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, 1998 COMMISSION FILE NUMBER 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	87-0110150
(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

NUMBER OF SHARES OF COMMON STOCK OUTSTANDING ON OCTOBER 31, 1998: 114,480,014.

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

ASSETS	DECEMBER 31, 1997	SEPTEMBER 30, 1998
Current assets:		
Cash and cash equivalents	$ 360,369	$ 376,868
Accounts and other receivables	172,378	192,086
Refundable income taxes	1,941	10,638
Receivable from affiliates	104	12,470
Inventories	204,718	208,239
Prepaid expenses	3,607	7,729
Deferred income taxes	7,541	4,910
Total current assets	750,658	812,940
Other assets:		
Marketable securities	273,616	263,701
Investment in and advances to affiliates	192,239	370,796
Loans and notes receivable	82,556	82,428
Mining properties	30,363	14,250
Prepaid pension cost	24,111	24,501
Goodwill	256,539	259,325
Deferred income taxes	110	-
Other	26,267	25,505
Total other assets	885,801	1,040,506
Property and equipment:		
Land	17,100	15,971
Buildings	145,599	146,135
Equipment	506,402	495,255
Construction in progress	3,284	13,757
	672,385	671,118
Less accumulated depreciation	130,731	151,034
Net property and equipment	541,654	520,084
	$2,178,113	$2,373,530

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(IN THOUSANDS)

LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31, 1997	SEPTEMBER 30, 1998
Current liabilities:		
Notes payable	$ 13,968	$ 35,864
Current long-term debt	76,854	185,161
Accounts payable	71,559	59,461
Accrued liabilities	114,721	173,572
Payable to affiliates	30,996	13,740
Income taxes	15,103	16,653
Deferred income taxes	891	931
Total current liabilities	324,092	485,382
Noncurrent liabilities:		
Long-term debt	1,008,087	639,787
Accrued pension cost	45,641	42,020
Accrued OPEB cost	51,273	43,814
Accrued environmental costs	128,246	81,844
Deferred income taxes	207,403	351,420
Other	28,180	44,355
Total noncurrent liabilities	1,468,830	1,203,240
Minority interest	257	106,468
Stockholders' equity:		
Common stock	1,253	1,255
Additional paid-in capital	38,355	42,781
Retained earnings	315,977	511,582
Accumulated other comprehensive income:		
Marketable securities	127,731	121,728
Currency translation	(24,440)	(22,127)
Pension liabilities	(2,533)	(1,520)
Treasury stock	(71,409)	(75,259)
Total stockholders' equity	384,934	578,440
	$2,178,113	$2,373,530

Commitments and contingencies (Note 1)

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998	1997	1998
Revenues and other income:				
Net sales	$275,193	$260,218	$820,719	$ 808,939
Gain on:				
Disposal of business unit	-	-	-	330,217
Reduction in interest in CompX	-	-	-	67,902
Other, net	20,040	12,531	60,017	62,729
	295,233	272,749	880,736	1,269,787
Costs and expenses:				
Cost of sales	201,067	180,062	618,098	563,772
Selling, general and administrative	45,727	41,034	175,413	164,956
Interest	30,161	23,005	91,434	71,889
	276,955	244,101	884,945	800,617
	18,278	28,648	(4,209)	469,170
Equity in earnings of:				
Tremont Corporation	-	2,986	-	2,986
Waste Control Specialists	(3,398)	(2,706)	(8,880)	(9,552)
Income (loss) before income taxes	14,880	28,928	(13,089)	462,604
Provision for income taxes (benefit)	6,427	531	(1,066)	184,908
Minority interest in after-tax earnings	7	15,322	35	61,997
Income (loss) from continuin operations	8,446	13,075	(12,058)	215,699
Discontinued operations	(950)	-	34,463	-
Extraordinary item	(3,897)	(1,424)	(4,291)	(2,747)
Net income	$ 3,599	$ 11,651	$ 18,114	$212,952

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

THREE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,

	1997	1998	1997	1998
Basic earnings per share:				
Continuing operations	$ .07	$ .11	$ (.10)	$ 1.87
Discontinued operations	(.01)	-	.30	-
Extraordinary item	(.03)	(.01)	(.04)	(.02)
Net income	$ .03	.10	.16	1.85
Diluted earnings per share:				
Continuing operations	$ .07	$ .11	(.10)	1.86
Discontinued operations	(.01)	-	.30	-
Extraordinary item	(.03)	(.01)	(.04)	(.02)
Net income	$ .03	$ .10	$ .16	$ 1.84
Cash dividends per share	$ .05	$ .05	$ .15	$ .15
Shares used in the calculation of earnings per share:				
Basic earnings per share	115,129	114,946	114,978	115,011
Dilutive impact of stock options	822	1,337	-	1,090
Diluted earnings per share	115,951	116,283	114,978	116,101

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1998

(IN THOUSANDS)

	1997	1998
Net income	$18,114	$212,952
Other comprehensive income, net of tax:		
Marketable securities adjustment:		
Unrealized gains (losses) arising during the period	89,432	

		(1,399)
Less reclassification for gains included in net income	(1,372)	(5,204)
	88,060	(6,003)
Currency translation adjustment	(10,620)	2,313
Pension liabilities adjustment	-	1,013
Total other comprehensive income, net	77,440	(2,677)
Comprehensive income	$95,554	$210,275

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 1998

(IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
Balance at December 31, 1997	$1,253	$38,355	$315,977
Net income	-	-	212,952
Other comprehensive income, net	-	-	-
Dividends	-	-	(17,347)
Common stock reacquired	-	-	-
Other, net	2	4,426	-
Balance at September 30, 1998	$1,255	$42,781	$511,582

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 1998

(IN THOUSANDS)

	ACCUMULATED OTHER COMPREHENSIVE INCOME				TOTAL
	MARKETABLE SECURITIES	CURRENCY TRANSLATION	PENSION LIABILITIES	TREASURY STOCK	STOCKHOLDERS' EQUITY
Balance at December 31, 1997	$127,731	$(24,440)	$(2,533)	$(71,409)	$384,934
Net income	-	-	-	-	212,952
Other comprehensive	(6,003)	2,313	1,013	-	(2,677)

income, net					
Dividends	-	-	-	-	(17,347)
Common stock reacquired	-	-	-	(3,692)	(3,692)
Other, net	-	-	-	(158)	4,270
Balance at September 30, 1998	$121,728	$(22,127)	$(1,520)	$(75,259)	$578,440

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1998

(IN THOUSANDS)

	1997	1998
Cash flows from operating activities:		
Net income	$ 18,114	$ 212,952
Depreciation, depletion and amortization	46,503	43,881
Noncash interest expense	27,626	23,107
Gain on:		
Disposal of business unit	-	(330,217)
Reduction in interest in CompX	-	(67,902)
Change in accounting principle	30,000	-
Deferred income taxes	(14,109)	139,240
Minority interest	35	61,997
Other, net	(11,440)	(15,000)
Equity in:		
Tremont Corporation	-	(2,986)
Waste Control Specialists	8,880	9,552
Discontinued operations	(34,463)	-
Extraordinary item	4,291	2,747
Dividends from Tremont Corporation	-	215
	75,437	77,586
Discontinued operations, net	(41,524)	-
Change in assets and liabilities:		
Accounts and notes receivable	(38,094)	(36,285)
Inventories	45,181	(15,886)
Accounts payable and accrued liabilities	15,747	14,099
Accounts with affiliates	9,032	(29,806)
Income taxes	8,825	(5,307)
Other, net	(6,032)	5,827
Net cash provided by operating activities	68,572	10,228
Cash flows from investing activities:		
Capital expenditures	(28,015)	(20,446)
Purchases of:		
Tremont common stock	-	(172,918)
NL common stock	(2,752)	(13,890)
CompX common stock	-	(5,587)
Marketable securities	(6,000)	(3,766)
Business unit	-	(33,372)
Investment in Waste Control Specialists	(3,000)	(10,000)
Proceeds from disposal of:		
Business unit	-	435,080
Marketable securities	-	6,875
Loans to affiliates:		
Loans	(50,025)	(123,250)

	1997	1998
Collections	23,525	120,250
Other loans and notes receivable:		
Loans	(200,600)	-
Collections	112,869	-
Pre-close dividend from Amalgamated Sugar Company	11,518	-
Discontinued operations, net	91,805	-
Other, net	8,760	590
Net cash provided (used) by investing activities	(41,915)	179,566

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1998

(IN THOUSANDS)

	1997	1998
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 390,369	$ 31,012
Principal payments	(316,750)	(288,479)
Deferred financing costs paid	(4,643)	(220)
Proceeds from issuance of CompX common stock	-	110,378
Loans from affiliates:		
Loans	-	3,000
Repayments	(7,244)	-
Valhi dividends paid	(17,356)	(17,347)
Common stock reacquired	-	(3,692)
Discontinued operations, net	22,380	-
Other, net	3,043	(20)
Net cash provided (used) by financing activities	69,799	(165,368)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	96,456	24,426
Currency translation	(1,202)	(297)
Business unit sold	-	(7,630)
Cash and equivalents at beginning of period	255,679	360,369
Cash and equivalents at end of period	$ 350,933	$376,868
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 60,419	$ 40,326
Income taxes, net	41,167	77,917
Business unit acquired - net assets consolidated:		
Cash and cash equivalents	$	
Goodwill and other intangible assets	-	23,399
Other non-cash assets	-	17,782
Liabilities	-	(7,809)

Cash paid	$ -	$ 33,372

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION:

The consolidated balance sheet of Valhi, Inc. and Subsidiaries (collectively, the "Company") at December 31, 1997 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at September 30, 1998 and the consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the interim periods ended September 30, 1997 and 1998 have been prepared by the Company, without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain information normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. 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, 1997 (the "1997 Annual Report").

The results of the Company's former building products and fast food operations are presented as discontinued operations. See Note 14. The extraordinary item, stated net of allocable income tax benefit and minority interest, relates to the prepayment of certain indebtedness at NL Industries.

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

In January 1998, the Company's board of directors authorized the Company to purchase up to 2 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. As of September 30, 1998, the Company had purchased approximately 383,000 shares for an aggregate of $3.7 million pursuant to such authorization. Other commitments and contingencies are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Legal Proceedings" and the 1997 Annual Report.

Contran Corporation holds, directly or through subsidiaries, approximately 92% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of Valhi and Contran, may be deemed to control such companies.

The Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, no later than the first quarter of 2000. Under SFAS No. 133, all derivatives will be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives will depend upon the intended use of the derivative. The Company is currently studying this new accounting rule, and the impact of adopting SFAS No. 133, if any, has not yet been determined but will be dependent upon the extent to which the Company is a party to derivative contracts or hedging activities covered by SFAS No. 133 at the time of adoption.

NOTE 2 - BUSINESS SEGMENT INFORMATION:

OPERATIONS	PRINCIPAL ENTITIES	% OWNED AT SEPTEMBER 30, 1998

Chemicals	NL Industries, Inc.	58%*
Component products	CompX International Inc.	64%
Titanium metals	Tremont Corporation	48%
Waste management	Waste Control Specialists	64%

* Tremont owns an additional 19% of NL Industries.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998	1997	1998
	(IN MILLIONS)			
Net sales:				
Chemicals	$248.3	$221.5	$740.5	$698.4
Component products	27.0	38.7	80.3	110.5
	$275.3	$260.2	$820.8	$808.9
Operating income:				
Chemicals	$ 32.1	$ 40.2	$ 69.5	$119.6
Component products	6.9	8.8	20.1	22.2
	39.0	49.0	89.6	141.8
Gain on:				
Disposal of business unit	-	-	-	330.2
Reduction in interest in CompX	-	-	-	67.9
General corporate items:				
Securities transactions	1.9	.1	2.1	8.0
Interest and dividend income	15.4	8.2	46.5	42.9
Expenses, net	(7.8)	(5.6)	(50.9)	(49.7)
Interest expense	(30.2)	(23.0)	(91.5)	(71.9)
	18.3	28.7	(4.2)	469.2
Equity in earnings of:				
Tremont Corporation	-	3.0	-	3.0
Waste Control Specialists	(3.4)	(2.8)	(8.9)	(9.6)
Income (loss) before income taxes	$ 14.9	$ 28.9	$(13.1)	$462.6

NL Industries. In January 1998, NL sold its specialty chemicals business unit conducted by its subsidiary Rheox, Inc. See Note 12. NL's remaining chemicals operations are conducted through its subsidiary Kronos, Inc. (titanium dioxide pigments or "TiO2"). In July 1998, NL reached an agreement to acquire certain operations of a TiO2 competitor, including the other 50% interest in NL's TiO2 manufacturing joint venture. Completion of the transaction is subject to certain conditions. See Note 5 and "Management's Discussion and Analysis of Financial Condition and Results of Operations." During the first nine months of 1998, the Company purchased 813,000 shares of NL common stock in market transactions for an aggregate $13.9 million.

CompX. Prior to March 1998, CompX was a wholly-owned subsidiary of Valcor, Inc., a wholly-owned subsidiary of Valhi. In March 1998, CompX completed an initial public offering of shares of its common stock which reduced the Company's ownership interest in CompX to 62%. See Note 13. In March 1998, CompX completed the acquisition of a lock competitor for $33 million cash consideration. Such acquisition was accounted for by the purchase method.

During the third quarter of 1998, Valhi purchased 329,000 shares of CompX common stock in market transactions for an aggregate of $5.6 million, thereby increasing the Company's ownership interest of CompX to 64%.

Waste Control Specialists. The Company has not consolidated its majority-owned subsidiary, Waste Control Specialists, because the Company is not deemed to control Waste Control Specialists. See the 1997 Annual Report. In April 1998, Valhi contributed $10 million to Waste Control Specialists' equity, thereby increasing its membership interest to 64%. Approximately $7 million of such contribution was used by Waste Control Specialists to reduce the outstanding balance of its revolving borrowings from the Company. The Company also holds an option to make an additional $10 million equity contribution to Waste Control Specialists which, if contributed, would increase its membership interest to approximately 69%. See Note 5.

Tremont. On June 19, 1998, Valhi purchased 2.9 million shares of Tremont Corporation common stock from Contran and certain of Contran's subsidiaries for an aggregate of $165.4 million cash, including fees and expenses. Valhi also purchased, on open market transactions during the first nine months of 1998, an additional 141,000 shares of Tremont at an aggregate cost of $7.5 million. At September 30, 1998, the 3.1 million Tremont shares held by Valhi represent approximately 48% of Tremont's outstanding common shares at that date. Valhi accounts for its interest in Tremont by the equity method, and commenced recognizing equity in Tremont's earnings in the third quarter of 1998. See Note 5. Tremont is primarily a holding company which owns approximately 33% of the outstanding common stock of Titanium Metals Corporation ("TIMET") and 19% of NL's common stock at September 30, 1998. Tremont accounts for its interests in both NL and TIMET by the equity method.

General. Each of NL (NYSE: NL), CompX (NYSE: CIX), Tremont (NYSE: TRE) and TIMET (NYSE: TIE) file periodic reports pursuant to the Securities Exchange Act of 1934, as amended. The aggregate pro forma impact of CompX's acquisition of a lock competitor and Valhi's acquisition of Tremont common stock, assuming such acquisitions occurred at the beginning of 1997, is not material.

NOTE 3 - MARKETABLE SECURITIES:

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Noncurrent assets (available-for-sale)		
The Amalgamated Sugar Company LLC	$170,000	$170,000
Halliburton Company common stock	87,823	77,356
Other securities	15,793	16,345
	$273,616	$263,701

At September 30, 1998, Valhi held 2.7 million shares of Halliburton common stock (aggregate cost of $22 million) with a quoted market price of $28.75 per share, or an aggregate market value of $77 million. Valhi's LYONs are exchangeable at any time, at the option of the LYON holder, for such Halliburton shares, and the carrying value of the Halliburton stock is limited to the accreted LYONs obligation. See Note 8. Prior to the September 1998 merger of Halliburton and Dresser Industries, Inc., in which each share of Dresser common stock was exchanged for one share of Halliburton common stock, Valhi held Dresser shares. See the 1997 Annual Report for a discussion of the Company's investment in The Amalgamated Sugar Company LLC. The aggregate cost of other available-for-sale securities (primarily common stocks) is $14 million at September 30, 1998.

NOTE 4 - INVENTORIES:

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Raw materials:		
Chemicals	$ 45,844	$ 37,984
Component products	2,057	5,102
	47,901	43,086
In process products:		
Chemicals	8,018	11,472
Component products	5,193	6,335
	13,211	17,807
Finished products:		
Chemicals	108,292	108,243
Component products	3,775	4,405
	112,067	112,648
Supplies	31,539	34,698
	$204,718	$208,239

NOTE 5 - OTHER NONCURRENT ASSETS:

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Investment in affiliates:		
TiO2 manufacturing joint venture	$170,830	$171,202
Tremont Corporation	-	176,628
Waste Control Specialists LLC	15,518	15,966
Other	1,891	-
	188,239	363,796
Loan to Waste Control Specialists LLC	4,000	7,000
	$192,239	$370,796
Loans and notes receivable:		
Snake River Sugar Company	$ 80,000	$ 80,000
Other	12,183	5,878
	92,183	85,878
Less current portion	9,627	3,450
Noncurrent portion	$ 82,556	$ 82,428

Other noncurrent assets:		
Deferred financing costs	$ 11,646	$ 8,013
Intangible assets	4,487	5,597
Other	10,134	11,895
	$ 26,267	$ 25,505

At September 30, 1998, Valhi held 3.1 million shares of Tremont Corporation common stock with a quoted market price of $42.25 per share, or an aggregate of $131 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the Company's net carrying value of its investment in Tremont. In April 1998, the maturity of the Company's $10 million revolving loan facility to Waste Control Specialists was extended one year to December 31, 1999.

NOTE 6 - ACCOUNTS WITH AFFILIATES:

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Current receivable from affiliates:		
Income taxes receivable from Contran	$ -	$12,285
Other, net	104	185
	$ 104	$12,470
Current payable to affiliates:		
Income taxes payable to Contran	$19,472	$ -
Demand loan payable to Contran	-	3,000
Louisiana Pigment Company	8,513	7,838
Tremont Corporation	3,354	3,134
Other, net	(343)	(232)
	$30,996	$13,740

NOTE 7 - ACCRUED LIABILITIES:

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Current:		
Employee benefits	$ 44,457	$ 41,002
Environmental costs	11,118	49,174
Interest	7,019	15,476
Plant closure costs	3,289	1,861
Deferred income	915	5,377
Other	47,923	60,682

	$114,721	$173,572

Noncurrent:		
Insurance claims and expenses	$ 13,674	$ 14,894
Employee benefits	11,490	11,550
Deferred income	1,480	14,723
Other	1,536	3,188
	$ 28,180	$ 44,355

NOTE 8 - NOTES PAYABLE AND LONG-TERM DEBT:

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Notes payable -		
Kronos - non-U.S. bank credit agreement (DM 25,000 and DM 60,500)		
	$ 13,968	$ 35,864
Long-term debt:		
Valhi: Snake River Sugar Company	$ 250,000	$250,000
LYONs	87,823	82,212
NL Industries:		
Senior Secured Notes	250,000	244,000
Senior Secured Discount Notes	169,857	118,583
Deutsche mark bank credit facility (DM 288,322 and DM 207,322)	161,085	124,419
Rheox bank credit facility	117,500	-
Joint venture term loan	42,429	-
Other	3,282	1,518
Total NL Industries	744,153	488,520
Other	2,965	4,216
	1,084,941	824,948
Less current maturities	76,854	185,161
	$1,008,087	$639,787

NL redeemed its Senior Secured Discount Notes in October 1998 using available cash on hand, and accordingly such indebtedness has been classified as a current liability at September 30, 1998.

NOTE 9 - PROVISION FOR INCOME TAXES (BENEFIT):

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998
	(IN MILLIONS)	
Continuing operations:		
Expected tax expense (benefit)	$ (4.6)	$161.9
Incremental tax and rate differences on equity in earnings of non-tax group companies	(9.2)	74.5
Change in NL's deferred income tax valuation allowance	10.5	(49.7)
State income taxes, net	2.1	8.0
Refund of prior-year dividend withholding tax	-	(8.2)
Excess of tax basis over book basis of the common stock of foreign subsidiaries sold	-	(12.1)
No tax benefit on goodwill amortization	2.4	11.6
Non-U.S. tax rates	(.7)	.1
Other, net	(1.6)	(1.2)
	$ (1.1)	$184.9

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998
	(IN MILLIONS)	
Comprehensive provision (benefit) for income taxes:		
Continuing operations	$ (1.1)	$184.9
Discontinued operations	13.7	-
Extraordinary item	(2.3)	(2.8)
Other comprehensive income:		
Marketable securities	55.4	(3.2)
Currency translation	(5.7)	1.0
Pension liabilities	-	.6
	$ 60.0	$180.5

NOTE 10 - OTHER INCOME:

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998
	(IN THOUSANDS)	
Securities earnings:		
Interest and dividends	$46,348	$42,855
Securities transactions	2,110	8,006
	48,458	50,861
Currency transactions, net	2,795	3,085
Disposal of property and equipment	2,453	32
Noncompete agreement income	-	2,667
Other, net	6,311	6,084
	$60,017	$62,729

NOTE 11 - MINORITY INTEREST:

The components of minority interest in net assets and net earnings are presented in the following tables.

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Minority interest in net assets:		
NL Industries	$ -	$ 61,236
CompX	-	44,594
Subsidiaries of NL	257	624
Subsidiaries of CompX	-	14
	$ 257	$106,468

	NINE MONTHS ENDED SEPTEMBER 30, 1997	1998
	(IN THOUSANDS)	
Minority interest in net earnings (losses) - continuing operations:		
NL Industries	$ -	$57,011
CompX	-	5,082
Subsidiaries of NL	35	36
Subsidiaries of CompX	-	(132)
	$ 35	$61,997

NL Industries. At December 31, 1997, NL's separate financial statements reflected a stockholders' deficit of $222 million and, accordingly, no minority interest in NL was reported in the Company's consolidated balance sheet at that date. Until such time as NL reported positive stockholders' equity, all undistributed income or loss and other undistributed changes in NL's reported stockholders' equity accrued to the Company for financial reporting purposes. Beginning in the first quarter of 1998, NL resumed reporting positive stockholders' equity, and consequently the Company resumed reporting minority interest in NL's net earnings and net assets in 1998.

CompX. In March 1998, CompX completed an initial public offering of shares of its common stock. Prior to that date, CompX was a wholly-owned subsidiary of Valcor. See Note 13. Following CompX's public offering, the Company commenced reporting minority interest in CompX's net earnings and net assets.

NOTE 12 - DISPOSAL OF BUSINESS UNIT:

In January 1998, NL sold its specialty chemicals business unit conducted by

Rheox for $465 million cash consideration (before fees and expenses), including $20 million attributable to a five-year agreement by NL not to compete in the rheological products business. The Company reported a $330.2 million pre-tax gain on the disposal of this business unit in the first quarter of 1998. The Company's results and operations for the first nine months of 1997 included net sales of $111.4 million and operating income of $33.2 million related to this business unit (1998 prior to the sale - $12.7 million and $2.7 million, respectively).

NOTE 13 - REDUCTION IN INTEREST IN COMPX:

In March 1998, CompX completed an initial public offering of shares of its

common stock for net proceeds to CompX of approximately $110.4 million. CompX used $75 million of such net proceeds to repay outstanding borrowings under its new bank credit facility, of which $50 million was incurred in connection with the repayment of certain intercompany indebtedness owed by CompX to Valcor and $25 million which was incurred in connection with CompX's March 1998 acquisition of a lock competitor. As a result of the public offering of shares of CompX common stock and CompX's award of certain shares of its common stock in connection with the offering, the Company's ownership interest in CompX was reduced to 62% from 100%. The Company reported a $67.9 million pre-tax gain on the Company's reduction in interest in CompX in the first quarter of 1998. Deferred income taxes were provided on this gain on reduction in interest in CompX.

NOTE 14 - DISCONTINUED OPERATIONS:

The components of discontinued operations for the first nine months of 1997 are presented in the following table.

	AMOUNT
	(IN THOUSANDS)
Medite Corporation (building products)	$14,717
Sybra, Inc. (fast food)	19,746
	$34,463

Condensed income statement and cash flow data for Medite and Sybra for the first nine months of 1997 is presented below.

	MEDITE	SYBRA
	(IN MILLIONS)	
Income statement data:		
Operations:		
Net sales	$ 23.6	$37.9
Operating income	$ 1.7	$ 1.7
Interest expense and other, net	(.3)	(.6)
Pre-tax income	1.4	1.1
Income tax expense	.6	.5
	.8	.6
Net gain on disposal:		
Pre-tax gain	22.3	23.2
Income tax expense	8.4	4.1

	13.9	19.1
	$ 14.7	$19.7
Cash flow data:		
Cash flows from operating activities	$(40.4)	$(1.1)
Cash flows from investing activities:		
Capital expenditures	(.4)	(1.8)
Proceeds from disposal of assets	38.3	55.3
Other, net	-	.4
	37.9	53.9
Cash flows from financing activities:		
Indebtedness, net	-	22.4
	$ (2.5)	$75.2

NOTE 15 - RELATED PARTY TRANSACTIONS:

In June 1998, Contran used a portion of the proceeds from the sale of the shares of Tremont common stock to Valhi discussed in Note 2 to repay in full approximately $105 million of principal and accrued interest that it owed to Valhi under the previously-reported $120 million revolving line of credit between Valhi and Contran, and the facility was canceled.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS:

The Company reported income from continuing operations of $13.1 million, or $.11 per diluted share, in the third quarter of 1998 compared to income of $8.4 million, or $.07 per diluted share, in the third quarter of 1997. For the first nine months of 1998, the Company reported income from continuing operations of $215.7 million, or $1.86 per diluted share, compared to a loss from continuing operations of $12.1 million, or $.10 per diluted share, in the first nine months of 1997.

The year-to-date 1998 results include (i) a first quarter $330 million pre-tax gain ($152 million, or $1.31 per diluted share, net of income taxes and minority interest) related to the sale of NL's specialty chemicals business unit, (ii) a first quarter $68 million pre-tax gain ($44 million, or $.38 per diluted share, net of income taxes) related to the Company's reduction in interest in CompX, (iii) pre-tax securities transactions gains, principally in the second quarter, of approximately $8 million ($5 million, or $.04 per diluted share, net of income taxes) and (iv) an aggregate second quarter charge of $32 million ($21 million, or $.18 per diluted share, net of income taxes) related to the cash payments made by Valhi as part of the settlement of two shareholder derivative lawsuits in which Valhi was a defendant. In addition, the provision for income taxes in the third quarter of 1998 includes an $8 million tax benefit ($5 million, or $.04 per diluted share, net of minority interest) resulting from a refund of prior-year German dividend withholding taxes received by NL. See Notes 9, 12 and 13. The 1997 first nine months results include a first quarter $30 million pre-tax charge ($19.5 million, or $.17 per diluted share, net of income taxes) related to adoption of a new accounting standard regarding accounting for environmental remediation liabilities at NL.

The statements in this Quarterly Report on Form 10-Q relating to matters

that are not historical facts, including, but not limited to, statements found in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that involve a number of risks and uncertainties. The actual future results of the events described in such forward-looking statements could differ materially from those expressed in such forward-looking statements, and 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. Factors that could cause actual future results to differ materially from those expressed in such forward-looking statements include, but are not limited to, future supply and demand for the Company's products (including cyclicality thereof), general global economic conditions, competitive products and substitute products, customer and competitor strategies, the impact of pricing and production decisions, potential difficulties in integrating completed acquisitions, successful completion of pending acquisitions, environmental matters, government regulations and possible changes therein, the ultimate resolution of pending litigation and possible future litigation, possible disruptions of normal business activity from Year 2000 issues and other risks and uncertainties as discussed in this Quarterly Report and the 1997 Annual Report.

CHEMICALS

As discussed above, in January 1998 NL sold its specialty chemicals business unit conducted by Rheox.

	THREE MONTHS ENDED SEPTEMBER 30,		%	NINE MONTHS ENDED SEPTEMBER 30,		%
	1997	1998	CHANGE	1997	1998	CHANGE
	(IN MILLIONS)			(IN MILLIONS)		
Net sales:						
Kronos	$210.5	$221.5	+5%	$629.1	$685.7	+9%
Rheox	37.8	-		111.4	12.7	
	$248.3	$221.5	-11%	$740.5	$698.4	-6%
Operating income:						
Kronos	$ 20.3	$ 40.2	+98%	$ 36.3	$116.9	+222%
Rheox	11.8	-		33.2	2.7	
	$ 32.1	$ 40.2	+25%	$ 69.5	$119.6	+72%

Kronos' TiO2 sales and operating income increased in 1998 compared to 1997 due primarily to higher average TiO2 selling prices, partially offset by lower sales volumes. Kronos' average TiO2 selling prices have generally been increasing since early 1997, and Kronos' average TiO2 selling prices in the third quarter of 1998 were 17% higher than the third quarter of 1997 and 2% higher than the second quarter of 1998. TiO2 sales volumes in the third quarter of 1998 decreased 9% from the record sales volumes in the third quarter of 1997 as demand moderated. Sales volumes in the first nine months of 1998 were 2% lower than the 1997 period primarily reflecting lower volumes in Asia, partially offset by higher volumes in Europe. NL expects demand for TiO2 in the fourth quarter of 1998 will be moderately below that of the fourth quarter of 1997. Kronos' operating income in the third quarter of 1997 includes income of $9.7 million related to refunds of German franchise taxes related to prior years, including interest. NL expects its TiO2 operating income and margins in the fourth quarter of 1998 will continue to exceed prior-year levels due primarily

to expected higher average TiO2 selling prices, partially offset by moderately lower sales volumes.

A significant amount of NL's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, primarily major European currencies and the Canadian dollar. Consequently, the translated U.S. dollar value of NL's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and affect the comparability of period to period operating results. In addition, a portion of NL's sales generated from its non-U.S. operations are denominated in the U.S. dollar, and exchange rate fluctuations do not impact the reported amount of such net sales. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in the local currencies.

Fluctuations in the value of the U.S. dollar relative to other currencies decreased NL's sales in the third quarter and first nine months of 1998 by $3 million and $26 million, respectively, compared to the same periods in 1997. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted NL's foreign currency-denominated operating expenses, and the net impact of currency exchange rate fluctuations on NL's operating income in the third quarter and first nine months of 1998 compared to the same periods in 1997 was not significant.

Amortization of the Company's purchase accounting adjustments made in conjunction with the acquisitions of its interest in NL result in additional depreciation, depletion and amortization expense beyond amounts separately-reported by NL. Such additional non-cash expenses reduce chemicals operating income, as reported by Valhi, by approximately $21 million annually as compared to amounts separately reported by NL (approximately $19 million related to TiO2 and approximately $2 million related to the disposed specialty chemicals business unit).

In July 1998, NL reached an agreement to acquire certain TiO2 operations of Tioxide Group Limited, a subsidiary of Imperial Chemical Industries plc ("ICI"). Under the agreement, NL would acquire Tioxide's North American TiO2 operations and one of its European TiO2 facilities for an aggregate of $335 million cash consideration. The operations to be acquired from Tioxide include (i) the other 50% interest in the Louisiana TiO2 manufacturing joint venture (see Note 5), which has aggregate production capacity of approximately 120,000 metric tons per year, (ii) a 75,000 metric ton sulfate-process TiO2 facility in the United Kingdom, (iii) a 52,000 metric ton TiO2 finishing facility in Canada, (iv) Tioxide's North American marketing and distribution business and (v) approximately $50 million in working capital. NL would also pay an additional $30 million fee in return for the cancellation of certain chloride-process TiO2 technology rights which NL had previously licensed to Tioxide in 1993 in connection with the formation of the Louisiana TiO2 manufacturing joint venture.

The transaction is subject to, among other things, obtaining certain regulatory clearances and completion of ICI's sale of Tioxide's other TiO2 businesses to E.I. du Pont de Nemours & Co. There can be no assurance that any such transaction will be completed. Funds for the purchase will be provided by NL's cash on hand and aggregate borrowings of $250 million in new bank financing which NL expects to obtain. Assuming regulatory approvals are received in 1998, NL currently expects to complete the transaction by the end of the first quarter of 1999. Following completion of the acquisition and DuPont's purchase of Tioxide's other TiO2 businesses, NL expects to become the world's third largest producer of TiO2, increasing its annual TiO2 production capacity by approximately 135,000 metric tons.

COMPONENT PRODUCTS

	THREE MONTHS ENDED SEPTEMBER 30,		%	NINE MONTHS ENDED SEPTEMBER 30,		%
	1997	1998	CHANGE	1997	1998	CHANGE
	(IN MILLIONS)			(IN MILLIONS)		
Net sales	$27.0	$38.7	+43%	$80.3	$110.5	+38%
Operating income	6.9	8.8	+26%	20.1	22.2	+10%

Component products net sales increased in 1998 compared to 1997 due primarily to higher sales volumes in all three major product lines (ergonomic computer support systems, precision ball bearing slides and locking systems). The higher sales volumes of locking systems resulted primarily from the March 1998 acquisition of a lock competitor. Component products operating income for the first nine months of 1998 includes a first quarter $3.3 million non-cash charge related to the award of certain shares of CompX's common stock in connection with the completion of its initial public offering in March 1998. Excluding such charge, operating income increased in 1998 due primarily to the higher sales volumes, offset in part by lower margins attributable to sales from the business unit acquired in March 1998. Fluctuations in the value of the U.S. dollar relative to the Canadian dollar accounted for about 20% of the increase in components products operating income in each of the 1998 periods.

EQUITY AFFILIATES

Tremont Corporation. In late June 1998, the Company acquired 2.9 million shares of Tremont Corporation common stock held by Contran and certain of Contran's subsidiaries. See Notes 2 and 5. Such shares, along with an additional 141,000 Tremont common shares purchased by Valhi through open market transactions during the first nine months of 1998, represent approximately 48% of Tremont's outstanding common stock at September 30, 1998. Valhi accounts for its interest in Tremont by the equity method, and commenced reporting equity in Tremont's earnings beginning in the third quarter of 1998. The information included below related to the financial position, results of operations and liquidity and capital resources of Tremont has been summarized from the reports filed with the SEC by Tremont, which reports contain more detailed information concerning Tremont on its historical basis of accounting. The Company's equity in Tremont's earnings differs from the amount that would be expected by applying the Company's 48% ownership percentage to Tremont's separately-reported earnings

because of amortization of purchase accounting adjustments made in conjunction with the Company's acquisitions of its interest in Tremont. At the Company's current 48% ownership interest in Tremont, such non-cash amortization reduces earnings attributable to Tremont as reported by the Company by approximately $3 million per year.

Tremont accounts for its interests in both NL and TIMET by the equity method. For the three months ended September 30, 1998, Tremont reported income from continuing operations of $7.9 million, comprised principally of equity in earnings of TIMET ($5.0 million) and NL ($4.8 million) and a provision for income taxes of $1.8 million on pre-tax earnings of $9.7 million. Tremont's effective income tax rate varies from the 35% U.S. federal statutory income tax rate primarily because no income tax provision is currently required on Tremont's equity in earnings of NL.

NL's operating results are discussed above. For the three months ended September 30, 1998, TIMET reported net sales, operating income and income from continuing operations of $173.5 million, $27.3 million and $16.1 million, respectively, compared to $177.2 million, $33.3 million and $21.3 million, respectively, for the same period in 1997. For the third quarter of 1998, TIMET's mill product shipments were lower than the third quarter of 1997. The lower level of shipments reflects reduced demand for both TIMET's aerospace and industrial products. TIMET believes the reduction in demand for aerospace products is attributable in large part to inventory reductions by its major customers and a decline in the number of aircraft forecasted to be produced. The major reason for the reduction in demand for industrial products is the deterioration in Asian economies, including the strength of the U.S. dollar versus the Japanese yen. General and administrative expenses were $6.3 million higher compared to the third quarter of 1997 due primarily to costs incurred in implementing TIMET's new enterprise-wide SAP information system as well as costs incurred to address the Year 2000 issue discussed below.

TIMET anticipates that its shipments and earnings in the fourth quarter of 1998 will be lower than in the third quarter of 1998, and expenses associated with the new SAP system and Year 2000 issues are expected to continue to remain high. TIMET currently expects to record a $10 million pre-tax charge in the fourth quarter of 1998 related to the announced closure of a leased facility in Nevada and other changes in its European and North American operations in response to reduced demand levels, including possible additional temporary or

permanent facility closures and layoffs.

The titanium industry is experiencing reduced demand for aerospace and industrial products due to high levels of inventory reportedly held by customers, actual and anticipated declines in the number of aircraft forecasted to be produced, especially wide-body aircraft, and continuing weakness of Asian and other economies. As a result, TIMET currently expects that its shipments in 1999 will be below anticipated 1998 levels, particularly in the first half of 1999. In addition, TIMET expects its average selling prices in 1999 will be between 5% and 10% lower than its 1998 average selling prices.

Valhi periodically evaluates the net carrying value of its long-term assets, including its investment in Tremont, to determine if there has been any decline in value below their carrying amounts that is other than temporary and would, therefore, require a write-down which would be accounted for as a realized loss. At September 30, 1998, the NYSE price of $42.25 per Tremont share indicated an aggregate NYSE market value of Valhi's investment in Tremont

common stock of approximately $131 million, or $46 million less than Valhi's $177 million net carrying value of its investment in Tremont at that date. The NYSE market price was $36.94 per Tremont share as of October 30, 1998, which price indicated an aggregate NYSE market value at that date of $114 million or approximately $63 million less than Valhi's net carrying value of its investment in Tremont at September 30, 1998. The Company believes NYSE stock prices (particularly in the case of companies such as Tremont that have a major shareholder and are not widely followed or traded) are not necessarily indicative of a company's enterprise value or the value that could be realized if the company were sold. After considering what it believes to be all relevant factors including, among other things, the NYSE market prices of Tremont's holdings of NL and TIMET, the relatively short time period during which Tremont's NYSE price has been less than the Company's per share net investment in Tremont, the recent decline in stock prices in general as evidenced by the Dow Jones and other stock price indices and Tremont's (and hence NL's and TIMET's) operating results, financial position, estimated asset values and prospects, the Company concluded that there had been no other than temporary decline in value of the Company's investment in Tremont below its net carrying value at September 30, 1998.

As discussed above, Tremont's major assets are its investments in NL (TiO_2) and TIMET (titanium metals). It is possible, should the TiO_2 or titanium metals industries in general, or NL or TIMET specifically, encounter a prolonged recessionary environment, or suffer other unforeseen adverse events, that the value of Valhi's investment in Tremont could decline to a level which would result in a write-down of the Company's investment in Tremont. Valhi will continue to monitor and evaluate the value of its investment in Tremont based on, among other things, the financial condition and outlook for Tremont. In the event Valhi determines that any decline in value of its investment in Tremont below its net carrying values has occurred which is other than temporary, Valhi would report an appropriate write-down at that time.

Waste Control Specialists. Waste Control Specialists reported a loss of $9.6 million during the first nine months of 1998 compared to a loss of $8.9 million during the first nine months of 1997. Waste Control Specialists reported net sales of $6.9 million in the first nine months of 1998 compared to $2.4 million in the first nine months of 1997. Operating losses in both periods include expenditures in connection with the pursuit of permits covering the processing, treatment, storage and disposal of low-level and mixed radioactive waste.

OTHER

Gains on disposal of business unit and reduction in interest in CompX. See Notes 12 and 13, respectively. The pre-tax gain on disposal of NL's specialty chemicals business unit differs from the amount separately-reported by NL due to the write-off of a portion of the Company's purchase accounting adjustments related to the net assets sold, including an allocated portion of goodwill associated with the Company's investment in NL.

General corporate items. As expected, general corporate interest and dividend income decreased in the third quarter and first nine months of 1998 compared to the same periods in 1997 due primarily to a lower amount of dividend distributions received from The Amalgamated Sugar Company LLC. Dividend distributions from the LLC are dependent in part upon the LLC's results of operations, and the Company received no dividend distributions from the LLC in

the third quarter of 1998 compared to $6.4 million received in the same period in 1997 due to a decline in the LLC's operating profits. The growers who supply the LLC with sugarbeets are also members of the Snake River Sugar Company agricultural cooperative which controls the LLC. Such growers recently agreed to a $5 million reduction in the aggregate price they will receive for supplying the LLC with sugarbeets which will dollar-for-dollar increase the LLC's 1998 operating profits. The Company currently expects that dividend distributions received from the LLC in the fourth quarter of 1998 will be somewhat lower than

the $6.4 million received in the fourth quarter of 1997. General corporate interest and dividend income in the fourth quarter of 1998 is expected to continue to be lower than the fourth quarter of 1997 due principally to the expected lower level of LLC distributions received as well as a lower level of funds available for investment.

Securities transactions in both 1997 and 1998 relate to the disposition of a portion of the shares of Halliburton Company common stock (and its predecessor Dresser Industries, Inc.) held by the Company when certain holders of the Company's LYONs debt obligations exercised their right to exchange their LYONs for such Halliburton shares. Any additional exchanges in 1998 or thereafter would similarly result in additional securities transaction gains.

Net general corporate expenses in the first quarter of 1997 include NL's $30 million pre-tax charge related to adoption of a new accounting standard regarding environmental remediation liabilities, and in the second quarter of 1998 include an aggregate $32 million pre-tax charge related to the June 1998 settlements of two shareholder derivative lawsuits in which Valhi was the defendant. Such charges are included in selling, general and administrative expenses. NL's $20 million of proceeds from the disposal of its specialty chemicals business unit related to its agreement not to compete in the rheological products business will be recognized as a component of general corporate income (expense) ratably over the five-year non-compete period, including $2.7 million recognized in the first nine months of 1998 ($1 million in the third quarter). See Note 10. Under the terms of NL's proposed purchase of certain TiO2 operations from ICI, NL would pay a $30 million fee in return for the cancellation of certain chloride-process TiO2 technology rights that NL had previously licensed to Tioxide in 1993. Such fee would be recorded as a general corporate expense upon the successful completion of the transaction.

Interest expense. Interest expense decreased in 1998 compared to 1997 due primarily to a lower average level of outstanding indebtedness (primarily

Valhi's LYONs, Valcor Senior Notes and indebtedness related to NL's specialty chemicals business unit which was prepaid in January 1998). Interest expense is expected to continue to be lower in the fourth quarter of 1998 compared to the fourth quarter of 1997 due to the lower levels of indebtedness referred to above, as well as a reduction in interest expense resulting from NL's October 1998 redemption of its Senior Secured Discount Notes.

Provision for income taxes. The principal reasons for the difference between the Company's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 9. Income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of the Company's pre-tax earnings can result in fluctuations in the effective income tax rate. Also, certain subsidiaries, including NL and, beginning in March 1998, CompX, are not members of the consolidated U.S. tax group, and the Company provides incremental income taxes on such earnings. In addition, in the first nine months of 1998 NL reduced its deferred income tax valuation allowance by $50 million primarily as a result of utilization of certain tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria, and the provision for income taxes in the third quarter of 1998 includes an $8 million tax benefit resulting from a refund of prior-year German dividend withholding taxes received by NL.

Minority interest, discontinued operations and extraordinary item. See Notes 11, 14 and 1, respectively. The Company will report an extraordinary loss in the fourth quarter of 1998 resulting from NL's redemption of its remaining Senior Secured Discount Notes at a price of 106% of their principal amount.

YEAR 2000 ISSUE

General. As a result of certain computer programs being written using two digits rather than four to define the applicable year, certain computer programs that have date sensitive software may recognize a date using "00" as the year

1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in normal business activities.

NL. NL is in the process of evaluating and upgrading its computer systems, both information technology ("IT") systems and non-IT systems involving embedded chip technology, and software applications to ensure that the systems function properly beginning January 1, 2000. To achieve its Year 2000 compliance plan, NL is utilizing internal and external resources to identify, correct or reprogram, and test its systems.

NL has conducted an inventory of its IT systems worldwide and is currently testing the systems and applications that have been corrected or reprogrammed for Year 2000 compliance. NL has completed a preliminary inventory of its non-IT systems and is in the process of validating the inventory and correcting or replacing date-deficient systems. NL uses a number of packaged software products that have been upgraded to a Year 2000 compliant version in the normal course of business. Excluding the cost of these software upgrades, NL's cost of becoming Year 2000 compliant is expected to be approximately $2 million, of which about one-third has been spent through September 30, 1998. NL expects its major IT systems will be Year 2000 compliant by March 1999, and expects its non-IT systems will be Year 2000 compliant by September 1999.

As part of its Year 2000 compliance plan, NL is seeking confirmation from its major software and hardware vendors and primary suppliers to confirm that they are developing and implementing plans to become, or that they have become, Year 2000 compliant. Confirmations received by NL to-date indicate that they generally are in the process of becoming Year 2000 compliant by December 31, 1999. The major software vendors used by NL have already delivered Year 2000 compliant software. NL plans to seek confirmation from its major customers to

ensure they are Year 2000 compliant or are developing and implementing plans to become Year 2000 compliant.

NL is developing a contingency plan to deal with potential Year 2000 Issues related to business interruption that may occur on January 1, 2000 or thereafter. NL's plan is expected to be completed in the second quarter of 1999.

Although NL expects its systems to be Year 2000 compliant before December 31, 1999, it cannot predict the outcome or success of the Year 2000 compliance programs of its vendors, suppliers, and customers. NL also cannot predict whether its major software vendors, who continue to test for Year 2000 compliance, will find additional problems that would result in unplanned upgrades of their applications after December 31, 1999. As a result of these uncertainties, NL cannot predict the impact on its financial condition, results of operation or cash flows resulting from noncompliant Year 2000 systems that NL directly or indirectly relies upon. Should NL's Year 2000 compliance plan not be successful or be delayed beyond January 2000, the consequences to NL could be far-reaching and material, including an inability to produce TiO2 at its manufacturing facilities, which could lead to an indeterminate amount of lost revenue. Other potential negative consequences could include manufacturing equipment malfunction, impeded communications or power supplies, or slower transaction processing and financial reporting.

CompX. CompX has recently installed information systems upgrades for both its U.S. and Canadian facilities which contained, among many other features, software compatibility with the Year 2000 Issue. CompX does not currently anticipate spending significant additional funds to address software compatibility with the Year 2000 Issue with respect to its own internal systems.

As part of its Year 2000 compliance plan, CompX is seeking confirmation from its major software and hardware vendors and primary suppliers to confirm

that they are developing and implementing plans to become, or that they have become, Year 2000 compliant. Confirmations received by CompX to-date indicate that they generally are in the process of becoming Year 2000 compliant by December 31, 1999. The major software vendors used by CompX have already delivered Year 2000 compliant software. CompX plans to seek confirmation from its major customers to ensure they are Year 2000 compliant or are developing and implementing plans to become Year 2000 compliant.

CompX is developing a contingency plan to deal with potential Year 2000 Issues related to business interruption that may occur on January 1, 2000 or

thereafter. CompX's plan is expected to be completed in the second quarter of 1999.

Although CompX expects its systems to be Year 2000 compliant before December 31, 1999, it cannot predict the outcome or success of the Year 2000 compliance programs of its vendors, suppliers, and customers. CompX also cannot predict whether its major software vendors, who continue to test for Year 2000 compliance, will find additional problems that would result in unplanned upgrades of their applications after December 31, 1999. As a result of these uncertainties, CompX cannot predict the impact on its financial condition, results of operations or cash flows resulting from noncompliant Year 2000 systems that CompX directly or indirectly relies upon. Should CompX's Year 2000 compliance plan not be successful or be delayed beyond January 2000, the consequences to CompX could be far-reaching and material, including an inability to produce products at its manufacturing facilities, which could lead to an indeterminate amount of lost revenue. Other potential negative consequences could include impeded communications or power supplies, or slower transaction processing and financial reporting.

TIMET. Many of TIMET's information systems have been or are being replaced in connection with its implementation of SAP, which is Year 2000 compliant. TIMET, with the help of outside specialists and consultants, has (i) substantially completed an initial assessment of potential Year 2000 issues in its manufacturing and communications systems, as well as in those information systems that will not be replaced by SAP, (ii) is in process of determining and impementing remedial actions and (iii) will develop a contingency plan in the event internal or external Year 2000 issues are not resolved. Excluding costs related to SAP, TIMET has expended approximately $1 million on Year 2000 issues through September 1998 and currently expects to incur an additional $5 million to $6 million during the remainder of 1998 and 1999, principally related to embedded system technology. TIMET has also begun an evaluation of potential Year 2000 exposures relating to key suppliers and customers.

Although TIMET believes its key information systems will be Year 2000 compliant before the end of 1999, it cannot yet predict the outcome of success of the Year 2000 compliance programs related to its embedded manufacturing systems or those systems of its suppliers and customers. TIMET also cannot predict whether it will find additional problems that would result in unplanned upgrades of applications after December 31, 1999. As a result of these uncertainties, TIMET cannot predict the impact on its financial condition, results of operations or cash flows of noncompliant Year 2000 systems that TIMET directly or indirectly relies upon. Should TIMET's Year 2000 compliance plan not be successful or be delayed beyond January 2000, the consequences to TIMET could be far-reaching and material, including an inability to produce titanium metal products at its manufacturing facilities, which could lead to an indeterminate amount of lost revenue. Other potential negative consequences could include impeded communications or power supplies, or slower transaction processing and financial reporting.

Waste Control Specialists. Waste Control Specialists' information system is currently not Year 2000 compliant. However, Waste Control Specialists is in the process of obtaining a complete new information system which is expected to, among other things, be Year 2000 compliant. The cost of such new information system is not expected to be material to Waste Control Specialists and the new system is expected to be in place by the end of March 1999. Waste Control Specialists is in the process of evaluating any potential Year 2000 issues with respect to embedded chip technology associated with the equipment at its disposal facility; however, because such facility was constructed in the past few years, Waste Control Specialists does not expect such equipment to present any significant Year 2000 compliance issues. Waste Control Specialists is also in the process of contacting its significant suppliers and customers to confirm they are developing and implementing plans to become, or that they have become, Year 2000 compliant. Waste Control Specialists expects to have its evaluation of embedded chip technology and Year 2000 compliance issues at significant suppliers and customers completed by the end of the first quarter of 1999, and any required remedial actions completed prior to the end of 1999. Assuming Waste Control Specialists does not encounter a significant Year 2000 compliance issue with respect to the equipment at its disposal facility, Waste Control Specialists does not expect its costs associated with Year 2000 compliance will be material.

Although Waste Control Specialists believes its information systems and equipment at its disposal facility will be Year 2000 compliant before December

31, 1999, it cannot predict the outcome or success of the Year 2000 compliance programs at its significant suppliers and customers. As a result, Waste Control Specialists cannot predict the impact on its financial position, results of operations or cash flows resulting from noncompliant Year 2000 systems that Waste Control Specialists directly or indirectly relies upon. Should Waste Control Specialists' Year 2000 compliance program not be successful or delayed beyond January 2000, the consequences to Waste Control Specialists could be far-reaching and material, including an inability to operate the disposal facility, which could lead to an indeterminate amount of lost revenue. Other potential negative consequences could include impeded communications or power supplies or slower transaction processing and financial reporting.

Other. Valhi believes its corporate information systems are Year 2000 compliant, and Tremont does not believe it has any significant Year 2000 issues at its parent company level. However, for the reasons discussed above with respect to its subsidiaries and affiliates, Valhi cannot predict the impact on its consolidated financial position, results of operations or cash flows resulting from noncompliant Year 2000 systems that Valhi, it subsidiaries and affiliates directly or indirectly rely upon. The consequences to the Company could be far-reaching and material, including the loss of an indeterminate amount of revenue. Other potential negative consequences could include manufacturing equipment malfunction, impeded communications or power supplies or slower transaction processing and financial reporting.

The dates on which these plans to complete any necessary Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

EUROPEAN MONETARY CONVERSION

Beginning January 1, 1999, 11 of the 15 members of the European Union ("EU"), including Germany, Belgium, the Netherlands and France, are scheduled to establish fixed conversion exchange rates between their existing sovereign currencies and the European currency unit ("euro"). Such members have agreed to adopt the euro as their common legal currency on that date. The remaining four EU members (including the United Kingdom) may convert their sovereign currencies to the euro at a later date. Certain European countries, such are Norway, are not members of the EU and their sovereign currencies will remain intact. Each

national government will retain authority to establish their own tax and fiscal spending policies and public debt levels, although such public debt will be issued in, or re-denominated into, the euro. However, monetary policies, including money supply and official euro interest rates, will be established by a new European Central Bank. Following introduction of the euro, the participating countries' national currencies are scheduled to remain legal tender as denominations of the euro from January 1, 1999 through January 1, 2002, although the exchange rates between the euro and such currencies will be fixed.

NL. NL conducts substantial operations in Europe, principally in Germany, Belgium, the Netherlands, France and Norway. The national currency in which such operations are located are such operation's functional currency. The functional currency of the German, Belgian, Dutch and French operations will convert from their respective sovereign currencies to the euro over a two-year period beginning in 1999. The euro conversion may impact NL's operations including, among other things, changes in product pricing decisions necessitated by cross-border price transparencies. Such changes in product pricing decisions could impact both sales prices and manufacturing costs, and consequently favorably or unfavorably impact reported results of operations. The pursuit by the participating EU members of a single monetary policy through the European Central Bank could favorably or unfavorably impact the countries' respective economic growth and, accordingly, the regional demand for NL's products.

NL has begun to assess and evaluate the impact of the euro conversion on its business. Such evaluation is still in process, but is expected to be completed by the end of the year. NL expects to spend and charge to expense less than $1 million in its evaluation and conversion costs, a portion of which has been spent through September 30, 1998. NL has a significant amount of outstanding indebtedness denominated in the Deutsche Mark, and such debt will

become denominated in the euro effective January 1, 1999. Modification of

certain NL information systems to handle euro-denominated transactions may be required, although such modifications are not expected to be extensive.

Because of the inherent uncertainty of the ultimate affect of the euro conversion, NL cannot accurately predict the impact of the euro conversion on its respective results of operations, financial position or liquidity.

TIMET. TIMET also has operations and assets located in Europe, principally in the United Kingdom. The United Kingdom is not adopting the euro, although certain of TIMET's transactions currently denominated in various other European currencies are expected to be denominated in the euro beginning in 1999. Approximately one-half of TIMET's European sales are denominated in currencies other than the U.S. dollar, principally the United Kingdom pound sterling along with other major European currencies. The U.S. dollar value of TIMET's foreign sales and operating costs are subject to currency exchange rate fluctuations that can impact reported earnings and may affect the comparability of period-to-period operating results. Certain purchases of raw materials for TIMET's European operations, principally titanium sponge, are denominated in U.S. dollars while labor and other production costs are primarily denominated in local currencies. Modifications of certain of TIMET's systems to handle euro-denominated transactions will be required, although such modifications are not expected to be extensive, and TIMET does not expect the impact of the conversion to the euro will be material.

LIQUIDITY AND CAPITAL RESOURCES:

Cash flows from operating activities. Trends in cash flows from operating annual 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. Changes in assets and liabilities generally result from the timing of production, sales, purchases and income tax payments.

Cash flows from investing and financing activities. During the first nine months of 1998, (i) Valhi purchased 3.1 million shares of Tremont Corporation for an aggregate cost of $173 million, (ii) Valhi contributed an additional $10 million to Waste Control Specialists' equity, (iii) Valhi purchased $14 million of additional shares of NL common stock, $6 million of additional shares of CompX and $4 million of certain marketable securities and (iv) CompX purchased a lock competitor for $33 million. In addition, in January 1998 NL sold its specialty chemicals business unit conducted by Rheox for $465 million cash consideration (before fees and expenses), including $20 million attributable to a five-year agreement by NL not to compete in the rheological products business.

Net repayments of indebtedness in the first nine months of 1998 include the prepayment and termination of the Rheox bank credit facility and the joint venture term loan and NL's open-market purchases of approximately $65 million accreted value of its Senior Secured Discount Notes and approximately $6 million principal amount of its Senior Secured Notes pursuant to the tender offer discussed below. In accordance with the terms of the DM credit facility, NL also prepaid DM 81 million ($44 million when paid) of the DM term loan, of which DM 49 million fully satisfied the September 1998 scheduled term loan payment and DM 32 million reduced the March 1999 scheduled term loan payment. A portion of the funds for such prepayment of the DM credit facility was provided by a DM 35 million ($19 million when borrowed) increase in outstanding borrowings under NL's short-term non-U.S. credit facilities. In the second quarter of 1998, NL repaid DM 20 million ($11 million when paid) of the outstanding balance of the DM revolving credit facility. In October 1998, NL redeemed its remaining outstanding Senior Secured Discount Notes.

At September 30, 1998, unused credit available under existing credit facilities approximated $206 million, which was comprised of $100 million available to CompX under its new revolving senior credit facility discussed below, $91 million available to NL under non-U.S. credit facilities and $15 million available to Valhi. In November 1998, Valhi replaced its existing $15

million revolving credit facility with a new one-year $50 million revolving facility collateralized by shares of NL common stock held by Valhi.

In March 1998, CompX completed an initial public offering of shares of its common stock for net proceeds to CompX of approximately $110.4 million. CompX used $75 million of such net proceeds to repay outstanding borrowings under its new bank credit facility, $50 million of which were incurred to repay certain intercompany indebtedness owed by CompX to Valcor and $25 million of which was

used to fund the acquisition of a lock competitor.

In January 1998, the Company's board of directors authorized the Company to purchase up to 2 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. As of September 30, 1998, the Company had purchased approximately 383,000 shares for an aggregate of $3.7 million pursuant to such authorization.

CHEMICALS - NL INDUSTRIES

Pricing within the TiO2 industry is cyclical, and changes in industry economic conditions can significantly impact NL's earnings and operating cash flows. Average TiO2 selling prices began a downward trend in the last half of 1995, and continued to decline through the first quarter of 1997. NL's average TiO2 prices began to increase during the second quarter of 1997 and continued to increase throughout the remainder of 1997 and the first nine months of 1998.

In January 1998, NL sold its specialty chemicals business unit conducted by Rheox for $465 million cash consideration (before fees and expenses), including $20 million attributable to a five-year agreement by NL not to compete in the rheological products business. A portion of the $380 million net-of-tax proceeds have been used by NL to prepay certain indebtedness. The remaining net proceeds are available for NL's general corporate purposes, subject to compliance with the terms of the indentures governing its publicly-traded debt.

Under the terms of such indentures, NL was required to make an offer to purchase a pro rata portion of such notes, at par value for the 11.75% Senior Secured Notes and at accreted value for the 13% Senior Secured Discount Notes, to the extent that a specified amount of the net proceeds from the disposal of its specialty chemicals business unit are not used to either permanently paydown certain indebtedness of NL or its subsidiaries or invest in additional productive assets (including additional TiO2 production capacity), both as defined in the indentures, within nine months of the disposition. While NL was not yet required to execute a tender offer related to the disposal of its specialty chemicals business unit, in May 1998 NL initiated a tender offer to purchase on a pro-rata basis up to $181.6 million aggregate principal amount of Senior Secured Notes and accreted value of Senior Secured Discount Notes, at par or accreted value, respectively, in satisfaction of the covenant contained in the indentures. Pursuant to its terms, the tender offer expired in June 1998, and NL purchased approximately $6 million principal amount of Senior Secured Notes, and a nominal amount of Senior Secured Discount Notes, which had been properly tendered. NL also made open market purchases of its Senior Secured Discount Notes in 1998, and in October 1998 NL redeemed the remaining Senior Secured Discount Notes at a price of 106% of their principal amount.

NL expects to obtain an aggregate of $250 million in new bank financing to complete its purchase of certain of Tioxide's TiO2 operations discussed above.

Certain of NL's U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including non-income related items and interest. NL previously reached an agreement with the German tax authorities and paid certain tax deficiencies of approximately DM 44 million ($28 million when paid), including interest, which resolved certain significant tax contingencies for years through 1990. In the third quarter of 1998, NL received a DM 14 million ($8 million when received) refund of 1990 of German dividend withholding taxes. The German tax authorities were required to refund such amounts based on a recent German Supreme Court decision in favor of another taxpayer. NL's refund resulted in a reduction of the previously-reached settlement amount referred to above from the DM 44 million to DM 30 million for years through 1990. No further withholding tax refunds are expected.

Certain other significant German tax contingencies aggregating an estimated DM 172 million ($102 million at September 30, 1998) through 1997 remain outstanding and are in litigation. Of these, one primary issue represents disputed amounts aggregating DM 160 million ($95 million) for the years through 1997. NL has received tax assessments for a substantial portion of these amounts. No payments of tax or interest deficiencies related to these assessments are expected until the litigation is resolved. During 1997, a German tax court proceeding involving a tax issue substantially the same as this issue was decided in favor of the taxpayer. The German tax authorities have appealed the decision to the German Supreme Court. NL believes that the decision by the German Supreme Court will be rendered within a year and will likely determine the outcome of NL's primary dispute with the German tax

authorities. Although NL believes that it will ultimately prevail in this matter, NL has granted a DM 94 million ($56 million) lien on its Nordenham, Germany TiO2 plant in favor of the City of Leverkusen, and a DM 5 million lien in favor of the German federal tax authorities. If NL does not prevail, these contingencies will increase NL's tax liability for 1990 and each year thereafter, and NL would seek to negotiate payment over a period of time.

In addition, during 1997 NL reached an agreement with the German tax authorities regarding certain other issues (issues not in litigation) for the years 1991 through 1994, and agreed to pay additional tax deficiencies of DM 9 million ($5 million), most of which was paid in the third quarter of 1998.

During 1997, NL received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($7 million at September 30, 1998) relating to 1994. NL has appealed this assessment and has commenced litigation proceedings. Although NL believes it will ultimately prevail, NL has granted a NOK 51 million lien on its Norwegian TiO2 plant in favor of the Norwegian tax authorities.

No assurance can be given that these tax matters will be resolved in NL's favor in view of the inherent uncertainties involved in court proceedings. NL 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.

NL has been named as a defendant, potentially responsible party, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, NL evaluates the potential range of its liability at sites where it has been named as a PRP or defendant. NL believes it has provided adequate accruals ($128 million at September 30, 1998) for reasonably estimable costs of such matters, but NL's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocation of such costs among PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately $160 million. NL's estimates of such liabilities have not been discounted to present value, and NL has not recognized any potential insurance recoveries. 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. NL is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising from the sale of lead pigments and lead-based paints. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is 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. However, based on, among other things, the results of such litigation to date, NL believes that the pending lead pigment and lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and to effectively overturn court decisions in which NL and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage. NL currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on its consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future.

NL periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its capital resources, 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, issue additional securities,

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 the acquisition, divestiture, joint venture or other business combinations in the chemicals industry. In the event of any such transaction, NL may consider using its available cash, issuing its equity securities or refinancing or increasing its indebtedness to the extent permitted by the agreements governing NL's existing debt. In this regard, the Indentures governing NL's publicly-traded debt contain provisions which limit the ability of NL and its subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

COMPONENT PRODUCTS - COMPX INTERNATIONAL

In February 1998, CompX entered into a new $100 million revolving senior credit facility (nil outstanding at September 30, 1998) and used a portion of the net proceeds to repay a $50 million demand note to Valcor which CompX had distributed to Valcor in December 1997. The new credit facility is unsecured and is due in 2003. Borrowings are available for CompX's general corporate purposes, including potential acquisitions. The new credit facility contains provisions which, among other things, require the maintenance of minimum levels of net worth, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. In March 1998, CompX completed the acquisition of a lock competitor for approximately $33 million cash consideration, using available cash on hand and $25 million of borrowings under the new credit facility.

Also, in March 1998, CompX completed an initial public offering of shares of its common stock. The net proceeds to CompX were approximately $110.4 million. Of such net proceeds, $75 million was used to completely repay the outstanding balance of CompX's new $100 million credit facility discussed above. CompX believes that the net proceeds to CompX from the offering, after repayment of borrowings under the new credit facility, together with cash generated from

operations and borrowing availability under the new credit facility will be sufficient to meet CompX's liquidity needs for working capital, capital expenditures, debt service and future acquisitions for the foreseeable future.

TREMONT CORPORATION

Tremont is primarily a holding company which, at September 30, 1998, owned approximately 33% of TIMET and 19% of NL. At September 30, 1998, Tremont reported total assets and stockholders' equity of approximately $285 million and $200 million, respectively. Tremont's total assets at such date include its investments in TIMET ($148 million) and NL ($89 million), which Tremont accounts for by the equity method, and $4 million in cash and cash equivalents; Tremont's total liabilities at such date include accrued OPEB cost ($22 million) and deferred income taxes ($34 million). At September 30, 1998, the market value of the 10.3 million shares of TIMET and the 9.9 million shares of NL held by Tremont was approximately $145 million and $191 million, respectively. Tremont also owns the right to acquire 1.5 million additional TIMET shares from a third-party for $12 million, and such TIMET shares have a September 30, 1998 market value of $21 million.

In October 1998, Tremont entered into a revolving advance agreement with Contran. Through October 31, 1998, Tremont had borrowed $6 million from Contran under such facility, primarily to fund Tremont's purchases of additional shares of NL common stock. Absent additional purchases of NL or TIMET common stock, Tremont does not currently expect it will borrow significant additional funds from Contran. Tremont is exploring possible financing alternatives to replace its borrowings from Contran.

In 1997, Tremont's board of directors authorized Tremont to purchase up to 2 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. As of September 30, 1998, Tremont had acquired 1.2 million shares under such authorization. To the extent Tremont acquires additional shares of its common stock, the Company's ownership

interest in Tremont would increase as a result of the fewer number of Tremont shares outstanding.

Based upon certain technical provisions of the Investment Company Act of 1940 (the "1940 Act"), Tremont might arguably be deemed to be an "investment

company" under the 1940 Act, despite the fact that Tremont does not now engage, nor has it engaged or intended to engage, in the business of investing, reinvesting, owning, holding or trading of securities. Tremont has sought an order from the Securities and Exchange Commission that Tremont is primarily engaged, through TIMET and NL, in a non-investment company business and, in the interim, has taken the steps necessary to give itself the benefits of a temporary exemption under the 1940 Act.

Tremont periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its alternative uses of capital, its debt service requirements, the cost of debt and equity capital and estimated future operating cash flows. As a result of this process, Tremont has in the past and may in the future seek to raise additional capital, modify its dividend policy, restructure ownership interests of subsidiaries and affiliates, incur indebtedness, purchase shares of its common stock, consider the sale of interests in subsidiaries, affiliates, marketable securities or other assets, or take a combination of such steps or other steps to increase or manage liquidity and capital resources. In the normal course of business, Tremont may investigate, evaluate, discuss and engage in acquisition, joint venture and other business combination opportunities. In the event of any future acquisition or joint venture opportunities, Tremont may consider using available cash, issuing equity securities or incurring indebtedness.

GENERAL CORPORATE - VALHI

Valhi's operations are conducted primarily through subsidiaries and affiliates (NL Industries, CompX, Tremont and Waste Control Specialists).

Accordingly, Valhi's long-term ability to meet its parent company level corporate obligations is dependent in large measure on the receipt of dividends or other distributions from its subsidiaries. NL, which paid dividends in the first three quarters of 1996, suspended its dividend in the fourth quarter of 1996. Suspension of NL's dividend did not materially adversely impact Valhi's financial position or liquidity. Starting in the second quarter of 1998, NL resumed regular quarterly dividends at a rate of $.03 per NL share. At that rate, and based on the 30.1 million NL shares held by Valhi at September 30, 1998, Valhi would receive aggregate annual dividends from NL of approximately $3.6 million. Tremont currently pays a quarterly dividend of $.07 per share, and Valhi began to receive quarterly dividends from Tremont in the third quarter of 1998. At that rate, and based upon the 3.1 million Tremont shares owned by Valhi at September 30, 1998, Valhi would receive aggregate annual dividends from Tremont of approximately $865,000. Various credit agreements to which certain subsidiaries or affiliates are parties contain customary limitations on the payment of dividends, typically a percentage of net income or cash flow; however, such restrictions have not significantly impacted Valhi's ability to service its parent company level obligations. Valhi has not guaranteed any indebtedness of its subsidiaries or affiliates. At September 30, 1998, Valhi had $5 million of parent level cash and cash equivalents, including $1 million held by Valcor which could be distributed to Valhi.

Valhi's LYONs do not require current cash debt service. At September 30, 1998, Valhi held 2.7 million shares of Halliburton common stock, which shares are held in escrow for the benefit of holders of the LYONs. The LYONs are exchangeable at any time, at the option of the holder, for the Halliburton shares owned by Valhi. Exchanges of LYONs for Halliburton stock result in the Company reporting income related to the disposition of the Halliburton stock for both financial reporting and income tax purposes, although no cash proceeds are generated by such exchanges. Valhi's potential cash income tax liability that would have been triggered at September 30, 1998, assuming exchanges of all of the outstanding LYONs for Halliburton stock at such date, was approximately

$23.6 million. Valhi continues to receive regular quarterly Halliburton dividends (currently $.125 per share) on the escrowed shares. At September 30, 1998, the LYONs had an accreted value equivalent to approximately $30.55 per Halliburton share, and the market price of the Halliburton common stock was $28.75 per share (October 30, 1998 market price of Halliburton - $36 per share).

In April 1998, Valhi contributed $10 million to Waste Control Specialists' equity, thereby increasing its membership interest to 64%. Approximately $7 million of such equity contribution was used by Waste Control Specialists to reduce the outstanding balance of its revolving borrowings from the Company. Also in April 1998, the maturity of the Company's $10 million revolving loan to Waste Control Specialists was extended one year to December 31, 1999.

The aggregate distributions Valhi expects to receive from The Amalgamated

Sugar Company LLC in calendar 1998, which are dependent in part upon the future operations of the LLC, are less than Valhi's 1998 debt service requirements under its $250 million loans from Snake River. Certain covenants contained in Snake River's third-party senior debt limit the amount of debt service payments (principal and interest) which Snake River can remit to Valhi under Valhi's $80 million loan to Snake River, and such loan is subordinated to Snake River's third-party senior debt. Due to these covenants, Snake River has not made any principal or interest payments on the $80 million loan in the first nine months of 1998, and the Company does not currently expect that Snake River will remit a significant amount of principal or interest during the remainder of the year. However, such noncollection is not expected to have a material adverse effect on the Company's liquidity, and the Company believes both the accrued and unpaid interest as well as the $80 million principal amount outstanding at September 30, 1998 will ultimately be collected.

The Company routinely compares its liquidity requirements and alternative uses of capital against the estimated future cash flows to be received from its subsidiaries, and the estimated sales value of those units. As a result of this

process, the Company has in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, repurchase indebtedness in the market or otherwise, modify its dividend policy, consider the sale of interests in subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of such steps or other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

The Company and related entities routinely evaluate acquisitions of interests in, or combinations with, companies, including related companies, perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to the Company's current businesses. The Company intends to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing the indebtedness of the Company, its subsidiaries and related companies. From time to time, the Company and related entities also evaluate the restructuring of ownership interests among their respective subsidiaries and related companies. In this regard, the Indentures governing the publicly-traded debt of NL contain provisions which limit the ability of NL and its subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Reference is made to the 1997 Annual Report and prior 1998 periodic reports for descriptions of certain legal proceedings.

State of Illinois v. NL Industries, Inc., et al. (No. 88-CH-11618). In October 1998, the Supreme Court of Illinois declined the State's petition to review previously-reported decisions in favor of NL.

DeLeon v. Exide Corp. and NL Industries, Inc., (No. DV98-02669-B). In August 1998, the plaintiffs dismissed this previously-reported case without prejudice.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

27.1 -Financial Data Schedule for the nine-month period ended September 30, 1998.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended September 30, 1998.

July 23, 1998 - Reported Items 5 and 7.
August 28, 1998 - Reported Items 5 and 7.

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.

VALHI, INC.

(Registrant)

Date November 13, 1998 By /s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President and Treasurer
(Principal Financial Officer)

Date November 13, 1998 By /s/ Gregory M. Swalwell

Gregory M. Swalwell
Vice President and Controller,
(Principal Accounting Officer)

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.

VALHI, INC.

(Registrant)

Date November 13, 1998 By

Bobby D. O'Brien
Vice President and Treasurer
(Principal Financial Officer)

Date November 13, 1998 By

Gregory M. Swalwell
Vice President and Controller
(Principal Accounting Officer)

<ARTICLE> 5
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VALHI, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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<TOTAL-REVENUES>		808,939
<CGS>		563,772
<TOTAL-COSTS>		563,772
<OTHER-EXPENSES>		0
<LOSS-PROVISION>		9
<INTEREST-EXPENSE>		71,889
<INCOME-PRETAX>		462,604
<INCOME-TAX>		184,908
<INCOME-CONTINUING>		215,699
<DISCONTINUED>		0
<EXTRAORDINARY>		(2,747)
<CHANGES>		0
<NET-INCOME>		212,952
<EPS-PRIMARY>		1.85
<EPS-DILUTED>		1.84