

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2004 Commission file number 1-640

NL INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

New Jersey

13-5267260

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes X No
--- ---

Number of shares of the Registrant's common stock outstanding on October 29, 2004: 48,435,484.

NL INDUSTRIES, INC. AND SUBSIDIARIES

INDEX

	Page number	
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Balance Sheets - December 31, 2003 and September 30, 2004	3
	Consolidated Statements of Income - Three months and nine months ended September 30, 2003 and 2004	5
	Consolidated Statements of Comprehensive Income - Nine months ended September 30, 2003 and 2004	6
	Consolidated Statement of Stockholders' Equity - Nine months ended September 30, 2004	7
	Consolidated Statements of Cash Flows - Nine months ended September 30, 2003 and 2004	8
	Notes to Consolidated Financial Statements	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30

Item 4.	Controls and Procedures	46
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	48
Item 6.	Exhibits and Reports on Form 8-K	48

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2003	September 30, 2004
Current assets:		
Cash and cash equivalents	\$ 89,525	\$ 51,542
Restricted cash and cash equivalents	19,029	7,426
Restricted marketable debt securities	6,147	9,231
Accounts and other receivables	182,557	28,806
Refundable income taxes	37,712	-
Receivables from affiliates	361	203
Inventories	292,337	26,594
Prepaid expenses	7,097	1,724
Deferred income taxes	12,718	9,771
	-----	-----
Total current assets	647,483	135,297
	-----	-----
Other assets:		
Marketable equity securities	70,487	70,877
Restricted marketable debt securities	6,870	5,615
Investment in Kronos Worldwide, Inc.	-	202,321
Investment in TiO2 manufacturing joint venture	129,011	-
Receivable from affiliates	14,000	43,423
Deferred income taxes	7,033	540
Goodwill	52,715	52,371
Other	30,018	4,026
	-----	-----
Total other assets	310,134	379,173
	-----	-----
Property and equipment:		
Land	37,727	5,206
Buildings	208,077	26,359
Equipment	886,846	121,965
Mining properties	83,183	19,482
Construction in progress	10,302	1,559
	-----	-----
	1,226,135	174,571
Less accumulated depreciation and amortization	707,207	100,342
	-----	-----
Net property and equipment	518,928	74,229
	-----	-----
	\$1,476,545	\$ 588,699
	=====	=====

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2003	September 30, 2004
Current liabilities:		
Current maturities of long-term debt	\$ 288	\$ 38
Accounts payable	111,777	13,232
Accrued liabilities	96,539	23,331
Accrued environmental costs	19,627	17,283
Payable to affiliates	19,537	10,135
Income taxes	12,726	2,518
Deferred income taxes	3,941	24,600
	-----	-----
Total current liabilities	264,435	91,137

Noncurrent liabilities:		
Long-term debt	382,451	91
Accrued pension costs	81,180	12,816
Accrued postretirement benefits costs	23,411	10,974
Accrued environmental costs	57,854	53,538
Deferred income taxes	229,336	44,501
Other	19,474	5,713
	-----	-----
Total noncurrent liabilities	793,706	127,633
	-----	-----
Minority interest	135,215	60,643
	-----	-----
Stockholders' equity:		
Common stock	8,355	6,052
Additional paid-in capital	786,885	469,668
Retained earnings	87,900	-
Accumulated other comprehensive income (loss):		
Marketable securities	23,323	23,518
Currency translation	(152,623)	(153,743)
Pension liabilities	(36,209)	(36,209)
Treasury stock	(434,442)	-
	-----	-----
Total stockholders' equity	283,189	309,286
	-----	-----
	\$1,476,545	\$ 588,699
	=====	=====

Commitments and contingencies (Notes 14 and 17)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2003 ----	2004 ----	2003 ----	2004 ----
Net sales	\$ 295,465	\$ 55,987	\$ 915,795	\$ 724,914
Cost of sales	220,303	43,490	690,366	559,758
	-----	-----	-----	-----
Gross margin	75,162	12,497	225,429	165,156
Selling, general and administrative expense	36,157	6,505	110,542	91,725
Other operating income (expense):				
Currency transaction gains (losses), net	(525)	(117)	(4,990)	754
Disposition of property and equipment	7,205	-	8,260	(2)
Restructuring expense	(3,528)	-	(3,528)	-
Noncompete agreement income	-	-	333	-
Legal settlement gains	-	10	650	505
Other income	71	89	332	6,541
Corporate expense	(9,721)	(3,719)	(48,238)	(15,011)
	-----	-----	-----	-----
Income from operations	32,507	2,255	67,706	66,218
Equity in earnings of Kronos Worldwide, Inc.	-	5,005	-	5,005
Other income (expense):				
Trade interest income	240	15	687	495
Interest and dividend income from affiliates	456	4,662	1,408	5,518
Other interest income	330	213	1,164	961
Securities transactions, net	(54)	(33)	2,398	(58)
Interest expense	(8,638)	(86)	(25,653)	(18,253)
	-----	-----	-----	-----
Income before income taxes and minority interest	24,841	12,031	47,710	59,886
Income tax expense (benefit)	8,612	2,231	(7,765)	(275,713)
Minority interest in after-tax earnings	(105)	1,266	325	140,619
	-----	-----	-----	-----
Net income	\$ 16,334	\$ 8,534	\$ 55,150	\$ 194,980

	=====	=====	=====	=====
Basic and diluted net income per share	\$.34	\$.18	\$ 1.15	\$ 4.03
	=====	=====	=====	=====
Weighted-average shares used in the calculation of net income per share:				
Basic	47,717	48,395	47,702	48,299
Dilutive impact of stock options	61	64	57	88
	-----	-----	-----	-----
Diluted	47,778	48,459	47,759	48,387
	-----	-----	-----	-----

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Nine months ended September 30, 2003 and 2004
(In thousands)

	2003	2004
	----	----
Net income	\$ 55,150	\$ 194,980
	-----	-----
Other comprehensive income (loss), net of tax:		
Marketable securities adjustment:		
Unrealized holding gains arising during the period	8,217	195
Reclassification for realized net loss included in net income	(1,474)	-
	-----	-----
	6,743	195
Currency translation adjustment	22,013	(1,120)
	-----	-----
Total other comprehensive income (loss)	28,756	(925)
	-----	-----
Comprehensive income	\$ 83,906	\$ 194,055
	=====	=====

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine months ended September 30, 2004
(In thousands)

					Accumulated other comprehensive income (loss)			
					-----	-----	-----	-----
	Common stock	Additional paid-in capital	Retained earnings	Marketable securities	Currency translation	Pension liabilities	Treasury stock	Total
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 2003,								
as originally reported	\$8,355	\$777,819	\$ 16,023	\$ 23,323	\$(153,955)	\$ (36,209)	\$(434,442)	\$200,914
Adjustment to reflect consolidation of CompX International Inc.	-	9,066	71,877	-	1,332	-	-	82,275
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 2003, as adjusted	8,355	786,885	87,900	23,323	(152,623)	(36,209)	(434,442)	283,189
Net income	-	-	194,980	-	-	-	-	194,980
Distribution of shares of Kronos Worldwide, Inc.								

common stock	-	-	(6,340)	-	-	-	-	(6,340)
Income tax on distribution	-	-	(1,901)	-	-	-	-	(1,901)
Other comprehensive income (loss), net	-	-	-	195	(1,120)	-	-	(925)
Issuance of common stock	4	503	-	-	-	-	-	507
Acquisition of 10,374,000 shares of CompX International Inc. common stock	-	(102,963)	(65,615)	-	-	-	-	(168,578)
Treasury stock:								
Reissued	-	-	-	-	-	-	8,354	8,354
Retired	(2,307)	(214,757)	(209,024)	-	-	-	426,088	-
Balance at September 30, 2004	\$6,052	\$469,668	\$ -	\$ 23,518	\$(153,743)	\$ (36,209)	\$ -	\$309,286
	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 30, 2003 and 2004

(In thousands)

	2003	2004
	----	----
Cash flows from operating activities:		
Net income	\$ 55,150	\$194,980
Depreciation and amortization	40,248	32,724
Deferred income taxes	(590)	(287,609)
Minority interest	325	140,619
Net (gains) losses from securities transactions	(2,398)	58
Disposition of property and equipment	(8,260)	2
Other, net	(4,735)	1,547
Equity in Kronos Worldwide, Inc.	-	(5,005)
Distributions from Kronos Worldwide, Inc.	-	6,095
Distributions from TiO2 manufacturing joint venture, net	2,175	8,300
Change in assets and liabilities:		
Accounts and other receivables	(32,683)	(50,507)
Insurance receivable	2,505	-
Inventories	25,045	51,113
Prepaid expenses	(340)	1,309
Accrued environmental costs	28,193	(6,660)
Accounts payable and accrued liabilities	(29,172)	(34,338)
Income taxes	4,367	33,655
Other, net	2,003	(3,391)
	-----	-----
Net cash provided by operating activities	81,833	82,892
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(31,733)	(13,602)
Collection of loans to affiliates	2,000	2,000
Change in restricted cash equivalents and restricted marketable debt securities, net	1,053	5,995
Proceeds from disposition of property and equipment	10,638	2,218
Other, net	695	-
	-----	-----
Net cash used in investing activities	(17,347)	(3,389)
	-----	-----
Cash flows from financing activities:		
Indebtedness:		
Borrowings	17,106	102,221
Principal payments	(47,874)	(128,081)
Deferred financing costs paid	(416)	(28)
Cash dividends paid	(28,625)	-
Distributions to minority interest	(592)	(12,036)
Proceeds from issuance of stock:		
NL common stock	701	8,793
CompX common stock	-	499
Capital transactions with affiliates	(1,207)	-
Other, net	(14)	-
	-----	-----
Net cash used in financing activities	(60,921)	(28,632)
	-----	-----

NL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Nine months ended September 30, 2003 and 2004
(In thousands)

	2003	2004
	----	----
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	\$ 3,565	\$ 50,871
Currency translation	3,351	(420)
Kronos cash balance at June 30, 2004	-	(88,434)
Cash and cash equivalents at beginning of period	70,498	89,525
	-----	-----
Cash and cash equivalents at end of period	\$ 77,414	\$ 51,542
	=====	=====
 Supplemental disclosures:		
Cash paid (received) for:		
Interest, net of amounts capitalized	\$ 16,203	\$ 17,062
Income taxes, net	(10,224)	(17,807)
 Net assets of Kronos Worldwide, Inc. deconsolidated as of July 1, 2004:		
Cash and cash equivalents		\$ 88,434
Accounts and other receivables		200,845
Inventories		209,816
Other current assets		9,344
Investment in TiO2 manufacturing joint venture		120,711
Net property and equipment		413,171
Other assets		209,105
Current liabilities		(156,701)
Long-term debt		(346,682)
Note payable to affiliates		(200,000)
Accrued pension costs		(66,227)
Accrued postretirement benefits costs		(10,677)
Deferred income taxes		(50,730)
Other liabilities		(13,408)
Minority interest		(201,842)

Net assets		\$ 205,159
		=====

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

At September 30, 2004, NL Industries, Inc. (NYSE: NL) conducts its component products operations through its 68% owned subsidiary CompX International, Inc. (NYSE: CIX). NL also held approximately 49% of the outstanding common stock of Kronos Worldwide, Inc. (NYSE: KRO) at September 30, 2004. At September 30, 2004, (i) Valhi and a wholly-owned subsidiary of Valhi held approximately 83% of NL's outstanding common stock, (ii) Contran Corporation and its subsidiaries held approximately 90% of Valhi's outstanding common stock, (iii) Valhi and a wholly-owned subsidiary of Valhi held an additional 45% of Kronos' outstanding common stock and (iv) Titanium Metals Corporation ("TIMET") (NYSE:TIE), an affiliate of Valhi, held an additional 15% of CompX's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Mr. Simmons, the Chairman of the Board of Valhi, Contran and the Company, may be deemed to control each of such companies.

On September 24, 2004, the Company completed the acquisition of 10,374,000 shares of CompX common stock, representing approximately 68% of the outstanding shares of CompX common stock. The CompX common stock was purchased from Valhi and Valcor, a wholly-owned subsidiary of Valhi, at a purchase price of \$16.25 per share, or an aggregate of approximately \$168.6 million. The purchase price was paid by NL's transfer to Valhi and Valcor of \$168.6 million of NL's \$200 million long-term note receivable from Kronos. The acquisition was approved by a special committee of NL's board of directors comprised of directors who were not affiliated with Valhi, and such special committee retained their own financial advisors who rendered an opinion to the special committee that the purchase

price was fair, from a financial point of view, to NL. NL's acquisition was accounted for under accounting principles generally accepted in the United States of America ("GAAP") as a transfer of net assets among entities under common control, and accordingly resulted in a change in reporting entity. The Company has retroactively restated its consolidated financial statements to reflect the consolidation of CompX for all periods presented. Any excess of the aggregate \$168.6 million principal amount of NL's note receivable Kronos transferred to Valhi and Valcor over the net carrying value of Valhi's and Valcor's investment in CompX is accounted for as a reduction of NL's consolidated stockholders' equity.

In March 2004, the Company paid its \$.20 per share regular quarterly dividend in the form of shares of Kronos common stock in which approximately 345,000 shares (approximately .7% of Kronos' outstanding common stock) were distributed to NL stockholders in the form of a pro-rata dividend. The Company paid its next regular quarterly dividend of \$.20 per share in July 2004, in which approximately 322,000 Kronos shares (approximately .7% of Kronos' outstanding common stock) were distributed, and the Company paid its regular third quarter dividend of \$.20 per share in September 2004 in which approximately 299,000 Kronos shares (approximately .6% of Kronos' outstanding common stock) were distributed. The effect of the second and third 2004 quarterly distributions were recognized by the Company in the third quarter of 2004. The Company's distribution of such shares of Kronos common stock is taxable to the Company, and the Company is required to recognize a taxable gain equal to the difference between the fair market value of the shares of Kronos distributed on the date of distribution and the Company's adjusted tax basis in such shares at the date of distribution. Pursuant to the Company's tax sharing agreement with Valhi, the Company is not required to pay taxes on the tax liability generated for the shares of Kronos distributed to Valhi and its wholly-owned subsidiary. The Company is required to recognize a tax liability with respect to the Kronos shares distributed to NL stockholders other than Valhi and its wholly-owned subsidiary, and such tax liability was approximately \$1.9 million in the aggregate for the three dividends paid in 2004. In accordance with GAAP, the net carrying value of such shares of Kronos distributed (\$6.3 million in the aggregate at the respective distribution dates) and the \$1.9 million aggregate tax liability have been recognized as a reduction of the Company's stockholders' equity and charged directly to retained earnings.

Following the Company's July 2004 dividend in the form of shares of Kronos common stock distributed to NL shareholders, the Company's ownership of Kronos was reduced to less than 50%. Consequently, effective July 1, 2004 the Company ceased to consolidate Kronos' financial position, results of operations and cash flows and the Company commenced accounting for its interest in Kronos by the equity method. The Company continues to report Kronos as a consolidated subsidiary through June 30, 2004, including the consolidation of Kronos' results of operations and cash flows for the first two quarters of 2004.

The consolidated balance sheet of NL at December 31, 2003 has been condensed from the Company's audited consolidated financial statements at that date, as adjusted for the effect of the CompX acquisition discussed above. The consolidated balance sheet at September 30, 2004, and the consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the interim periods ended September 30, 2003 and 2004, have been prepared by the Company, without audit, in accordance with GAAP. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made.

The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain information normally included in financial statements prepared in accordance with GAAP has been condensed or omitted, and certain prior year amounts have been reclassified to conform to the current year presentation. The accompanying consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 Annual Report") and the Annual Report on Form 10-K of CompX for the year ended December 31, 2003 (the "CompX Annual Report").

The Company complied with the consolidation requirements of FASB Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," as amended, as of March 31, 2004. See Note 18.

As disclosed in the 2003 Annual Report, the Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion ("APBO") No. 25, "Accounting for Stock Issued to Employees," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is greater than or equal to the market price on the grant date. Prior to 2003, NL commenced accounting for its stock options using the variable accounting method of APBO No. 25, which requires the intrinsic value of all unexercised stock options (including stock options with an exercise price at least equal to the market price on the date of grant) to be accrued as an expense, with subsequent increases (decreases) in NL's market price resulting in recognition of additional compensation expense (income). Net compensation income recognized by the Company and its consolidated subsidiaries in accordance with APBO No. 25 was approximately \$400,000 in each of the third quarter and first nine months of 2003 and net compensation cost recognized by the Company was \$100,000 and \$1.2 million in the third quarter and first nine months of 2004, respectively.

The following table presents what the Company's consolidated net income, and related per share amounts, would have been in the third quarter and first nine months of 2003 and 2004 if the Company and its subsidiaries and affiliates had each elected to account for their respective stock-based employee compensation related to stock options in accordance with the fair value-based recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," for all awards granted subsequent to January 1, 1995.

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
	(In millions, except per share amounts)			
Net income as reported	\$16.3	\$ 8.5	\$55.2	\$195.0
Adjustments, net of applicable income tax effects and minority interest, of stock-based employee compensation determined under:				
APBO No. 25	(.3)	.4	(.3)	.8
SFAS No. 123	(.3)	(.1)	(1.0)	(.4)
Pro forma net income	\$15.7	\$ 8.8	\$53.9	\$195.4
Basic and diluted net income per share:				
As reported	\$.34	\$.18	\$1.15	\$ 4.03
Pro forma	\$.33	\$.18	\$1.13	\$ 4.04

Note 2 - Business segment information

Business segment	Entity	% owned at September 30, 2004
Chemicals	Kronos Worldwide, Inc.	49%
Component products	CompX International Inc.	68%

As discussed in Note 1, on September 24, 2004, the Company purchased 10,374,000 shares of CompX common stock, representing approximately 68% of the outstanding shares of CompX common stock, from Valhi and a wholly-owned subsidiary of Valhi. Because Valhi, NL and CompX are all entities under the common control of Contran, the Company's acquisition of the shares of CompX common stock results in a change in reporting entity and the Company has retroactively restated its consolidated financial statements to reflect the consolidation of CompX for all periods presented.

As a result of the restatement of the Company's consolidated financial statements to reflect the consolidation of CompX's results of operations, the Company has, for certain periods presented, more than one operating segment (as that term is defined in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information"). Accordingly, the following information is presented to comply with the disclosure requirements of SFAS No. 131, including disclosures with respect to each year in the three-year period ended December 31, 2003.

The Company is organized based on its operating subsidiaries. The Company's operating segments are defined as components of our consolidated operations about which separate financial information is available that is regularly evaluated by the chief operating decision maker in determining how to allocate resources and in assessing performance. The Company's chief operating decision maker is Mr. Harold C. Simmons. Each operating segment is separately managed, and each operating segment represents a strategic business unit offering different products.

The Company's reportable operating segments are comprised of the component products business conducted by CompX and, for all periods through June 30, 2004, the chemicals business conducted by Kronos. As discussed in Note 1, effective July 1, 2004, the Company ceased to consolidate Kronos and commenced accounting for its interest in Kronos by the equity method.

CompX produces and sells component products (precision ball-bearing slides, security products and ergonomic computer support systems) for office furniture, computer related applications and a variety of other applications. CompX has production facilities in North America, Europe and Asia.

Kronos manufactures and sells titanium dioxide pigments ("TiO2"). TiO2 is used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. Kronos has production facilities located in North America and Europe. Kronos also owns a one-half interest in a TiO2 production facility located in Louisiana.

The Company evaluates segment performance based on segment operating income. Segment profit is defined as income before income taxes, minority interest, extraordinary items, interest expense, certain nonrecurring items and certain general corporate items. Corporate items excluded from segment profit include corporate expense, interest and dividend income not attributable to the component products business and the chemicals business, litigation settlement gains, securities transaction gains and losses and losses from the disposal of long-lived assets outside the ordinary course of business. The accounting policies of the respective business segments are the same as those described in the Company's Consolidated Financial Statements in the Company's 2003 Annual Report.

Interest income included in the calculation of segment profit is not material. Amortization of deferred financing costs is included in interest expense. There are no intersegment sales or any significant intersegment transactions.

Segment assets are comprised of all assets attributable to each reporting operating segment. The Company's investment in the TiO2 manufacturing joint venture is included in the chemicals business segment assets. Corporate assets

are not attributable to any operating segment and consist principally of cash and cash equivalents, restricted cash equivalents, marketable debt and equity securities and loans to affiliates. Substantially all corporate assets are attributable to NL.

For geographic information, net sales are attributed to the place of manufacture (point of origin) and the location of the customer (point of destination); property and equipment are attributed to their physical location. At December 31, 2003, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated \$240 million (2002 - \$203 million).

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
	----- (In millions) -----			
Net sales:				
Chemicals	\$ 242.9	\$ -	\$ 762.5	\$ 559.1
Component products	52.6	56.0	153.3	165.8
	-----	-----	-----	-----
Total net sales	\$ 295.5	\$ 56.0	\$ 915.8	\$ 724.9
Segment profit (loss):				
Chemicals	\$ 35.4	\$ -	\$ 105.2	\$ 66.4
Component products	(.4)	5.8	1.8	14.7
	-----	-----	-----	-----
Total segment profit	35.0	5.8	107.0	81.1
General corporate items:				
Interest and dividend income	.8	4.9	2.6	6.5
Securities transaction gains, net	(.1)	-	2.4	(.1)
Gain on disposal of fixed assets	7.2	-	8.3	-
Legal settlement gains, net	-	-	.7	.5
Noncompete agreement income	-	-	.3	-
Other income	.2	.1	.3	.1
General corporate expenses, net	(9.7)	(3.7)	(48.2)	(15.0)
Interest expense	(8.6)	(.1)	(25.7)	(18.2)
	-----	-----	-----	-----
Equity in Kronos	24.8	7.0	47.7	54.9
	-	5.0	-	5.0
	-----	-----	-----	-----
Income before income taxes and minority interest	\$ 24.8	\$ 12.0	\$ 47.7	\$ 59.9
	=====	=====	=====	=====

	Years ended December 31,		
	2001	2002	2003
	----- (In millions) -----		
Net sales:			
Chemicals	\$ 835.1	\$ 875.2	\$1,008.2
Component products	211.4	196.1	207.5
	-----	-----	-----
Total net sales	\$1,046.5	\$1,071.3	\$1,215.7
	=====	=====	=====
Segment profit:			
Chemicals	\$ 169.2	\$ 96.5	\$ 137.4
Component products	15.6	5.3	3.6
	-----	-----	-----
Total segment profit	184.8	101.8	141.0
General corporate items:			
Interest and dividend income	9.4	5.8	3.4
Legal settlement gains, net	11.7	5.2	.8
Noncompete agreement income	4.0	4.0	.3
Securities transactions, net	(1.1)	(.1)	2.4
Gain on disposal of fixed assets	-	-	10.3
Insurance recoveries, net	17.5	-	-
Foreign currency transaction gain	-	6.3	-
General corporate expenses, net	(25.9)	(37.9)	(57.4)
Interest expense	(30.4)	(31.6)	(34.3)
	-----	-----	-----
Income before income taxes and minority interest	\$ 170.0	\$ 53.5	\$ 66.5
	=====	=====	=====

Years ended December 31,

	2001	2002	2003
	(In millions)		
Net sales - point of origin:			
United States	\$ 367.2	\$ 378.5	\$ 404.9
Germany	398.5	404.3	510.1
Belgium	126.8	123.8	150.7
Norway	102.8	111.8	131.5
Netherlands	33.3	31.3	35.3
Other Europe	82.3	89.6	110.4
Canada	231.4	229.2	249.6
Taiwan	11.7	14.7	13.4
Eliminations	(307.5)	(311.9)	(390.2)
	\$1,046.5	\$1,071.3	\$1,215.7
Net sales - point of destination:			
United States	\$ 388.8	\$ 398.1	\$ 423.6
Europe	462.4	489.9	605.0
Canada	82.5	83.0	85.5
Asia and other	112.8	100.3	101.6
	\$1,046.5	\$1,071.3	\$1,215.7

Years ended December 31,

	2001	2002	2003
	(In millions)		
Depreciation and amortization:			
Chemicals	\$ 28.9	\$ 32.2	\$ 39.4
Component products	14.9	13.0	14.8
Corporate	.7	1.0	.7
	\$ 44.5	\$ 46.2	\$ 54.9
Capital expenditures:			
Chemicals	\$ 53.7	\$ 32.6	\$ 35.3
Component products	13.3	12.7	8.9
Corporate	-	-	.1
	\$ 67.0	\$ 45.3	\$ 44.3

December 31,

	2001	2002	2003
	(In millions)		
Total assets:			
Operating segments:			
Chemicals	\$ 910.1	\$ 988.5	\$1,121.9
Component products	225.9	203.1	212.4
Corporate and eliminations	241.0	123.0	142.2
	\$1,377.0	\$1,314.6	\$1,476.5
Net property and equipment:			
United States	\$ 55.9	\$ 52.6	\$ 48.2
Germany	182.4	213.2	252.4
Canada	78.1	77.8	87.0
Norway	38.5	49.7	50.8
Belgium	46.8	54.6	64.9
Netherlands	7.3	10.0	9.6
Taiwan	5.4	5.9	5.7
Other	.4	.2	.3
	\$ 414.8	\$ 464.0	\$ 518.9

Component products segment profit, as presented above, may differ from amounts separately reported by CompX because the Company defines segment profit differently than CompX.

Note 3 - Accounts and other receivables:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Trade receivables	\$173,783	\$ 29,149
Recoverable VAT and other receivables	12,768	625
Allowance for doubtful accounts	(3,994)	(968)
	-----	-----
	\$182,557	\$ 28,806
	=====	=====

Note 4 - Inventories:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Raw materials:		
Chemicals	\$ 61,959	\$ -
Component products	6,170	7,180
	-----	-----
	68,129	7,180
	-----	-----
In process products:		
Chemicals	19,855	-
Component products	10,852	10,757
	-----	-----
	30,707	10,757
	-----	-----
Finished products:		
Chemicals	147,270	-
Component products	9,166	8,578
	-----	-----
	156,436	8,578
	-----	-----
Supplies	37,065	79
	-----	-----
	\$292,337	\$ 26,594
	=====	=====

Note 5 - Marketable equity securities:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Valhi common stock	\$ 70,450	\$ 70,779
Other	37	98
	-----	-----
	\$ 70,487	\$ 70,877
	=====	=====

At September 30, 2004, the Company owned approximately 4.7 million shares of Valhi common stock with a quoted market price of \$15.03 per share (December 31, 2003 quoted market price - \$14.96 per share). The aggregate cost basis of such Valhi shares is approximately \$34.6 million.

Note 6 - Investment in Kronos Worldwide, Inc.:

At September 30, 2004, the Company held 24.1 million shares of Kronos with a quoted market price of \$39.70 per share, or an aggregate market value of \$956 million.

At September 30, 2004, Kronos reported total assets of \$1.3 billion and stockholders' equity of \$412.5 million. Kronos' total assets at September 30, 2004 include current assets of \$541 million, property and equipment of \$419.6 million and an investment in a TiO2 manufacturing joint venture of \$119.9 million. Kronos' total liabilities at September 30, 2004 include current liabilities of \$184.4 million, long-term debt of \$350.4 million, accrued OPEB and pension costs aggregating \$76.4 million, deferred income taxes of \$51.8

million and long-term notes payable to NL, Valhi and Valcor aggregating \$200.0 million, including \$31.4 million payable to NL. See Note 16.

During the third quarter of 2004, Kronos reported net sales of \$286.1 million, income from operations of \$28.9 million and net income of \$10.0 million. Kronos' results of operations for the first six months of 2004, and for the third quarter and first nine months of 2003, are included in the Company's consolidated results of operations.

Note 7 - Other noncurrent assets:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Deferred financing costs, net	\$ 10,417	\$ 47
Unrecognized net pension obligations	13,747	-
Intangible asset, net	3,804	3,341
Other	2,050	638
	-----	-----
	\$ 30,018	\$ 4,026
	=====	=====

Note 8 - Accrued liabilities:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Employee benefits	\$ 46,028	\$13,768
Interest	206	49
Restructuring	3,223	-
Other	47,082	9,514
	-----	-----
	\$ 96,539	\$ 23,331
	=====	=====

In 2003, CompX recorded a \$3.3 million charge related to the restructuring its Thomas Regout operations. The charge represents severance to be paid to approximately 100 terminated employees. At September 30, 2004 all severance benefits had been paid by the Company.

Note 9 - Long-term debt:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Kronos International, Inc. and subsidiaries:		
Senior Secured Notes	\$356,136	\$ -
Other	603	-
	-----	-----
	356,739	-
	-----	-----
CompX International Inc. and subsidiaries:		
Revolving bank credit facility	26,000	-
Capital lease obligations	-	129
	-----	-----
	26,000	129
	-----	-----
	382,739	129
Less current maturities	288	38
	-----	-----
	\$382,451	\$ 91
	=====	=====

During the first quarter of 2004, certain of Kronos International, Inc.'s ("KII") operating subsidiaries in Europe borrowed a net Euro 26 million (\$32 million when borrowed) under the European revolving credit facility at an interest rate of 3.8%. Such amounts were repaid in the second quarter of 2004.

Note 10 - Other noncurrent liabilities:

December 31, 2003	September 30, 2004
-----	-----

(In thousands)

Employee benefits	\$ 4,849	\$ -
Insurance	4,331	2,679
Other	10,294	3,034
	-----	-----
	\$ 19,474	\$ 5,713
	=====	=====

Note 11 - Minority interest:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Minority interest in net assets:		
Kronos Worldwide, Inc.	\$ 77,763	\$ -
CompX International Inc.	48,424	51,566
Other subsidiaries	9,028	9,077
	-----	-----
	\$135,215	\$ 60,643
	=====	=====

	Three months ended September 30,		Nine months ended September 30,	
	-----	-----	-----	-----
	2003	2004	2003	2004
	----	----	----	----
	(In thousands)			

Minority interest in net earnings:

Kronos Worldwide, Inc.	\$ -	\$ -	\$ -	\$137,271
CompX International Inc.	(123)	1,229	149	2,754
Other subsidiaries	18	37	176	594
	-----	-----	-----	-----
	\$ (105)	\$ 1,266	\$ 325	\$140,619
	=====	=====	=====	=====

As discussed in Note 1, effective July 1, 2004, the Company ceased to consolidate Kronos and commenced accounting for its interest in Kronos by the equity method. Accordingly, commencing July 1, 2004, the Company ceased to report minority interest in Kronos' net assets and net earnings.

Note 12 - Treasury stock

During the third quarter of 2004, the Company cancelled approximately 18.5 million shares of its common stock that previously had been held in treasury. The aggregate \$426.1 million cost of such treasury shares was allocated to common stock at par value, additional paid in capital and retained earnings in accordance with GAAP. Such cancellation had no impact on the net NL shares outstanding for financial reporting purposes.

Note 13 - Other income:

	Nine months ended September 30,	
	-----	-----
	2003	2004
	----	----
	(In thousands)	
Contract dispute settlement	\$ -	\$ 6,289
Other	332	757
	-----	-----
	\$ 332	\$ 7,046
	=====	=====

The contract dispute settlement relates to Kronos' settlement with a customer. As part of the settlement, the customer agreed to make payments to Kronos through 2007 aggregating \$7.3 million. The \$6.3 million gain recognized represents the present value of the future payments to be paid by the customer to Kronos. Of such \$7.3 million, \$1.5 million was paid to Kronos in the second quarter of 2004, \$1.75 million is due in each of the second quarter of 2005 and 2006 and \$2.25 million is due in the second quarter of 2007. At September 30, 2004, the present value of the remaining amounts due to be paid to Kronos aggregated approximately \$5.0 million, of which \$1.7 million is included in accounts receivable and \$3.3 million is included in other noncurrent assets.

Note 14 - Income tax benefit:

	Nine months ended September 30,	
	----- 2003	2004 -----
	(In millions)	
Expected tax expense	\$ 16.7	\$ 21.0
Change in deferred income tax valuation allowance, net	(1.1)	(285.4)
Tax contingency reserve adjustments, net	-	(13.1)
Refund of prior year income taxes	(24.6)	(3.1)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	.5	(.5)
Non-U.S. tax rates	.1	(.1)
U.S. state income taxes, net	.4	.3
Nondeductible expenses	2.3	1.9
Other, net	(2.1)	3.3
	-----	-----
	\$ (7.8)	\$(275.7)
	=====	=====

Certain of the Company's and Kronos' U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including penalties and interest. For example:

- o NL's and NL's majority-owned subsidiary's, NL Environmental Management Services, Inc. ("EMS"), 1998 U.S. federal income tax returns are being examined by the U.S. tax authorities, and NL and EMS have granted extensions of the statute of limitations for assessments of tax with respect to their 1998, 1999 and 2000 income tax returns until September 30, 2005. During the course of the examination, the IRS proposed a substantial tax deficiency, including interest, related to a restructuring transaction. In an effort to avoid protracted litigation and minimize the hazards of such litigation, NL applied to take part in an IRS settlement initiative applicable to transactions similar to the restructuring transaction, and in April 2003 NL received notification from the IRS that NL had been accepted into such settlement initiative. Under the initiative, a final settlement with the IRS is to be reached through expedited negotiations and, if necessary, through a specified arbitration procedure. NL has reached an agreement with the IRS concerning the settlement of this matter pursuant to which, among other things, the Company agreed to pay approximately \$24 million, including interest, up front as a partial payment of the settlement amount (which amount is expected to be paid in the next 12 months and is classified as a current liability at September 30, 2004), and NL will be required to recognize the remaining settlement amount in its taxable income over the 15 year time period beginning in 2004. NL has signed the settlement agreement that was prepared by the IRS. The IRS will sign the settlement agreement after certain procedural matters are concluded, which procedural matters both NL and its outside legal counsel believe are perfunctory. NL had previously provided accruals to cover its estimated additional tax liability (and related interest) concerning this matter. As a result of the settlement, NL has decreased its previous estimate of the amount of additional income taxes and interest it will be required to pay, and NL recognized a \$12.6 million tax benefit in the second quarter of 2004 related to the revised estimate. In addition, during the second quarter of 2004, the Company recognized a \$30.5 million tax benefit related to the reversal of a deferred income tax asset valuation allowance related to certain tax attributes of EMS which NL believes now meet the "more-likely-than-not" recognition criteria. A majority of the deferred income tax asset valuation allowance relates to net operating loss carryforwards of EMS. As a result of the settlement agreement, NL (which previously was not allowed to utilize such net operating loss carryforwards of EMS) utilized such carryforwards in its 2003 taxable year, eliminating the need for a valuation allowance related to such carryforwards. The remainder of the deferred income tax asset valuation allowance relates to deductible temporary differences associated with accrued environmental obligations of EMS which NL now believes meet the "more-likely-than-not" recognition criteria since, as a result of the settlement agreement, such obligations and the related tax deductions will be included in NL's taxable income.
- o Kronos has received a preliminary tax assessment related to 1993 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately Euro 6 million (\$7 million at September 30, 2004). Kronos has filed a protest to this assessment and believes that a significant portion of the assessment is without merit. The Belgian tax authorities have filed a lien on the fixed assets of Kronos' Belgian Ti02 operations in connection with this assessment. In April 2003, Kronos received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999 that, including interest, is expected to be approximately Euro 13 million (\$16 million). Kronos believes the proposed assessment is substantially without merit, and Kronos has filed a written response.
- o The Norwegian tax authorities have notified Kronos of their intent to assess tax deficiencies of approximately kroner 12 million (\$2 million at September 30, 2004) relating to the years 1998 to 2000. Kronos has objected to this proposed assessment.

No assurance can be given that these tax matters will be resolved in the Company's favor in view of the inherent uncertainties involved in settlement initiatives, court and tax proceedings. The Company believes that it has

provided adequate accruals for additional taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

At December 31, 2003, Kronos had a significant amount of net operating loss carryforwards for German corporate and trade tax purposes, all of which have no expiration date. These net operating loss carryforwards were generated by KII principally during the 1990's when KII had a significantly higher level of outstanding indebtedness than is currently outstanding. For financial reporting purposes, however, the benefit of such net operating loss carryforwards had not previously been recognized because Kronos did not believe they met the "more-likely-than-not" recognition criteria, and accordingly Kronos had a deferred income tax asset valuation allowance offsetting the benefit of such net operating loss carryforwards and Kronos' other tax attributes in Germany. KII had generated taxable income in Germany for both German corporate and trade tax purposes since 2000, and starting with the quarter ended December 31, 2002 and for each quarter thereafter, KII had cumulative taxable income in Germany for the most recent twelve quarters. However, offsetting this positive evidence was the fact that prior to the end of 2003, Kronos believed there was significant uncertainty regarding its ability to utilize such net operating loss carryforwards under German tax law and, principally because of the uncertainty caused by this negative evidence, Kronos had concluded the benefit of the net operating loss carryforwards did not meet the "more-likely-than-not" criteria. By the end of 2003, and primarily as a result of a favorable German court ruling in 2003 and the procedures Kronos had completed during 2003 with respect to the filing of certain amended German tax returns (as discussed below), Kronos had concluded that the significant uncertainty regarding its ability to utilize such net operating loss carryforwards under German tax law had been eliminated. However, at the end of 2003, Kronos believed at that time that it would generate a taxable loss in Germany during 2004. Such expectation was based primarily upon then current levels of prices for TiO2, and the fact that Kronos was experiencing a downward trend in its TiO2 selling prices and Kronos did not have any positive evidence to indicate that the downward trend would improve. If the price trend continued downward throughout all of 2004 (which was a possibility given Kronos' prior experience, Kronos would likely have a taxable loss in Germany for 2004. If the downward trend in prices had abated, ceased or reversed at some point during 2004, then Kronos would likely have taxable income in Germany during 2004. Accordingly, Kronos continued to conclude at the end of 2003 that the benefit of the German net operating loss carryforwards did not meet the "more-likely-than-not" criteria and that it would not be appropriate to reverse the deferred income tax asset valuation allowance, given the likelihood that Kronos would generate a taxable loss in Germany during 2004. The expectation for a taxable loss in Germany continued through the end of the first quarter of 2004. By the end of the second quarter of 2004, however, Kronos' TiO2 selling prices had started to increase, and Kronos believes its selling prices will continue to increase during the second half of 2004 after Kronos and its major competitors announced an additional round of price increases. The fact that Kronos' selling prices started to increase during the second quarter of 2004, combined with the fact that Kronos and its competitors had announced additional price increases (which based on past experience indicated to Kronos that some portion of the additional price increases would be realized in the marketplace), provided additional positive evidence that was not present at December 31, 2003. Consequently, Kronos' revised projections now reflect taxable income for Germany in 2004 as well as 2005. Given the magnitude of the German net operating loss carryforwards, and the fact that current provisions of German law limit the annual utilization of net operating loss carryforwards to 60% of taxable income after the first euro 1 million of taxable income, Kronos believes it will take several years to fully utilize the benefit of such operating loss carryforwards. However, given the number of years for which Kronos has now generated positive taxable income in Germany, combined with the fact that the net operating loss carryforwards were generated during a time when KII had a significantly higher level of outstanding, and the fact that the net operating loss carryforwards have no expiration date, Kronos concluded it was appropriate to reverse all of the valuation allowance related to the net operating loss carryforwards. Accordingly, based on all available evidence, including the fact that (i) Kronos had generated positive taxable income in Germany since 2000, and starting with the quarter ended December 31, 2002 and for each quarter thereafter, KII had cumulative taxable income in Germany for the most recent twelve quarters, (ii) Kronos was now projecting positive taxable income in Germany for 2004 and 2005 and (iii) the German net operating loss carryforwards have no expiration date, Kronos concluded that the benefit of the net operating loss carryforwards and other German tax attributes met the "more-likely-than-not" recognition criteria, and Kronos reversed the deferred income tax asset valuation allowance related to Germany. Given the magnitude of the German net operating loss carryforwards and the fact that current provisions of German law limit the annual utilization of net operations loss carryforwards to 60% of taxable income after the first euro 1 million of taxable income, Kronos believes it will take several years to fully utilize the benefit of such operating loss carryforwards. However, given the number of years for which Kronos has now generated positive taxable income in Germany, combined with the fact that the net operating loss carryforwards were generated during a time when KII had a significantly higher level of outstanding indebtedness than it currently has outstanding, and the fact that the net operating loss carryforwards have no expiration date, Kronos concluded it was appropriate to reverse all of the valuation allowance related to the net operating loss carryforwards. Accordingly, in the first six months of 2004, Kronos recognized a \$254.3 million income tax benefit related to the reversal of such deferred income tax asset valuation allowance attributable to Kronos' income tax attributes in Germany (principally the net operating loss carryforwards). Of such \$254.3 million, \$8.7 million relates primarily to the utilization of the German net operating loss carryforwards during the first six months of 2004, the benefit of which had previously not met the "more-likely-than-not" recognition criteria, and \$245.6 million relates to the German deferred income tax asset valuation allowance attributable to the remaining German net operating loss carryforwards and other tax attributes as of June 30, 2004, the benefit of which Kronos has concluded now meet the "more-likely-than-not" recognition criteria.

At September 30, 2004, the net operating loss carryforwards for German corporate and trade tax purposes aggregated the equivalent of \$602 million and \$244 million, respectively, all of which have no expiration date.

In the first quarter of 2003, KII was notified by the German Federal Fiscal Court that the Court had ruled in KII's favor concerning a claim for refund suit in which KII sought refunds of prior taxes paid during the periods 1990 through 1997. KII and KII's German operating subsidiary were required to file amended tax returns with the German tax authorities to receive refunds for such years, and all of such amended returns were filed during 2003. Such amended returns reflected an aggregate net refund of taxes and related interest to KII and its German operating subsidiary of Euro 26.9 million (\$32.1 million), and the Company recognized the benefit for these net refunds in its 2003 results of operations. During the first six months of 2004, the Company recognized a benefit of Euro 2.5 million (\$3.1 million) related to additional net interest which has accrued on the outstanding refund amounts. Assessments and refunds will be processed by year as the respective returns are reviewed by the tax authorities. Certain interest components may also be refunded separately. The German tax authorities have reviewed and accepted the amended returns with respect to the 1990 through 1994 tax years. Through September 2004, KII's German operating subsidiary had received net refunds of Euro 27.2 million (\$33.6 million when received). KII believes it will receive the remainder of the net refunds of taxes and related interest during the remainder of 2004. In addition to the refunds for the 1990 to 1997 periods, the court ruling also resulted in a refund of 1999 income taxes and interest for which KII received Euro 21.5 million (\$24.6 million) in 2003, and the Company recognized the benefit of the refund in the second quarter of 2003.

Effective October 1, 2004, NL and TIMET each contributed their shares of CompX common stock to newly-formed CompX Group, Inc. in return for an 82.4% and 17.6% ownership interest in CompX Group, respectively, and CompX Group became the owner of the 83% of CompX that NL and TIMET had previously owned in the aggregate. CompX Group recorded the shares of CompX received from NL at NL's predecessor carryover basis. Effective with the formation of CompX Group, CompX became a member of Contran's consolidated United States federal income tax group (the "Contran Tax Group"). NL and Valhi were already members of the Contran Tax Group.

Note 15 - Employee benefit plans:

The components of net periodic defined benefit pension cost recognized by the Company and its consolidated subsidiaries are presented in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
	-----	-----	-----	-----
	(In thousands)			
Service cost benefits	\$1,337	\$ -	\$ 3,970	\$ 3,128
Interest cost on projected benefit obligations	4,560	760	13,511	10,780
Expected return on plan assets	(4,322)	(890)	(13,695)	(10,290)
Amortization of prior service cost	88	-	263	281
Amortization of net transition obligations	187	(17)	542	273
Recognized actuarial losses	444	220	1,339	2,148
	-----	-----	-----	-----
	\$ 2,294	\$ 73	\$ 5,930	\$ 6,320
	=====	=====	=====	=====

The components of net periodic postretirement benefits other than pensions ("OPEB") cost recognized by the Company and its consolidated subsidiaries are presented in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2003	2004	2003	2004
	-----	-----	-----	-----
	(In thousands)			
Service cost	\$ 39	\$ -	\$ 112	\$ 113
Interest cost	517	289	1,543	1,229
Amortization of prior service credit	(518)	(72)	(1,556)	(583)
Recognized actuarial losses	47	32	141	173
	-----	-----	-----	-----
	\$ 85	\$ 249	\$ 240	\$ 932
	=====	=====	=====	=====

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare 2003 Act") introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. During the third quarter of 2004, the Company determined that benefits provided by its plan are actuarially equivalent to the Medicare Part D benefit and therefore the Company is eligible for the federal subsidy provided for by the Medicare 2003 Act. The effect of such subsidy, which is accounted for prospectively, as permitted by and in accordance with FASB

Staff Position No. 106-2, from the date actuarial equivalence was determined, did not have a material impact on the accumulated postretirement benefit obligation, and will not have a material impact on the net periodic OPEB cost going forward.

Note 16 - Accounts with affiliates:

	December 31, 2003	September 30, 2004
	-----	-----
	(In thousands)	
Current receivables from affiliates:		
TIMET	\$ 50	\$ -
Kronos	-	138
Valhi - income taxes	306	65
Other	5	-
	-----	-----
	\$ 361	\$ 203
	=====	=====
Noncurrent receivables from affiliates:		
Loan to Contran family trust	\$ 14,000	\$ 12,000
Note receivable from Kronos	-	31,423
	-----	-----
	\$ 14,000	\$ 43,423
	=====	=====
Current payables to affiliates:		
Louisiana Pigment Company	\$ 8,560	\$ -
Income taxes payable to Valhi	10,512	9,976
Kronos	-	37
Other	465	122
	-----	-----
	\$ 19,537	\$ 10,135
	=====	=====

The note receivable from Kronos, included in noncurrent receivables from affiliates, was eliminated in the Company's consolidated financial statements prior to July 1, 2004. See Note 1.

Capital transactions with affiliates during the first nine months of 2003, as reflected on the accompanying Consolidated Statements of Cash Flows, relates principally to CompX dividends paid to Valhi and Valcor.

Note 17 - Commitments and contingencies:

Lead pigment litigation. The Company's former operations included the manufacture of lead pigments for use in paint and lead-based paint. Since 1987, NL, other former manufacturers of lead pigments for use in paint, and lead-based paint, and the Lead Industries Association (which discontinued business operations in 2002) have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, large U.S. cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and asserted health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. Several former cases have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of the defendants. In addition, various other cases are pending (in which the Company is not a defendant) seeking recovery for injury allegedly caused by lead pigment and lead-based paint. Although the Company is not a defendant in these cases, the outcome of these cases may have an impact on additional cases being filed against the Company.

NL believes these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. NL has neither lost nor settled any of these cases. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. Liability that may result, if any, cannot reasonably be estimated. There can be no assurance that NL will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases.

Environmental matters and litigation. The Company's operations are governed by various federal, state, local and foreign environmental laws and regulations. Certain of the Company's businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws. As with other companies engaged in similar businesses, certain past and current operations and products of the Company have the potential to cause environmental or other damage. The Company has implemented and continues to implement various policies

and programs in an effort to minimize these risks. The Company's policy is to comply with environmental laws and regulations at all of its plants and to continually strive to improve environmental performance in association with applicable industry initiatives. The Company believes that its operations are in substantial compliance with applicable requirements of environmental laws. From time to time, the Company may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies thereunder, could adversely affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances.

The Company's production facilities operate within an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers that allow them to issue operating permits under which the plants must operate. The Company believes all of its plants are in substantial compliance with applicable environmental laws.

Some of the Company's current and former facilities, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, the Company has been named as a defendant, potentially responsible party ("PRP") or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") and similar state laws in approximately 60 governmental and private actions associated with waste disposal sites, mining locations, and facilities currently or previously owned, operated or used by the Company or its subsidiaries, or their predecessors, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable.

Environmental obligations are difficult to assess and estimate for numerous reasons including the complexity and differing interpretations of governmental regulations, the number of PRPs and the PRPs' ability or willingness to fund such allocation of costs, their financial capabilities and the allocation of costs among PRPs, the solvency of other PRPs, the multiplicity of possible solutions, and the years of investigatory, remedial and monitoring activity required. In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites or a determination that the Company is potentially responsible for the release of hazardous substances at other sites, could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. In addition, with respect to other PRPs and the fact that the Company may be jointly and severally liable for the total remediation cost at certain sites, the Company could ultimately be liable for amounts in excess of its accruals due to, among other things, reallocation of costs among PRPs or the insolvency of one or more PRPs. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

A summary of the activity in the Company's accrued environmental costs during the first nine months of 2004 is presented in the table below. The amount shown in the table below for payments against the Company's accrued environmental costs is net of a \$1.5 million recovery of remediation costs previously expended by NL that was paid to NL by other PRPs in the third quarter of 2004 pursuant to an agreement entered into by NL and the other PRPs.

	Amount

	(In thousands)
Balance at the beginning of the period	\$ 77,481
Additions charged to expense	1,078
Payments, net	(7,738)

Balance at the end of the period	\$ 70,821
	=====
Amounts recognized in the balance sheet	
at September 30, 2004:	
Current liability	\$ 17,283
Noncurrent liability	53,538

	\$ 70,821
	=====

The Company records liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future expenditures are generally not discounted to their present value. Recoveries of remediation costs from other

parties, if any, are recognized as assets when their receipt is deemed probable.

On a quarterly basis, the Company evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed NL's obligation. At September 30, 2004, the Company had accrued \$71 million for those environmental matters which are reasonably estimable. The Company believes it is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to the Company for sites for which the Company believes is possible to estimate costs is approximately \$101 million. The Company's estimates of such liabilities have not been discounted to present value.

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

At September 30, 2004, there are approximately 20 sites for which the Company is unable to estimate a range of costs. For these sites, generally the investigation is in the early stages, and it is either unknown as to whether or not the Company actually had any association with the site, or if the Company did have association with the site, the nature of its responsibility, if any, for the contamination at the site and the extent of contamination. The timing on when information would become available to the Company to allow the Company to estimate a range of loss is unknown and dependent on events outside the control of the Company, such as when the party alleging liability provides information to the Company.

At September 30, 2004, the Company had \$17 million in restricted cash, restricted cash equivalents and restricted marketable debt securities held by special purpose trusts, the assets of which can only be used to pay for certain of the Company's future environmental remediation and other environmental expenditures (December 31, 2003 - \$24 million). Use of such restricted balances does not affect the Company's net cash flows.

Other litigation. The Company has been named as a defendant in various lawsuits in a variety of jurisdictions, alleging personal injuries as a result of occupational exposure primarily to products manufactured by formerly owned operations containing asbestos, silica and/or mixed dust. Approximately 485 of these types of cases involving a total of approximately 25,500 plaintiffs and their spouses remain pending. Of these plaintiffs, approximately 9,200 are represented by six cases pending in Mississippi state court, and approximately 5,500 are represented by four cases that have been removed to federal court in Mississippi, where they have been, or are in the process of being, transferred to the multi-district litigation (MDL) pending in the United States District Court for the Eastern District of Pennsylvania.

The Company has not accrued any amounts for this litigation because liability that might result to the Company, if any, cannot be reasonably estimated. In addition, from time to time, the Company has received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries of the Company, including notices provided to insurers with which the Company has entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from the Company.

In addition to the litigation described above, the Company and its subsidiaries may be involved from time to time in various other environmental, contractual, product liability, patent (or other intellectual property), employment and other claims and disputes incidental to their present and former businesses. In certain cases, the Company has insurance coverage for such claims and disputes. The Company currently believes the disposition of all of these claims and disputes individually or in the aggregate, should not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

Note 18 - Accounting principle newly adopted in 2004:

The Company complied with the consolidation requirements of FIN No. 46R, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," as amended, as of March 31, 2004. The Company does not have any involvement with any variable interest entity (as that term is defined in FIN No. 46R) covered by the scope of FIN No. 46R which had not already been consolidated under prior applicable GAAP, and therefore the impact to the Company of adopting the consolidation requirements of FIN No. 46R was not material.

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

RESULTS OF OPERATIONS:

Executive summary

As discussed in Note 1 to the Consolidated Financial Statements, on September 24, 2004, the Company purchased 10,374,000 shares of CompX common stock, representing approximately 68% of the outstanding shares of CompX common stock, from Valhi and a wholly-owned subsidiary of Valhi. Because Valhi, NL and CompX are all entities under the common control of Contran, the Company's acquisition of the shares of CompX common stock results in a change in reporting

entity and the Company has retroactively restated its consolidated financial statements to reflect the consolidation of CompX for all periods presented.

Also as discussed in Note 1 to the Consolidated Financial Statements, following the Company's July 2004 dividend in the form of shares of Kronos common stock distributed to NL shareholders, the Company's ownership of Kronos was reduced to less than 50%. Consequently, effective July 1, 2004 the Company ceased to consolidate Kronos' financial position, results of operations and cash flows and the Company commenced accounting for its interest in Kronos by the equity method. The Company continues to report Kronos as a consolidated subsidiary through June 30, 2004, including the consolidation of Kronos' results of operations and cash flows for the first two quarters of 2004. As discussed in Note 2 to the Consolidated Financial Statements, the Company has, for certain periods presented, more than one operating segment and evaluates segment performance based on segment operating income, as defined therein.

The Company reported net income of \$8.5 million, or \$.18 per diluted share, in the third quarter of 2004 compared to net income of \$16.3 million, or \$.34 per diluted share, in the third quarter of 2003. For the first nine months of 2004, the Company reported net income of \$195.0 million, or \$4.03 per diluted share, compared to net income of \$55.2 million, or \$1.15 per diluted share, in the first nine months of 2003.

The increase in the Company's diluted earnings per share from the first nine months of 2003 to the same period in 2004 is due primarily to the net effects of (i) significantly higher tax benefit generated from the reversal of Kronos' German deferred income tax asset valuation allowance and tax benefits related to EMS during the first six months of 2004, (ii) changes in chemicals operating income due in part to lower gross margins at Kronos, (iii) higher component products operating income from CompX, (iv) income from a contract dispute settlement with a Kronos customer and (v) lower environmental remediation and legal expenses of NL. Overall, the Company believes its net income in 2004 will be higher than 2003 as the impact of the reversal of Kronos' and EMS' deferred income tax asset valuation allowances are expected to more than offset the effect of Kronos' expected lower income from operations. Net income in the first nine months of 2003 includes certain income tax benefits relating to Germany aggregating \$.52 per diluted share. Net income in the first nine months of 2004 includes (a) certain income tax benefits related to Germany aggregating \$2.57 per diluted share, (b) reversal of the deferred income tax asset valuation allowance related to NL Environmental Management Services, Inc. ("EMS") and adjustment of estimated tax due upon IRS settlement and (c) income related to contract dispute settlement at Kronos of \$.04 per diluted share, each of which were recognized in the second quarter of 2004. These items are more fully described below.

Forward-looking information

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expects" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission ("SEC") including, but not limited to, the following:

- o Future supply and demand for the Company's products,
- o The cyclicity of the Company's businesses,
- o Customer inventory levels (such as the extent to which Kronos' customers may, from time to time, accelerate purchases of TiO₂ in advance of anticipated price increases or defer purchases of TiO₂ in advance of anticipated price decreases),
- o Changes in raw material and other operating costs (such as energy and steel costs),
- o The possibility of labor disruptions,
- o General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for TiO₂),
- o Demand for office furniture,
- o Competitive products and substitute products, including increased competition from low-cost manufacturing sources (such as China),
- o Customer and competitor strategies,
- o The impact of pricing and production decisions,
- o Competitive technology positions,
- o The introduction of trade barriers,
- o Service industry employment levels,
- o Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian kroner, the New Taiwan dollar and the Canadian dollar),
- o Operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions),
- o The ability of the Company to renew or refinance credit facilities,
- o The ability to implement head count reductions in a cost effective manner within the constraints on non-U.S. governmental regulations, and the timing and amount of any cost savings

- o The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- o The introduction of trade barriers,
- o Potential difficulties in integrating completed or future acquisitions,
- o Decisions to sell operating assets other than in the ordinary course of business,
- o Uncertainties associated with new product development,
- o The ultimate ability to utilize income tax attributes, the benefit of which has been recognized under the "more-likely-than-not" recognition criteria,
- o Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- o Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products),
- o The ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters) and
- o Possible future litigation.

Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

Component products

	Three months ended September 30,			Nine months ended September 30,		
	2003	2004	% Change	2003	2004	% Change
	(In millions, except percentages and volumes)					
Net sales	\$ 52.6	\$ 56.0	+7%	\$153.3	\$165.8	+8%
Segment profit (loss)	(.4)	5.8	+1,550%	1.8	14.7	+717%

Component products sales were higher in the third quarter and first nine months of 2004 as compared to the same periods in 2003 due in part to the favorable effect of fluctuations in foreign currency exchange rates. Fluctuations in the value of the U.S. dollar relative to other currencies increased component products sales by \$1.1 million in the third quarter of 2004 as compared to the third quarter of 2003, and increased sales by \$4.5 million in the first nine months of the year. Component products sales comparisons were also impacted by higher sales volumes of security products and precision slide products and the effect of price increases for certain products.

During the third quarter of 2004, sales of slide, security products and ergonomic products increased 11%, 2% and 8% respectively, as compared to the third quarter of 2003 (year-to-date increases for slide and security products of 15% and 3%, respectively, with no significant change in sales of ergonomic products on a year-to-date basis). The percentage changes in both slide and ergonomic products include the impact resulting from changes in foreign currency exchange rates. Sales of security products are generally denominated in U.S. dollars.

Component products segment profit comparisons were favorably impacted by the effect of certain cost reduction initiatives undertaken in 2002 and 2003, including retooling of CompX's facility in Michigan, consolidating CompX's two Canadian facilities into one facility and restructuring CompX's operations in the Netherlands. In addition, operating income comparisons were also favorably impacted by relative changes in product mix of security products, the price increases for certain products and expenses of approximately \$900,000 incurred during the first nine months of 2003 (mostly in the first half of the year) associated with the consolidation of the two Canadian facilities into one facility. In addition, the component products operating loss in the third quarter of 2003 includes a \$3.5 million restructuring charge associated with the implementation of certain headcount reductions at CompX's Netherlands operations.

CompX has substantial operations and assets located outside the United States in Canada, the Netherlands and Taiwan. A portion of CompX's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar, the euro and the New Taiwan dollar. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of CompX's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. During the third quarter and first nine months of 2004, currency exchange rate fluctuations positively impacted component products sales comparisons with the same period in 2003. Currency exchange rate fluctuations negatively impacted component products segment profit comparisons for the same periods.

While demand has improved across most of CompX's product segments, certain customers are seeking lower cost Asian sources as alternatives to CompX's

products. Although CompX believes the impact of this will be mitigated through its ongoing initiatives to expand both new products and new market opportunities, the recent increase in its order rates may be moderated to a certain extent in the near term. Asian-sourced competitive pricing pressures are expected to continue to be a challenge as those manufacturers, particularly those located in China, gain market share. CompX has responded to the competitive pricing pressure in part by reducing production cost through product reengineering or improvement in manufacturing processes, moving production to lower-cost facilities and providing value-added customer support services that foreign manufacturers are generally unable to provide. The combination of CompX's cost control initiatives together with its value-added approach to development and marketing of products are believed to help mitigate the impact of competitive pricing pressures.

Additionally, CompX's cost for steel continues to rise dramatically due to the continued high demand and shortages worldwide. While CompX has thus far been able to pass a majority of its higher raw material costs on to its customers through price increases and surcharges, there is no assurance that it would be able to continue to pass along any additional higher costs to its customers. The price increases and surcharges may accelerate the efforts of some of CompX's customers to find less expensive products from foreign manufacturers. CompX will continue to focus on cost improvement initiatives, utilizing lean manufacturing techniques and prudent balance sheet management in order to minimize the impact of lower sales, particularly to the office furniture industry, and to develop value-added customer relationships with additional focus on sales of CompX's higher-margin ergonomic computer support systems to improve operating results.

CompX expects the operating results of its operations in the Netherlands will continue to improve, CompX is evaluating the overall strategic role of such operations for CompX as a whole, and additional actions could be taken in the future, including the possible sale of some or all of such operations, and additional actions could be taken in the future that could result in significant charges for asset impairment, including goodwill, and other costs in future periods. These actions, along with other activities to eliminate excess capacity, are designed to position CompX to more effectively expand on new product and new market opportunities to improve CompX's profitability.

Chemicals - Kronos

Relative changes in Kronos' TiO2 sales and income from operations during the third quarter and the first nine months of 2003 and 2004 are primarily due to (i) relative changes in average TiO2 selling prices, (ii) relative changes in TiO2 sales volumes and (iii) relative changes in foreign currency exchange rates. Selling prices were generally: increasing during the first quarter of 2003, flat during the second quarter of 2003, decreasing during the third and fourth quarters of 2003 and the first quarter of 2004, flat during the second quarter of 2004 and increasing during the third quarter of 2004.

Effective July 1, 2004 the Company ceased to consolidate Kronos' financial position, results of operations and cash flows and the Company commenced accounting for its interest in Kronos by the equity method. The Company continues to report Kronos as a consolidated subsidiary through June 30, 2004, including the consolidation of Kronos' results of operations and cash flows for the first two quarters of 2004. The following table shows information about Kronos' sales and segment profit for the 2003 and 2004 periods, including the third quarter of 2004 for which the Company did not consolidate Kronos' results of operations.

	Three months ended September 30,			Nine months ended September 30,			Six months ended June 30,
	2003	2004	% Change	2003	2004	% Change	2004

	(In millions, except percentages)						
Net sales	\$242.9	\$ 286.1	+18%	\$762.5	\$845.1	+11%	\$ 559.1
Segment profit	35.4	29.8	-16%	105.2	96.2	-9%	66.4

TiO2 data:

Percent change in average TiO2 selling prices:

Using actual foreign currency exchange rates	+3%	+2%
Impact of changes in foreign currency exchange rates	-4%	-5%
	----	----
In billing currencies	-1%	-3%
	====	====

Kronos' sales increased \$43.2 million (18%) in the third quarter of 2004 compared to the third quarter of 2003 and increased \$82.6 million (11%) in the first nine months of 2004 compared to the same period in 2003, as the favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately \$11 million and \$46 million, respectively, (as more fully discussed below) and increased sales volumes more than offset the impact of lower average TiO2 selling prices. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, the Company's average TiO2 selling prices in billing currencies were 1% lower in the third quarter of 2004 as compared to the third quarter of 2003 and 3% lower in the first nine

months of 2004 as compared to the first nine months of 2003. When translated from billing currencies into U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, Kronos' average TiO2 selling prices in the third quarter of 2004 were 3% higher than the third quarter of 2003 and 2% higher for the first nine months of 2004 compared to the first nine months of 2003. Kronos' TiO2 sales volumes in the third quarter and first nine months of 2004 increased 16% and 9%, respectively, compared to the same periods of 2003, as higher volumes in Europe, the United States and export markets more than offset lower volumes in Canada. Kronos' TiO2 sales volumes in the first nine months of 2004 were a new record for Kronos.

Kronos' sales are denominated in various currencies, including the U.S. dollar, the euro, other major European currencies and the Canadian dollar. The disclosure of the percentage change in Kronos' average TiO2 selling prices in billing currencies (which excludes the effects of fluctuations in the value of the U.S. dollar relative to other currencies) is considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in Kronos' average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods is considered the most directly comparable financial measure presented in accordance with GAAP ("GAAP measure"). Kronos discloses percentage changes in its average TiO2 prices in billing currencies because Kronos believes such disclosure provides useful information to investors to allow them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods. The difference between the 3% and 2% increase in Kronos' average TiO2 selling prices during the third quarter and first nine months of 2004, respectively, as compared to the same periods in 2003 using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure) and the 1% and 3% decreases in Kronos' average TiO2 selling price in billing currencies (the non-GAAP measure) during the third quarter and first nine months is due to the effect of changes in foreign currency exchange rates. The above table presents in a tabular format (i) the percentage change in Kronos' average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), (ii) the percentage change in Kronos' average TiO2 selling prices in billing currencies (the non-GAAP measure) and (iii) the percentage change due to changes in foreign currency exchange rates (or the reconciling item between the non-GAAP measure and the GAAP measure).

Kronos' cost of sales increased \$42.0 million (24%) in the third quarter of 2004 compared to the third quarter of 2003, and increased \$85.6 million (15%) in the year-to-date period largely due to the increased sales and production volumes and the effects of translating foreign currencies (primarily the euro) into U.S. dollars. As a result of the lower average TiO2 selling prices in billing currencies, Kronos' cost of sales, as a percentage of net sales increased from 73% and 74% in each of the third quarter and first nine months of 2003, respectively, to 77% in each of the third quarter and first nine months of 2004. Kronos' TiO2 production volumes in the third quarter of 2004 increased 5% compared to the third quarter of 2003, and increased 3% in the first nine months of 2004 as compared to the same period in 2003, with operating rates near full capacity in those periods. Kronos' TiO2 production volumes in the first nine months of 2004 were also a new record for Kronos.

Kronos's gross margins for the third quarter of 2004 increased \$1.2 million (2%) from the third quarter of 2003, as the higher sales volumes and the favorable effect of relative changes in foreign currency exchange rates more than offset the effect of lower average selling prices. However, gross margins decreased \$3.0 million (2%) from the first nine months of 2003 as compared to the first nine months of 2004, as the unfavorable effect of lower average TiO2 selling prices more than offset the favorable effect of higher sales volumes and relative changes in foreign currency exchange rates.

Kronos' selling, general and administrative expenses increased \$6.1 million (20%) and \$15.9 million (18%), respectively, in the third quarter and first nine months of 2004 as compared to the corresponding periods in 2003. These increases are largely attributable to the higher sales volumes as well as the impact of translating foreign currencies (primarily the euro) into U.S. dollars.

Kronos' segment profit in the first nine months of 2004 also includes \$6.3 million of income related to the settlement of a certain contract dispute with a customer. As part of the settlement, the customer agreed to make payments to Kronos through 2007 aggregating \$7.3 million. The \$6.3 million recognized gain represents the present value of the future payments to be paid by the customer to Kronos. The dispute with the customer concerned the customer's alleged past failure to purchase the required amount of TiO2 from Kronos under the terms of Kronos' contract with the customer. Under the settlement, the customer agreed to pay an aggregate of \$7.3 million to Kronos through 2007 to resolve such dispute.

Kronos has substantial operations and assets located outside the United States (particularly in Germany, Belgium, Norway and Canada). A significant amount of Kronos' sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, primarily the euro, other major European currencies and the Canadian dollar. In addition, a portion of Kronos' sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of Kronos' foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased TiO2 sales in the third quarter of 2004 by a net amount of approximately \$11 million compared to the same period in 2003 and

increased TiO2 sales in the first nine months of 2004 by approximately \$46 million compared to the same period in 2003. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted Kronos' foreign currency-denominated operating expenses. Kronos' operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were higher in the third quarter and first nine months of 2004 compared to the third quarter and first nine months of 2003. Overall, currency exchange rate fluctuations resulted in a net increase in Kronos' segment profit of approximately \$7 million in the first nine months of 2004 as compared to the same period in 2003. Currency exchange rate fluctuations did not have a material effect on Kronos' segment profit in the third quarter of 2004 as compared to the third quarter of 2003.

Reflecting the impact of partial implementation of prior price increase announcements, Kronos' average TiO2 selling prices in billing currencies in the third quarter of 2004 were 3% higher than the second quarter of 2004, the first quarter with an upward trend in selling prices since the third quarter of 2003. In June 2004, Kronos announced additional price increases of 4 cents per pound in the U.S., Canadian 6 cents per pound in Canada and Euro 120 per metric ton in Europe, all of which are targeted to be implemented in the fourth quarter of 2004. In September 2004, Kronos announced additional price increases of 3 cents to 6 cents per pound in the U.S., Canadian 4 cents to Canadian 8 cents per pound in Canada and Euro 110 per metric ton in Europe, all of which are in addition to the July/August announced increases and are targeted to be implemented in January 2005. The Company is also targeting to achieve price increases in export markets in the fourth quarter of the year. The extent to which all of such price increases will be realized will depend on, among other things, economic factors.

Kronos expects its TiO2 sales and production volumes in 2004 will be higher than in 2003. Kronos' average TiO2 selling price, which declined during the second half of 2003 and first quarter of 2004, commenced to begin to rise during the second quarter of 2004, and was higher by 3% in the third quarter of 2004 as compared to the second quarter of 2004, and should continue to rise during the remainder of the year. Nevertheless, Kronos expects its average TiO2 selling prices, in billing currencies, will be lower in calendar 2004 as compared to 2003 and expects its gross margin in 2004 to be lower than 2003. Kronos' expectations as to the future prospects of Kronos and the TiO2 industry are based upon a number of factors beyond its control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from the Kronos' expectations, Kronos' results of operations could be unfavorably affected.

Equity in earnings of Kronos - third quarter 2004

Three months ended
September 30,
2004

(In millions)

Kronos historical:

Net sales	\$ 286.1 =====
Segment profit	29.8
Other general corporate, net	(.3)
Interest expense	(13.3) -----
	16.2
Income tax expense	6.2 -----
	10.0
	=====
Equity in Kronos Worldwide, Inc.	\$ 5.0 =====

See the preceding discussion relating to Kronos' segment profit for the third quarter of 2004. Kronos' interest expense in the third quarter of 2004 relates principally to Kronos International, Inc.'s Senior Secured Notes and Kronos' \$200 million of long-term notes payable to affiliates.

General corporate items

	Three months ended September 30,			Nine months ended September 30,		
	2003 ----	2004 ----	Difference -----	2003 ----	2004 ----	Difference -----
	(In millions)					
Interest income on note receivable from Kronos	\$ -	\$ 4.2	\$ 4.2	\$ -	\$ 4.2	\$ 4.2
Dividend income from Valhi	.3	.3	-	.8	.8	-
Other interest and dividend income	.5	.4	(.1)	1.8	1.5	(.3)
Other income	.2	.1	(.1)	.6	.1	(.5)
Securities transactions, net	(.1)	-	.1	2.4	(.1)	(2.5)

Gain on disposal of fixed assets	7.2	-	(7.2)	8.3	-	(8.3)
Legal settlement gains	-	-	-	.7	.5	(.2)
General corporate expenses, net	(9.7)	(3.7)	6.0	(48.2)	(15.0)	33.2
Interest expense:						
Kronos	(8.3)	-	8.3	(24.7)	(17.8)	6.9
CompX	(.3)	(.1)	.2	(1.0)	(.4)	.6
	-----	-----	-----	-----	-----	-----
	\$ (10.2)	\$ 1.2	\$ 11.4	\$ (59.3)	\$ (26.2)	\$ 33.1
	=====	=====	=====	=====	=====	=====

Interest and dividend income in the third quarter and first nine months of 2004 relates primarily to interest received on the Company's long-term note receivable with Kronos (\$4.2 million in the quarter and year-to-date period). Prior to the third quarter of 2004, the Company's interest income on such long-term note receivable from Kronos was eliminated in the Company's consolidated financial statements. Dividend income from the Company's ownership of Valhi common stock totaled approximately \$800,000 for each of the nine month periods ended September 30, 2003 and 2004. The gain on disposal of fixed assets relates primarily to the sale of certain real property of NL.

Net general corporate expenses in the third quarter and first nine months of 2004 were lower than the same periods of 2003 due primarily to lower environmental remediation and legal expenses of NL. Net general corporate expenses in 2004 are currently expected to continue to be lower than 2003 due to lower expected environmental remediation expenses of NL. However, obligations for environmental remediation are difficult to assess and estimate, and no assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites for which no estimate of liability can presently be made. See Note 17 to the Consolidated Financial Statements.

Kronos has a significant amount of outstanding indebtedness denominated in the euro, including KII's Euro 285 million Senior Secured Notes. Accordingly, the reported amount of interest expense during 2003 and for the first half of 2004, when Kronos' results of operations were consolidated with those of the Company, varied depending on relative changes in foreign currency exchange rates. Kronos' interest expense in the first six months of 2004 was \$17.8 million and was \$8.3 million and \$24.7 million in the third quarter and first nine months of 2003, respectively. The decrease in the amount of interest expense reported in the Company's consolidated financial statements was due primarily to the change in accounting for Kronos to the equity method. Consequently Kronos' interest expense was not included in the Company's results of operations beginning in the third quarter of 2004.

Interest expense related to the Component Products segment declined in the interim periods of 2004 compared to 2003 due primarily to lower average levels of outstanding debt. CompX expects interest expense will continue to be lower during the remainder of 2004 as compared to the last quarter of 2003 due to lower average levels of outstanding debt.

Provision for income taxes

The principal reasons for the difference between the Company's effective income tax rate and the U.S. federal statutory income tax rates are explained in Note 14 to the Consolidated Financial Statements.

At September 30, 2004, Kronos had the equivalent of \$602 million and \$244 million, respectively, of net operating loss carryforwards for German corporate and trade tax purposes, all of which have no expiration date. As more fully described in Note 14 to the Consolidated Financial Statements, Kronos had previously provided a deferred income tax asset valuation allowance against substantially all of these tax loss carryforwards and other deductible temporary differences in Germany because Kronos did not believe they met the "more-likely-than-not" recognition criteria. During the first six months of 2004, Kronos reduced its deferred income tax asset valuation allowance by approximately \$8.7 million, primarily as a result of utilization of these German net operating loss carryforwards, the benefit of which had not previously been recognized. At June 30, 2004, after considering all available evidence, Kronos concluded that these German tax loss carryforwards and other deductible temporary differences met the "more-likely-than-not" recognition criteria. Accordingly, as of June 30, 2004, Kronos reversed the remaining \$245.6 million valuation allowance related to such items. Because the benefit of such net operating loss carryforwards and other deductible temporary differences in Germany has now been recognized, the Company's future effective income tax rate will be higher than what it would have otherwise been, although its future cash income tax rate would not be affected.

In January 2004, the German federal government enacted new tax law amendments that limit the annual utilization of income tax loss carryforwards effective January 1, 2004 to 60% of taxable income after the first Euro 1 million of taxable income. The new law will have a significant effect on Kronos' cash tax payments in Germany going forward, the extent of which will be dependent upon the level of taxable income earned in Germany.

In October 2004, the American Jobs Creation Act of 2004 was enacted into law. The new law contains several provisions that could impact the Company. These provisions provide for, among other things, a special deduction from U.S. taxable income equal to a stipulated percentage of qualified income from domestic activities (as defined) beginning in 2005, and a special 85% dividends received deduction for certain dividends received from controlled foreign corporations, which deduction is subject to a number of limitations. Both of these provisions are complex and subject to numerous restrictions. The Company is still studying the new law, including the technical provisions related to the two complex provisions noted above. The effect on the Company of the new law, if any, has not yet been determined, in part because the Company has not yet determined whether its operations qualify for the special deduction or whether

it would benefit from the special dividends received deduction.

Minority interest

The Company commenced recognizing minority interest in Kronos following the Company's December 2003 distribution of a portion of the shares of Kronos common stock to the Company's shareholders, and the Company ceased to recognize minority interest in Kronos, effective July 1, 2004. See Note 11 to the Consolidated Financial Statements.

Minority interest in NL's subsidiaries relates to the Company's majority-owned environmental management subsidiary, EMS. EMS was established in 1998, at which time EMS contractually assumed certain of the Company's environmental liabilities. EMS' earnings are based, in part, upon its ability to favorably resolve these liabilities on an aggregate basis. The shareholders of EMS, other than the Company, actively manage the environmental liabilities and share in 39% of EMS' cumulative earnings. The Company continues to consolidate EMS and provides accruals for the reasonably estimable costs for the settlement of EMS' environmental liabilities, as discussed below.

Recently adopted accounting principle

See Note 18 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES:

Consolidated cash flows

The Company's consolidated cash flows from operating, investing and financing activities for the nine months ended September 30, 2003 and 2004 are presented below:

Nine months ended September 30,	
2003	2004

(In millions)

Net cash provided (used) by:

Operating activities	\$ 81.8	\$ 82.9
Investing activities	(17.3)	(3.4)
Financing activities	(60.9)	(28.6)
	-----	-----
Net cash provided by operating, investing and financing activities	\$ 3.6	\$ 50.9
	=====	=====

Summary

The Company's primary source of liquidity on an ongoing basis is its cash flows from operating activities, which is generally used to (i) fund capital expenditures, (ii) repay any short-term indebtedness incurred primarily for working capital purposes and (iii) provide for the payment of dividends (including dividends paid to Valhi by its subsidiaries). In addition, from time-to-time the Company will incur indebtedness, generally to (i) fund short-term working capital needs, (ii) refinance existing indebtedness or (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business. Also, the Company will from time-to-time sell assets outside the ordinary course of business, the proceeds of which are generally used to (i) repay existing indebtedness (including indebtedness which may have been collateralized by the assets sold), (ii) make investments in marketable and other securities, (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business or (iv) pay dividends.

Operating Activities

Cash flows from operating activities increased from \$81.8 million provided by operating activities in the first nine months of 2003 to \$82.9 million of cash provided by operating activities in the first nine months of 2004. This \$1.1 million increase was due primarily to the net effects of (i) higher net income of \$139.8 million, (ii) lower depreciation and amortization expense of \$7.5 million, (iii) lower deferred income taxes of \$287.0 million, (iv) higher minority interest in earnings of \$140.5 million, (v) higher net distributions from the TiO2 manufacturing joint venture of \$8.3 million in the first nine months of 2004 compared to a \$2.2 million distribution in the first nine months of 2003, (vi) distributions from Kronos in the nine month period of 2004 of \$6.1 million and equity in earnings of Kronos of \$5.0 million during the same period as compared to nil in the 2003 period, (vii) a higher amount of net cash used from relative changes in the Company's inventories, receivables, payables and accruals of \$34.3 million in the first nine months of 2004 as compared to the first nine months of 2003 and (viii) lower cash paid for income taxes of \$7.6 million. Relative changes in accounts receivable are affected by, among other things, the timing of sales and the collection of the resulting receivables. Relative changes in inventories and accounts payable and accrued liabilities are affected by, among other things, the timing of raw material purchases and the payment for such purchases and the relative difference between production volumes and sales volumes. Relative changes in accrued environmental costs are affected by, among other things, the period in which recognition of the environmental accrual is recognized and the period in which the remediation expenditure is actually made.

Trends in cash flows from operating activities (excluding the impact of significant asset dispositions and relative changes in assets and liabilities) are generally similar to trends in the Company's earnings. However, certain items included in the determination of net income are non-cash, and therefore such items have no impact on cash flows from operating activities. Non-cash items included in the determination of net income include depreciation and amortization expense, deferred income taxes and non-cash interest expense. Non-cash interest expense relates principally to Kronos and consists of amortization of deferred financing costs.

Certain other items included in the determination of net income may have an impact on cash flows from operating activities, but the impact of such items on cash flows from operating activities will differ from their impact on net income. For example, equity in earnings of affiliates will generally differ from the amount of distributions received from such affiliates, and equity in losses of affiliates does not necessarily result in current cash outlays paid to such affiliates. The amount of periodic defined benefit pension plan expense and periodic OPEB expense depends upon a number of factors, including certain actuarial assumptions, and changes in such actuarial assumptions will result in a change in the reported expense. In addition, the amount of such periodic expense generally differs from the outflows of cash required to be currently paid for such benefits.

Certain other items included in the determination of net income have no impact on cash flows from operating activities, but such items do impact cash flows from investing activities (although their impact on such cash flows differs from their impact on net income). For example, realized gains and losses from the disposal of long-lived assets are included in the determination of net income, although the proceeds from any such disposal are shown as part of cash flows from investing activities.

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

NL does not have complete access to the cash flows of its subsidiaries and affiliates, in part due to limitations contained in certain credit agreements as well as the fact that certain of such subsidiaries and affiliates are not 100% owned by NL. A detail of NL's consolidated cash flows from operating activities is presented in the table below. Eliminations consist of intercompany dividends (most of which are paid by Kronos to NL).

Nine months ended September 30,	
----- 2003	2004 -----

(In millions)

Cash provided (used) by operating activities:

Kronos	\$ 83.4	\$ 67.5	
CompX	14.1	20.8	
NL Parent	(13.3)	7.6	
Other	4.6	(.6)	
Eliminations	(7.0)	(12.4)	
	-----	-----	
	\$ 81.8	\$ 82.9	
	=====	=====	

Investing and financing activities

The Company's capital expenditures were \$31.7 million and \$13.6 million in the first nine months of 2003 and 2004, respectively, the majority of which relate to Kronos during the first six months of 2004. Approximately 80% of the Company's consolidated capital expenditures in the first nine months of 2004 relate to Kronos and 20% relate to CompX.

In the first quarter of 2004 KII's operating subsidiaries in Germany, Belgium and Norway borrowed a net Euro 26 million (\$32 million when borrowed) under the European revolving credit facility at an interest rate of 3.8%. Such amounts were repaid in the second quarter of 2004.

In each of the first two quarters of 2004, Kronos paid a regular quarterly cash dividend to its stockholders of \$.25 per share, of which \$12.0 million was paid to Kronos shareholders other than NL and is reflected as a distribution to minority interest on NL's Consolidated Statements of Cash Flows. Kronos' third quarter 2004 dividend paid to NL was approximately \$6.1 million and is reflected as a distribution from Kronos on the Company's Consolidated Statement of Cash Flows.

Component Products - CompX

CompX believes that its cash on hand, together with cash generated from operations and borrowing availability under its new bank credit facility, will be sufficient to meet CompX's liquidity needs for working capital, capital expenditures and debt service requirements for the foreseeable future. To the

extent that CompX's actual operating results or developments differ from CompX's expectations, CompX's liquidity could be adversely affected. CompX suspended its regular quarterly dividend of \$.125 per share in the second quarter of 2003. In the fourth quarter of 2004, CompX resumed its regular quarterly dividend at the \$.125 per share rate.

Certain of the CompX's sales generated by its non-U.S. operations are denominated in U.S. dollars. CompX periodically uses currency forward contracts to manage a portion of foreign exchange rate risk associated with receivables or similar exchange rate risk associated with future sales denominated in a currency other than the holder's functional currency. CompX has not entered into these contracts for trading or speculative purposes in the past, nor does CompX currently anticipate entering into such contracts for trading or speculative purposes in the future. At each balance sheet date, any such outstanding currency forward contract is marked-to-market with any resulting gain or loss recognized in income currently as part of net currency transactions. To manage such exchange rate risk, at September 30, 2004, CompX held a series of contracts maturing through November 2004 to exchange an aggregate of U.S. \$3.1 million for an equivalent amount of Canadian dollars at exchange rates ranging from Cdn. \$1.29 to Cdn. \$1.31 per U.S. dollar. At September 30, 2004 the actual exchange rate was Cdn. \$1.28 per U.S. dollar.

CompX periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and available resources in view of, among other things, its capital expenditure requirements, dividend policy and estimated future operating cash flows. As a result of this process, CompX has in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, issue additional securities, modify its dividend policy, repurchase shares of its common stock or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of business, CompX may review opportunities for acquisitions, divestitures, joint ventures or other business combinations in the component products industry. In the event of any such transaction, CompX may consider using its then-available cash, issuing additional equity securities or increasing the indebtedness of CompX or its subsidiaries.

Chemicals - Kronos

At September 30, 2004, Kronos had cash, cash equivalents and marketable debt securities of \$122.0 million, including restricted balances of \$3.5 million, and Kronos had \$144 million available for borrowing under its U.S. and non-U.S. credit facilities.

At September 30, 2004, Kronos' outstanding debt was comprised of (i) \$350.2 million related to KII's Senior Secured Notes and (ii) \$348,000 of other indebtedness. In addition, Kronos had a \$200 million long-term note payable to affiliates due in 2010, including \$31.4 million payable to NL. In October 2004, Kronos prepaid \$100 million (including interest) of such note receivable held by Valhi.

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

See Note 14 to the Consolidated Financial Statements for certain income tax examinations currently underway with respect to certain of Kronos' income tax returns in various U.S. and non-U.S. jurisdictions.

Kronos periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its dividend policy, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, Kronos has in the past and may in the future seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, repurchase shares of its common stock, modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, Kronos may review opportunities for acquisitions, divestitures, joint ventures or other business combinations in the chemicals or other industries, as well as the acquisition of interests in, and loans to, related entities. In the event of any such transaction, Kronos may consider using its available cash, issuing its equity securities or increasing its indebtedness to the extent permitted by the agreements governing Kronos' existing debt.

Kronos has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amounts of Kronos' assets and liabilities related to its non-U.S. operations, and therefore Kronos' and the Company's consolidated net assets, will fluctuate based upon changes in currency exchange rates.

Provisions contained in certain of Kronos' credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity for reasons other than defaults from failing to comply with typical financial covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. Other than operating leases discussed in the 2003 Annual Report, neither NL nor any of its subsidiaries or affiliates are parties to any off-balance sheet financing arrangements.

In October 2004, Kronos filed a registration statement with the SEC for a proposed offering of up to 8.25 million shares of its common stock. The registration statement has not yet been declared effective by the SEC. There can be no assurance that the registration statement will be declared effective, or

if declared effective, that the offering would be completed. The securities may not be offered for sale or sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. If the offering is completed, Kronos would use a portion of the net proceeds from such offering to repay the remaining balance of its long-term note payable to affiliates (including the \$31.4 million owed to NL), with the balance of the net proceeds available for Kronos' general corporate purposes, including possible acquisitions.

NL Industries

At September 30, 2004, NL (exclusive of CompX and Kronos) had (i) current cash and cash equivalents aggregating \$35.5 million, (ii) current restricted cash equivalents of \$7.4 million, (iii) current restricted marketable debt securities of \$9.2 million and (iv) noncurrent restricted marketable debt securities of \$5.6 million. Of such restricted balances, \$17 million was held by special purpose trusts, the assets of which can only be used to pay for certain of NL's future environmental remediation and other environmental expenditures. NL also has a \$31.4 million long-term note receivable from Kronos due in 2010. As discussed above, Kronos has filed a registration statement with the SEC for a proposed offering of up to 8.25 million shares of its common stock. Assuming the offering is completed, Kronos has stated that it intends to use a portion of the net proceeds from such offering to prepay its remaining notes payable to affiliates, including the \$31.4 million held by NL.

See Note 14 to the Consolidated Financial Statements for certain income tax examinations currently underway with respect to certain of NL's income tax returns, and see Note 17 to the Consolidated Financial Statements and Part II, Item 1, "Legal Proceedings" with respect to certain legal proceedings and environmental matters with respect to NL.

In December 2003, NL completed the distribution of approximately 48.8% of Kronos' outstanding common stock to its shareholders under which NL shareholders received one share of Kronos' common stock for every two shares of NL common stock held. Approximately 23.9 million shares of Kronos common stock were distributed. Immediately prior to the distribution of shares of Kronos common stock, Kronos distributed a \$200 million promissory note payable by Kronos to NL (of which NL transferred \$168.6 million to Valhi and Valcor in connection with NL's acquisition of the shares of CompX common stock previously held by Valhi and Valcor, as discussed in Note 1 to the Consolidated Financial Statements). During the first nine months of 2004, NL paid its three \$.20 per share regular quarterly dividend in the form of shares of Kronos common stock in which an aggregate of approximately 966,000 shares, or approximately 2% of Kronos' outstanding common stock, were distributed to NL shareholders (including Valhi and an affiliate of Valhi) in the form of pro-rata dividends. Valhi and NL are members of the Contran Tax Group. NL's distribution of such shares of Kronos common stock is taxable to NL, and NL is required to recognize a taxable gain equal to the difference between the fair market value of the shares of Kronos common stock distributed and NL's adjusted tax basis in such stock at the applicable date of distribution. With respect to the shares of Kronos distributed to Valhi and an affiliate of Valhi (806,000 shares in the aggregate), the terms of NL's tax sharing agreement with Valhi, as amended in December 2003, do not require NL to pay up to Valhi the tax liability generated from the distribution of such Kronos shares to Valhi and an affiliate of Valhi, since the tax on that portion of the gain is deferred at the Valhi level due to Valhi and NL being members of the same tax group. NL was required to recognize a tax liability with respect to the Kronos shares distributed to NL shareholders other than Valhi and an affiliate of Valhi, and such tax liability aggregated approximately \$1.9 million.

Following the second of such quarterly dividends in 2004, NL no longer owned a majority of Kronos' outstanding common stock, and accordingly NL ceased to consolidate Kronos as of July 1, 2004.

On September 24, 2004, NL completed the acquisition the CompX shares previously held by Valhi and Valcor at a purchase price of \$16.25 per share, or an aggregate of approximately \$168.6 million. The purchase price was paid by NL's transfer to Valhi and Valcor of \$168.6 million of NL's \$200 million long-term note receivable from Kronos (which long-term note was eliminated in the preparation of the Company's consolidated financial statements). See Note 1 to the Consolidated Financial Statements. NL's acquisition was accounted for under GAAP as a transfer of net assets among entities under common control, and accordingly resulted in a change in reporting entity and the Company has retroactively restated its consolidated financial statements to reflect the consolidation of CompX for all periods presented.

NL periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its dividend policy, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, NL has in the past and may in the future seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, repurchase shares of its common stock, modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, NL may review opportunities for acquisitions, divestitures, joint ventures or other business combinations in the chemicals or other industries, as well as the acquisition of interests in, and loans to, related entities. In the event of any such transaction, NL may consider using its available cash, issuing its equity securities or increasing its indebtedness to the extent permitted by the agreements governing NL's existing debt.

Non-GAAP financial measures

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

o The Company discloses percentage changes in Kronos' average Ti02 selling prices in billing currencies, which excludes the effects of foreign currency translation. The Company believes disclosure of such percentage changes allows investors to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Harold C. Simmons, the Company's Chief Executive Officer, and Gregory M. Swalwell, the Company's Vice President, Finance and Chief Financial Officer, have evaluated the Company's disclosure controls and procedures as of September 30, 2004. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

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

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

There has been no change to the Company's system of internal controls over financial reporting during the quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 will require the Company to annually include a management report on internal control over financial reporting starting in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The Company's independent auditors will also be required to annually attest to the Company's internal control over financial reporting. In order to achieve compliance with Section 404, the Company has been documenting, testing and evaluating its internal control over financial reporting since 2003, using a combination of internal and external resources. The process of documenting, testing and evaluating the Company's internal control over financial reporting under the applicable guidelines is complex and time consuming, and available internal and external resources necessary to assist the Company in the documentation and testing required to comply with Section 404 are limited. While the Company currently believes it has dedicated the appropriate resources and that it will be able to fully comply with Section 404 in its Annual Report on Form 10-K for the year ended December 31, 2004 and be in a position to conclude that the Company's internal control over financial reporting is effective as of December 31, 2004, because the applicable requirements are complex and time consuming, and because currently unforeseen events or circumstances beyond the Company's control could arise, there can be no assurance that the Company will ultimately be able to fully comply with Section 404 in its Annual Report on Form 10-K for the year ended December 31, 2004 or whether it will be able to conclude the Company's internal control over financial reporting is effective as of December 31, 2004.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 17 to the Consolidated Financial Statements, the 2003 Annual Report and the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004 for descriptions of certain previously reported legal proceedings.

Thomas v. Lead Industries Association, et al. (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411). In September 2004, the Wisconsin Supreme Court granted plaintiff's petition for review of the appellate court's June 2004 decision affirming the trial court's dismissal of all of the plaintiff's claims.

Smith, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004490). In September 2004, the Maryland Court of Appeals granted plaintiffs' petition for review of the appellate court's dismissal of certain of the plaintiffs' claims.

City of St. Louis v. Lead Industries Association, et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 002-245, Division 1). In September 2004, the court amended the scheduling order and reset the trial date for January 2006.

Spring Branch Independent School District v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2000-31175). The time for plaintiff's appeal of the appellate court's June 2004 decision granting defendant's motion for summary judgment expired in August 2004.

Jackson, et al., v. Phillips Building Supply of Laurel, et al. (Circuit Court of Jones County, Mississippi, Dkt. CO. 2002-10-CV1). In August 2004, plaintiffs voluntarily agreed to sever one of the plaintiffs, and defendants withdrew their motion to sever such plaintiff.

The Quapaw Tribe of Oklahoma et al. v. ASARCO Incorporated et al. (United States District Court, Northern District of Oklahoma, Case No. 03C-V846 H). In September 2004, the court stayed the case pending an appeal by the tribe related to sovereign immunity issues.

In July 2004, the U.S EPA and the Company entered into an administrative order on consent to perform a removal action with respect to the site of a formerly owned lead smelting facility in Collinsville, Illinois.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The Company has retained a signed original of any exhibit listed below that contains signatures, and the Company will provide any such exhibit to the SEC or its staff upon request. The Company will also furnish, without charge, a copy of its Code of Business Conduct and Ethics, its Audit Committee Charter and its Corporate Governance Guidelines, each as approved by the Company's board of directors and each of which are also available at the Company's website at www.nl-ind.com, upon request. Such requests should be directed to the attention of the Company's corporate secretary at the Company's corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

10.1 - First Amendment Agreement, dated September 3, 2004, Relating to a Facility Agreement dated June 25, 2002 among Kronos Titan GmbH, Kronos Europe S.A./N.V., Kronos Titan AS and Titania A/S, as borrowers, Kronos Titan GmbH, Kronos Europe S.A./N.V. and Kronos Norge AS, as guarantors, Kronos Denmark ApS, as security provider, with Deutsche Bank Luxembourg S.A., acting as agent - incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 of Kronos Worldwide, Inc. (File No. 333-119639).

10.2 - Stock Purchase Agreement dated September 24, 2004 between Valhi, Inc. and Valcor, Inc., as sellers, and NL Industries, Inc. as purchaser - incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Registrant dated September 24, 2004.

10.3 - Promissory Note dated September 24, 2004 in the original principal amount of \$31,422,500.00 payable to the order of NL Industries, Inc. and executed by Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Registrant dated September 24, 2004.

10.4 - Promissory Note dated September 24, 2004 in the original principal amount of \$162,500,000.00 payable to the order of Valcor, Inc. and executed by Kronos Worldwide, Inc. - incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of the Registrant dated September 24, 2004.

10.5 - Promissory Note dated September 24, 2004 in the original principal amount of \$6,077,500.00 payable to the order of Valhi, Inc. and executed by Kronos Worldwide, Inc. - incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of the Registrant dated September 24, 2004.

10.6 - Subscription agreement executed on October 5, 2004 but effective as of October 1, 2004 among NL Industries, Inc., TIMET Finance Management Company and CompX Group, Inc. - incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of the Registrant dated October 5, 2004.

10.7 - Voting agreement executed on October 5, 2004 but effective as of October 1, 2004 among NL Industries, Inc., TIMET Finance Management Company and CompX Group, Inc. - incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of the Registrant dated October 5, 2004.

31.1 - Certification

31.2 - Certification

32.1 - Certification

(b) Reports on Form 8-K Reports on Form 8-K for the quarter ended September 30, 2004.

August 6, 2004 - Reported Item 9 and Item 12

September 1, 2004 - Reported Item 7.01 and Item 9.01

September 7, 2004 - Reported Item 1.01 and Item 2.03

September 29, 2004 - Reported Item 1.01, Item 2.01, Item 7.01 and Item 9.01

SIGNATURES

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

NL INDUSTRIES, INC.

(Registrant)

Date November 8, 2004

By /s/ Gregory M. Swalwell

Gregory M. Swalwell
Vice President, Finance
and Chief Financial Officer
(Principal Financial Officer)

Date November 8, 2004

By /s/ James W. Brown

James W. Brown
Vice President and Controller
(Principal Accounting Officer)

CERTIFICATION

I, Harold C. Simmons, the Chief Executive Officer of NL Industries, Inc., certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of NL Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/s/ Harold C. Simmons

Harold C. Simmons
Chief Executive Officer

CERTIFICATION

I, Gregory M. Swalwell, the Chief Financial Officer of NL Industries, Inc., certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of NL Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/s/ Gregory M. Swalwell

 Gregory M. Swalwell
 Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NL Industries, Inc. (the Company) on Form 10-Q for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Harold C. Simmons, Chief Executive Officer of the Company, and I, Gregory M. Swalwell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harold C. Simmons

Harold C. Simmons
Chief Executive Officer

/s/ Gregory M. Swalwell

Gregory M. Swalwell
Chief Financial Officer

November 8, 2004

Note: The certification the registrant furnishes in this exhibit is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.