected. If any nominee is not available for election at the meeting, all shares represented by a proxy card will be voted FOR an alternate nominee to be selected by the board of directors, unless the shareholder executing such proxy card withholds authority to vote for such nominee. The board of directors believes that all of its nominees will be available for election at the meeting and will serve if elected.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE ELECTION OF THE FOLLOWING NOMINEES FOR DIRECTOR.

*Nominees for Director.* The respective nominees have provided the following information.

**Cecil H. Moore, Jr.**, age 67, has served on our board of directors since 2003. Mr. Moore is currently a private investor and retired from KPMG LLP in 2000 after 37 years in which he served in various capacities with the public accounting firm. Among other positions, he served as managing partner of the firm's Dallas, Texas business unit from 1990 to 1999. Prior to 1990, Mr. Moore was partner-in-charge of the audit and accounting practice of the firm's Dallas, Texas business unit for 12 years. Mr. Moore is also a director and chairman of the audit committee of Perot Systems Corporation, a worldwide provider of information technology services and business solutions. He is a member of our audit committee and on the board of directors and chairman of the audit committee of Kronos Worldwide.

**Glenn R. Simmons**, age 79, has served on our board of directors since 1986. Mr. Simmons has been vice chairman of the board of Valhi and Contran since prior to 2002. Mr. Simmons has been chairman of the board of CompX and Keystone since prior to 2002 and also serves on the board of directors of Kronos Worldwide and TIMET. In 2004, Keystone filed a voluntary petition for reorganization under federal bankruptcy laws and emerged from the bankruptcy proceedings in 2005. Mr. Simmons has been an executive officer or director of various companies related to Valhi and Contran since 1969. He is a brother of Harold C. Simmons.

**Harold C. Simmons**, age 75, has served as our chief executive officer since 2003, our chairman of the board since 1987 and on our board of directors since 1986. Mr. Simmons has served as chairman of the board and chief executive officer of Kronos Worldwide since 2003. He also has served as chairman of the board of TIMET since 2005, chief executive officer of TIMET from 2005 to 2006 and vice chairman of the board of TIMET from 2004 to 2005. Mr. Simmons has been chairman of the board of Valhi and Contran since prior to 2002 and was chief executive officer of Valhi in 2002 and prior years. Mr. Simmons has been an executive officer or director of various companies related to Valhi and Contran since 1961. Mr. Simmons is a brother of Glenn R. Simmons.



**General Thomas P. Stafford** (*retired*), age 76, served on our board of directors from 1984 to 1986 and was re-appointed in 2000. Gen. Stafford was selected as an astronaut in 1962, piloted Gemini VI in 1965 and commanded Gemini IX in 1966. In 1969, Gen. Stafford was named Chief of the Astronaut Office and was the Apollo X commander for the first lunar module flight to the moon. He commanded the Apollo-Soyuz joint mission with the Soviet cosmonauts in 1975. After his retirement from the United States Air Force in 1979 as Lieutenant General, he became chairman of Gibraltar Exploration Limited, an oil and gas exploration and production company, and served in that position until 1984, when he joined General Technical Services, Inc., a consulting firm. Gen. Stafford was also affiliated with Stafford, Burke and Hecker, Inc., a Washington-based consulting firm, from 1982 until 2005. Gen. Stafford has more recently served as an advisor to a number of governmental agencies including the National Aeronautics and Space Administration (NASA) and the Air Force Material Command. He is currently chairman of the NASA Advisory Council Task Force on the International Space Station Program, and also served as co-chairman of the Stafford-Covey NASA Space Shuttle Return to Flight Task Group. Gen. Stafford has received many honors and decorations including the Congressional Space Medal of Honor. He is also a director of TIMET and chairman of each of TIMET's audit committee, management development and compensation committee and nominations committee. Gen. Stafford is chairman of each of our audit committee and management development and compensation committee.

**Steven L. Watson**, age 56, has served on our board of directors since 2000. Mr. Watson has served as vice chairman of the board of Kronos Worldwide since 2004. He has served as chief executive officer of TIMET since 2006 and vice chairman of the board of TIMET since 2005. Mr. Watson has been chief executive officer of Valhi since 2002 and president and a director of Valhi and Contran since 1998. He is also a director of CompX and Keystone. Mr. Watson has served as an executive officer or director of various companies related to Valhi and Contran since 1980.

**Terry N. Worrell**, age 62, has served on our board of directors since 2003. Mr. Worrell has been a private investor with Worrell Investments, Inc., a real estate investment company, since 1989. From 1974 to 1989, Mr. Worrell was president and chief executive officer of Sound Warehouse of Dallas Inc., a chain of retail music stores. Mr. Worrell is a director of Regency Centers Corporation and a trust manager of Crescent Real Estate Equities Company, both real estate investment trusts. Mr. Worrell serves on each of our audit committee and management development and compensation committee.

### EXECUTIVE OFFICERS

Set forth below is certain information relating to our executive officers. Each executive officer serves at the pleasure of the board of directors. Biographical information with respect to Harold C. Simmons is set forth under the Nominees for Director subsection above.

| <b>Name</b>       | <b>Age</b> | <b>Position(s)</b>                                |
|-------------------|------------|---|
| Harold C. Simmons | 75         | Chairman of the Board and Chief Executive Officer |
| Robert D. Graham  | 51         | Vice President and General Counsel                |
| Tim C. Hafer      | 45         | Vice President and Controller                     |
| Kelly D. Luttmer  | 43         | Vice President and Tax Director                   |

John A. St. Wrba                      50   Vice President and Treasurer

Gregory M. Swalwell                50   Vice President, Finance and Chief Financial Officer

**Robert D. Graham** has served as vice president and general counsel of us and Kronos Worldwide since 2003, executive vice president of TIMET since 2006, vice president of TIMET from 2004 to 2006 and vice president of Valhi and Contran since 2002. From 1997 to 2002, Mr. Graham served as an executive officer and later as executive vice president and general counsel of Software Spectrum, Inc., a global business-to-business software services provider. From 1985 to 1997, Mr. Graham was a partner in the law firm of Locke Purnell Rain Harrell (A Professional Corporation), a predecessor to Locke Liddell & Sapp LLP.

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**Tim C. Hafer** has served as vice president and controller of us and Kronos Worldwide since May 2006. He served as director - finance and control of us and Kronos Worldwide from 2003 to May 2006. For 2003 and prior years, Mr. Hafer served as an assistant controller of Valhi and Contran. Mr. Hafer has served in financial accounting positions with various companies related to Valhi and Contran since 1999.

**Kelly D. Luttmner** has served as vice president of us, CompX, Contran, Kronos Worldwide and Valhi since 2004, vice president and tax director of TIMET since 2006, tax director of us and Kronos Worldwide since 2003 and tax director of CompX, Valhi and Contran since 1998. Ms. Luttmner has served in tax accounting positions with various companies related to Valhi and Contran since 1989.

**John A. St. Wrba** has served as vice president and treasurer of us since 2003, Valhi since 2005 and TIMET and Contran since 2004. He has also served as vice president of Kronos Worldwide since 2004 and treasurer of Kronos Worldwide since 2003. He was our assistant treasurer from 2002 to 2003. From 2000 until 2002, he was assistant treasurer of Kaiser Aluminum & Chemical Corporation, a leading producer of fabricated aluminum products.

**Gregory M. Swalwell** has served as chief financial officer of us and Kronos Worldwide since 2004, vice president, finance of us and Kronos Worldwide since 2003, vice president of TIMET since 2004 and vice president and controller of Valhi and Contran since 1998. Mr. Swalwell has served in accounting and financial positions with various companies related to Valhi and Contran since 1988.

## CORPORATE GOVERNANCE

***Controlled Company Status, Director Independence and Committees.*** Because of Valhi's ownership of 83.1% of our common stock, we are considered a controlled company under the listing standards of the NYSE. Pursuant to the listing standards, a controlled company may choose not to have a majority of independent directors, independent compensation, nominating or corporate governance committees or charters for these committees. We have chosen not to have a majority of independent directors or an independent nominating or corporate governance committee or charters for these committees. Our board of directors believes that the full board of directors best represents the interests of all of our shareholders and that it is appropriate for all matters that would be considered by a nominating or corporate governance committee to be considered and acted upon by the full board of directors. Applying the NYSE director independence standards without any additional categorical standards, the board of directors has determined that Cecil H. Moore, Jr., Thomas P. Stafford and Terry N. Worrell are independent and have no material relationship with us other than serving as our directors. While the members of our management development and compensation committee currently satisfy the independence requirements of the NYSE, we have chosen not to satisfy all of the NYSE listing standards for a compensation committee.

In determining that Mr. Worrell has no material relationship with us other than serving as our director, the board of directors considered the following relationship.

- As part of a five-year pledge of \$5.0 million, the Foundation, of which Harold C. Simmons is the chairman of the board, contributed in each of 2004, 2005 and 2006 \$1.0 million to Children's Medical Foundation of Texas, of which foundation Mr. Worrell serves as a trustee.

The board determined that Mr. Worrell did not have a direct or indirect material interest in this transaction based on his representation that he receives no compensation for serving as a trustee of Children's Medical Foundation of Texas.

***2006 Meetings and Standing Committees of the Board of Directors.*** The board of directors held five meetings and took action by written consent on two occasions in 2006. Each director participated in at least 80% of all of such meetings and of the 2006 meetings of the committees on which he served at the time. It is expected that each director will attend all of our annual meetings of shareholders, which are held immediately before the annual meetings of the

board of directors. All but one of our directors attended our 2006 annual shareholder meeting.

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The board of directors has established and delegated authority to two standing committees, which are described below. The board of directors is expected to elect the members of the standing committees at the board of directors annual meeting immediately following the annual shareholder meeting. The board of directors has previously established, and from time to time may establish, other committees to assist it in the discharge of its responsibilities.

**Audit Committee.** Our audit committee assists with the board of directors' oversight responsibilities relating to our financial accounting and reporting processes and auditing processes. The purpose, authority, resources and responsibilities of our audit committee are more specifically set forth in our audit committee charter. Applying the requirements of the NYSE listing standards (without additional categorical standards) and SEC regulations, as applicable, the board of directors has determined that:

- each member of our audit committee is independent, financially literate and has no material relationship with us other than serving as our director; and

· Mr. Cecil H. Moore is an "audit committee financial expert."

No member of our audit committee serves on more than three public company audit committees. For further information on the role of our audit committee, see the Audit Committee Report in this proxy statement. The current members of our audit committee are Thomas P. Stafford (chairman), Cecil H. Moore, Jr. and Terry N. Worrell. Our audit committee held seven meetings in 2006.

**Management Development and Compensation Committee.** The principal responsibilities of our management development and compensation committee are:

- to recommend to the board of directors whether or not to approve any proposed charge to us or any of our privately held subsidiaries pursuant to an ISA with a related party;
- to review, approve or administer certain matters regarding our employee defined benefit plans or programs;
- to review, approve, administer and grant awards under our equity compensation plans; and
- to review and administer such other compensation matters as the board of directors may direct from time to time.

The board of directors has determined that each member of our management development and compensation committee is independent by applying the NYSE director independence standards (without additional categorical standards). In certain instances under our 1998 Long-Term Incentive Plan, a plan allowing for grants of cash or equity performance awards, the management development and compensation committee may delegate its authority to administer this plan to certain individuals, which delegation authority the committee has not utilized. With respect to the role of our executive officers in determining or recommending the amount or form of executive compensation, see the Compensation Discussion and Analysis section of this proxy statement. With respect to director compensation, our executive officers make recommendations on such compensation directly to our board of directors for its consideration without involving the management development and compensation committee. The current members of our management development and compensation committee are Thomas P. Stafford (chairman) and Terry N. Worrell. Our management development and compensation committee held one meeting and took action by written consent on two occasions in 2006.

**Non-Management and Independent Director Meetings.** Pursuant to our corporate governance guidelines our non-management directors are entitled to meet on a regular basis throughout the year, and will meet at least once annually, without management participation. Our independent directors also meet at least once annually, without management participation. The chairman of our audit committee presides at all of these meetings.



**Shareholder Proposals and Director Nominations for the 2008 Annual Meeting Shareholders.** Shareholders may submit proposals on matters appropriate for shareholder action at our annual shareholder meetings, consistent with rules adopted by the SEC. We must receive such proposals not later than December 21, 2007 to be considered for inclusion in the proxy statement and form of proxy card relating to our annual meeting of shareholders in 2008.

The board of directors will consider the director nominee recommendations of our shareholders. The board of directors has no specific minimum qualifications for director candidates. The board of directors will consider a potential director nominee's ability to satisfy the need, if any, for any required expertise on the board of directors or one of its committees. Historically, our management has recommended director nominees to the board of directors. Because under the NYSE listing standards we may be deemed to be a controlled company, the board of directors believes that additional policies or procedures with regard to the consideration of director candidates recommended by its shareholders are not appropriate.

Proposals and nominations should be addressed to our corporate secretary at NL Industries, Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

**Communications with Directors.** Shareholders and other interested parties who wish to communicate with the board of directors or its non-management directors may do so through the following procedures. Such communications not involving complaints or concerns regarding accounting, internal accounting controls and auditing matters related to us may be sent to the attention of our corporate secretary at NL Industries, Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. Provided that any such communication relates to our business or affairs and is within the function of our board of directors or its committees, and does not relate to insignificant or inappropriate matters, such communications, or summaries of such communications, will be forwarded to the chairman of our audit committee, who also serves as the presiding director of our non-management and independent director meetings.

Complaints or concerns regarding accounting, internal accounting controls and auditing matters, which may be made anonymously, should be sent to the attention of our general counsel with a copy to our chief financial officer at the same address as our corporate secretary. These complaints or concerns will be forwarded to the chairman of our audit committee. We will keep these complaints or concerns confidential and anonymous, to the extent feasible, subject to applicable law. Information contained in such a complaint or concern may be summarized, abstracted and aggregated for purposes of analysis and investigation.

**Compensation Committee Interlocks and Insider Participation.** As discussed above, for 2006 the management development and compensation committee was composed of Thomas P. Stafford and Terry N. Worrell. No member of the committee:

- was an officer or employee of ours during 2006 or any prior year;
- had any related party relationships with us that requires disclosure under applicable SEC rules; or
- had any interlock relationships within the scope of the intent of applicable SEC rules.

**Code of Business Conduct and Ethics.** We have adopted a code of business conduct and ethics. The code applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller. Only the board of directors may amend the code. Only our audit committee or other committee of the board of directors with specific delegated authority may grant a waiver of this code. We will disclose amendments to or waivers of the code as required by law and the applicable rules of the NYSE.





**Corporate Governance Guidelines.** We have adopted corporate governance guidelines to assist the board of directors in exercising its responsibilities. Among other things, the corporate governance guidelines provide for director qualifications, for independence standards and responsibilities, for approval procedures for ISAs and that our audit committee chairman presides at all meetings of the non-management or independent directors.

**Availability of Corporate Governance Documents.** A copy of each our audit committee charter, code of business conduct and ethics and corporate governance guidelines is available on our website at [www.nl-ind.net](http://www.nl-ind.net) under the corporate governance section. In addition, any person may obtain a copy of these three documents without charge, by sending a written request to the attention of our corporate secretary at NL Industries, Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

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## COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

### AND OTHER INFORMATION

**Compensation Discussion and Analysis.** All of our named executive officers are employees of Contran. We pay Contran a fee to receive, among other things, the services of our named executive officers pursuant to our ISA with Contran, which fee is approved by our independent directors, generally after receiving the recommendation of our management development and compensation committee. Pursuant to certain other ISAs, each of CompX and Kronos Worldwide also pay a fee to Contran for, among other things, the services our named executive officers provide to those companies, which fees are approved by the independent directors of those companies. Additionally, we, CompX and Kronos Worldwide pay director fees in the form of cash and stock compensation to certain of our named executive officers who serve on the boards of directors of us, CompX or Kronos. Other than these director fees, we do not pay any compensation directly to our named executive officers.

**Intercorporate Services Agreements.** The charges under these ISAs reimburse Contran for its cost of employing the personnel who provide the services by allocating such cost to us based on the estimated time such personnel were expected to devote to us over the year. The amount of the fee we paid in 2006 under these ISAs for a person who provided services to us represents, in management's view, the reasonable equivalent of "compensation" for such services. See the Intercorporate Services Agreements part of the Certain Relationships and Transactions section of this proxy statement for the aggregate amount we paid to Contran in 2006 under these ISAs. Under the various ISAs among Contran and its subsidiaries, we share the cost of the employment of our named executive officers with Contran and certain of its other publicly held subsidiaries. For each named executive officer, the portion of the annual charge we paid in 2006 to Contran under these ISAs attributable to the services of such executive officer is set forth in footnote 2 to the Summary Compensation table in this proxy statement. The amounts charged under these ISAs and the cash director fees are not dependent upon our financial performance.

We believe the cost of the services received under our ISA with Contran, after considering the quality of the services received, is fair to us and is no less favorable to us than we could otherwise obtain from an unrelated third party for comparable services, based solely on our collective business judgment and experience without performing any independent market research.

In late 2005, Contran's senior management, including our named executive officers, estimated the number of hours (out of a standard 2,080-hour year) that each Contran employee, including our named executive officers, was expected to devote in 2006 to Contran and its subsidiaries, including us. Contran's senior management then allocated Contran's cost of employing each of its employees among Contran and its various subsidiaries based on the ratio of the estimated hours of service devoted to each company and the total number of standard hours in the year. The cost of each officer's services that is allocated for 2006 was the sum of the following:

- the annualized base salary of such officer at the beginning of 2006;
- the bonus Contran paid such officer (other than bonuses for specific matters) in 2005, which served as a reasonable approximation of the bonus that may be paid in 2006; and
- a 21% overhead factor applied to the base salary for the cost of medical and life insurance benefits, social security and medicare taxes, unemployment taxes, disability insurance, defined benefit and defined contribution plan benefits, professional education and licensing and costs of providing an office, equipment and supplies related to the provision of such services.

Contran's senior management then made such adjustments to the details of the proposed ISA charges as they deemed necessary for accuracy, overall reasonableness and fairness to us and our subsidiaries.

In the first quarter of 2006, the proposed 2006 charges under these ISAs were presented to the respective management development and compensation committees of CompX, Kronos Worldwide and us to determine whether the committee would recommend that its board of directors approve the applicable 2006 ISA charges. During such presentations, each committee was informed of:

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- the quality of the services Contran provides;
- the \$1.0 million charge to each publicly held company for the services of Harold C. Simmons for his service as chief executive officer, where applicable, or his consultation and advice to the chief executive officer regarding major strategic corporate matters;
- the comparison of the ISA charge and number of full-time equivalent employees reflected in the charge by department for 2005 and proposed for 2006; and
- the comparison of the 2005 and proposed 2006 charges by department and in total and such amounts as a percentage of Contran's similarly calculated costs for its departments and in total for those years.

After such presentations and following further discussion and review, the management development and compensation committee of each of CompX, Kronos Worldwide and us recommended that their respective boards of directors approve the proposed 2006 ISA fee after concluding that:

- the cost to employ the additional personnel necessary to provide the quality of the services provided by Contran would exceed the proposed 2006 aggregate fee to be charged by Contran under the applicable ISA; and
  - the cost for such services would be no less favorable than could otherwise be obtained from an unrelated third party for comparable services.

In reaching its recommendation, our management development and compensation committee did not review any 2006 ISA charges from Contran to any other publicly held sister or subsidiary company, which charges were separately reviewed by the management development and compensation committee of the applicable company.

Based on the recommendations of the committees, the independent directors of each of CompX, Kronos Worldwide and us approved the applicable proposed 2006 ISA charge effective January 1, 2006 with the other directors abstaining.

For financial reporting and income tax purposes, the ISA fees are expensed as incurred on a quarterly basis. Contran has implemented a limit of \$1.0 million on any individual's charge to a publicly held company in order to enhance the deductibility by the company of the charge for tax purposes under Section 162(m) of the Internal Revenue Code of 1986, if such section were somehow to be deemed applicable. Section 162(m) generally disallows a tax deduction to publicly held companies for non-performance based compensation over \$1.0 million paid to the company's chief executive officer and four other most highly compensated executive officers.

*Deductibility of Compensation.* It is our general policy to structure the performance-based portion of the compensation of our executive officers in a manner that enhances our ability to deduct fully such compensation under Section 162(m) of the Internal Revenue Code.

*Equity-Based Compensation.* Prior to 2004, we decided to forego the grant of any equity compensation to our employees, although we continue to grant annual awards of stock to our directors. We also do not have any security ownership requirements or guidelines for our management or directors. We do not currently anticipate any equity-based compensation will be granted to anyone in 2007, other than annual grants of stock to our directors, including our chief executive officer. See the Director Compensation section in this proxy statement for a discussion of these annual grants. The dollar amount for option awards appearing in the Summary Compensation table below represents the income we recognized for financial statement reporting purposes in 2006 for stock options to purchase our common stock held by the named executive officers.



**Compensation Committee Report.** The management development and compensation committee has reviewed with management the Compensation Discussion and Analysis section in this proxy statement. Based on the committee's review and the discussion with management, the committee recommended to the board of directors that the compensation discussion and analysis be included in this proxy statement.

The following individuals, in the capacities indicated, hereby submit the foregoing report.

**Thomas P. Stafford**

*Chairman of our Management  
Development and Compensation  
Committee*

**Terry N. Worrell**

*Member of our Management  
Development and Compensation  
Committee*

**Summary of Cash and Certain Other Compensation of Executive Officers.** The Summary Compensation table below provides information concerning compensation we, CompX and Kronos Worldwide paid or accrued for services rendered during 2006 by our chief executive officer, chief financial officer and each of the three other most highly compensated individuals (based on ISA charges to us and our subsidiaries) who were our executive officers at December 31, 2006 and one of our former executive officers. All of our named executive officers were employees of Contran for 2006 and provided their services to us and our subsidiaries pursuant to the ISAs. For a discussion of these ISAs, see the Intercorporate Services Agreements part of the Certain Relationships and Transactions section of this proxy statement.

**2006 SUMMARY COMPENSATION TABLE (1)**

| <b>Name and Principal Position</b>  | <b>Year</b> | <b>Salary</b>  | <b>Stock Awards</b> | <b>Option Awards</b> | <b>Total</b> |
|---|-------------|----------------|---------------------|----------------------|--------------|
| Harold C. Simmons<br><i>Chairman of the Board and Chief Executive Officer</i>     | 2006        | \$3,047,000(2) | \$26,985(3)         | \$(11,904)(4)        | \$3,062,081  |
| Robert D. Graham<br><i>Vice President and General Counsel</i>                     | 2006        | 584,200(2)     | -0-                 | -0-                  | 584,200      |
| Gregory M. Swalwell<br><i>Vice President, Finance and Chief Financial Officer</i> | 2006        | 508,000(2)     | -0-                 | -0-                  | 508,000      |
| Kelly D. Luttmer<br><i>Vice President and Tax Director</i>                        | 2006        | 505,700(2)     | -0-                 | -0-                  | 505,700      |
| John A. St. Wrba<br><i>Vice President and Treasurer</i>                           | 2006        | 348,700(2)     | -0-                 | -0-                  | 348,700      |
| James W. Brown (5)<br><i>Former Vice President and Controller</i>                 | 2006        | 536,600(2)     | -0-                 | -0-                  | 536,600      |

(1) Certain non-applicable columns have been omitted from this table.

(2) The amounts shown in the 2006 Summary Compensation table as salary for each named executive officer represent the portion of the fees we, CompX and Kronos Worldwide paid to Contran pursuant to certain ISAs with respect to the services such officer rendered to us and our subsidiaries. The amount shown in the table as salary for Mr. Harold Simmons also includes director cash compensation paid to him by us and Kronos Worldwide. The components of salary shown in the 2006 Summary Compensation table for each of our named executive officers are as follows.

---

2006

*Harold C. Simmons*

|                                       |    |           |
|---------------------------------------|----|-----------|
| ISA Fees:                             |    |           |
| CompX                                 | \$ | 1,000,000 |
| Kronos Worldwide                      |    | 1,000,000 |
| NL                                    |    | 1,000,000 |
| Director Fees Earned or Paid in Cash: |    |           |
| Kronos Worldwide                      |    | 23,000    |
| NL                                    |    | 24,000    |
|                                       | \$ | 3,047,000 |

*Robert D. Graham*

|                  |    |             |
|------------------|----|-------------|
| ISA Fees:        |    |             |
| CompX            | \$ | 25,400      |
| Kronos Worldwide |    | 254,000 (a) |
| NL               |    | 304,800     |
|                  | \$ | 584,200     |

*Gregory M. Swalwell*

|                  |    |             |
|------------------|----|-------------|
| ISA Fees:        |    |             |
| CompX            | \$ | 50,800      |
| Kronos Worldwide |    | 228,600 (a) |
| NL               |    | 228,600     |
|                  | \$ | 508,000     |

*Kelly D. Luttmmer*

|                  |    |             |
|------------------|----|-------------|
| ISA Fees:        |    |             |
| CompX            | \$ | 78,400      |
| Kronos Worldwide |    | 274,400 (a) |
| NL               |    | 152,900 (b) |
|                  | \$ | 505,700     |

*John A. St. Wrba*

|                  |    |             |
|------------------|----|-------------|
| ISA Fees:        |    |             |
| CompX            | \$ | 26,800      |
| Kronos Worldwide |    | 268,200 (a) |
| NL               |    | 53,700      |
|                  | \$ | 348,700     |

*James W. Brown*

|                  |    |             |
|------------------|----|-------------|
| ISA Fees:        |    |             |
| CompX            | \$ | -0-         |
| Kronos Worldwide |    | 429,300 (a) |
| NL               |    | 107,300     |
|                  | \$ | 536,600     |

(a) Includes amounts allocated to Kronos International, Inc., a wholly owned subsidiary of Kronos Worldwide, under the ISA between Contran and Kronos Worldwide.



- (b) Includes amounts allocated to EWI RE, Inc., our wholly owned subsidiary, under the ISA between Contran and us.
- (3) Stock awards to Mr. Simmons in 2006 consisted of shares of common stock we or Kronos Worldwide granted to him for his services as a director. See the 2006 Grants of Plan-Based Awards table below for more details regarding these grants.
-

- (4) Represents the compensation income we recognized in 2006 for financial statement reporting purposes of the options to purchase our common stock held by Mr. Simmons. We account for these options to purchase our common stock using the liability method of FAS 123R, under which we re-measure the fair value of all outstanding stock options at each balance sheet date until the options are exercised or otherwise settled. We use the closing market price of our common stock at each balance sheet date to determine the fair value, which fair value cannot be less than zero. For financial statement reporting purposes, we recognize compensation expense or income, as applicable, to reflect increases or decreases in the aggregate fair value of all outstanding stock options. The aggregate fair value of the outstanding stock options decreased during 2006, principally because the December 31, 2006 closing market price of our common stock was lower as compared to December 31, 2005. As a result, we recognized compensation income in 2006 related to Mr. Simmons' stock options. To the extent we recognize compensation income for financial reporting purposes related to these stock options, such as we did in 2006, we report the corresponding reduction in compensation expense with respect to the change in stock option values reported in this table.
- (5) In May 2006, Mr. Brown ceased to hold the titles of vice president and controller of us and Kronos Worldwide. Concurrently, TIMET appointed Mr. Brown as its vice president, corporate finance. While he performed services for us and Kronos Worldwide, Mr. Brown spent a substantial amount of his time on the documentation and testing of internal control over financial reporting of us and Kronos Worldwide. Following Mr. Brown's appointment as an officer of TIMET, we elected Mr. Hafer, also a Contran employee, to become our vice president and controller and Kronos Worldwide elected him its vice president and controller.

**2006 Grants of Plan-Based Awards.** The following table sets forth details of the stock awards we and Kronos Worldwide granted to our chief executive officer in 2006 for his services as director of each corporation. No other named executive officer received any plan-based awards from us or our subsidiaries in 2006.

**2006 GRANTS OF PLAN-BASED AWARDS (1)**

| <b>Name</b>                       | <b>Grant Date</b> | <b>Date of Approval (2)</b> | <b>All Other Stock Awards: Number of Shares of Stock or Units (#) (2)</b> | <b>Grant Date Fair Value of Stock and Option Awards (2)</b> |
|-----------------------------------|-------------------|-----------------------------|---|---|
| Harold C. Simmons                 |                   |                             |   |   |
| Kronos Worldwide common stock (3) | May 24, 2006      | January 1, 2004             | 500   | \$ 14,995   |
| NL common stock (4)               | May 24, 2006      | January 1, 2004             | 1,000   | \$ 11,990   |
|                                   |                   |                             |   | \$ 26,985   |

(1) Certain non-applicable columns have been omitted from this table.

(2) As preapproved by the respective management development and compensation committees of each of us and Kronos Worldwide on the day of each issuer's annual shareholder meeting, each director elected on that day receives a grant of shares of such issuer's common stock as determined by the following formula based on the closing price of a share of the common stock on the date of such meeting.

Range of Closing Price Per Shares of Common

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| Share on the Date of Grant | Stock to Be Granted |
|----------------------------|---------------------|
| Under \$5.00               | 2,000               |
| \$5.00 to \$9.99           | 1,500               |
| \$10.00 to \$20.00         | 1,000               |
| Over \$20.00               | 500                 |

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These shares are fully vested and tradable immediately on their date of grant, other than restrictions under applicable securities laws. For the purposes of this table and financial statement reporting, these stock awards were valued at the closing price per share of such shares on their dates of grant, which closing prices were:

| Common Stock     | Date of Grant | Closing Price on Date of Grant |
|------------------|---------------|--------------------------------|
| Kronos Worldwide | May 24, 2006  | \$29.99                        |
| NL               | May 24, 2006  | \$11.99                        |

(3) Granted by Kronos Worldwide pursuant to its 2003 Long-Term Incentive Plan.

(4) Granted by us pursuant to our 1998 Long-Term Incentive Plan.

**Outstanding Equity Awards at December 31, 2006.** The following table provides information with respect to the outstanding stock options to purchase shares of our common stock or common stock of our subsidiaries and held by our named executive officers as of December 31, 2006. Messrs. Harold Simmons and Swalwell and Ms. Luttmer were the only named executive officers that held such stock options at December 31, 2006.

**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2006 (1)**

| Name  | Option Awards  |               | Option Exercise Price | Option Expiration Date |
|---|--|---------------|-----------------------|------------------------|
|   | Number of Shares Underlying Unexercised Options at December 31, 2006 (#) |               |                       |                        |
|   | Exercisable  | Unexercisable |                       |                        |
| Harold C. Simmons<br><i>NL Stock Options (2)</i>      | 2,000  | -0-           | \$5.1850              | 02/01/07               |
| Gregory M. Swalwell<br><i>CompX Stock Options (3)</i> | 5,000  | -0-           | 20.0000               | 03/05/08               |
| Kelly D. Luttmer<br><i>CompX Stock Options (3)</i>    | 4,000  | -0-           | 20.0000               | 03/05/08               |

(1) Certain non-applicable columns have been omitted from this table.

(2) These stock options vested in full on February 1, 2003.

(3) These stock options vested at a rate of 20% on each of the first five anniversary dates of the date of grant of the stock option, which date of grant was the tenth anniversary prior to the expiration date of the stock option.

***Option Exercises and Stock Vested.*** During 2006, no named executive officer exercised any stock options or had any stock awards vest. For stock awards granted in 2006 that had no vesting restrictions, see the 2006 Grants of Plan-Based Awards table above.

***Pension Benefits.*** We do not have any pension plans in which our named executive officers participate.

***Nonqualified Deferred Compensation.*** We do not owe any nonqualified deferred compensation to our named executive officers.

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**Director Compensation.** Our directors are entitled to receive compensation for their services as directors. Our directors receive an annual retainer of \$20,000, paid in quarterly installments, plus a fee of \$1,000 per day for attendance at meetings and at a daily rate (\$125 per hour) for other services rendered on behalf of our board of directors or its committees. For the first six months of 2006, the chairman of our audit committee and any member of our audit committee whom the board identified as an “audit committee financial expert” for purposes of the annual proxy statement received an annual retainer of \$10,000, paid in quarterly installments (provided that if one person served in both capacities only one such retainer was paid), and other members of our audit committee received an annual retainer of \$5,000, paid in quarterly installments. Effective July 1, 2006, our board of directors increased the annual retainer paid to our audit committee members. For the last six months of 2006, the chairman of our audit committee and any member of our audit committee whom the board identified as an “audit committee financial expert” for purposes of the annual proxy statement received an annual retainer of \$20,000, paid in quarterly installments (provided that if one person served in both capacities only one such retainer was paid), and other members of our audit committee received an annual retainer of \$10,000, paid in quarterly installments. If a director dies while serving on our board of directors, his designated beneficiary or estate will be entitled to receive a death benefit equal to the annual retainer then in effect. We reimburse our directors for reasonable expenses incurred in attending meetings and in the performance of other services rendered on behalf of our board of directors or its committees. In addition, Gen. Stafford receives an annual payment of \$15,000 as a result of his service on our board of directors prior to 1987.

As discussed in footnote 2 to the 2006 Grants of Plan-Based Awards table, on the day of each annual shareholder meeting, each of our directors elected on that date receives a grant of shares of our common stock as determined by the closing price of a share of our common stock on the date of such meeting. The following table provides information with respect to compensation certain of our directors earned or received for their 2006 director services provided to us.

#### 2006 DIRECTOR COMPENSATION (1)

| Name                        | Fees Earned<br>or Paid in<br>Cash (2) | Stock<br>Awards (3) | Option<br>Awards | All Other<br>Compensation | Total    |
|-----------------------------|---------------------------------------|---------------------|------------------|---------------------------|----------|
| Cecil H. Moore, Jr.<br>(4). | \$45,000                              | \$11,990            | \$-0-            | \$-0-                     | \$56,990 |
| Glenn R. Simmons<br>(4)     | 25,000                                | 11,990              |                  | -0-                       | 36,990   |
| Thomas P. Stafford          | 47,000                                | 11,990              |                  | 15,000(5)                 | 73,990   |
| Steven L. Watson (4)        | 25,000                                | 11,990              | (11,904)(6)      | -0-                       | 25,086   |
| Terry N. Worrell            | 38,500                                | 11,990              |                  | -0-                       | 50,490   |

(1) Certain non-applicable columns have been omitted from this table. For compensation Harold C. Simmons earned or received for serving as our director, see the 2006 Summary Compensation table (footnotes 2 and 3) and 2006 Grants of Plan-Based Awards table set forth above.

(2) Represents retainers and meeting fees the director received or earned for director services he provided to us in 2006.

(3) Represents the value of 1,000 shares of our common stock we granted to each of these directors. For the purposes of this table and financial statement reporting, these stock awards were valued at the closing price per share of such

shares on their date of grant, which closing price and date of grant were \$11.99 and May 24, 2006, respectively.

(4) Messrs. Moore, Glenn Simmons and Watson also receive compensation from CompX and Kronos Worldwide for services as a director of CompX or Kronos Worldwide. For 2006, they each earned or received the following for these director services:

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| Name   | Fees Earned or Paid in |                  |                   | Total    |
|--|------------------------|------------------|-------------------|----------|
|  | Cash (a)               | Stock Awards (b) | Option Awards (c) |          |
| Cecil H. Moore, Jr.<br><i>Kronos Worldwide Director Services</i> | \$43,000               | \$14,995         | \$-0-             | \$57,995 |
| Glenn R. Simmons<br><i>CompX Director Services</i>               | 23,000                 | 15,500           | 4,068             | \$42,568 |
| <i>Kronos Worldwide Director Services</i>                        | 23,000                 | 14,995           | -0-               | 37,995   |
|  |                        |                  |                   | \$80,563 |
| Steven L. Watson<br><i>CompX Director Services</i>               | 23,000                 | 15,500           | 4,068             | \$42,568 |
| <i>Kronos Worldwide Director Services</i>                        | 23,000                 | 14,995           | -0-               | 37,995   |
|  |                        |                  |                   | \$80,563 |

(a) Represents retainers and meeting fees received or earned for 2006 director services.

(b) For the purposes of this table and financial statement reporting, these stock awards comprised the following number of shares and were valued at the following closing prices per share of such shares on their respective dates of grant:

| Common Stock                  | Shares Granted | Date of Grant | Closing Price Dollar Value |                |
|-------------------------------|----------------|---------------|----------------------------|----------------|
|                               |                |               | on Date of Grant           | of Stock Award |
| CompX Class A Common Stock    | 1,000          | May 16, 2006  | \$15.50                    | \$15,500       |
| Kronos Worldwide Common Stock | 500            | May 24, 2006  | \$29.99                    | \$14,995       |

(c) This value relates to stock options to purchase CompX class A common stock that CompX granted to its nonemployee directors for their director services. We determined this value by applying FAS 123R to determine the amount recognized for financial statement reporting purposes for 2006 (disregarding any estimate of forfeitures related to service based vesting conditions) and calculated using the Black-Scholes stock option valuation model with the following weighted average assumptions:

- a stock price volatility of 37% to 45%;
- risk-free rates of return of 5.1% to 6.9%;
- dividend yields of nil to 5.0%; and
- an expected term of ten years.

(5) Gen. Stafford (ret.) receives an annual lifetime benefit payment of \$15,000 as a result of his service on our board of directors prior to 1987.



(6) Prior to 2004, we granted stock options exercisable for shares of our common stock on an annual basis to each director for his director services. As of December 31, 2006, Steven L. Watson held stock options exercisable for 4,000 shares of our common stock, which shares were fully vested at that date. This amount represents the compensation income we recognized in 2006 for financial statement reporting purposes related to these stock options. See footnote 4 to the Summary Compensation table for information as to how we calculated this compensation income.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act requires our executive officers, directors and persons who own more than 10% of a registered class of our equity securities to file reports of ownership with the SEC, the NYSE and us. Based solely on the review of the copies of such forms and representations by certain reporting persons, we believe that for 2006 our executive officers, directors and 10% shareholders complied with all applicable filing requirements under section 16(a).

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## CERTAIN RELATIONSHIPS AND TRANSACTIONS

***Related Party Transaction Policy*** . As set forth in our code of business conduct and ethics, from time to time, we engage in transactions with affiliated companies. In addition, certain of our executive officers and directors serve as executive officers and directors of affiliated companies. With respect to transactions between or involving us and one or more of our affiliates, it is not a violation of the code if the transaction, in our opinion, is no less favorable to us than could be obtained from unrelated parties, or the transaction, in the absence of shareholder ratification or approval by independent directors, is fair to all companies involved. Furthermore, the code provides that:

- directors and officers owe a duty to us to advance our legitimate interests when the opportunity to do so arises; and
- they are prohibited from (a) taking for themselves personally opportunities that properly belong to us or are discovered through the use of our property, information or position; (b) using corporate property, information or position for improper personal gain; and (c) competing with our interests.

Our executive officers are responsible for applying this policy to related parties. No specific procedures are in place, however, that govern the treatment of transactions among us and our related entities, although we and such entities may implement specific procedures as appropriate for particular transactions. Provided, in our judgment, the standard set forth in the code of business conduct and ethics is satisfied, we believe, given the number of companies affiliated with Contran, that related party transactions with our affiliates, in many instances (such as achieving economies of scale), are in our best interest. In certain instances, our executive officers may seek the approval or ratification of such transactions by our independent directors, but there is no quantified threshold for seeking this approval.

***Relationships with Related Parties*** . As set forth under the Security Ownership section of this proxy statement, Harold C. Simmons, through Contran, may be deemed to control us. We and other entities that may be deemed to be controlled by or related to Mr. Simmons sometimes engage in the following:

- 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
- 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 that resulted in the acquisition by one related party of an equity interest in another related party.

We periodically consider, review and evaluate and understand that Contran and related entities periodically consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant and restrictions under indentures and other agreements, it is possible that we might be a party to one or more of such transactions in the future. In connection with these activities, we may consider issuing additional equity securities or incurring additional indebtedness. Our acquisition activities have in the past and may in the future include participation in acquisition or restructuring activities conducted by other companies that may be deemed to be related to Harold C. Simmons.

Certain directors or executive officers of Contran, CompX, Keystone, Kronos Worldwide, TIMET or Valhi also serve as our directors or executive officers. Such relationships may lead to possible conflicts of interest. These possible conflicts of interest may arise under circumstances in which such companies may have adverse interests. In such an event, we implement such procedures as appropriate for the particular transaction.



**Intercorporate Services Agreements.** As discussed elsewhere in this proxy statement, we and certain related companies have entered into ISAs. Under the ISAs, employees of one company provide certain services, including executive officer services, to the other company on a fixed fee basis. The services rendered under the ISAs may include executive, management, financial, internal audit, accounting, tax, legal, insurance, risk management, treasury, aviation, human resources, technical, consulting, administrative, office, occupancy and other services as required from time to time in the ordinary course of the recipient's business. The fees paid pursuant to the ISAs are generally based upon an estimate of the time devoted by employees of the provider of the services to the business of the recipient and the employer's cost related to such employees, which includes the employees' cash compensation and an overhead component that takes into account other employment related costs. Each of the ISAs renews on a quarterly basis, generally subject to the termination by either party pursuant to a written notice delivered 30 days prior to the start of the next quarter. Because of the number of companies related to Contran and us, we believe we benefit from cost savings and economies of scale gained by not having certain management, financial, legal, tax and administrative staffs duplicated at each company, thus allowing certain individuals to provide services to multiple companies. With respect to a publicly held company that is a party to an ISA, the ISA and the related aggregate annual charge are approved by the independent directors of the company, generally after receiving a recommendation from the company's management development and compensation committee. See the Intercorporate Services Agreements part of the Compensation Discussion and Analysis section in this proxy statement for a more detailed discussion on the procedures and considerations taken in approving the aggregate 2006 ISA fees charged by Contran to us or our subsidiaries.

The following table sets forth the fees paid by us and our subsidiaries to Contran in 2006 and the amount anticipated to be paid to Contran in 2007 for services Contran provided us or our subsidiaries under the various ISAs.

| <b>Recipient of Services from Contran under an ISA</b> | <b>Fees Paid to<br/>Contran under<br/>the ISA in 2006</b> | <b>Fees Expected to<br/>be Paid to<br/>Contran under<br/>the ISA in 2007</b> |
|--|---|--|
|  | (In millions)   |  |
| NL Industries, Inc.                                    | \$4.800(1)  | \$4.877(1)   |
| Kronos Worldwide, Inc.                                 | 6.332(1)  | 6.516(1)   |
| CompX International Inc.                               | 2.733(2)  | 2.879(2)   |
| Total  | \$13.865(1)(2)  | \$14.272(1)(2)   |

(1) In addition to the reported ISA charges, we and Kronos Worldwide also pay Messrs. Glenn and Harold Simmons and Watson for their services as directors.

(2) In addition to the reported ISA charges, CompX also pays Messrs. Glenn Simmons and Watson for their services as directors of CompX.

**Insurance Matters.** We and Contran participate in a combined risk management program. Pursuant to the program, Contran and certain of its subsidiaries and related entities, including us and certain of our subsidiaries and related entities, purchase certain insurance policies as a group, with the costs of the jointly owned policies being apportioned among the participating companies. Tall Pines and EWI RE, Inc. provide for or broker these insurance policies. Tall Pines is a captive insurance company wholly owned by Valhi, and EWI is a reinsurance brokerage and risk management company wholly owned by us. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters for the policies that they provide or broker.

With respect to certain of such jointly owned insurance policies, it is possible that unusually large losses incurred by one or more insureds during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of the policy period. As a result, Contran and certain of its subsidiaries or related companies, including us, have entered into a loss sharing agreement under which any uninsured loss is shared by those companies who have submitted claims under the relevant policy. We believe the benefits in the form of reduced premiums and broader coverage associated with the group coverage for such policies justify the risks associated with the potential for any uninsured loss.

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During 2006, we, CompX and Kronos Worldwide paid premiums of approximately \$11.5 million for insurance policies Tall Pines provided or EWI brokered, including approximately \$1.5 million paid by Louisiana Pigment Company, L.P., a partnership of which a wholly owned subsidiary of Kronos Worldwide and a subsidiary of Huntsman Corporation each own 50%. These amounts principally included payments for reinsurance and insurance premiums paid to unrelated third parties, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance for substantially all of the risks it underwrites. In our opinion, the amounts that we, our subsidiaries and Louisiana Pigment paid for these insurance policies and the allocation among us and our related entities of these insurance premiums are reasonable and are less than the costs we would incur if such policies were obtained or brokered through third parties. We expect that these relationships with Tall Pines and EWI will continue in 2007. Because we believe there is no conflict of interest regarding our participation in the combined risk management program, our audit committee received a report regarding this program but our independent directors were not asked to approve it.

**Tax Matters.** We and our qualifying subsidiaries are members of the consolidated U.S. federal tax return of which Contran is the parent company, which we refer to as the "Contran Tax Group." As a member of the Contran Tax Group and pursuant to certain tax sharing agreements or policies, each of the members and its qualifying subsidiaries compute provisions for U.S. income taxes on a separate company basis using tax elections made by Contran. Pursuant to the tax sharing agreements or policies and using tax elections made by Contran, each of the parties makes payments or receives payments 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 but instead had been a separate taxpayer. Refunds are generally limited to amounts previously paid under the respective tax sharing agreement or policy. We and our qualifying subsidiaries are also a part of consolidated tax returns filed by Contran in certain U.S. state jurisdictions. The terms of the applicable tax sharing agreements or policies also apply to state payments to these jurisdictions.

Under applicable law, we, as well as every other member of the Contran Tax Group, are each jointly and severally liable for the aggregate federal income tax liability of Contran and the other companies included in the group for all periods in which we are included in the group. Contran's policy, however, is to indemnify us for any liability for income taxes of the Contran Tax Group in excess of our tax liability previously computed and paid by us in accordance with the tax allocation policy.

Under certain circumstances, tax regulations could require Contran to treat items differently than we would have treated them on a stand alone basis. In such instances, accounting principles generally accepted in the United States of America require us to conform to Contran's tax elections. In 2006 pursuant to the tax sharing agreements and policies, we received a net cash refund for income taxes from Valhi of approximately \$5.8 million, and Kronos Worldwide made net cash payments to Valhi of approximately \$5.0 million. Because the calculation of amounts payable to Valhi by us and our subsidiaries is determined pursuant to the applicable tax law in accordance with the tax sharing agreements and policies, our independent directors were not asked to approve these payments to Valhi.

**Simmons Family Matters.** In addition to the services he provides under the ISAs with us and our subsidiaries as discussed under the Intercorporate Services Agreements section above, certain family members of Harold C. Simmons also provide services to us pursuant to these ISAs. In 2006, James C. Epstein (a son-in-law of Harold C. Simmons) and L. Andrew Fleck (a step-son of Harold C. Simmons) provided certain risk management and property management services, respectively, to us pursuant to these ISAs. The portion of the fees we paid to Contran in 2006 pursuant to these ISAs for the services of each of Messrs. Epstein and Fleck was not enough to require quantification under SEC rules. See the Intercorporate Services Agreements section above for a more detailed discussion on the procedures and considerations taken by our independent directors in approving the aggregate 2006 ISA fee Contran charged us. As disclosed in the Director Compensation table in this proxy statement, Mr. Glenn Simmons (a brother of Harold C. Simmons) also received compensation in cash and stock from us and Kronos Worldwide and CompX for his director services for 2006 and is expected to continue to receive similar compensation for 2007 for such services.



## AUDIT COMMITTEE REPORT

Our audit committee of the board of directors is comprised of three directors and operates under a written charter adopted by the board of directors. All members of our audit committee meet the independence standards established by the board of directors and the NYSE and promulgated by the SEC under the Sarbanes-Oxley Act of 2002. The audit committee charter is available on our website at [www.nl-ind.com](http://www.nl-ind.com) under the corporate governance section.

Our management is responsible for, among other things, preparing its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or "GAAP," establishing and maintaining internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) and evaluating the effectiveness of such internal control over financial reporting. Our independent registered public accounting firm is responsible for auditing our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and for expressing an opinion on the conformity of the financial statements with GAAP. Our independent registered public accounting firm is also responsible for auditing our internal control over financial reporting in accordance with such standards and for expressing an opinion on (i) management's assessment of the effectiveness of its internal control over financial reporting and (ii) the effectiveness of its internal control over financial reporting. Our audit committee assists the board of directors in fulfilling its responsibility to oversee management's implementation of our financial reporting process. In its oversight role, our audit committee reviewed and discussed the audited financial statements with management and with PwC, our independent registered public accounting firm for 2006. Our audit committee also reviewed and discussed internal control over financial reporting with management and with PwC.

Our audit committee met with PwC and discussed any issues deemed significant by our independent registered public accounting firm, including the required matters to be discussed by Statement of Auditing Standards No. 61, *Communication with Audit Committee*, as amended. PwC has provided to our audit committee written disclosures and the letter required by Independence Standards Board No. 1, *Independence Discussions with Audit Committees*, and our audit committee discussed with PwC that firm's independence. Our audit committee also concluded that PwC's provision of non-audit services to us and our related entities is compatible with PwC's independence.

Based upon the foregoing considerations, our audit committee recommended to the board of directors that our audited financial statements be included in our 2006 Annual Report on Form 10-K for filing with the SEC.

Members of our audit committee of the board of directors respectfully submit the foregoing report.

**Thomas P. Stafford**

**Cecil H. Moore, Jr.**

**Terry N. Worrell**

*Chairman of our Audit Committee* *Member of our Audit Committee* *Member of our Audit Committee*



**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM MATTERS**

**Independent Registered Public Accounting Firm.** PwC served as our independent registered public accounting firm for the year ended December 31, 2006. Our audit committee has appointed PwC to review our quarterly unaudited consolidated financial statements to be included in our Quarterly Reports on Form 10-Q for the first three quarters of 2007. We expect PwC will be considered for appointment to audit our annual consolidated financial statements and internal control over financial reporting for the year ending December 31, 2007. Representatives of PwC are not expected to attend the annual meeting.

**Fees Paid to PricewaterhouseCoopers LLP.** The following table shows the aggregate fees that PwC has billed or is expected to bill to us, CompX or Kronos Worldwide for services rendered for 2005 and 2006 that our audit committee authorized for us and our privately held subsidiaries and the CompX or Kronos Worldwide audit committees each separately authorized for its corporation and such corporation's privately held subsidiaries. Additional fees for 2006 may subsequently be authorized and paid to PwC, in which case the amounts disclosed below for fees paid to PwC for 2006 would be adjusted to reflect such additional payments in our proxy statement relating to next year's annual shareholder meeting. In this regard, the fees shown below for 2005 have been adjusted from amounts disclosed in our proxy statement for last year's annual shareholder meeting.

| Entity (1)                               | Audit<br>Fees (2) | Audit<br>Related<br>Fees (3) | Tax<br>Fees (4) | All Other<br>Fees | Total        |
|--|-------------------|------------------------------|-----------------|-------------------|--------------|
| NL and Subsidiaries                      |                   |                              |                 |                   |              |
| 2005                                     | \$ 598,100        | \$ 49,200                    | \$ -0-          | \$ -0-            | \$ 647,300   |
| 2006                                     | \$ 317,000        | \$ -0-                       | \$ -0-          | \$ -0-            | \$ 317,000   |
| CompX and Subsidiaries                   |                   |                              |                 |                   |              |
| 2005                                     | 738,900           | 9,600                        | 14,600          | -0-               | 763,100      |
| 2006                                     | 707,000           | 6,000                        | 14,600          | -0-               | 727,600      |
| Kronos Worldwide and Subsidiaries<br>(5) |                   |                              |                 |                   |              |
| 2005                                     | 2,010,100         | 19,000                       | 24,100          | -0-               | 2,053,200    |
| 2006                                     | 1,869,000         | 5,000                        | 18,000          | -0-               | 1,892,000    |
| Total                                    |                   |                              |                 |                   |              |
| 2005                                     | \$ 3,347,100      | \$ 77,800                    | \$ 38,700       | \$ -0-            | \$ 3,463,600 |
| 2006                                     | \$ 2,893,000      | \$ 11,000                    | \$ 32,600       | \$ -0-            | \$ 2,936,600 |

(1) Fees are reported without duplication.

(2) Fees for the following services:

- (a) audits of consolidated year-end financial statements for each year and audit of internal control over financial reporting;
- (b) reviews of the unaudited quarterly financial statements appearing in Forms 10-Q for each of the first three quarters of each year;
- (c) consents and assistance with registration statements filed with the SEC;
- (d) normally provided statutory or regulatory filings or engagements for each year; and

- (e) the estimated out-of-pocket costs PwC incurred in providing all of such services, for which PwC is reimbursed.
  - (3) Fees for assurance and related services reasonably related to the audit or review of financial statements for each year. These services included employee benefit plan audits, accounting consultations and attest services concerning financial accounting and reporting standards and advice concerning internal controls.
  - (4) Permitted fees for tax compliance, tax advice and tax planning services.
  - (5) We account for our interest in Kronos Worldwide by the equity method as of July 1, 2004.
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**Preapproval Policies and Procedures.** For the purpose of maintaining the independence of our independent registered public accounting firm, our audit committee has adopted policies and procedures for the preapproval of audit and permitted non-audit services the firm provides to us or any of our subsidiaries other than our publicly held subsidiaries and their respective subsidiaries. We may not engage the firm to render any audit or permitted non-audit service unless the service is approved in advance by our audit committee pursuant to the committee's amended and restated preapproval policies and procedures that the committee approved on February 22, 2005. Pursuant to the policy:

- the committee must specifically preapprove, among other things, the engagement of our independent registered public accounting firm for audits and quarterly reviews of our financial statements, services associated with certain regulatory filings, including the filing of registration statements with the SEC, and services associated with potential business acquisitions and dispositions involving us; and
- for certain categories of permitted non-audit services of our independent registered public accounting firm, the committee may preapprove limits on the aggregate fees in any calendar year without specific approval of the service.

These permitted non-audit services include:

- audit services, such as certain consultations regarding accounting treatments or interpretations and assistance in responding to certain SEC comment letters;
- audit-related services, such as certain other consultations regarding accounting treatments or interpretations, employee benefit plan audits, due diligence and control reviews;
- tax services, such as tax compliance and consulting, transfer pricing, customs and duties and expatriate tax services; and
- other permitted non-audit services, such as assistance with corporate governance matters and filing documents in foreign jurisdictions not involving the practice of law.

Pursuant to the policy, our audit committee has delegated preapproval authority to the chairman of the committee or his designee to approve any fees in excess of the annual preapproved limits for these categories of permitted non-audit services provided by our independent registered public accounting firm. The chairman must report any action taken pursuant to this delegated authority at the next meeting of the committee.

For 2006, our audit committee preapproved all PwC's services provided to us or any of our subsidiaries, other than our publicly held subsidiaries and their subsidiaries, in compliance with the amended and restated preapproval policies and procedures without the use of the SEC's *de minimis* exception to such preapproval requirement.

#### **OTHER MATTERS**

The board of directors knows of no other business that will be presented for consideration at the meeting. If any other matters properly come before the meeting, the persons designated as agents in the enclosed proxy card or voting instruction form will vote on such matters in accordance with their reasonable judgment.

#### **2006 ANNUAL REPORT ON FORM 10-K**

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 is included as part of the annual report mailed to our shareholders with this proxy statement and may also be accessed on our website at [www.nl-ind.com](http://www.nl-ind.com).



**ADDITIONAL COPIES**

Pursuant to an SEC rule concerning the delivery of annual reports and proxy statements, a single set of these documents may be sent to any household at which two or more shareholders reside if they appear to be members of the same family. Each shareholder continues to receive a separate proxy card. This procedure, referred to as householding, reduces the volume of duplicate information shareholders receive and reduces mailing and printing expenses. A number of brokerage firms have instituted householding. Certain beneficial shareholders who share a single address may have received a notice that only one annual report and proxy statement would be sent to that address unless a shareholder at that address gave contrary instructions. If, at any time, a shareholder who holds shares through a broker no longer wishes to participate in householding and would prefer to receive a separate proxy statement and related materials, or if such shareholder currently receives multiple copies of the proxy statement and related materials at his or her address and would like to request householding of our communications, the shareholder should notify his or her broker. Additionally, we will promptly deliver a separate copy of our 2006 annual report or this proxy statement to any shareholder at a shared address to which a single copy of such documents was delivered, upon the written or oral request of the shareholder.

To obtain copies of our 2006 annual report or this proxy statement without charge, please mail your request to the attention of A. Andrew R. Louis, corporate secretary, at NL Industries, Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697, or call him at 972.233.1700.

**NL Industries, Inc.**

Dallas, Texas  
April 19, 2007

**NL Industries, Inc.**  
**Three Lincoln Centre**  
**5430 LBJ Freeway, Suite 1700**  
**Dallas, Texas 75240-2697**

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Dear Shareholder:

NL Industries, Inc. encourages you to take advantage of new and convenient ways by which you can vote your shares. You can vote your shares electronically through the internet or by telephone. This eliminates the need to return this proxy card.

Your electronic or telephonic vote authorizes the agents named on this proxy card to vote in the same manner as if you marked, signed, dated and returned this proxy card. If you vote your shares electronically or telephonically, do not mail back this proxy card.

**Your vote is important. Thank you for voting.**  
SEE REVERSE SIDE.

**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENLVEOPE.**

**Proxy - NL Industries, Inc.**

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF NL INDUSTRIES, INC.  
FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 25, 2007**

The undersigned hereby appoints Steven L. Watson, Robert D. Graham and A. Andrew R. Louis, and each of them, proxy and attorney-in-fact for the undersigned, with full power of substitution, to vote on behalf of the undersigned at the 2007 Annual Meeting of Shareholders (the "Meeting") of NL Industries, Inc., a New Jersey corporation ("NL"), to be held at NL's corporate offices at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas on Friday, May 25, 2007, at 10:00 a.m. (local time), and at any adjournment or postponement of the Meeting, all of the shares of

common stock, par value \$0.125 per share, of NL standing in the name of the undersigned or that the undersigned may be entitled to vote on the proposals set forth, and in the manner directed, on this proxy card.

**THIS PROXY MAY BE REVOKED AS SET FORTH IN THE PROXY STATEMENT THAT ACCOMPANIED THIS PROXY CARD.**

**The proxies, if this card is properly executed, will vote in the manner directed on this card. If no direction is made, the proxies will vote "FOR" all nominees named on the reverse side of this card for election as directors and, to the extent allowed by applicable law, in the discretion of the proxies as to all other matters that may properly come before the Meeting and any adjournment or postponement thereof.**

PLEASE SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE.

SEE REVERSE SIDE.

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**NL Industries, Inc.**

**Electronic Voting Instructions**

**You can vote by Internet or telephone!  
Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by 12:01 a.m., Central Time, on May 25, 2007.**

**Vote by Internet**

- Log on to the Internet and go to

**[www.investorvote.com](http://www.investorvote.com)**

- Follow the steps outlined on the secured website.

**Vote by telephone**

- Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is **NO CHARGE** to you for the call.
- Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your x votes with an **X** as shown in this example. Please do not write outside the designated areas.

**Annual Meeting Proxy Card**

**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLSOED ENLVEOPE.**

**A Election of Directors - The Board of Directors recommends a vote FOR all the nominees listed.**

1. Nominees:

**For Withhold For Withhold For Withhold**

|                   |                   |                   |
|-------------------|-------------------|-------------------|
| 01 - Cecil H." "  | 02 - Glenn R." "  | 03 - Harold C." " |
| Moore, Jr.        | Simmons           | Simmons           |
| 04 - Thomas P." " | 05 - Steven L." " | 06 - Terry N." "  |
| Stafford          | Watson            | Worrell           |

2. In their discretion, the proxies are authorized to vote upon such other business as may

properly come before the Meeting and any adjournment or postponement thereof.

**B Non-Voting Items**

**Change of Address** - Please print new address below.

**C Authorized Signatures - This section must be completed for your vote to be counted. - Date and Sign Below**

NOTE: Please sign exactly as the name that appears on this card. Joint owners should each sign. When signing other than in an individual capacity, please fully describe such capacity. Each signatory hereby revokes all proxies heretofore given to vote at said Meeting and any adjournment or postponement thereof.

Date (mm/dd/yyyy) - Please print date below. Signature 1 - Please keep signature within the box. Signature 2 - Please keep signature within the box.

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