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, 2002 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, 2002: 115,118,917

VALHI, INC. AND SUBSIDIARIES

INDEX

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2001	September 30, 2002
Current assets:		
Cash and cash equivalents	$ 154,413	$ 189,690
Restricted cash equivalents	63,257	52,832
Marketable securities	18,465	17,795
Accounts and other receivables	162,310	193,057
Refundable income taxes	3,564	2,404
Receivable from affiliates	844	7,760
Inventories	262,733	202,596
Prepaid expenses	11,252	19,232
Deferred income taxes	12,999	14,039
Total current assets	689,837	699,405
Other assets:		
Marketable securities	186,549	177,562
Investment in affiliates	211,115	172,060
Receivable from affiliate	20,000	20,000
Loans and other receivables	105,940	109,927
Mining properties	12,410	13,562
Prepaid pension costs	18,411	21,991
Unrecognized net pension obligations	5,901	5,901
Goodwill	349,058	359,961
Other intangible assets	2,440	4,653
Deferred income taxes	3,818	5,237
Other	30,109	35,048

Total other assets	945,751	925,902
Property and equipment:		
Land	28,721	30,206
Buildings	163,995	174,081
Equipment	569,001	634,810
Construction in progress	9,992	15,655
	771,709	854,752
Less accumulated depreciation	253,450	313,079
Net property and equipment	518,259	541,673
	$2,153,847	$2,166,980

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2001	September 30, 2002
Current liabilities:		
Notes payable	$ 46,201	$ --
Current maturities of long-term debt	64,972	35,541
Accounts payable	114,474	73,271
Accrued liabilities	166,488	166,823
Payable to affiliates	38,148	32,034
Income taxes	9,578	9,789
Deferred income taxes	1,821	2,223
Total current liabilities	441,682	319,681
Noncurrent liabilities:		
Long-term debt	497,215	621,361
Accrued OPEB costs	50,146	46,996
Accrued pension costs	33,823	32,321
Accrued environmental costs	54,392	53,453
Deferred income taxes	268,468	280,729
Other	32,642	31,002
Total noncurrent liabilities	936,686	1,065,862
Minority interest	153,151	148,586
Stockholders' equity:		
Common stock	1,258	1,262
Additional paid-in capital	44,982	47,657
Retained earnings	656,408	631,063
Accumulated other comprehensive income:		
Marketable securities	86,654	86,469
Currency translation	(79,404)	(43,817)
Pension liabilities	(11,921)	(14,134)
Treasury stock	(75,649)	(75,649)
Total stockholders' equity	622,328	632,851

	$ 2,153,847	$ 2,166,980

Commitments and contingencies (Note 1)

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended September 30, 2001	Three months ended September 30, 2002	Nine months ended September 30, 2001	Nine months ended September 30, 2002
Revenues and other income:				
Net sales	$ 262,488	$ 284,110	$827,593	$ 816,908
Other, net	16,011	12,340	123,742	44,073
	278,499	296,450	951,335	860,981
Costs and expenses:				
Cost of sales	193,252	224,151	595,953	648,197
Selling, general and administrative	46,236	50,485	144,186	141,200
Interest	14,910	15,033	47,686	45,396
	254,398	289,669	787,825	834,793
	24,101	6,781	163,510	26,188
Equity in earnings of:				
Titanium Metals Corporation ("TIMET")	3,170	(17,153)	16,172	(31,710)
Other	(76)	(14)	446	298
Income (loss) before income taxes	27,195	(10,386)	180,128	(5,224)
Provision for income taxes (benefit)	11,246	(2,101)	66,921	(1,707)
Minority interest in after-tax earnings (losses)	5,639	(1,172)	23,668	935
Net income (loss)	$ 10,310	$ (7,113)	$ 89,539	$ (4,452)
Earnings per share:				
Basic	$ .09	$ (.06)	$ .78	$ (.04)
Diluted	$ .09	$ (.06)	$ .77	$ (.04)
Cash dividends per share	$ .06	$ .06	$ .18	$ .18
Shares used in the calculation of per share amounts:				
Basic earnings per common share	115,201	115,583	115,177	115,361
Dilutive impact of outstanding stock options	934	--	903	--
Diluted earnings per share	116,135	115,583	116,080	115,361

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Nine months ended September 30, 2001 and 2002

(In thousands)

	2001	2002
Net income (loss)	$ 89,539	$ (4,452)
Other comprehensive income (loss), net of tax:		
Marketable securities adjustment:		
Unrealized gains (losses) arising during the period	(8,028)	(185)
Less reclassification for gains included in net income	(33,887)	--
	(41,915)	(185)
Currency translation adjustment	(7,617)	35,587
Pension liabilities adjustment	(332)	(2,213)
Total other comprehensive income (loss), net	(49,864)	33,189
Comprehensive income	$ 39,675	$ 28,737

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 30, 2001 and 2002

(In thousands)

	2001	2002
Cash flows from operating activities:		
Net income (loss)	$ 89,539	$ (4,452)
Depreciation, depletion and amortization	56,054	46,075
Legal settlement gains, net	(10,307)	--
Insurance gain	(4,551)	--
Securities transaction gains, net	(51,874)	(1,915)
Proceeds from disposal of marketable securities (trading)	--	8,659
Noncash interest expense	4,893	3,057
Deferred income taxes	16,257	463

Minority interest	23,668	935
Other, net	(1,380)	(9,549)
Equity in:		
TIMET	(16,172)	31,710
Other	(446)	(298)
Distributions from:		
Manufacturing joint venture	5,513	6,350
Other	1,300	361
	--------	--------
	112,494	81,396
Change in assets and liabilities:		
Accounts and other receivables	(10,181)	(24,414)
Inventories	15,985	73,039
Accounts payable and accrued liabilities	(8,970)	(44,490)
Accounts with affiliates	11,012	(9,056)
Income taxes	12,241	1,227
Other, net	(13,768)	(6,389)
	--------	--------
Net cash provided by operating activities	118,813	71,313
	--------	--------
Cash flows from investing activities:		
Capital expenditures	(45,248)	(28,384)
Purchases of:		
Business unit	--	(9,149)
NL common stock	(9,853)	(10,559)
CompX common stock	(2,650)	--
Tremont common stock	(198)	--
Proceeds from disposal of marketable securities (available-for-sale)	16,802	--
Loans to affiliate	(20,000)	--
Property damaged by fire:		
Insurance proceeds	10,500	--
Other, net	(2,100)	--
Change in restricted cash equivalents, net	838	3,045
Other, net	(239)	2,472
	--------	--------
Net cash used by investing activities	(52,148)	(42,575)
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VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Nine months ended September 30, 2001 and 2002

(In thousands)

	2001	2002
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 46,356	$ 331,800
Principal payments	(101,671)	(291,254)
Deferred financing costs paid	--	(10,590)
Loans from affiliate:		
Loans	76,666	10,914
Repayments	(73,731)	(12,825)
Valhi dividends paid	(20,863)	(20,893)

Distributions to minority interest	(7,950)	(7,275)
Other, net	1,217	3,154
Net cash provided (used) by financing activities	(79,976)	3,031
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(13,311)	31,769
Currency translation	232	3,312
Business unit acquired	--	196
Cash and equivalents at beginning of period	135,017	154,413
Cash and equivalents at end of period	$ 121,938	$ 189,690
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 36,770	$ 40,754
Income taxes, net	26,880	10,156
Business unit acquired - net assets consolidated:		
Cash and cash equivalents	$ --	$ 196
Restricted cash	--	2,685
Goodwill and other intangible assets	--	9,007
Other noncash assets	--	1,259
Liabilities	--	(3,998)
Cash paid	$ --	$ 9,149

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Nine months ended September 30, 2002

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Marketable securities	Currency translation	Pension liabilities	Treasury stock	Total stockholders' equity
Balance at December 31, 2001	$1,258	$44,982	$ 656,408	$ 86,654	$(79,404)	$(11,921)	$(75,649)	$ 622,328
Net loss	--	--	(4,452)	--	--	--	--	(4,452)
Dividends	--	--	(20,893)	--	--	--	--	(20,893)
Other comprehensive income (loss), net	--	--	--	(185)	35,587	(2,213)	--	33,189
Other, net	4	2,675	--	--	--	--	--	2,679
Balance at September 30, 2002	$1,262	$47,657	$ 631,063	$ 86,469	$(43,817)	$(14,134)	$(75,649)	$ 632,851

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, 2001 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at September 30, 2002, and the consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the interim periods ended September 30, 2001 and 2002, have been prepared by the Company, without audit, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made.

The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain information normally included in financial statements prepared in accordance with GAAP has been condensed or omitted. 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, 2001 (the "2001 Annual Report").

Commitments and contingencies are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Legal Proceedings" and the 2001 Annual Report.

Contran Corporation holds, directly or through subsidiaries, approximately 93% 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 of Valhi and Contran, may be deemed to control such companies.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective January 1, 2002, and adopted SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections, effective April 1, 2002. See Note 14.

Note 2 - Business segment information:

Business segment	Entity	% owned by Valhi at September 30, 2002
Chemicals	NL Industries, Inc.	62%
Component products	CompX International Inc.	69%
Waste management	Waste Control Specialists	90%
Titanium metals	Tremont Group, Inc.	80%

Tremont Group is a holding company which owns 80% of Tremont Corporation ("Tremont") at September 30, 2002. NL owns the other 20% of Tremont Group. Tremont is also a holding company and owns an additional 21% of NL and 39% of Titanium Metals Corporation at September 30, 2002.

	Three months ended September 30,		Nine months ended September 30,	
	2001	2002	2001	2002
	(In millions)			
Net sales:				
Chemicals	$207.0	$234.0	$653.2	$663.3
Component products	51.5	48.8	164.4	148.4
Waste management	4.0	1.3	10.0	5.2
	------	------	------	------

Total net sales	$262.5	$284.1	$827.6	$816.9
Operating income:				
Chemicals	$ 29.9	$ 26.5	$114.1	$ 67.5
Component products	4.7	1.3	17.0	5.6
Waste management	(3.1)	(2.5)	(10.7)	(6.6)
Total operating income	31.5	25.3	120.4	66.5
General corporate items:				
Legal settlements gains, net	--	--	30.7	2.4
Securities transaction gains, net	1.1	--	51.9	1.9
Interest and dividend income	9.3	9.0	29.0	25.9
Foreign currency transaction gain	--	--	--	6.3
Gain on disposal of fixed assets	--	--	--	1.6
Insurance gain	3.8	--	4.5	--
Expenses, net	(6.7)	(12.5)	(25.3)	(33.0)
Interest expense	(14.9)	(15.0)	(47.7)	(45.4)
	24.1	6.8	163.5	26.2
Equity in:				
TIMET	3.2	(17.2)	16.2	(31.7)
Other	(.1)	--	.4	.3
Income (loss) before income taxes	$ 27.2	$(10.4)	$180.1	$ (5.2)

During the first nine months of 2002, NL purchased shares of its common stock in market transactions for an aggregate of $10.6 million, increasing Valhi's ownership of NL to 62%. As previously reported in the 2001 Annual Report, in January 2002 NL purchased the insurance brokerage operations conducted by EWI Re, Inc. and EWI Re, Ltd. for an aggregate cash purchase price of $9 million. The pro forma impact assuming the acquisition of EWI had occurred as of January 1, 2001 is not material.

In July 2002, Valhi proposed a merger of Valhi and Tremont pursuant to which stockholders of Tremont (including NL, to the extent of NL's ownership interest in the Tremont shares held by Tremont Group), other than Valhi, would receive shares of Valhi common stock for each Tremont share held. Tremont formed a special committee of its board of directors consisting of members unrelated to Valhi to review the proposal. The special committee retained their own independent financial and legal advisors. After performing due diligence and evaluating the merits of Valhi's proposal, the special committee and their advisors negotiated the financial and other terms of a definitive merger agreement with Valhi. In November 2002, Tremont, based upon the recommendation of their special committee, and Valhi reached an agreement on the terms of the definitive merger agreement in which, among other things, the Tremont stockholders referred to above would receive 3.4 shares of Valhi common stock for each share of Tremont common stock held in a tax-free exchange. The transaction has been approved by the board of directors of both Valhi and Tremont. The financial advisors to the special committee have issued an opinion to the special committee stating that the exchange ratio is fair, from a financial point of view, to Tremont stockholders other than Valhi and its affiliates. The transaction is subject to customary closing conditions and will require approval by a majority of the outstanding shares of Tremont. Tremont Group has indicated that it intends to vote its shares in favor of the merger. Valhi will file a registration statement with the SEC in connection with the transaction. The date of the Tremont stockholders meeting will be established as soon as practical following completion of the filing with the SEC.

NL (NYSE: NL), CompX (NYSE: CIX), Tremont (NYSE: TRE) and TIMET (NYSE: TIE) each file periodic reports pursuant to the Securities Exchange Act of 1934, as amended.

Note 3 - Marketable securities:

	December 31, 2001	September 30, 2002
	(In thousands)	
Current assets:		
Halliburton Company common stock (available-for-sale)	$ 8,138	$ 8,020
Halliburton Company common stock (trading)	6,744	--
Restricted debt securities (available-for-sale)	3,583	9,775
	$ 18,465	$ 17,795
Noncurrent assets (available-for-sale):		
The Amalgamated Sugar Company LLC	$170,000	$170,000
Restricted debt securities	16,121	7,204
Other common stocks	428	358
	$186,549	$177,562

At September 30, 2002, Valhi held approximately 621,000 shares of Halliburton common stock (aggregate cost of $5 million) with a quoted market price of $12.91 per share, or an aggregate market value of $8 million. Valhi's LYONs debt obligations are exchangeable at any time, at the option of the LYON holder, for such shares of Halliburton common stock, and the carrying value of such Halliburton shares is limited to the accreted LYONs obligations. At September 30, 2002, such Halliburton shares are held in escrow for the benefit of the holders of the LYONs. Valhi receives the regular quarterly dividend on all of the Halliburton shares held, including shares held in escrow. In October 2002, following the redemption of substantially all of the remaining LYONs, substantially all of such Halliburton shares were released to the Company from escrow and were sold in market transactions for aggregate proceeds of $9.5 million. During the first nine months of 2002, the Company sold an additional 515,000 Halliburton shares classified as trading securities in market transactions for aggregate proceeds of $8.7 million. See Notes 9 and 12.

See the 2001 Annual Report for a discussion of the Company's investment in The Amalgamated Sugar Company LLC. The aggregate cost of the debt securities, restricted pursuant to the terms of one of NL's environmental special purpose trusts discussed in the 2001 Annual Report, approximates their net carrying value at September 30, 2002. The aggregate cost of other noncurrent available-for-sale securities is nominal at September 30, 2002.

Note 4 - Inventories:

	December 31, 2001	September 30, 2002
	(In thousands)	
Raw materials:		
Chemicals	$ 79,162	$ 33,835
Component products	9,677	7,206

	88,839	41,041
In process products:		
Chemicals	9,675	11,304
Component products	12,619	14,242
	22,294	25,546
Finished products:		
Chemicals	117,976	97,563
Component products	8,494	11,892
	126,470	109,455
Supplies (primarily chemicals)	25,130	26,554
	$262,733	$202,596

Note 5 - Accrued liabilities:

	December 31, 2001	September 30, 2002
	(In thousands)	
Current:		
Employee benefits	$ 39,974	$ 41,841
Environmental costs	64,165	56,066
Interest	5,162	6,720
Deferred income	9,479	9,792
Other	47,708	52,404
	$166,488	$166,823
Noncurrent:		
Insurance claims and expenses	$ 19,182	$ 18,263
Employee benefits	8,616	8,899
Deferred income	1,333	1,885
Other	3,511	1,955
	$ 32,642	$ 31,002

Note 6 - Accounts and other receivables:

	December 31, 2001	September 30, 2002
	(In thousands)	
Accounts receivable	$ 166,126	$ 197,095
Notes receivable	2,484	2,438
Accrued interest	26	106

Allowance for doubtful accounts	(6,326)	(6,582)
	$ 162,310	$ 193,057

Note 7 - Other assets:

	December 31, 2001	September 30, 2002
	(In thousands)	
Investment in affiliates:		
TiO2 manufacturing joint venture	$138,428	$132,078
TIMET	60,272	27,630
Other	12,415	12,352
	$211,115	$172,060
Loans and other receivables:		
Snake River Sugar Company:		
Principal	$ 80,000	$ 80,000
Interest	22,718	26,612
Other	5,706	5,753
	108,424	112,365
Less current portion	2,484	2,438
Noncurrent portion	$105,940	$109,927
Other noncurrent assets:		
Deferred financing costs	$ 1,120	$ 10,268
Restricted cash equivalents	4,713	5,014
Waste disposal operating permits	2,527	1,947
Refundable insurance deposits	1,609	1,864
Other	20,140	15,955
	$ 30,109	$ 35,048

The Company's equity in losses of TIMET in the third quarter of 2002 includes a $15.7 million impairment provision for an other than temporary decline in the value of Tremont's investment in TIMET. In determining the amount of the impairment charge, Tremont considered, among other things, recent ranges of TIMET's NYSE market price and current estimates of TIMET's future operating losses that would further reduce Tremont's carrying value of its investment in TIMET as it records additional equity in losses of TIMET. At September 30, 2002, Tremont held 12.3 million shares of TIMET common stock with a quoted market price of $1.66 per share, or an aggregate of $20 million. At September 30, 2002, TIMET reported total assets of $582.4 million and stockholders' equity of $205.6 million. TIMET's total assets at September 30, 2002 include current assets of $278.8 million, property and equipment of $258.6 million and other intangible assets of $8.4 million. TIMET's total liabilities at September 30, 2002 include current liabilities of $111.3 million, long-term debt of $10.5 million, accrued OPEB and pension costs of $35.9 million and convertible preferred securities of $201.2 million. During the first nine months of 2002, TIMET reported net sales of $281.5 million, an operating loss of $16.1 million and a loss before cumulative effect of change in accounting principle of $57.6 million (first nine months of 2001 - net sales of $370.5 million, operating income of $56.8 million and net income of $30.3 million).

Note 8 - Goodwill and other intangible assets:

Goodwill.

	Operating segment		
	Chemicals	Component products	Total
		(In millions)	
Balance at December 31, 2001	$307.2	$ 41.9	$349.1
Goodwill acquired during the period	9.9	--	9.9
Changes in foreign exchange rates	--	1.0	1.0
Balance at September 30, 2002	$317.1	$ 42.9	$360.0

Upon adoption of SFAS No. 142 effective January 1, 2002 (see Note 14), the goodwill related to the chemicals operating segment was assigned to the reporting unit (as that term is defined in SFAS No. 142) consisting of NL in total, and the goodwill related to the component products operating segment was assigned to two reporting units within that operating segment, one consisting of CompX's security products operations and the other consisting of CompX's ergonomic and slide products operations.

Other intangible assets.

	December 31, 2001	September 30, 2002
	(In millions)	
Patents:		
Cost	$3.4	$3.5
Less accumulated amortization	1.0	1.2
Net	2.4	2.3
Customer list:		
Cost	--	2.6
Less accumulated amortization	--	.3
Net	--	2.3
	$2.4	$4.6

The patent intangible asset relates to the estimated fair value of certain patents acquired in connection with the acquisition of certain business units by CompX, and the customer list intangible asset relates to NL's acquisition of EWI discussed in Note 2. The patent intangible asset was, and will continue to be after adoption of SFAS No. 142 effective January 1, 2002, amortized by the straight-line method over the lives of the patents (approximately 10.5 years remaining at September 30, 2002), with no assumed residual value at the end of the life of the patents. The customer list intangible asset will be amortized by the straight-line method over the estimated seven-year life of such intangible asset (approximately 6.3 years remaining at September 30, 2002), with no assumed residual value at the end of the life of the intangible asset. Amortization expense of intangible assets was approximately $180,000 and $460,000 in the first nine months of 2001 and 2002, respectively, and amortization expense of intangible assets is expected to be approximately $620,000 in each of calendar 2002 through 2006.

Note 9 - Notes payable and long-term debt:

	December 31, 2001	September 30, 2002
	(In thousands)	
Notes payable -		
Kronos - non-U.S. bank credit agreements	$ 46,201	$ --
Long-term debt:		
Valhi:		
Snake River Sugar Company	$250,000	$250,000
LYONs	25,472	27,256
Bank credit facility	35,000	35,000
Other	2,880	2,880
	313,352	315,136
Subsidiaries:		
NL Senior Secured Notes	194,000	--
Kronos International:		
Senior Secured Notes	--	278,673
Bank credit facility	--	26,993
CompX bank credit facility	49,000	31,000
Valcor Senior Notes	2,431	2,431
Other	3,404	2,669
	248,835	341,766
	562,187	656,902
Less current maturities	64,972	35,541
	$497,215	$621,361

In June 2002, Kronos International ("KII"), which conducts NL's TiO_2 operations in Europe, issued euro 285 million principal amount ($280 million when issued) of its 8.875% Senior Secured Notes due 2009. The KII Senior Secured Notes are collateralized by a pledge of the stock or other ownership interests of KII's first-tier operating subsidiaries. The KII Senior Secured Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among other things, restricts the ability of KII and its subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. The KII Senior Secured Notes are redeemable, at KII's option, on or after December 30, 2005 at redemption prices ranging from 104.437% of the principal amount, declining to 100% on or after December 30, 2008. In addition, on or before June 30, 2005, KII may redeem up to 35% of its Senior Secured Notes with the net proceeds of a qualified public equity offering at 108.875% of the principal amount. In the event of a change of control of KII, as defined, KII would be required to make an offer to purchase its Senior Secured Notes at 101% of the principal amount. KII would also be required to make an offer to purchase a specified portion of its Senior Secured Notes at par value in the event KII generates a certain amount of net proceeds from the sale of assets outside the ordinary course of business, and such net proceeds are not otherwise used for specified purposes within a specified time period.

Also in June 2002, KII's operating subsidiaries in Germany, Belgium and Norway entered into a new three-year euro 80 million revolving bank credit facility. Borrowings under this facility were used in part to repay and terminate Kronos' short-term non-U.S. bank credit agreements. Borrowings may be demoninated in euros, Norwegian kroner or U.S. dollars, and bear interest at the applicable interbank market rate plus 1.75%. The facility also provides for the issuance of letters of credit up to euro 5 million. The new KII bank credit agreement is collateralized by the accounts receivable and inventories of the borrowers, plus a limited pledge of all of the other assets of the Belgian borrower. The new KII bank credit agreement contains certain restrictive covenants which, among other things, restricts the ability of the borrowers to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity.

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

In September 2002, certain of NL's U.S. subsidiaries entered into a new three-year $50 million revolving credit facility (nil outstanding at September 30, 2002) collateralized by the accounts receivable, inventories and certain fixed assets of the borrowers. Borrowings under this facility are limited to the lesser of $45 million or a formula-determined amount based upon the accounts receivable and inventories of the borrowers. Borrowings bear interest at either the prime rate or rates based upon the eurodollar rate. The facility contains certain restrictive covenants which, among other things, restricts the abilities of the borrowers to incur debt, incur liens, pay dividends in certain circumstances, sell assets or enter into mergers.

In October 2002, holders representing substantially all of the Company's LYONs exercised their right to require the Company to redeem their LYONs for a cash redemption price of $27.3 million. Funds to pay the redemption price were provided by borrowings under Valhi's bank credit agreement, the maturity date of which was extended to October 31, 2003 in November 2002. Accordingly, both the LYONs and Valhi's revolving bank credit facility are classified as noncurrent debt at September 30, 2002. Also in November 2002, the size of Valhi's bank credit facility was reduced from $72.5 million to $70 million. In November 2002, the Company called the remaining normal amount of LYONs for redemption in December 2002.

Note 10 - Accounts with affiliates:

	December 31, 2001	September 30, 2002
	(In thousands)	

Current receivables from affiliates:		
Income taxes receivable from Contran	$ --	$ 7,185
TIMET	677	43
Other	167	532
	$ 844	$ 7,760
Noncurrent receivable from affiliate - loan to Contran family trust	$20,000	$20,000
Payables to affiliates:		
Valhi demand loan from Contran	$24,574	$22,663
Income taxes payable to Contran	6,410	--
Louisiana Pigment Company	6,362	8,377
Contran - trade items	501	932
TIMET	286	--
Other, net	15	62
	$38,148	$32,034

Note 11 - Provision for income taxes (benefit):

	Nine months ended September 30, 2001	2002
	(In millions)	
Expected tax expense (benefit)	$63.0	$(1.8)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	2.7	(.2)
Non-U.S. tax rates	(4.8)	(1.3)
Change in NL's and Tremont's deferred income tax valuation allowance, net	(2.1)	.9
No tax benefit for goodwill amortization	4.4	--
U.S. state income taxes, net	2.7	.3
Other, net	1.0	.4
	$66.9	$(1.7)
Comprehensive provision for income taxes (benefit) allocated to:		
Net income (loss)	$66.9	$(1.7)
Other comprehensive income:		
Marketable securities	(22.5)	(.2)
Currency translation	(1.3)	2.7
Pension liabilities	(.3)	(1.5)
	$42.8	$ (.7)

Note 12 - Other income:

Nine months ended
September 30,

	2001	2002
	(In thousands)	
Securities earnings:		
Dividends and interest	$ 29,045	$25,866
Securities transaction gains, net	51,874	1,915
	80,919	27,781
Legal settlement gains, net	30,723	2,360
Noncompete agreement income	3,000	3,000
Currency transactions, net	543	4,583
Pension settlement gain	--	677
Insurance gain	4,551	--
Other, net	4,006	5,672
	$123,742	$44,073

The securities transaction gains in 2002 are discussed in Note 3. The legal settlement gains in 2002 relates to NL's settlement with certain additional former insurance carriers from whom NL had been seeking reimbursement for legal defense expenditures and indemnity coverage claims. The pension settlement gain relates to a defined benefit plan previously sponsored by CompX in the Netherlands. The net currency transaction gain in 2002 includes $6.3 million related to the extinguishment of certain intercompany indebtedness of NL.

Note 13 - Minority interest:

	December 31, 2001	September 30, 2002
	(In thousands)	
Minority interest in net assets:		
NL Industries	$ 68,566	$ 67,946
Tremont Corporation	32,610	27,384
CompX International	44,767	44,944
Subsidiaries of NL	7,208	8,312
	$153,151	$148,586

	Nine months ended September 30, 2001	2002
	(In thousands)	
Minority interest in net earnings (losses):		
NL Industries	$15,562	$ 5,074
Tremont Corporation	4,500	(5,975)
CompX International	2,653	752
Subsidiaries of NL	953	1,084
	$23,668	$ 935

As previously reported, all of Waste Control Specialists aggregate, inception-to-date net losses have accrued to the Company for financial reporting purposes, and all of Waste Control Specialists future net income or net losses will also accrue to the Company until Waste Control Specialists reports positive equity attributable to its other owner. Accordingly, no minority interest in Waste Control Specialists' net assets or net earnings (losses) is reported at September 30, 2002.

Note 14 - Accounting principles newly adopted in 2002:

Goodwill. The Company adopted SFAS No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Under SFAS No. 142, goodwill, including goodwill arising from the difference between the cost of an investment accounted for by the equity method and the amount of the underlying equity in net assets of such equity method investee ("equity method goodwill"), is no longer amortized on a periodic basis. Goodwill (other than equity method goodwill) is subject to an impairment test to be performed at least on an annual basis, and impairment reviews may result in future periodic write-downs charged to earnings. Equity method goodwill is not tested for impairment in accordance with SFAS No. 142; rather, the overall carrying amount of an equity method investee will continue to be reviewed for impairment in accordance with existing GAAP. There is currently no equity method goodwill associated with any of the Company's equity method investees. Under the transition provisions of SFAS No. 142, all goodwill existing as of June 30, 2001 ceased to be periodically amortized as of January 1, 2002, and all goodwill arising in a purchase business combination (including step acquisitions) completed on or after July 1, 2001 was not periodically amortized from the date of such combination.

As discussed in Note 8, the Company has assigned its goodwill to three reporting units (as that term is defined in SFAS No. 142). Goodwill attributable to the chemicals operating segment was assigned to the reporting unit consisting of NL in total. Goodwill attributable to the component products operating segment was assigned to two reporting units within that operating segment, one consisting of CompX's security products operations and the other consisting of CompX's ergonomic products and slide products operations. Under SFAS No. 142, such goodwill will be deemed to not be impaired if the estimated fair value of the applicable reporting unit exceeds the respective net carrying value of such reporting unit, including the allocated goodwill. If the fair value of the reporting unit is less than carrying value, then a goodwill impairment loss would be recognized equal to the excess, if any, of the net carrying value of the reporting unit goodwill over its implied fair value (up to a maximum impairment equal to the carrying value of the goodwill). The implied fair value of reporting unit goodwill would be the amount equal to the excess of the estimated fair value of the reporting unit over the amount that would be allocated to the tangible and intangible net assets of the reporting unit (including unrecognized intangible assets) as if such reporting unit had been acquired in a purchase business combination accounted for in accordance with GAAP as of the date of the impairment testing.

In determining the estimated fair value of the NL reporting unit, the Company will consider quoted market prices for NL common stock, as adjusted for an appropriate control premium. The Company will also use other appropriate valuation techniques, such as discounted cash flows, to estimate the fair value of the two CompX reporting units.

The Company completed its initial, transitional goodwill impairment analysis under SFAS No. 142 as of January 1, 2002, and no goodwill impairments were deemed to exist as of such date. In accordance with the requirements of SFAS No. 142, the Company will review the goodwill of its three reporting units for impairment during the third quarter of each year starting in 2002. Goodwill will also be reviewed for impairment at other times during each year when events or changes in circumstances indicate that an impairment might be present. No goodwill impairments were deemed to exist as a result of the Company's impairment review completed during the third quarter of 2002.

As shown in the following table, the Company would have reported net income of $101.3 million, or $.87 per diluted share, in the first nine months of 2001 ($14.2 million, or $.12 per diluted share, in the third quarter of 2001) if the goodwill amortization included in the Company's reported net income had not been recognized.

	Three months ended September 30, 2001	2002	Nine months ended September 30, 2001	2002
	(In millions, except per share amounts)			
Net income (loss) as reported	$ 10.3	$ (7.1)	$ 89.5	$ (4.4)
Adjustments:				
Goodwill amortization	4.2	--	12.7	--
Incremental income taxes	--	--	(.1)	--
Minority interest in goodwill amortization	(.3)	--	(.8)	--
Adjusted net income (loss)	$ 14.2	$ (7.1)	$ 101.3	$ (4.4)
Diluted net income (loss) per share as reported	$ .09	$ (.06)	$ .77	$ (.04)
Adjustments:				
Goodwill amortization	.04	--	.11	--
Incremental income taxes	--	--	--	--
Minority interest in goodwill amortization	(.01)	--	(.01)	--
Adjusted diluted net income (loss) per share	$ .12	$ (.06)	$ .87	$ (.04)

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

Debt extinguishment gains and losses. The Company adopted SFAS No. 145 effective April 1, 2002. SFAS No. 145, among other things, eliminated the prior requirement that all gains and losses from the early extinguishment of debt were to be classified as an extraordinary item. Upon adoption of SFAS No. 145, gains and losses from the early extinguishment of debt are now classified as an extraordinary item only if they meet the "unusual and infrequent" criteria contained in Accounting Principles Board Opinion ("APBO") No. 30. In addition, upon adoption of SFAS No. 145, all gains and losses from the early extinguishment of debt that had previously been classified as an extraordinary item are to be reassessed to determine if they would have met the "unusual and infrequent" criteria of APBO No. 30; any such gain or loss that would not have met the APBO No. 30 criteria is retroactively reclassified and reported as a component of income before extraordinary item. The Company has concluded that all of its previously-recognized gains and losses from the early extinguishment of debt that occurred on or after January 1, 1998 would not have met the APBO No. 30 criteria for classification as an extraordinary item, and accordingly such previously-reported gains and losses from the early extinguishment of debt have been retroactively reclassified and are now reported as a component of income before extraordinary item.

Note 15 - Accounting principles not yet adopted:

The Company will adopt SFAS No. 143, Accounting for Asset Retirement Obligations, no later than January 1, 2003. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation covered under the scope of SFAS No. 143 would be recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability would be accreted to its present value, and the capitalized cost would be depreciated over the useful life of the related asset. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement. The Company is still studying this standard to determine, among other things, whether it has any asset retirement obligations which are covered under the scope of SFAS No. 143, and the effect, if any, on the Company of adopting SFAS No. 143 has not yet been determined.

The Company will adopt SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, no later than January 1, 2003 for exit or disposal activities initiated on or after the date of adoption. Under SFAS No. 146, costs associated with exit activities, as defined, that are covered by the scope of SFAS No. 146 will be recognized and measured initially at fair value, generally in the period in which the liability is incurred. Costs covered by the scope of SFAS No. 146 include termination benefits provided to employees, costs to consolidate facilities or relocate employees, and costs to terminate contracts (other than a capital lease). Under existing GAAP, a liability for such an exit cost is recognized at the date an exit plan is adopted, which may or may not be the date at which the liability has been incurred.

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

RESULTS OF OPERATIONS:

General

The Company reported a net loss of $7.1 million, or $.06 per diluted share, in the third quarter of 2002 compared to net income of $10.3 million, or $.09 per diluted share, in the third quarter of 2001. Excluding the effects of the items discussed below, the Company would have reported net income of $900,000 in the third quarter of 2002 compared to net income of $11.8 million in the third quarter of 2001. For the first nine months of 2002, the Company reported a net loss of $4.4 million, or $.04 per diluted share, compared to net income of $89.5 million, or $.77 per diluted share, in the first nine months of 2001. Excluding the effects of the items discussed below, the Company would have reported net income of $1.9 million in the first nine months of 2002 compared to net income of $39.5 million in the first nine months of 2001.

The Company's equity in losses of TIMET in the third quarter of 2002 includes a $15.7 million impairment provision ($8 million net of income taxes and minority interest) related to Tremont's impairment provision for an other than temporary decline in the value of its investment in TIMET. The Company's equity in losses of TIMET in the first nine months of 2002 includes losses in the first quarter of $10.6 million ($5.4 million net of income taxes and minority interest), related to the Company's pro-rata share of TIMET's $27.5 million impairment charge for an other than temporary decline in value of certain preferred securities held by TIMET. Legal settlement gains in the first nine months of 2002 of $2.4 million ($1.2 million, net of income taxes and minority interest, respectively) related to prior-quarter legal settlements with certain of NL's former insurance carriers, and securities transactions gains in the first nine months of 2002 of $1.9 million ($1.2 million net of income taxes) related to the first quarter disposal of certain shares of Halliburton Company common stock held by the Company. Currency transaction gains in the first nine months of 2002 included a gain that occurred during the second quarter of 2002 of $6.3 million ($4.7 million net of income taxes and minority interest) related to the extinguishment of certain intercompany indebtedness of NL. Net securities transaction gains in the third quarter and first nine months of 2001 of $1.1 million and $51.9 million, respectively ($700,000 and $33.9 million, respectively, net of income taxes and minority interest) related principally to the disposal of additional Halliburton shares. Insurance gains in the third quarter and first nine months of 2001 of $3.8 million and $4.5 million, respectively ($1.8 million and $2.0 million, respectively, net of income taxes and minority interest) related to insurance recoveries received by NL resulting from the March 2001 fire at one of NL's facilities, as insurance recoveries exceeded the carrying value of the property destroyed and clean-up costs incurred. The Company's equity in earnings of TIMET in the first nine months of 2001 included earnings in the second quarter of $15.7 million ($7.5 million net of income taxes and minority interest) related to TIMET's previously-reported settlement with Boeing. The Company's results in the first nine months of 2001 included the previously-reported first quarter legal settlement gains aggregating $30.7 million ($18.4 million net of income taxes and minority interest).

As discussed in Note 14 to the Consolidated Financial Statements, beginning in 2002 the Company no longer recognizes periodic amortization of goodwill in its results of operations. The Company would have reported net income of approximately $14.2 million in the third quarter of 2001 and approximately $101.3 million in the first nine months of 2001, or about $3.9 million and $11.8 million higher, respectively, if the goodwill amortization included in the Company's reported net income had not been recognized. Of such $11.8 million difference in the first nine months of 2001, approximately $10.8 million and $1.9 million relates to amortization of goodwill attributable to the Company's chemicals and component products operating segments, respectively, approximately $100,000 relates to incremental income taxes and approximately $800,000 relates to minority interest associated with the goodwill amortization recognized by certain of the Company's less-than-wholly-owned subsidiaries.

Total operating income in the third quarter and first nine months of 2002 was lower as compared to the same periods in 2001 due to lower chemicals earnings at NL and lower component products earnings at CompX, offset in part by lower waste management operating losses at Waste Control Specialists.

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission including, but not limited to, future supply and demand for the Company's products, the extent of the dependence of certain of the Company's businesses on certain market sectors (such as the dependence of TIMET's titanium metals business on the aerospace industry), the cyclicality of certain of the Company's businesses (such as NL's TiO_2 operations and TIMET's titanium metals operations), the impact of certain long-term contracts on certain of the Company's businesses (such as the impact of TIMET's long-term contracts with certain of its customers and such customers' performance thereunder and the impact of TIMET's long-term contracts with certain of its vendors on its ability to reduce or increase supply or achieve lower costs), customer inventory levels (such as the extent to which NL's customers may, from time to time, accelerate purchases of TiO_2 in advance of anticipated price increases or defer purchases of TiO2 in advance of anticipated price decreases, or the relationship between inventory levels of TIMET's customers and such customer's current inventory requirements and the impact of such relationship on their purchases from TIMET), changes in raw material and other operating costs (such as energy costs), the possibility of labor disruptions, general global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO2), competitive products and substitute products, customer and competitor strategies, the impact of pricing and production decisions, competitive technology positions, the introduction of trade barriers, fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro and the Canadian dollar), operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions), recoveries from insurance claims and the timing thereof, potential difficulties in integrating completed acquisitions, the ability of the Company to renew or refinance credit facilities, uncertainties associated with new product development (such as TIMET's ability to develop new end-uses for its titanium products), environmental matters (such as those requiring emission and discharge standards for existing and new facilities), government laws and regulations and possible changes therein (such as a change in Texas state law which would allow the applicable regulatory agency to issue a permit for the disposal of low-level radioactive wastes to a private entity such as Waste Control Specialists, or changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products), the ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters of NL, Tremont and TIMET) and possible future litigation. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

Chemicals

Selling prices for titanium dioxide pigments ("TiO2"), NL's principal product, were generally decreasing during all of 2001 and the first quarter of 2002, were generally flat during the second quarter of 2002 and were generally increasing during the third quarter of 2002. NL's TiO2 operations are conducted through its wholly-owned subsidiary Kronos, Inc.

	Three months ended September 30, 2001	2002	% Change	Nine months ended September 30, 2001	2002	% Change
	(In millions, except percentages)					
Net sales	$207.0	$234.0	+13%	$653.2	$663.3	+2%
Operating income	29.9	26.5	-11%	114.1	67.5	-41%

Chemicals operating income declined in the third quarter and first nine months of 2002 compared to the same periods of 2001 due primarily to lower average selling prices for titanium dioxide pigments ("TiO2"), offset in part by higher TiO2 sales and production volumes. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, NL's average TiO2 selling prices in the third quarter of 2002 were 7% lower than the third quarter of 2001, and were 12% lower in the first nine months of 2002 compared to the same period in 2001. While NL's average TiO2 selling prices had generally been declining during all of 2001 and the first quarter of 2002, and were flat during the second quarter of 2002, average TiO2 selling prices increased during the third quarter of the year. NL's average TiO2 selling prices in the third quarter of 2002 were 3% higher compared to the second quarter of the year, with increases in all major markets.

NL's TiO2 sales volumes in the third quarter of 2002 were 14% higher than the third quarter of 2001, with higher volumes in European and North American markets and lower volumes in export markets. NL's TiO2 sales volumes in the first nine months of 2002 were 13% higher than the first nine months of 2001. NL's TiO2 production volumes in the third quarter of 2002 were 7% higher than the third quarter of 2001, with operating rates near full capacity in 2002. NL's TiO2 production volumes in the first nine months of 2002 were 6% higher compared to the same period in 2001. The increases in NL's TiO2 sales and production volumes in 2002 were due in part to the effect of the previously-reported fire at NL's Leverkusen, Germany TiO2 facility in March 2001, as well as in part due to customer restocking their inventory levels in 2002 in advance of previously-announced TiO2 price increases. As previously reported, NL settled its insurance claim related to the Leverkusen fire during the fourth quarter of 2001. NL recognized $19.3 million of business interruption insurance proceeds during the fourth quarter of 2001, of which $16.6 million was attributable to recovery of unallocated period costs and lost margin related to the first, second and third quarters of 2001.

The damages to property and the business interruption losses caused by the previously-reported Leverkusen fire were covered by insurance. Chemicals operating income in the third quarter and first nine months of 2001 include $3 million and $8 million, respectively, of business interruption insurance proceeds as partial payments for losses caused by the fire.

In January 2002, NL announced price increases in all major markets of approximately 5% to 8% above existing December 2001 prices, a portion of which NL realized in the second and third quarters of 2002. In May 2002, NL announced a second round of price increases in all major markets of approximately 7% to 11% above June 2002 prices. Assuming demand for TiO2 remains at reasonable levels, NL expects to achieve further price improvement in the fourth quarter of this year, but the extent to which NL can realize any price increases during the remainder of 2002 will depend on economic and competitive conditions. Because TiO2 prices were generally declining during all of 2001 and the first quarter of 2002, NL believes that its average TiO2 selling prices in 2002 will be significantly below its average 2001 prices, even if price increases continue to be realized. NL expects its TiO2 sales and production volumes in 2002 should be higher as compared to 2001, in part due to the effects in 2001 of the previously-reported fire at its Leverkusen, Germany facility. NL expects its sales volumes in 2002 will exceed its production volumes. While NL expects its TiO2 sales volumes in the fourth quarter of 2002 will be seasonally lower than the third quarter of this year, NL expects its sales volumes in the fourth quarter of 2002 will exceed its sales volumes in the fourth quarter of 2001. Overall, NL expects its TiO2 operating income in 2002 will be significantly lower than 2001, primarily due to lower average TiO2 selling prices. NL's expectations as to the future prospects of NL and the TiO2 industry are based upon a number of factors beyond NL's control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from NL's expectations, NL's results of operations could be unfavorably affected.

NL has substantial operations and assets located outside the United States (principally Germany, Belgium, Norway and Canada). 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 the euro, other major European currencies and the Canadian dollar. In addition, a portion of NL's sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of NL's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Including the effect of fluctuations in the value of the U.S. dollar relative to other currencies, NL's average TiO2 selling prices (in billing currencies) in the third quarter of 2002 decreased 2% compared to the third quarter of 2001, and decreased 11% during the first nine months of 2002. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased TiO2 sales in the third quarter and first nine months of 2002 by approximately $14 million and $10 million, respectively, as compared to the same periods in 2001. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted NL's foreign currency-denominated operating expenses. NL's operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were higher during 2002 as compared to 2001. Overall, the net impact of currency exchange rate fluctuations increased TiO2 operating income by $2.2 million in the third quarter of 2002 compared to the third quarter of 2001, and slightly decreased operating income in the first nine months of 2002 compared to the same period in 2001.

Chemicals operating income, as presented above, is stated net of amortization of Valhi's purchase accounting adjustments made in conjunction with its acquisitions of its interest in NL. Such adjustments result in additional depreciation, depletion and amortization expense beyond amounts separately reported by NL. Such additional non-cash expenses reduced chemicals operating income, as reported by Valhi, by approximately $19.2 million in the first nine months of 2001 and approximately $9.0 million in the first nine months of 2002 as compared to amounts separately reported by NL. The decline from 2001 to 2002 in such additional non-cash expenses relates primarily to ceasing to periodically amortize goodwill beginning in 2002 (the 2001 amount included $10.8 million related to goodwill amortization). See Note 14 to the Consolidated Financial Statements.

Component Products

	Three months ended September 30, 2001	Three months ended September 30, 2002	% Change	Nine months ended September 30, 2001	Nine months ended September 30, 2002	% Change
	(In millions, except percentages)					
Net sales	$51.5	$48.8	-5%	$164.4	$148.4	-10%
Operating income	4.7	1.3	-71%	17.0	5.6	-67%

Component products sales and operating income decreased in the third quarter and first nine months of 2002 compared to the same periods in 2001 due to continued weak demand for CompX's component products sold to the office furniture market resulting from the continued weak economic conditions in the manufacturing sectors in North America and Europe. Sales of slide and ergonomic products decreased 6% and 18%, respectively, in the third quarter of 2002 compared to the third quarter of 2001, with year-to-date declines of 13% and 19%, respectively. While sales of security products increased 2% in the third quarter of 2002 compared to the same period in 2001, in part due to price increases implemented in July 2002, sales of security products were down 2% in the first nine months of 2002 compared to the same period in 2001 due primarily to lower volumes. Operating income comparisons were negatively impacted by increases in certain raw material costs, primarily steel, as well as the adverse impact of reduced selling prices primarily with respect to slide products resulting from competitive pressures. Operating income comparisons were favorably impacted by ceasing to periodically amortize goodwill, which amounted to approximately $600,000 and $1.9 million in the third quarter and first nine months of 2001, respectively (none in 2002), as well as the impact of certain cost reductions that were implemented. See Note 14 to the Consolidated Financial Statements.

CompX has substantial operations and assets located outside the United States (principally in Canada, the Netherlands and Taiwan). A portion of CompX's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar, the euro and the New Taiwan dollar. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of CompX's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. Excluding the effect of currency, component products sales decreased 6% in the third quarter of 2002 as compared to the same period in 2001, and operating income decreased 72%. Excluding the effect of currency, component products sales decreased 9% in the first nine months of 2002 as compared to the same period in 2001, and operating income decreased 62%.

CompX currently expects to record a pre-tax charge in the fourth quarter of 2002 of between $1.7 million and $2.2 million, the majority of which will be non-cash in nature, related to the retooling of one if its manufacturing facilities. The cost savings resulting from this retooling are currently expected to begin to be reflected in CompX's operating results in the first quarter of 2003. CompX is also finalizing a plan to consolidate its two Canadian facilities into one facility. A final decision on implementing this activity is expected prior to the end of 2002, and if implemented such consolidation would be expected to be substantially completed by the end of the first quarter of 2003. CompX is also reviewing other facility rationalizations. These activities could result in charges for asset impairment and other related costs in addition to the charge referred to above.

CompX currently expects that soft market conditions will continue in the office furniture market, the primary end-use market for CompX's products. As a result, sales volumes are expected to remain at depressed levels for at least the remainder of the first half of 2003, and competitive pricing pressures are also expected to continue. In addition, the worldwide steel price increase that followed the steel tariff imposed this year by the United States government is expected to continue to negatively impact component products margins on CompX's slide and ergonomic products, where steel is the primary raw material. CompX has initiated price increases on certain products and will continue to focus on cost improvement initiatives in order to minimize the impact of lower sales to the office furniture industry and to develop value-added customer relationships to improve its operating results.

Waste Management

	Three months ended September 30,		Nine months ended September 30,	
	2001	2002	2001	2002
	(In millions)			
Net sales	$ 4.0	$ 1.3	$ 10.0	$ 5.2
Operating loss	(3.1)	(2.5)	(10.7)	(6.6)

Waste Control Specialists' sales decreased in the third quarter and first nine months of 2002 compared to the same periods in 2001 due primarily to the effect of weak demand for its waste management services. Waste management's operating losses declined during 2002 as the effect of certain cost controls implemented in 2002 more than offset the effects of the decline in sales.

Waste Control Specialists currently has permits which allow it to treat, store and dispose of a broad range of hazardous and toxic wastes, and to treat and store a broad range of low-level and mixed radioactive wastes. The waste management industry currently is experiencing a relative decline in the number of environmental remediation projects generating wastes. In addition, efforts on the part of generators to reduce the volume of waste and/or manage wastes onsite at their facilities also has resulted in weak demand for Waste Control Specialists waste management services. These factors have led to reduced demand and increased downward price pressure for waste management services. While Waste Control Specialists' believes its broad range of permits for the treatment and storage of low-level and mixed radioactive waste streams provides certain competitive advantages, a key element of Waste Control Specialists' long-term strategy to provide "one-stop shopping" for hazardous, low-level and mixed radioactive wastes includes obtaining additional regulatory authorizations for the disposal of a broad range of low-level and mixed radioactive wastes.

Waste Control Specialists is continuing its attempts to increase its sales volumes from waste streams that conform to permits it currently has in place. Waste Control Specialists is also continuing to identify certain waste streams, and attempt to obtain modifications to its current permits, that would allow for treatment, storage and disposal of additional types of wastes. The ability of Waste Control Specialists to achieve increased sales volumes of these waste streams, together with improved operating efficiencies through further cost reductions and increased capacity utilization, are important factors in Waste Control Specialists' ability to achieve improved cash flows. The Company currently believes Waste Control Specialists can become a viable, profitable operation. However, there can be no assurance that Waste Control Specialists' efforts will prove successful in improving its cash flows. Valhi has in the past, and may in the future, consider strategic alternatives with respect to Waste Control Specialists. Depending on the form of the transaction that any such strategic alternative might take, there can be no assurance that the Company would not report a loss with respect to such a transaction.

TIMET

Tremont accounts for its interest in TIMET by the equity method. Tremont's equity in earnings (losses) of TIMET differs from the amounts that would be expected by applying Tremont's ownership percentage to TIMET's separately-reported earnings because of the effect of amortization of purchase accounting adjustments made by Tremont in conjunction with Tremont's acquisitions of its interests in TIMET. Amortization of such basis differences generally increases earnings (or reduces losses) attributable to TIMET as reported by Tremont.

	Three months ended September 30,		Nine months ended September 30,	
	2001	2002	2001	2002
	(In millions)			
TIMET historical:				
Net sales	$126.4	$ 82.8	$370.5	$281.5
Operating income (loss):				
Boeing settlement, net	$ --	$ --	$ 62.7	$ --
Fixed asset impairment	--	--	(10.8)	--
Tungsten accrual	--	--	(3.8)	--
Boeing take-or-pay income	--	10.5	--	12.7
Other, net	9.9	(14.8)	8.7	(28.8)
	9.9	(4.3)	56.8	(16.1)
Impairment of convertible preferred securities	--	--	--	(27.5)
Other general corporate, net	1.3	(.9)	5.3	(1.7)
Interest expense	(.7)	(.9)	(3.3)	(2.4)
	10.5	(6.1)	58.8	(47.7)
Income tax benefit (expense)	(3.7)	.5	(20.7)	1.3
Minority interest	(2.5)	(3.5)	(7.8)	(11.2)
Income (loss) before cumulative effect of change in accounting principle	$ 4.3	$ (9.1)	$ 30.3	$(57.6)
Equity in earnings (losses) of TIMET	$ 3.2	$(17.2)	$ 16.2	$(31.7)

Tremont periodically evaluates the net carrying value of its long-term assets, including its investment in TIMET, to determine if there has been any decline in value below its amortized cost basis that is other than temporary and would, therefore, require a write-down which would be accounted for as a realized loss. At September 30, 2002, after considering what it believes to be all relevant factors, including, among other things, TIMET's recent NYSE stock prices, and TIMET's operating results, financial position, estimated asset values and prospects, Tremont recorded a $15.7 million impairment provision for an other than temporary decline in value of its investment in TIMET. Such impairment provision is reported as part of the Company's equity in losses of TIMET in the third quarter of 2002. After that writedown, at September 30, 2002, Tremont's net carrying value of its investment in TIMET was $2.25 per share compared to a NYSE market price at that date of $1.66 per share. In determining the amount of the impairment charge, Tremont considered, among other things, recent ranges of TIMET's NYSE market price and current estimates of TIMET's future operating losses that would further reduce Tremont's carrying value of its investment in TIMET as it records additional equity in losses of TIMET. Tremont will continue to monitor and evaluate the value of its investment in TIMET. In the event Tremont determines any further decline in value of its investment in TIMET below its net carrying value has occurred which is other than temporary, Tremont would report an additional write-down at that time.

Excluding the effect of TIMET's previously-reported legal settlement with Boeing, its impairment charge related to certain equipment, its accruals for the tungsten matter discussed below and the effect of the Boeing take-or-pay income, TIMET reported lower sales and worse operating results in the third quarter and first nine months of 2002 compared to the same periods in 2001. During the third quarter of 2002, TIMET's mill and melted products sales volumes decreased 33% and 54%, respectively, compared to the same period in 2001. During the first nine months of 2002, TIMET's mill products sales volumes decreased 26% compared to the same period in 2001, and its sales volumes of melted products decreased 45%. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, TIMET's average selling prices for mill products in the third quarter of 2002 were 1% lower compared to the third quarter of 2001, while selling prices for its melted products decreased 5%. TIMET's average selling prices for mill products in the first nine months of 2002 were 4% higher compared to the same period in 2001, while selling prices for its melted products increased 2%. TIMET's operating income comparisons were favorably impacted by TIMET ceasing to periodically amortize goodwill recognized on its separate-company books, which amounted to approximately $1.1 million and $3.5 million in the third quarter and first nine months of 2001 (none in 2002). TIMET's results in 2002 were negatively impacted by an increase in TIMET's provision for excess inventories and severance costs related to TIMET's program to reduce its global employment levels. TIMET's operating income comparisons were also negatively impacted in 2002 by lower operating rates in 2002, with estimated capacity utilization declining from 85% to 45% in the third quarter of 2002 compared to the third quarter of 2001 (year-to-date decline from 75% to 55%).

Under TIMET's previously-reported amended long-term agreement with Boeing, Boeing has advanced TIMET $28.5 million for 2002, and Boeing is required to advance TIMET $28.5 million annually from 2003 through 2007. The agreement is structured as a take-or-pay agreement such that Boeing, beginning in calendar year 2002, will forfeit a proportionate part of the $28.5 million annual advance, or effectively $3.80 per pound, in the event that its orders for delivery for such calendar year are less than 7.5 million pounds. TIMET can only be required, however, to deliver up to 3 million pounds per quarter. Based on TIMET's actual deliveries to Boeing of approximately 1.2 million pounds during the first nine months of 2002 (including 300,000 pounds during the third quarter) and TIMET's contractual maximum obligation of delivering 3 million pounds during the remainder of 2002, TIMET recognized income of $10.5 million and $12.7 million in the third quarter and first nine months of 2002, respectively, related to the take-or-pay provisions for the 3.3 million pounds of material that TIMET is no longer obligated to provide to Boeing under the agreement. TIMET currently expects to recognize about $10 million of additional income during the fourth quarter of 2002 related to the take-or-pay provisions of the contract. These earnings related to the take-or-pay provisions distort TIMET's operating income percentages as there is no corresponding amount reported in TIMET's sales.

TIMET's results in the first nine months of 2002 also includes a $27.5 million first quarter provision for an other than temporary impairment of TIMET's investment in the convertible preferred securities of Special Metals Corporation ("SMC"). In addition, TIMET's effective income tax rate in the 2002 periods varies from the 35% U.S. federal statutory income tax rate because TIMET has concluded it is not currently appropriate to recognize an income tax benefit related to its U.S. losses under the "more-likely-than-not" recognition criteria.

As previously reported, in March 2001, TIMET was notified by one of its customers that a product manufactured from standard grade titanium produced by TIMET contained what has been confirmed to be a tungsten inclusion. TIMET accrued $3.3 million during 2001, and an additional $200,000 during the second quarter of 2002, for its best estimate of the most likely amount of loss it will incur with respect to this matter. However, it does not represent the maximum possible loss, which TIMET is not presently able to estimate, and the amount accrued may be periodically revised in the future as more facts become known. As of September 30, 2002, TIMET has received claims aggregating approximately $5 million, and TIMET had settled claims totaling $500,000. Pending claims are being investigated and negotiated, and TIMET believes certain of the claims are without merit and can be settled for less than the amount of the claim. There is no assurance that all potential claims have yet been submitted to TIMET. TIMET has filed suit seeking full recovery from its silicon supplier for any liability TIMET might incur, although no assurances can be given that TIMET will ultimately be able to recover all or any portion of such amounts. TIMET has not recorded any recoveries related to this matter as of September 30, 2002.

The economic slowdown that began in 2001 in the economies of the U.S. and other regions of the world combined with the events of September 11, 2001 have resulted in the major commercial airframe and jet engine manufacturers substantially reducing their forecast of engine and aircraft deliveries over the next few years and their production levels in 2002. TIMET expects that aggregate industry mill product shipments will decrease in 2002 by approximately 18% to about 45,000 metric tons and that demand for mill products for the commercial aerospace sector could decline by up to 40% in 2002, primarily due to a combination of reduced aircraft production rates and excess inventory accumulated throughout the aerospace supply chain. Excess inventory accumulation typically leads to order demand for titanium products falling below actual consumption. Based on The Airline Monitor's July 2002 forecast and TIMET's projected changes in supply chain inventory levels, TIMET anticipates a cyclical trough in titanium demand may occur in 2003 with a gradual recovery beginning thereafter. Adverse world events, including terrorist activities and conflicts in the Middle East or elsewhere, could have a significant adverse impact on the financial health of commercial airlines and economic growth in the U.S. and other regions of the world. Any such events, which are not contemplated in TIMET's outlook, could prolong and exacerbate the current commercial aerospace slowdown.

Although the current business environment makes it particularly difficult to predict TIMET's future financial performance, TIMET expects its sales revenue for the fourth quarter of 2002 to range between $75 million and $85 million. Mill product sales volumes are expected to be about 2,200 metric tons with melted product shipments of about 700 metric tons. Interest expense should be about $1 million while minority interest on TIMET's Convertible Preferred Securities should approximate $3.3 million. With these estimates, TIMET expects an operating loss in the fourth quarter of 2002 before special items of between $5 million and $10 million, and a net loss before special items of between $10 million and $15 million.

TIMET expects its sales for all of 2002 will range from $360 million to $370 million, reflecting the combined effects of decreases in sales volumes, softening of market selling prices and changes in customer and product mix. Mill product sales volumes are expected to decline approximately 25% relative to 2001 to about 9,000 metric tons, and melted product sales volumes are expected to decline by 40% to about 2,600 metric tons. The sales volumes decline in 2002 is principally driven by an anticipated reduction in TIMET's commercial aerospace sales volumes of about 40% compared to 2001, partly offset by sales volume growth to other markets. TIMET expects its selling prices on new orders for titanium products will continue to soften throughout the remainder of 2002. Overall, TIMET currently expects to report an operating loss before special items for all of 2002 of between $25 million and $30 million in 2002, and a net loss before special items of between $45 million and $50 million.

As a consequence of uncertainties surrounding both the titanium and commercial aerospace industries and broader economic conditions, TIMET believes assessments of the recoverability of its long-lived assets, that may also result in special charges for asset impairments, could occur in the balance of 2002. Such potential future charges, if any, could be material to TIMET.

TIMET's outlook for 2003 is for a continuing difficult business environment reflecting the severe downturn in the commercial aerospace industry and sluggish economy. The commercial aerospace sector is the major source of demand for TIMET's products. Although workforce reduction actions undertaken by TIMET in 2002 are expected to result in annual savings of between $12 million and $15 million, TIMET's early expectations are that its sales and financial results during 2003 may be similar to 2002. However, TIMET is conscious of the meaningful risks posed by the continuing war on terrorism, and potential conflicts in the Middle East, Iraq and elsewhere. These and other adverse world events could prolong and exacerbate the downturn in the commercial aerospace industry and have broader economic consequences.

In addition to its agreement with Boeing, TIMET has long-term supply agreements with certain other major aerospace customers, including, but not limited to, Rolls-Royce plc, United Technologies Corporation (Pratt & Whitney and related companies) and Wyman-Gordon Company (a unit of Precision Castparts Corporation). These agreements initially became effective in 1998 and 1999 and expire in 2007 through 2008, subject to certain conditions. The agreements generally provide for (i) minimum market shares of the customers' titanium requirements or firm annual volume commitments and (ii) fixed or formula-determined prices generally for at least the first five years of the contract term. Generally, the agreements require TIMET's service and product performance to meet specified criteria, and also contain a number of other terms and conditions customary in transactions of these types. In certain events of nonperformance by TIMET, the agreements may be terminated early. Additionally, under a group of related agreements (which group represents approximately 15% of TIMET's 2001 sales revenue), which currently have fixed prices that convert to formula-derived prices in 2004, the customer may terminate the agreement as of the end of 2003 if the effect of the initiation of formula-derived pricing would cause such customer "material harm." If any of such agreements were to be terminated by the customer on this basis, it is possible that some portion of the business represented by that agreement would continue on a non-agreement basis. However, the termination of one or more of such agreements by the customer in such circumstances could result in a material and adverse effect on TIMET's business, results of operations, consolidated financial condition or liquidity.

In September 2002, TIMET entered into a long-term agreement, effective from January 1, 2002 through December 31, 2007, for the purchase of titanium sponge. This agreement replaced and superceded a previous agreement entered into in by TIMET in 1997. The new agreement requires annual minimum purchases by TIMET of approximately $10 million.

General corporate and other items

General corporate interest and dividend income. General corporate interest and dividend income decreased in the third quarter and first nine months of 2002 compared to the same periods in 2001 due to a lower average level of invested funds and lower average yields. Aggregate general corporate interest and dividend income is currently expected to continue to be lower during the remainder of 2002 compared to the same period in 2001 due primarily to a lower amount of funds available for investment and lower average interest rates.

Legal settlement gains. The legal settlement gains in the first nine months of 2002 relate to NL's settlements with certain former insurance carriers. See Note 12 to the Consolidated Financial Statements. These settlements, similar to certain previously-reported NL legal settlements recognized during 2000 and 2001, resolved court proceedings in which NL had sought reimbursement from the carriers for legal defense costs and indemnity coverage for certain of its environmental remediation expenditures. No further material settlements relating to litigation concerning environmental remediation insurance coverages are expected.

Securities transactions. Securities transactions gains in the first nine months of 2002 relate to the first quarter disposal of certain shares of Halliburton Company common stock held by the Company that were classified as trading securities. See Notes 3 and 12 to the Consolidated Financial Statements. The remaining Halliburton shares held by the Company at September 30, 2002 were held in escrow for the benefit of the holders of the Company's LYONs debt obligation, which are exchangeable at any time, at the option of the holder, for such Halliburton shares. In October 2002, following the redemption of substantially all of the remaining LYONs, substantially all of such Halliburton shares were released to the Company from escrow and were sold in market transactions aggregate proceeds of $9.5 million. The Company expects to report a securities transaction gain in the fourth quarter of 2002 of $4.5 million related to the sale of these Halliburton shares.

Other general corporate income items. The $6.3 million foreign currency transaction gain in the second quarter of 2002 relates to the extinguishment of certain intercompany indebtedness of NL. The gain on disposal of fixed assets relates to the sale of certain real estate held by Tremont.

General corporate expenses. Net general corporate expenses in the third quarter and first nine months of 2002 were higher than the same periods in 2001, as higher environmental and legal expenses of NL were only partially offset by the effect of lower compensation-related expenses of Tremont. 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 is being recognized as a component of general corporate income (expense) ratably over the five-year non-compete period ending in the first quarter of 2003 ($3 million recognized in the first nine months of 2001 and 2002). See Note 12 to the Consolidated Financial Statements. Net general corporate expenses in the remainder of 2002 are currently expected to continue to be somewhat higher compared to the same periods in 2001.

Interest expense. Interest expense in the first nine months of 2002 includes $2.0 million related to the second quarter loss on the early extinguishment of NL's Senior Secured Notes. See Note 9 to the Consolidated Financial Statements. Interest expense declined in the first nine months of 2002 compared to the same periods in 2001 due primarily to lower average levels of outstanding indebtedness as well as lower average U.S. variable interest rates. Assuming interest rates do not increase significantly from year-end 2001 levels, interest expense in the remainder of 2002 is currently expected to continue to be somewhat lower compared to the same periods in 2001 due to lower anticipated interest rates on variable-rate borrowings in the U.S. and a lower average level of outstanding debt.

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 11 to the Consolidated Financial Statements. 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. In addition, the absolute level of pre-tax earnings can impact the Company's effective income tax rate due to income items included in pre-tax earnings which are not subject to tax or expense items for which there is no tax benefit.

During the first nine months of 2002, NL reduced its deferred income tax asset valuation allowance by approximately $2.7 million, primarily as a result of utilization of certain income tax attributes for which the benefit had not previously been recognized. In this regard, no income tax was recognized on NL's

$6.3 million general corporate foreign currency transaction gain, as NL offset such income tax by utilizing certain income tax attributes, the benefit of which had not previously been recognized. During the first nine months of 2002, Tremont increased its deferred income tax asset valuation allowance (at the Valhi consolidated level) by a net $3.6 million primarily because Tremont concluded certain tax attributes do not currently meet the "more-likely-than-not" recognition criteria.

As discussed in Note 14 to the Consolidated Financial Statements, effective January 1, 2002, the Company no longer recognizes periodic amortization of goodwill. Under GAAP, generally there is no income tax benefit recognized for financial reporting purposes attributable to goodwill amortization. Accordingly, ceasing to periodically amortize goodwill beginning in 2002 impacted the Company's overall effective income tax rate in 2002 as compared to 2001.

At September 30, 2002, NL had the equivalent of approximately $371 million of income tax loss carryforwards in Germany with no expiration date. However, NL has provided a deferred tax valuation allowance against substantially all of these income tax loss carryforwards because NL currently believes they do not meet the "more-likely-than-not" recognition criteria. The German federal government has proposed certain changes to its income tax law, including certain changes that would impose limitations on utilization of income tax loss carryforwards, that as proposed would become effective January 1, 2003. Since NL has provided a deferred income tax asset valuation allowance against substantially all of these German tax loss carryforwards, any limitation on NL's ability to utilize such carryforwards resulting from enactment of any of these proposals would not have a material impact on NL's net deferred income tax liability. However, if enacted, the proposed changes could have a material impact on NL's ability to fully utilize its German income tax loss carryforwards, which would significantly affect the Company's future income tax expense and future German income tax payments. NL does not currently expect any enactment of these proposals would occur prior to January 1, 2003.

Minority interest. See Note 13 to the Consolidated Financial Statements. Minority interest in NL's subsidiaries relates principally to NL's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS"). EMS was established in 1998, at which time EMS contractually assumed certain of NL's environmental liabilities. EMS' earnings are based, in part, upon its ability to favorably resolve these liabilities on an aggregate basis. The shareholders of EMS, other than NL, actively manage the environmental liabilities and share in 39% of EMS' cumulative earnings. NL continues to consolidate EMS and provides accruals for the reasonably estimable costs for the settlement of EMS' environmental liabilities, as discussed below.

As previously reported, Waste Control Specialists was formed by Valhi and another entity in 1995. Waste Control Specialists assumed certain liabilities of the other owner and such liabilities exceeded the carrying value of the assets contributed by the other owner. Since its inception in 1995, Waste Control Specialists has reported aggregate net losses. Consequently, all of Waste Control Specialists aggregate, inception-to-date net losses have accrued to the Company for financial reporting purposes, and all of Waste Control Specialists future net income or net losses will also accrue to the Company until Waste Control Specialists reports positive equity attributable to the other owner. Accordingly, no minority interest in Waste Control Specialists' net assets or net earnings (losses) is reported during the first nine months of 2001 and 2002.

In July 2002, Valhi proposed a merger of Valhi and Tremont pursuant to which stockholders of Tremont (including NL, to the extent of NL's ownership interest in the Tremont shares held by Tremont Group), other than Valhi, would receive shares of Valhi common stock for each Tremont share held. See Note 2 to the Consolidated Financial Statements. Tremont formed a special committee of its board of directors consisting of directors unrelated to Valhi to review the proposal. The special committee retained their own independent financial and legal advisors. After performing due diligence and evaluating the merits of Valhi's proposal, the special committee and their advisors negotiated the financial and other terms of a definitive merger agreement with Valhi. In November 2002, Tremont, based upon the recommendation of their special committee, and Valhi reached an agreement on the terms of the definitive merger agreement in which, among other things, the Tremont stockholders referred to above would receive 3.4 shares of Valhi common stock for each share of Tremont common stock held in a tax-free exchange. The transaction has been approved by the board of directors of both Valhi and Tremont. The financial advisors to the special committee have issued an opinion to the special committee stating that the exchange ratio is fair, from a financial point of view, to Tremont stockholders other than Valhi and its affiliates. The transaction is subject to customary closing conditions and will require approval by a majority of the outstanding shares of Tremont. Tremont Group has indicated that it intends to vote its shares in favor of the merger. Valhi will file a registration statement with the SEC in connection with the transaction. The date of the Tremont stockholders meeting will be established as soon as practical following completion of the filing with the SEC. Once the merger is completed, the Company will no longer report minority interest in Tremont's net assets or net earnings (losses).

Accounting principles not yet adopted. See Note 15 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES:

Consolidated cash flows

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.

Certain items included in the determination of net income are non-cash, and therefore such items have no impact on cash flows from operating activities. Non-cash items included in the determination of net income include depreciation, depletion and amortization expense, non-cash interest expense, asset impairment charges and unrealized securities transactions gains and losses. Non-cash interest expense relates principally to Valhi and NL and consists of amortization of original issue discount on certain indebtedness and amortization of deferred financing costs. In addition, substantially all of the proceeds resulting from NL's legal settlements in 2001 are shown as restricted cash, and therefore such settlements had no impact on cash flows from operating activities.

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

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

Investing and financing activities. Approximately 64% of the Company's consolidated capital expenditures in the first nine months of 2002 relate to NL, 35% relate to CompX and substantially all of the remainder relate to Waste Control Specialists. Approximately $2.6 million of NL's capital expenditures relates to the ongoing reconstruction of NL's Leverkusen, Germany TiO2 production facility that was damaged by fire during 2001. NL expects such reconstruction will be completed by the end of 2002. During the first nine months of 2002, NL purchased $10.6 million of its common stock in market transactions, and NL purchased the EWI insurance brokerage services operations for $9 million. See Note 2 to the Consolidated Financial Statements.

During the first nine months of 2002, (i) Valhi repaid a net $1.9 million of its short-term demand loans from Contran, (ii) CompX repaid a net $18 million of its revolving bank credit facility, (iii) NL repaid all of its existing short-term notes payable denominated in euros and Nowegian kroner ($53 million when repaid) using primarily proceeds from borrowings ($39 million) under KII's new revolving bank credit facility, (iv) NL redeemed $194 million principal amount of its Senior Secured Notes, primarily using the proceeds from the new euro 285 million ($280 million when issued) borrowing of KII and (v) NL repaid an aggregate of euro 13 million ($12 million when repaid) of borrowings under KII's revolving bank credit facility. See Note 9 to the Consolidated Financial Statements.

At September 30, 2002, unused credit available under existing credit facilities approximated $195.4 million, which was comprised of $69 million available to CompX under its revolving credit facility, $90 million available to NL (primarily under KII's new revolving credit facility and a new $50 million facility collateralized by certain of NL's U.S. assets) and $36.4 million available to Valhi under its revolving bank credit facility. Provisions contained in certain of the Company's credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity for reasons other than payment defaults or defaults from failing to comply with typical financial covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. The terms of Valhi's revolving bank credit facility could require Valhi to either reduce outstanding borrowings or pledge additional collateral in the event the fair value of the existing pledged collateral falls below specified levels. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. Other than operating leases, neither Valhi nor any of its subsidiaries or affiliates are parties to any off-balance sheet financing arrangements.

Chemicals - NL Industries

At September 30, 2002, NL had cash, cash equivalents and marketable debt and other securities of $243 million, including restricted balances of $72 million, and NL had $90 million available for borrowing under its existing credit facilities.

NL's board of directors has authorized NL to purchase up to an aggregate of 6.0 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time, including 1.5 million shares authorized by NL's board in October 2002. Through September 30, 2002, NL had purchased 4 million of its shares pursuant to such authorizations for an aggregate of $64.2 million, including approximately 719,000 shares purchased during the first nine months of 2002 for an aggregate of $10.6 million.

In addition to its regular quarterly dividend of $.20 per share, in November 2002, NL's board of directors declared an additional dividend of $2.50 per share, payable in December 2002. Based on the approximately 47.7 million NL shares outstanding as of November 12, 2002, NL's special dividend would aggregate approximately $119 million, including $75.3 million that will be paid to Valhi and $25.5 million that will be paid to Tremont.

In March 2002, NL redeemed $25 million principal amount of its Senior Secured Notes, and in June 2002 NL redeemed the remaining $169 million principal amount of such Senior Secured Notes. See Note 9 to the Consolidated Financial Statements.

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's and EMS' 1998 U.S. federal income tax returns are currently being examined by the U.S. tax authorities, and NL and EMS have granted extensions of the statute of limitations for assessments until September 30, 2003. Based on the course of the examination to date, NL anticipates that the U.S. tax authorities may propose a substantial tax deficiency. NL has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately euro 10.4 million ($10 million at September 30, 2002). NL has filed protests to the assessments for the years 1991 to 1997. NL is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments are without merit. 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 and tax 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 ("PRP"), or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by 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, including sites for which EMS has contractually assumed NL's obligation. NL believes it has provided adequate accruals ($100 million at September 30, 2002) 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 $140 million. NL's estimates of such liabilities have not been discounted to present value, and other than certain previously-reported settlements with respect to certain of NL's former insurance carriers, NL has not recognized any 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 allegedly arising from the sale of lead pigments and lead-based paints, including cases in which plaintiffs purport to represent a class and cases brought on behalf of government entities. 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 the precedent set by 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, and bills which would revive actions currently barred by statutes of limitations. 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 debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, NL has in the past and may in the future seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, repurchase shares of its common stock, modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, NL may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals industry or other industries, as well as the acquisition of interests in, and loans to, related entities. In the event of any such transaction, NL may consider using its available cash, issuing its equity securities or refinancing or increasing its indebtedness to the extent permitted by the agreements governing NL's existing debt.

Component products - CompX International

CompX expects to replace its existing revolving bank credit facility prior to its expiration in February 2003 with a new credit facility. CompX anticipates voluntarily reducing the new facility from $100 million to $50 million in line with CompX's current credit needs. A $50 million facility is currently expected to be adequate to meet CompX's liquidity and working capital requirements. CompX expects the new facility will be secured and bear interest at a higher rate than its existing facility, which in part reflects current market conditions. There can be no assurance that CompX will be able to successfully negotiate a replacement credit facility, or that the terms of any replacement facility obtained will be on the terms as described above.

Certain of CompX's sales generated by its Canadian operations are denominated in U. S. dollars. To manage a portion of the foreign exchange rate risk associated with such receivables or similar exchange rate risk associated with future sales, CompX periodically enters into short-term forward currency exchange contracts. At each balance sheet date, any such outstanding currency forward contracts are marked-to-market with any resulting gain or loss recognized in income currently. These contracts are not accounted for as hedging instruments under GAAP. At September 30, 2002, CompX held contracts to exchange $9 million for an equivalent amount of Canadian dollars at an average exchange rate of Cdn. $1.57 per U.S. dollar. Such contracts mature through January 2003. The actual exchange rate at September 30, 2002 was Cdn. $1.58 per U.S. dollar, and the estimated fair value of such contracts was not material.

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

Waste management - Waste Control Specialists

At September 30, 2002, Waste Control Specialists' indebtedness, as amended, consists principally of (i) a $4.6 million term loan due in November 2004 and (ii) $16.7 million of other borrowings under a $17.5 million revolving credit facility that, as amended, also matures in 2004. All of such indebtedness is owed to a wholly-owned subsidiary of Valhi, and is therefore eliminated in the Company's consolidated financial statements. Waste Control Specialists may borrow additional amounts during the remainder of 2002 under its $17.5 million revolving credit facility.

TIMET

At September 30, 2002, TIMET had net debt of approximately $14.1 million ($18.7 million of debt and $4.6 million of cash and equivalents).

As previously-reported, in March 2002 SMC and its U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As a result, TIMET, with the assistance of an external valuation specialist, undertook a further assessment of its investment in SMC and recorded an additional $27.5 million impairment charge to general corporate expense in the first quarter of 2002 for an other than temporary decline in the fair value of its investment in SMC, reducing TIMET's carrying amount of its investment in SMC to zero.

TIMET is involved in various environmental, contractual, product liability and other claims, disputes and litigation incidental to its business including those discussed above. While TIMET's management, including internal counsel, currently believes that the outcome of these matters, individually and in the aggregate, will not have a material adverse effect on TIMET's financial position, liquidity or overall trends in results of operations, all such matters are subject to inherent uncertainties. Were an unfavorable outcome to occur in any given period, it is possible that it could have a material adverse impact on TIMET's results of operations or cash flows in a particular period.

At September 30, 2002, TIMET had accrued an aggregate of $3.7 million for environmental matters, including the previously-reported matter relating to the site at its Nevada facility. TIMET records liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future expenditures are not discounted to their present value. It is not possible to estimate the range of costs for certain sites. The imposition of more stringent standards or requirements under environmental laws or regulations, the results of future testing and analysis undertaken by TIMET at its operating facilities, or a determination that TIMET is potentially responsible for the release of hazardous substances at other sites, could result in expenditures in excess of amounts currently estimated to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

At September 30, 2002, TIMET had accrued an aggregate of $600,000 for expected costs related to various legal proceedings. TIMET records liabilities related to legal proceedings when estimated losses, including estimated legal fees, are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future costs are not discounted to their present value. It is not possible to estimate the range of costs for certain matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to matters as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional legal proceedings will not arise in the future.

TIMET is the primary obligor on two worker compensation bonds issued on behalf of a former subsidiary of TIMET. Each of the bonds has a maximum obligation of $1.5 million. The bonds were provided as part of the conditions imposed upon the former subsidiary in order to self-insure its workers compensation obligations. In July 2001, the former subsidiary filed for Chapter 11 bankruptcy protection. During the third quarter of 2002, TIMET received notices that the issuers of the bonds have been required to make payments on one of the bonds in respect to certain of these claims and have requested reimbursement from TIMET for claims paid through September 17, 2002 in the amount of approximately $.3 million, which TIMET has accrued as of September 30, 2002. In addition, TIMET may be liable for up to an additional $1.2 million on this bond if further claims on this bond are filed. Based upon current loss projections, TIMET anticipates payouts of at least an additional $.6 million under the bond and has accrued such amount at September 30, 2002. At this time the insurance company has not paid any claims under the other bond, and no such payments are currently anticipated. Accordingly, no accrual has been recorded for potential claims that could be filed under the other bond. TIMET may revise its estimated liability under these bonds in the future.

In October 2002, TIMET amended its existing U.S. asset-based revolving credit agreement extending the maturity date to February 2006. Under the terms of the amendment, borrowings are limited to the lesser of $90 million or a formula-determined borrowing base derived from the value of TIMET's accounts receivable, inventory and equipment. This facility requires TIMET's U.S. daily cash receipts to be used to reduce outstanding borrowings, which may then be reborrowed, subject to the terms of the agreement. Borrowings are collateralized by substantially all of TIMET's U.S. assets. The credit agreement prohibits the payment of dividends on TIMET's convertible preferred securities if excess availability, as defined, is less than $25 million, limits additional indebtedness, prohibits the payment of dividends on TIMET's common stock if excess availability is less than $40 million, requires compliance with certain financial covenants and contains other covenants customary in lending transactions of this type. Excess availability is defined as unused borrowing availability less certain contractual commitments such as letters of credit. As of the October 2002 amendment date, unused borrowing availability was approximately $69 million.

TIMET's U.S. credit agreement allows the lender to modify the borrowing base formulas at its discretion, subject to certain conditions. During the second quarter of 2002, TIMET's lender elected to exercise such discretion and modified TIMET's borrowing base formulas, which reduced the amount that TIMET could borrow against its inventory and equipment by approximately $7 million. In the event the lender exercises such discretion in the future, such event could have a material adverse impact on TIMET's liquidity.

TIMET's United Kingdom subsidiary also has a credit agreement that provides for borrowings limited to the lesser of pound sterling 30 million or a formula-determined borrowing base derived from the value of accounts receivable, inventory and equipment. As of September 30, 2002, the outstanding balance of this facility was approximately $1.3 million with unused borrowing availability was approximately $37 million.

TIMET also has overdraft and other credit facilities at certain of its other European subsidiaries. These facilities accrue interest at various rates and are payable on demand. Unused borrowing availability as of September 30, 2002 under these facilities was approximately $13 million.

In September 2002, Moody's Investor Service downgraded its rating on TIMET's convertible preferred securities to Caa2 from B3, and Standard & Poor's Ratings Services lowered its rating on such securities to CCC- from CCC. S&P has further indicated that it will lower its credit rating on such securities to D after the dividend payment due on December 1, 2002 is actually deferred. TIMET's ability to obtain additional capital in the future, or its ability to obtain capital on terms TIMET deemed appropriate, could be negatively affected by these downgrades.

In October 2002, TIMET exercised its right to defer future dividend payments on its convertible preferred securities for a period of up to 20 consecutive quarters. Dividends will continue to accrue and interest will continue to accrue at the coupon rate on the principal and unpaid dividends. This deferral is effective for TIMET's December 1, 2002 scheduled dividend payment. TIMET may consider resuming payment of dividends on the convertible preferred securities once the outlook for TIMET's results from operations improves substantially`. Since TIMET exercised its right to defer dividend payments, it is unable to, among other things, pay dividends on or reacquire its capital stock during the deferral period.

In November 2002, TIMET announced that its board of directors had unanimously approved a reverse split of TIMET's common stock at a ratio ranging from one-for-eight up to and including one-for-ten. The reverse stock split proposal will be submitted to TIMET's stockholders for approval at an upcoming special meeting called for that purpose. TIMET will announce the date, time and place of its special meeting once it has been determined. Assuming stockholder approval, the TIMET board of directors will determine the applicable reverse split ratio and implement the reverse stock split at that ratio, but will retain the discretion not to proceed with this transaction if it determines that it is not in the best interest of TIMET or its stockholders. Implementing such TIMET reverse stock split would have no financial statement impact to the Company, and Tremont's ownership interest in TIMET would not change as a result of the reverse stock split. TIMET also announced that its board of directors also approved a reduction in the number of shares of TIMET common stock that it is authorized to issue from 100 million to 10 million. Such reduction, also subject to TIMET stockholder approval, would become effective upon implementation of the reverse split.

TIMET 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, TIMET has in the past and may in the future seek to raise additional capital, modify its common and preferred dividend policies, restructure ownership interests, incur, refinance or restructure indebtedness, repurchase shares of capital stock, sell assets, or take a combination of such steps or other steps to increase or manage its liquidity and capital resources. In the normal course of business, TIMET investigates, evaluates, discusses and engages in acquisition, joint venture, strategic relationship and other business combination opportunities in the titanium, specialty metal and other industries. In the event of any future acquisition or joint venture opportunities, TIMET may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

Tremont Corporation

Tremont is primarily a holding company which, at September 30, 2002, owned approximately 39% of TIMET and 21% of NL. At September 30, 2002, the market value of the 12.3 million shares of TIMET and the 10.2 million shares of NL held by Tremont was approximately $20 million and $148 million, respectively.

As previously reported, in July 2000 Tremont entered into a voluntary settlement agreement with the Arkansas Department of Environmental Quality and certain other PRPs pursuant to which Tremont and the other PRPs will undertake certain investigatory and interim remedial activities at a former mining site located in Hot Springs County, Arkansas. Tremont currently believes that it has accrued adequate amounts ($4.0 million at September 30, 2002) to cover its share of probable and reasonably estimable environmental obligations for these activities. No reasonable estimate can currently be made of any final remediation measures which might be imposed.

Tremont has received a demand from Halliburton to assume the defense of, and indemnify Halliburton with respect to, the alleged liability of Atlas Bradford Corporation as one of several PRPs in connection with a Texas State Superfund Site known as the Force Road Oil and Vacuum Truck Company Site located in Arcola, Texas. Atlas Bradford allegedly disposed of wastes from its Bryan, Texas petroleum services operations at the Force Road Site. As part of a 1990 restructuring resulting in the separation of Tremont from Baroid Corporation, a wholly-owned subsidiary of Tremont received title to the Bryan property. Halliburton is the successor to Baroid. Tremont has declined to assume the defense of the Force Road Site matter and has rejected Halliburton's indemnity claim with respect thereto. Tremont believes that any liability in the Force Road Site matter represents an obligation retained by Baroid in connection with its historical petroleum services business. A subsidiary of Halliburton, along with 15 other respondents, executed an Agreed Administrative Order with the Texas Natural Resource Conservation Commission dated August 29, 2002, pursuant to which the Respondents agreed to perform a site investigation and feasibility study of the site. Tremont has not been provided any information or basis to believe that it might have any liability for the Force Road Site, but has been informed that present cost estimates for the site investigation are currently expected to be less than $1 million. Tremont intends to vigorously defend itself against any and all allegations of such liability in this matter. Tremont presently believes, based upon the relatively small volume of material disposed of at the site from the Bryan, Texas operations, that, any associated liability would not be material. Tremont sold the Bryan property in 1994. Tremont's

Chairman and Chief Executive Officer is also a member of the board of directors of Halliburton and intends to recuse himself from any involvement in this matter. NL is one of the named respondents at the site, as well.

Tremont records liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future expenditures are not discounted to their present value. It is not possible to estimate the range of costs for certain sites, including the Hot Springs County, Arkansas site discussed above. The imposition of more stringent standards or requirements under environmental laws or regulations, the results of future testing and analysis undertaken by Tremont at its non-operating facilities, or a determination that Tremont is potentially responsible for the release of hazardous substances at other sites, could result in expenditures in excess of amounts currently estimated to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional environmental matters will not arise in the future. Environmental exposures are difficult to assess and estimate for numerous reasons including the complexity and differing interpretations of governmental regulations; the number of PRPs and the PRPs ability or willingness to fund such allocation of costs, their financial capabilities, the allocation of costs among PRPs; the multiplicity of possible solutions; and the years of investigatory, remedial and monitoring activity required. It is possible that future developments could adversely affect Tremont's business, results of operations, financial condition or liquidity. There can be no assurances that some, or all, of these risks would not result in liabilities that would be material to Tremont's business, results of operations, financial position or liquidity.

In February 2001, Tremont entered into a $13.4 million reducing revolving credit facility with EMS, NL's majority-owned environmental management subsidiary. Such intercompany loan between EMS and Tremont ($11.9 million outstanding at September 30, 2002), collateralized by 10.2 million shares of NL common stock owned by Tremont, is eliminated in Valhi's consolidated financial statements. In October 2002, Tremont entered into a new $15 million revolving credit facility with NL, also collateralized by the shares of NL common stock owned by Tremont, which replaced its loan from EMS. The new facility, which matures in December 2004, will also be eliminated in Valhi's consolidated financial statements.

Tremont expects to receive approximately $25.5 million from NL's additional dividend in the fourth quarter of 2002, as discussed above. Tremont expects to use approximately $12 million of such dividend to repay the outstanding balance of its revolving loan from NL, which revolving credit facility Tremont expects to maintain. The remainder of such dividend will be available for Tremont's general corporate purposes.

In April 2002, Tremont reached an agreement with the U.S. Internal Revenue Service ("IRS") pursuant to which the IRS's previously-reported $8.3 million assessment related to Tremont's 1998 federal income tax return was settled. The settlement resulted in no additional cash income tax payment by Tremont but did result in a reduction of the amount of Tremont's U.S. net operating loss carryforwards that arose in periods prior to the time when Tremont became a member of the same U.S. federal income tax group of which Valhi is a member.

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 obtain financing from related parties or third parties, raise additional capital, modify its dividend policy, restructure ownership interests of subsidiaries and affiliates, incur, refinance or restructure 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 then-available cash, issuing equity securities or incurring indebtedness.

General corporate - Valhi

Valhi's operations are conducted primarily through its subsidiaries (NL, 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 increased its regular quarterly dividend from $.035 per share to $.15 per share in the first quarter of 2000, and NL further increased its regular quarterly dividend to $.20 per share in the fourth quarter of 2000. At the current $.20 per share quarterly rate, and based on the 30.1 million NL shares held by Valhi at September 30, 2002, Valhi would receive aggregate annual regular dividends from NL of approximately $24.1 million. NL also expects to pay a special dividend in the fourth quarter of 2002, as discussed below. Tremont Group, Inc. owns 80% of Tremont Corporation. Tremont Group is owned 80% by Valhi and 20% by NL. Tremont's regular quarterly dividend is currently $.07 per share. At that rate, and based upon the 5.1 million Tremont shares owned by Tremont Group at September 30, 2002, Tremont Group would receive aggregate annual regular dividends from Tremont of approximately $1.4 million. Tremont Group intends to pass-through the regular dividends it receives from Tremont to its shareholders (Valhi and NL). Based on Valhi's 80% ownership of Tremont Group, Valhi would receive $1.2 million in annual regular dividends from Tremont Group as a pass-through of Tremont Group's dividends from Tremont. CompX's regular quarterly dividend is currently $.125 per share. At this current rate and based on the 10.4 million CompX shares held by Valhi and its wholly-owned subsidiary Valcor at September 30, 2002, Valhi/Valcor would receive annual regular dividends from CompX of $5.2 million. 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 in the past 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. To the extent that one or more of Valhi's subsidiaries were to become unable to maintain its current level of dividends, either due to restrictions contained in the applicable subsidiary's credit agreements or otherwise, Valhi parent company's liquidity could become adversely impacted. In such an event, Valhi might consider reducing or eliminating its dividend or selling interests in subsidiaries or other assets.

At September 30, 2002, Valhi had $5.2 million of parent level cash and cash equivalents, had $35 million of outstanding borrowings under its revolving bank credit agreement and had $23 million of short-term demand loans payable to Contran. In addition, Valhi had $36.4 million of borrowing availability under its bank credit facility. During the first quarter of 2002, Valhi sold in market transactions 515,000 shares of Halliburton common stock that had been classified as trading securities for an aggregate of $8.7 million, and used a majority of the proceeds to reduce its outstanding borrowings from Contran. In January and February 2002, the size of Valhi's bank credit facility was increased by an aggregate of $17.5 million to $72.5 million. In October 2002, holders representing substantially all of the Company's LYONs exercised their right to require the Company to redeem their LYONs for a cash redemption price of $27.3 million. Funds to pay the redemption price were provided by borrowings under Valhi's revolving bank credit facility. Following the redemption of substantially all of Valhi's remaining LYONs, approximately 619,000 shares of Halliburton common stock were released to the Company from the LYONs escrow and were sold in market transactions for aggregate proceeds of $9.5 million. The Company has called the remaining nominal amount of LYONs for redemption in December 2002.

In November 2002, the maturity date of Valhi's bank credit facility was extended to October 31, 2003. At the same time, the size of the facility was reduced to $70 million.

Valhi expects to receive approximately $75.3 million from NL's additional dividend in the fourth quarter of 2002, as discussed above. Valhi expects to use a portion of such dividend to repay the outstanding balance of its revolving bank credit facility ($62 million), which revolving bank credit facility Valhi expects to maintain. Valhi expects to use the remainder of such dividend to reduce the outstanding balance of its short-term demand loan payable to Contran.

The terms of The Amalgamated Sugar Company LLC provide for annual "base level" of cash dividend distributions (sometimes referred to as distributable cash) by the LLC of $26.7 million, from which the Company is entitled to a 95% preferential share. Distributions from the LLC are dependent, in part, upon the operations of the LLC. The Company records dividend distributions from the LLC as income upon receipt, which occurs in the same month in which they are declared by the LLC. To the extent the LLC's distributable cash is below this base level in any given year, the Company is entitled to an additional 95% preferential share of any future annual LLC distributable cash in excess of the base level until such shortfall is recovered. Based on the LLC's current projections for 2002, Valhi currently expects that distributions received from the LLC in 2002 will approximate its debt service requirements under its $250 million loans from Snake River Sugar Company.

Certain covenants contained in Snake River's third-party senior debt allow Snake River to pay periodic installments of debt service payments (principal and interest) under Valhi's $80 million loan to Snake River prior to its maturity in 2010, and such loan is subordinated to Snake River's third-party senior debt. At September 30, 2002, the accrued and unpaid interest on the $80 million loan to Snake River aggregated $26.6 million. Such accrued and unpaid interest is classified as a noncurrent asset at September 30, 2002. The Company currently believes it will ultimately realize both the $80 million principal amount and the accrued and unpaid interest, whether through cash generated from the future operations of Snake River and the LLC or otherwise (including any liquidation of Snake River or the LLC). Following the repayment of Snake River's third-party senior debt in April 2009, Valhi believes it will receive significant debt service payments on its loan to Snake River as the cash flows that Snake River previously would have been using to fund debt service on its third-party senior debt ($14.5 million in 2002) would then become available, and would be required, to be used to fund debt service payments on its loan from Valhi. Prior to the repayment of the third-party senior debt, Snake River might also make debt service payments to Valhi, if permitted by the terms of the senior debt.

The Company may, at its option, require the LLC to redeem the Company's interest in the LLC beginning in 2010, and the LLC has the right to redeem the Company's interest in the LLC beginning in 2027. The redemption price is generally $250 million plus the amount of certain undistributed income allocable to the Company. In the event the Company requires the LLC to redeem the Company's interest in the LLC, Snake River has the right to accelerate the maturity of and call Valhi's $250 million loans from Snake River. Redemption of the Company's interest in the LLC would result in the Company reporting income related to the disposition of its LLC interest for both financial reporting and income tax purposes. However, because of Snake River's ability to call its $250 million loans to Valhi upon redemption of the Company's interest in the LLC, the net cash proceeds (after repayment of the debt) generated by redemption of the Company's interest in the LLC could be less than the income taxes that would become payable as a result of the disposition.

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 policies, 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.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the Securities and Exchange Commission ("SEC"), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Steven L. Watson, the Company's President and Chief Executive Officer, and Bobby D. O'Brien, the Company's Vice President, Chief Financial Officer and Treasurer, have evaluated the Company's disclosure controls and procedures as of a date within 90 days of the filing date of this Form 10-Q. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

The Company also maintains a system of internal controls. The term "internal controls," as defined by the American Institute of Certified Public Accountants' Codification of Statement on Auditing Standards, AU Section 319, means controls and other procedures designed to provide reasonable assurance regarding the achievement of objectives in the reliability of the Company's financial reporting, the effectiveness and efficiency of the Company's operations and the Company's compliance with applicable laws and regulations. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect such controls subsequent to the date of their last evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to the 2001 Annual Report and prior 2002 periodic reports for descriptions of certain legal proceedings.

In late July 2002, following the announcement of the proposed merger of Tremont and Valhi, four separate complaints were filed in the Court of Chancery of the State of Delaware, New Castle County, against Tremont, Valhi and members of Tremont's board of directors (Crandon Capital Partners, et al. v. J. Landis Martin, et al., Andrew Neyman v. J. Landis Martin, et al., Herman M. Weisman Revocable Trust v. J. Landis Martin, et al. and Alice Middleton v. J. Landis Martin, et al.). In August 2002, at the request of the parties, the court ordered that these actions be consolidated under the caption In Re Tremont Corporation Shareholders Litigation (Consolidated C.A. No. 19785-NC) and that by November 21, 2002, or such later date as the parties may agree, counsel for the plaintiffs must file and serve a consolidated amended shareholder complaint. The complaints, purported class actions, generally allege, among other things, that the terms of the proposed merger of Valhi and Tremont are unfair, and that defendants have violated their fiduciary duties. The complaints seek, among other things, an order enjoining consummation of the proposed merger and the award of unspecified damages, including attorney's fees and other costs. The Company believes, and understands that each of the other defendants believe, that the complaint is without merit, and intends, and understands that each of the other defendants intend, to defend against the action vigorously.

State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). Trial began in phase I of this previously-reported case before a Rhode Island state court jury in September 2002. On October 29, 2002, the trial judge declared a mistrial in the case when the jury was unable to reach a verdict on the question of whether lead pigment in paint on Rhode Island buildings is a public nuisance. No date has been set for any further proceedings, including any possible retrial of the public nuisance issue. Other claims made by the Attorney General, including violation of the Rhode Island Unfair Trade Practices and Consumer Protection Act, strict liability, negligence, negligent and fraudulent misrepresentation, civil conspiracy, indemnity, and unjust enrichment remain pending and were not the subject of this trial. Post trial motions by plaintiff and defendants for judgment notwithstanding the mistrial are pending.

In September 2002, NL was served with a complaint in City of Chicago v. American Cyanamid, et al. (Circuit Court of Cook County, Illinois, No. 02CH16212). The City of Chicago seeks damages to abate lead paint in a single-count complaint alleging public nuisance against NL and seven other former manufacturers of lead pigment. The time to respond to the complaint has not yet occurred.

In October 2002, NL was served with a complaint in Walters v. NL Industries, et al. (Kings County Supreme Court, New York, No. 28087/2002). A single individual seeks compensatory and punitive damages from NL and five other former manufacturers of lead pigment for childhood exposures to lead paint. The complaint alleges causes of action in negligence and strict product liability and seeks joint and several liability with claims of civil conspiracy, concert of action, enterprise liability, and market share or alternative liability. The time to respond to the complaint has not yet occurred.

Borden, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-587). In October 2002, the court set a June 2003 trial date in this previously-reported matter.

Spring Branch Independent School District v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2000-31175). Plaintiff has filed an appeal of the grant of summary judgment in favor of NL.

In the previously reported cases of Houston Independent School District, Harris County, Brownsville Independent School District, and Liberty Independent School District, pending in various Texas state courts, each court has entered an order abating, or staying, the case pending the result of the appeal in the Spring Branch Independent School District case.

Gaines, et al., v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-0604). Plaintiffs have voluntarily dismissed NL with prejudice in this previously-reported case.

In re Lead Paint Litigation (Superior Court of New Jersey, Law Division, Middlesex County Civil Action Docket No. Mid-L-2754-01, Case Code 247). In November 2002, the court entered an order dismissing this previously-reported action with prejudice. The time for the filing of an appeal has not run.

Jefferson County School District v. Lead Industries Association, et al. (District Court of Jefferson County, Mississippi, Case No. 2001-69). In November 2002, plaintiffs agreed to voluntarily dismiss with prejudice this previously-reported case.

El Paso Independent School District v. Lead Industries Association, et al. (District Court of El Paso County, Texas, No. 2002-2675). In November 2002, the plaintiff in this previously-reported case dismissed its case without prejudice.

Since the filing of NL's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, NL has been named as a defendant in asbestos and/or silica cases in various jurisdictions brought on behalf of approximately 2,700 additional personal injury claimants. Included in the foregoing total is one case in Mississippi state court involving approximately 2,100 plaintiffs (Jones v. A. O. Smith, et al., Circuit Court, Judicial District, Jasper County, Mississippi). NL anticipates that various of these cases will be set for trial from time-to-time for the foreseeable future. In addition, cases on behalf of approximately 2,600 such personal injury plaintiffs have been dismissed or settled for immaterial amounts.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

10.1 - Agreement and Plan of Merger dated November 4, 2002 by and among Valhi, Inc., Valhi Acquisition Corp. and Tremont Corporation.

10.2 - Amendment No. 1 to the Agreement and Plan of Merger by and among Valhi, Inc., Valhi Acquisition Corp. and Tremont Corporation dated November 12, 2002.

10.3 - Agreement and Plan of Merger dated November 4, 2002 by and among Valhi, Inc., Tremont Group, Inc. and Valhi Acquisition Corp. II.

10.4 - Intercorporate Services Agreement between Contran Corporation and Valhi, Inc. effective as of January 1, 2002.

*10.5 - Agreement between Sachtleben Chemie GmbH and Kronos Titan-GmbH effective as of December 30, 1988 - incorporated by reference to Exhibit No. 10.1 to Kronos International's Quarterly Report on Form 10-Q (File No. 333-100047) for the quarter ended September 30, 2002.

*10.6 - Supplementary Agreement dated as of May 3, 1996 to the Agreement effective as of December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH. - incorporated by reference to Exhibit No. 10.2 to Kronos International's Quarterly Report on Form 10-Q (File No. 333-100047) for the quarter ended September 30, 2002.

*10.7 - Second Supplementary Agreement dated as of January 8, 2002 to the Agreement effective as of December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH. - incorporated by reference to Exhibit No. 10.3 to Kronos International's Quarterly Report on Form 10-Q (File No. 333-100047) for the quarter ended September 30, 2002.

99.1 - Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 - Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Portions of these exhibit have been omitted pursuant to a request for confidential treatment made by NL.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended September 30, 2002.

None.

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 14, 2002 By /s/ Bobby D. O'Brien

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

Date November 14, 2002 By /s/ Gregory M. Swalwell

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

I, Steven L. Watson, the President and Chief Executive Officer of Valhi, Inc., certify that:

I have reviewed this quarterly report on Form 10-Q of Valhi, Inc.;

1) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

2) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

3) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

4) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

5) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Steven L. Watson

Steven L. Watson
President and Chief Executive Officer

I, Bobby D. O'Brien, the Vice President, Chief Financial Officer and Treasurer of Valhi, Inc., certify that:

I have reviewed this quarterly report on Form 10-Q of Valhi, Inc.;

1) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

2) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

3) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

4) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

5) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer and Treasurer

AGREEMENT AND PLAN OF MERGER
by and among
VALHI, INC.,
VALHI ACQUISITION CORP.
and
TREMONT CORPORATION
Dated as of November 4, 2002

Table of Contents

Index of Defined Terms

AGREEMENT AND PLAN OF MERGER

Agreement and Plan of Merger, dated as of November 4, 2002 (this "Agreement"), by and among Valhi, Inc., a Delaware corporation ("Valhi"), Valhi Acquisition Corp., a Delaware corporation and a direct wholly-owned subsidiary of Valhi ("Sub"), and Tremont Corporation, a Delaware corporation ("Tremont").

WHEREAS, the board of directors of each of Tremont, Valhi and Sub deem it advisable and in the best interests of its respective corporation and stockholders that Tremont become a wholly-owned subsidiary of Valhi pursuant to the Merger (as defined below) on the terms and subject to the conditions of this Agreement; and

WHEREAS, it is intended that, for Federal income tax purposes, the Merger (or if the LLC Merger (as defined below) occurs, the Merger followed by the LLC Merger) shall be a tax-free reorganization as described in the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the holders of common stock, par value $1.00 per share ("Tremont Common Stock"), of Tremont, other than Valhi and Tremont Group, Inc., a Delaware corporation ("TGI").

NOW, THEREFORE, in consideration of the premises and the mutual representations, warranties, covenants, agreements and conditions contained herein, the parties hereto agree as follows:

ARTICLE I

THE MERGER

Section 1.1.......The Merger.

(a) In accordance with the provisions of this Agreement and the Delaware General Corporation Law, as amended (the "DGCL"), at the Effective Time (as defined below), Sub shall be merged (the "Merger") with and into Tremont, and Tremont shall be the surviving corporation (hereinafter sometimes called the "Surviving Corporation") in the Merger and shall continue its corporate existence under the DGCL. At the Effective Time, the separate existence of Sub shall cease, and the Surviving Corporation shall succeed to and assume all of the rights and obligations of Sub. Tremont and Sub are hereinafter sometimes collectively referred to as the "Constituent Corporations."

(b) The Merger shall have the effects on Tremont and Sub, as Constituent Corporations of the Merger, provided for under the DGCL.

Section 1.2 Effective Time. The Merger shall become effective at the time of filing of a certificate of merger with the Secretary of State of the State of Delaware in accordance with the provisions of Section 252 of the DGCL (the "Certificate of Merger"). The date and time when the Merger shall become effective is herein referred to as the "Effective Time."

Section 1.3 Certificate of Incorporation and Bylaws of the Surviving Corporation.

(a) At the Effective Time, the Certificate of Incorporation of Tremont, as in effect immediately prior to the Effective Time, shall be amended so that the operative provisions read in their entirety exactly as the Certificate of Incorporation of Sub as in effect immediately prior to the Effective Time, except that the name of the corporation specified therein shall be Tremont Corporation.

(b) At the Effective Time, the Bylaws of Tremont, as in effect immediately prior to the Effective Time, shall be amended so that the operative provisions read in their entirety exactly as the Bylaws of Sub as in effect immediately prior to the Effective Time, except that the name of the corporation specified therein shall be Tremont Corporation.

Section 1.4 Directors and Officers of the Surviving Corporation. The directors and officers of the Surviving Corporation shall be the Persons named on Exhibit A hereto, all of whom will hold office from and after the Effective Time until their respective successors are duly elected or appointed and qualify in the manner provided in the Certificate of Incorporation and Bylaws of the Surviving Corporation or as otherwise provided by Law (as defined below) or their earlier resignation or removal.

ARTICLE II

EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS; EXCHANGE OF CERTIFICATES

Section 2.1 Effect on Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of Valhi, Sub, Tremont or the holder of any shares of the following securities:

(a) Cancellation of Treasury Stock and Valhi-Owned Stock. Each share of Tremont Common Stock (i) that is owned by Valhi, (ii) that is held by Tremont as treasury stock and (iii) assuming the effective time of the TGI Merger (as defined below) has occurred prior to the Effective Time, that is owned by TGI shall, in each case, automatically be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(b) Conversion of Tremont Common Stock. Subject to Section 2.2(f), each issued and outstanding share of Tremont Common Stock (other than shares to be canceled in accordance with Section 2.1(a) above) shall be converted into 3.4 shares of common stock, par value $.01 per share ("Valhi Common Stock"), of Valhi (the "Exchange Ratio").

(c) Sub Common Stock. Each share of common stock, par value $.01 per share, of Sub ("Sub Common Stock") shall be converted into and become one share of common stock, par value $1.00 per share, of the Surviving Corporation.

Section 2.2 Exchange of Certificates.

(a) Exchange Agent. As of the Effective Time, Valhi shall appoint Computershare Investor Services LLC or such other exchange agent mutually agreeable to Valhi and Tremont to act as exchange agent (the "Exchange Agent") in the Merger. At or prior to the Effective Time, Valhi shall provide to the Exchange Agent, for the benefit of holders of shares of Tremont Common Stock, certificates representing Valhi Common Stock issuable in exchange for certificates representing shares of Tremont Common Stock pursuant to Section 2.1(b) ("Certificates") and an estimated amount in cash sufficient to satisfy Valhi's obligations under Sections 2.2(e) and (f)

(b) As soon as reasonably practicable after the Effective Time, Valhi shall cause the Exchange Agent to mail to each holder of record of shares of Tremont Common Stock whose shares were converted into shares of Valhi Common Stock pursuant to Section 2.1(b) (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in a form and have such other provisions as Valhi may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates evidencing Valhi Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Valhi, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing the number of whole shares of Valhi Common Stock to which the holder is entitled and an amount of cash in lieu of any fractional share of Valhi Common Stock in accordance with Section 2.2(f), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of shares of Tremont Common Stock that is not registered in the transfer records of Tremont, payment may be made to a Person other than the Person in whose name the Certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment either shall pay any transfer or other taxes required by reason of such payment being made to a Person other than the registered holder of such Certificate or establish to the satisfaction of Valhi that such tax or taxes have been paid or are not applicable. Until surrendered as contemplated by this Section 2.2, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender such whole number of shares of Valhi Common Stock provided by Section 2.1(b) and an amount in cash in lieu of any fractional share of Valhi Common Stock in accordance with Section 2.2(f). No interest will be paid or will accrue on the consideration payable upon the surrender of any Certificate or on any cash payable pursuant to Sections 2.2(e) or (f).

(c) All shares of Valhi Common Stock delivered, and cash in lieu of any fractional shares thereof paid, upon the surrender of Certificates in accordance with the terms of this Article II shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares. There shall be no further registration of transfers on the stock transfer books of Tremont or its transfer agent of the shares of Tremont Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article II.

(d) None of Valhi, Tremont, Sub or the Exchange Agent shall be liable to any Person in respect of any shares or funds delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. All Certificates and funds held by the Exchange Agent for payment to the holders of unsurrendered Certificates that remain unclaimed for twelve months after the Effective Time shall be redelivered by the Exchange Agent to Valhi, upon demand, and any holders of Certificates who have not theretofore complied with Section 2.2(b) shall thereafter look only to the Surviving Corporation for delivery of any shares or funds, subject to applicable escheat and other similar Laws.

(e) Distributions With Respect to Unexchanged Shares. No dividends or other distributions with respect to Valhi Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the Valhi Common Stock represented thereby, and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 2.2(f), in each case until the surrender of such Certificate in accordance with this Article II. Subject to the effect of applicable escheat Laws, as soon as reasonably practicable following surrender of any such Certificate there shall be paid to the holder of such Certificate, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of any fractional share of Valhi Common Stock to which such holder is entitled pursuant to Section 2.2(f) and (ii) if such Certificate is exchangeable for one or more whole shares of Valhi Common Stock, (x) at the time of such surrender the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Valhi Common Stock and (y) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and with a payment date subsequent to such surrender payable with respect to such whole shares of Valhi Common Stock.

(f) No Fractional Shares. Notwithstanding anything to the contrary contained herein, no certificates or scrip representing fractional shares of Valhi Common Stock shall be issued upon the surrender for exchange of Certificates, no dividend or distribution of Valhi shall relate to such fractional share interests and such fractional share interests will not entitle the owner thereof to vote or to any rights of a stockholder of Valhi. In lieu of the issuance of such fractional shares, Valhi shall pay each former holder of Tremont Common Stock an amount in cash equal to the product obtained by multiplying (A) the fractional share interest to which such former holder would otherwise be entitled by (B) the average closing price per share for shares of Valhi Common Stock as reported by the New York Stock Exchange (the "NYSE") (as reported in The Wall Street Journal, or, if not reported therein, any other authoritative source) during the ten trading days ending on the business day that immediately precedes the Closing Date. The parties acknowledge and agree that any such cash is not separately bargained-for consideration in the Merger, but is being paid solely to avoid the inconvenience of issuing fractional shares.

(g) Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificate the number of whole shares of Valhi Common Stock to which the holder is entitled and, if applicable, any unpaid dividends and distributions deliverable in respect thereof and any cash in lieu of fractional shares, in each case pursuant to this Agreement.

Section 2.3 Certain Adjustments. If between the date hereof and the Effective Time, the outstanding shares of Valhi Common Stock or of Tremont Common Stock shall be changed into a different number of shares by reason of any reclassification, recapitalization, split-up, combination or exchange of shares, or any dividend or distribution shall be declared thereon with a record date within such period (other than normal quarterly cash dividends), the Exchange Ratio shall be adjusted accordingly to provide to the holders of Tremont Common Stock the same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, split-up, combination, exchange or dividend provided, however, that no portion of the consideration paid to holders of Tremont Common Stock shall be in the form of anything other than voting stock (within the meaning of Sections 368(a)(2)(B) and 368(a)(1)(C) of the Code) of Valhi (except as provided in Section 2.2(f) above).

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF VALHI AND SUB

Valhi and Sub jointly and severally represent and warrant to Tremont as follows:

Section 3.1 Organization. Each of Valhi and Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Valhi owns directly all of the outstanding capital stock of Sub. Each of Valhi and Sub has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Each of Valhi and Sub is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualifications or licenses necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, operations, financial condition or results of operations of Valhi or would not reasonably be expected to delay or prevent the consummation of the transactions contemplated hereby (a "Valhi Material Adverse Effect"). Valhi previously has delivered to Tremont accurate and complete copies of its Certificate of Incorporation and Bylaws, and Sub's Certificate of Incorporation and Bylaws, each as currently in effect.

Section 3.2 Capitalization.

(a) The authorized capital stock of Valhi consists of 150,000,000 shares of Valhi Common Stock and 5,000,000 shares of Valhi preferred stock, par value $.01 per share ("Valhi Preferred Stock"). As of the date hereof, there are 115,118,917 shares of Valhi Common Stock issued and outstanding and no shares of Valhi Preferred Stock outstanding. As of the date hereof, there are outstanding options to purchase 1,180,900 shares of Valhi Common Stock, and 4,065,000 shares of Valhi Common Stock were reserved for future issuance under Valhi's 1997 Long-Term Incentive Plan. As of the date hereof, except as set forth in this Section 3.2(a), no capital shares or other voting securities of Valhi were outstanding or reserved for issuance. All shares of Valhi Common Stock to be issued in the Merger at the Effective Time shall be, when issued, duly authorized and validly issued, fully paid and nonassessable and free from all pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens"). There are no bonds, debentures, notes or other indebtedness of Valhi having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matter on which stockholders of Valhi may vote. Except as set forth in this Section 3.2(a) and for the transactions contemplated by this Agreement (including, without limitation, the TGI Merger), there are no outstanding securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which Valhi is a party or bound, obligating Valhi to issue, deliver or sell, or cause to be issued, delivered or sold, additional capital shares, voting securities or other ownership interests of Valhi or obligating Valhi to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. There are no outstanding contractual obligations of Valhi to repurchase, redeem or otherwise acquire any capital shares of Valhi.

(b) The authorized capital stock of Sub consists of 1,000 shares of Sub Common Stock, all of which are issued and outstanding and are validly issued, fully paid and nonassessable. As of the date hereof, there are no outstanding options entitling the holders thereof to purchase shares of Sub Common Stock.

Section 3.3 Authority. Each of Valhi and Sub has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized and approved by the boards of directors of Valhi and Sub and by Valhi as the sole stockholder of Sub, and no other corporate proceedings on the part of Valhi or Sub are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Valhi and Sub and, assuming this Agreement constitutes a legal, valid and binding agreement of Tremont, constitutes a legal, valid and binding agreement of Valhi and Sub, as the case may be, enforceable against each of them in accordance with its terms.

Section 3.4 No Violations: Consents and Approvals.

(a) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby nor compliance by Valhi and Sub with any of the provisions hereof conflicts with, violates or results in any breach of (i) any provision of the Certificate of Incorporation or Bylaws of either of Valhi or Sub, (ii) any contract, agreement, instrument or understanding to which Valhi or Sub is a party or by which Valhi, Sub or any of their respective assets or properties is bound, or (iii) any law, judgment, decree, order, statute, rule or regulation (a "Law") of any jurisdiction or Governmental Authority (as defined below) applicable to Valhi or Sub or any of their respective assets or properties, other than, in the case of the foregoing clauses (ii) and (iii), such conflicts, violations or breaches that would not reasonably be expected to have a Valhi Material Adverse Effect or for which Valhi or Sub have received or, prior to the Merger, shall have received appropriate consents or waivers.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required by or with respect to Valhi in connection with the execution and delivery of this Agreement by Valhi or Sub or the consummation by Valhi or Sub of the transactions contemplated hereby, except for (i) the filing with the Securities and Exchange Commission (the "SEC") of (x) a proxy statement relating to the approval by Tremont's stockholders as set forth in Section 4.15 (the "Tremont Stockholders' Approval") of this Agreement and the transactions contemplated hereby (as amended or supplemented from time to time, the "Proxy Statement"), (y) a registration statement on Form S-4 (or other appropriate form) in connection with the registration of the Valhi Common Stock to be issued in the Merger (as amended or supplemented from time to time, the "Registration Statement") and (z) such reports under Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as may be required in connection with this Agreement and the transactions contemplated hereby, (ii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and (iii) such other consents, approvals, orders, authorizations, registrations, declarations, licenses and filings (A) as may be required under (1) federal, state or local environmental laws or (2) the "blue sky" laws of various states or (B) that, if not obtained or made, would reasonably be expected to have a Valhi Material Adverse Effect.

Section 3.5 SEC Documents. Valhi has timely filed or will timely file with the SEC all documents (the "Valhi SEC Documents") required to be filed under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act, in each case since December 31, 1999. As of their respective dates, the Valhi SEC Documents (other than preliminary materials) complied in all material respects with the requirements of the Securities Act and the Exchange Act, as the case may be, and in each case the rules and regulations promulgated thereunder applicable to such Valhi SEC Documents. None of the Valhi SEC Documents at the time of filing and effectiveness contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent such statements have been modified or superseded by later Valhi SEC Documents.

Section 3.6 Financial Statements. As of their respective dates, the financial statements of Valhi (including, in each case, any related notes) included in the Valhi SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") (except, in the case of unaudited financial statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto) and present fairly the consolidated financial position of Valhi as at the dates thereof and the consolidated results of its operations and statements of cash flows for the periods then ended. Valhi's balance sheet included in its Form 10-Q for the quarter ended June 30, 2002 shall be referred to as the "Valhi Interim Balance Sheet."

Section 3.7 Absence of Certain Changes. Except as disclosed in the Valhi SEC Documents and for the transactions contemplated hereby, since the date of the Valhi Interim Balance Sheet, there has not been any change or event that would have, or would reasonably be expected to have, a Valhi Material Adverse Effect.

Section 3.8 Proxy Statement/Registration Statement. None of the information regarding Valhi or Sub to be supplied by Valhi or Sub for inclusion or incorporation by reference in the Registration Statement or the Proxy Statement will, in the case of the Registration Statement, at the time it becomes effective and at the Effective Time, and, in the case of the Proxy Statement, at the time of its mailing to stockholders of Tremont and at the time of Tremont's stockholders meeting for the purpose of obtaining the Tremont Stockholders' Approval (the "Tremont Stockholder Meeting"), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances when made. If at any time prior to the Effective Time any event with respect to Valhi or Sub shall occur that is required to be described in the Proxy Statement or the Registration Statement, such event shall be so described, and an amendment or supplement shall be promptly filed with the SEC and, as required by Law, disseminated to the stockholders of Tremont. The Proxy Statement and the Registration Statement will (with respect to Valhi and Sub) comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act.

Section 3.9 State Anti-Takeover Statutes. Each of Valhi and Sub has taken all action necessary, if any, to exempt the transactions contemplated hereby from the operation of any "business combination," "moratorium," "control share," "fair price," "interested stockholder," "affiliated transactions" or other state anti-takeover statute or regulation.

Section 3.10 Brokers' Fees. Neither Valhi nor Sub nor any of Valhi's

Affiliates (other than Tremont) or their respective officers, directors or agents has employed any broker, finder or financial advisor or incurred any liability for any broker's fees, commissions, or financial advisory or finder's fees in connection with any of the transactions contemplated by this Agreement, other than McDonald Investments Inc.

Section 3.11 Compliance with Laws. Except as disclosed in the Valhi SEC Documents or the NL SEC Documents (as defined below) filed with the SEC prior to the date hereof, to the knowledge of Valhi, none of Valhi nor any of the Valhi Subsidiaries (as defined below) has violated or failed to comply with any Law of any Governmental Authority applicable to its business, properties or operations, and Valhi has not received notification of asserted present or past violation or failure to comply, except for violations and failures to comply that would not reasonably be expected to have a Valhi Material Adverse Effect.

Section 3.12 No Litigation. Except as set forth in the Valhi SEC Documents or the NL SEC Documents, there is no claim, litigation, investigation or proceeding by any Person or Governmental Authority pending or, to Valhi's knowledge, threatened, against Valhi or the Valhi Subsidiaries that would reasonably be anticipated to have a Valhi Material Adverse Effect, nor is there any judgment, decree, injunction, rule or order of any Governmental Authority or arbitrator outstanding against Valhi or the Valhi Subsidiaries having, or that, insofar as reasonably can be foreseen, in the future would reasonably be anticipated to have a Valhi Material Adverse Effect.

Section 3.13 Employee Matters. Except as set forth on Schedule 3.13:

(a) With respect to each employee benefit plan, policy or agreement covering employees, former employees or directors (or their beneficiaries) of Valhi or of any trade or business, whether or not incorporated that would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA (a "Valhi ERISA Affiliate"), including without limitation any employee benefit plans within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and any employment, retention, severance or change in control agreement, in each case that is sponsored, maintained or contributed to or required to be contributed to by Valhi or a Valhi ERISA Affiliate (collectively, the "Valhi Benefit Plans"), since the date of the Valhi Interim Balance Sheet, there have been no new plans adopted, nor changes, additions or modification to any Valhi Benefit Plan, nor as of the date hereof, any plans to adopt, change, add or modify any Valhi Benefit Plan which either individually or in the aggregate would have a Valhi Material Adverse Effect.

(b) All contributions and other payments required to have been made by Valhi or any Valhi ERISA Affiliate to any Valhi Benefit Plan (or to any Person pursuant to the terms thereof) have been made or the amount of such payment or contribution obligation has been reflected in the financial statements in Valhi's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

(c) Each of the Valhi Benefit Plans intended to be "qualified" within the meaning of Section 401(a) of the Code and any trust that forms a part of any of the Valhi Benefit Plans that is intended to be exempt under Section 501(a) or Section 501(c)(9) of the Code has been determined by the IRS to be so qualified or exempt, as the case may be, and no circumstances exist that could reasonably be expected to result in the revocation of any such determination. Each of the Valhi Benefit Plans is and has been operated in all material respects in compliance with its terms and all applicable laws, rules and regulations governing such plan, including, without limitation, ERISA and the Code.

(d) With respect to the Valhi Benefit Plans, individually and in the aggregate, no event has occurred, there does not now exist any condition or set of circumstances, that could reasonably be expected to subject Valhi or any Valhi ERISA Affiliate to any material liability arising under the Code, ERISA or any other applicable Law, or under any indemnity agreement to which Valhi or any Valhi ERISA Affiliate is a party, excluding liability relating to benefit claims and funding obligations payable in the ordinary course.

Section 3.14 Environmental Liability. Except as disclosed in the Valhi SEC Documents or the NL SEC Documents, there are no legal, administrative, arbitral or other proceedings, claims, actions, causes of action, private environmental investigations or remediation activities or governmental investigations of any nature pending or, to Valhi's knowledge, threatened against Valhi or the Valhi Subsidiaries seeking to impose, or that could reasonably be expected to result in the imposition of any liability or obligation arising under common law or under any local, state or federal environmental Law, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), which liability or obligation could reasonably be expected to result in a Valhi Material Adverse Effect. To Valhi's knowledge, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation that could reasonably be expected to result in a Valhi Material Adverse Effect.

Section 3.15 Certain Tax Matters. Neither Valhi nor, to Valhi's knowledge, any other person, has taken or agreed to take any action that could reasonably be expected to prevent the Merger (or, if the LLC Merger occurs, the Merger followed by the LLC Merger) from constituting a "reorganization" under Section 368(a) of the Code with respect to the holders of Tremont Common Stock other than Valhi and TGI. Valhi is not aware of any agreement, plan or other circumstance that could reasonably be expected to prevent such qualification.

Section 3.16 Interim Operations of Sub. Sub was formed solely for the purpose of engaging in the Merger and has not engaged in any business activities or conducted any operations other than in connection with the Merger.

Section 3.17 Knowledge.

The phrases "to Valhi's knowledge" or "to the knowledge of Valhi" shall mean the actual knowledge of any executive officer of Valhi.

Section 3.18 No Undisclosed Information. To Valhi's knowledge, Valhi has not failed to disclose to Tremont any fact material to the business, properties, prospects, operations, financial condition or results of operations of Valhi. To Valhi's knowledge, no representation or warranty by Valhi or Sub contained in this Agreement and no statement contained in any document (including historical financial statements and the Schedules to this Agreement), certificate or other writing furnished or to be furnished by Valhi to Tremont or any of its representatives pursuant to the provisions hereof or in connection with the transactions contemplated hereby, contains or will contain any untrue statement of material fact or omits or will omit to state any material fact necessary, in light of the circumstances under which it was made, in order to make the statements herein or therein not misleading. Notwithstanding the foregoing or any other provision herein, Valhi has made no representation or warranty with respect to any financial or other projections made by Valhi.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF TREMONT

Tremont represents and warrants to Valhi and Sub as follows:

Section 4.1 Organization. Tremont is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Tremont has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Tremont is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualifications or licenses necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, operations, financial condition or results of operations of Tremont or would not reasonably be expected to delay or prevent the consummation of the transactions contemplated hereby (a "Tremont Material Adverse Effect"). Tremont previously has delivered to Valhi accurate and complete copies of its Certificate of

Incorporation and Bylaws, each as currently in effect.

Section 4.2 Capitalization. The authorized capital stock of Tremont consists of 14,000,000 shares of Tremont Common Stock and 1,000,000 shares of Tremont preferred stock, par value $1.00 per share ("Tremont Preferred Stock"). As of the date hereof, there are 6,424,858 shares of Tremont Common Stock issued and outstanding (net of 1,392,101 shares held in Tremont's treasury) and no shares of Tremont Preferred Stock outstanding. As of the date hereof, there are outstanding no options to purchase shares of Tremont Common Stock. As of the date hereof, except as set forth in this Section 4.2, no capital shares or other voting securities of Tremont were issued, reserved for issuance or outstanding. There are no bonds, debentures, notes or other indebtedness of Tremont having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matter on which stockholders of Tremont may vote. There are no outstanding securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which Tremont is a party or bound, obligating Tremont to issue, deliver or sell, or cause to be issued, delivered or sold, additional capital shares, voting securities or other ownership interests of Tremont or obligating Tremont to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. There are no outstanding contractual obligations of Tremont to repurchase, redeem or otherwise acquire any capital shares of Tremont.

Section 4.3 Authority. Tremont has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized and approved by the board of directors of Tremont, and, except for the requisite approval of this Agreement and the transactions contemplated hereby, no other corporate proceedings on the part of Tremont are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Tremont and, assuming this Agreement constitutes a legal, valid and binding agreement of Valhi, constitutes a legal, valid and binding agreement of Tremont enforceable against it in accordance with its terms.

Section 4.4 No Violations: Consents and Approvals.

(a) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby nor compliance by Tremont with any of the provisions hereof conflicts with, violates or results in any breach of (i) any provision of the Certificate of Incorporation or Bylaws of Tremont, (ii) any contract, agreement, instrument or understanding to which Tremont is a party or by which Tremont or any of its assets or properties is bound, or (iii) any Law of any jurisdiction or Governmental Authority applicable to Tremont or any of its assets or properties, other than, in the case of the foregoing clauses (ii) and (iii), such conflicts, violations or breaches that would not reasonably be expected to have a Tremont Material Adverse Effect or for which Tremont has received or, prior to the Merger, shall have received appropriate consents or waivers.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required by or with respect to Tremont in connection with the execution and delivery of this Agreement by Tremont or the consummation by Tremont of the transactions contemplated hereby, except for (i) the filing with the SEC of (x) the Proxy Statement, (y) the Registration Statement and (z) such reports under Section 13(a) of the Exchange Act as may be required in connection with this Agreement and the transactions contemplated hereby, (ii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and (iii) such other consents, approvals, orders, authorizations, registrations, declarations, licenses and filings (A) as may be required under (1) federal, state or local environmental laws or (2) the "blue sky" laws of various states or (B) that, if not obtained or made, would reasonably be expected to have a Tremont Material Adverse Effect.

Section 4.5 SEC Documents. Tremont has timely filed or will timely file with the SEC all documents (the "Tremont SEC Documents") required to be filed under the Securities and the Exchange Act, in each case since December 31, 1999. As of their respective dates, the Tremont SEC Documents (other than preliminary materials) complied in all material respects with the requirements of the Securities Act and the Exchange Act, as the case may be, and in each case the rules and regulations promulgated thereunder applicable to such Tremont SEC Documents. None of the Tremont SEC Documents at the time of filing and effectiveness contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent such statements have been modified or superseded by later Tremont SEC Documents.

Section 4.6 Financial Statements. As of their respective dates, the financial statements of Tremont (including, in each case, any related notes) included in the Tremont SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP (except, in the case of unaudited financial statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto) and present fairly the consolidated financial position of Tremont as at the dates thereof and the consolidated results of its operations and statements of cash flows for the periods then ended. Tremont's balance sheet included in its Form 10-Q for the quarter ended June 30, 2002 shall be referred to as the "Tremont Interim Balance Sheet."

Section 4.7 Absence of Certain Changes. Except as disclosed in the Tremont SEC Documents or on Schedule 4.7 and for the transactions contemplated hereby, since the date of the Tremont Interim Balance Sheet, there has not been any change or event that would have, or would reasonably be expected to have, a Tremont Material Adverse Effect.

Section 4.8 Proxy Statement/Registration Statement. None of the information regarding Tremont to be supplied by Tremont for inclusion or incorporation by reference in the Registration Statement or the Proxy Statement will, in the case of the Registration Statement, at the time it becomes effective and at the Effective Time, and, in the case of the Proxy Statement, at the time of its mailing to stockholders of Tremont and at the time of the Tremont Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances when made. If at any time prior to the Effective Time any event with respect to Tremont shall occur that is required to be described in the Proxy Statement or the Registration Statement, such event shall be so described, and an amendment or supplement shall be promptly filed with the SEC and, as required by Law, disseminated to the stockholders of Tremont. The Proxy Statement and the Registration Statement will (with respect to Tremont) comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act.

Section 4.9 State Anti-Takeover Statutes. Tremont has taken all action necessary, if any, to exempt the transactions contemplated hereby from the operation of any "business combination," "moratorium," "control share," "fair price," "interested stockholder," "affiliated transactions" or other state anti-takeover statute or regulation.

Section 4.10 Brokers' Fees. Neither Tremont nor Sub nor any of Tremont's Affiliates (other than Valhi) or their respective officers, directors or agents has employed any broker, finder or financial advisor or incurred any liability for any broker's fees, commissions, or financial advisory or finder's fees in connection with any of the transactions contemplated by this Agreement, other than Morgan Joseph & Co. Inc. (the "Tremont Financial Advisor"). Substantially concurrently herewith, Tremont's board of directors or the special committee thereof has received the opinion of the Tremont Financial Advisor to the effect that, on the date thereof, the consideration to be received by holders (other than Valhi and its Affiliates) of shares of Tremont Common Stock pursuant to this Agreement is fair from a financial point of view to such holders (the

"Fairness Opinion").

Section 4.11 Compliance with Laws. Except as disclosed in the Tremont SEC Documents filed with the SEC prior to the date hereof or on Schedule 4.11, to the knowledge of Tremont, Tremont has not violated or failed to comply with any Law of any Governmental Authority applicable to its business, properties or operations, and Tremont has not received notification of asserted present or past violation or failure to comply, except for violations and failures to comply that would not reasonably be expected to have a Tremont Material Adverse Effect.

Section 4.12 No Litigation. Except as set forth in the Tremont SEC Documents or on Schedule 4.12, there is no claim, litigation, investigation or proceeding by any Person or Governmental Authority pending or, to Tremont's knowledge threatened, against Tremont that would reasonably be anticipated to have a Tremont Material Adverse Effect, nor is there any judgment, decree, injunction, rule or order of any Governmental Authority or arbitrator outstanding against Tremont having, or that, insofar as reasonably can be foreseen, in the future would reasonably be anticipated to have a Tremont Material Adverse Effect.

Section 4.13 Employee Matters.

(a) Schedule 4.13 contains a true and complete list of each employee benefit plan, policy or agreement covering employees, former employees or directors of any of Tremont or their beneficiaries, or providing benefits to such persons in respect of services provided to any such entity, including without limitation any employee benefit plans within the meaning of Section 3(3) of ERISA, and any employment, retention, severance or change in control agreement, in each case that is sponsored, maintained or contributed to or required to be contributed to by Tremont or by any trade or business, whether or not incorporated (a "Tremont ERISA Affiliate") that would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA (collectively, the "Tremont Benefit Plans"). Other than as set forth on Schedule 4.13, since December 31, 1999, there have been no new plans adopted, nor changes, additions or modification to any Tremont Benefit Plan. As of the date hereof, Tremont has no plans to adopt, change, add or modify any Tremont Benefit Plan.

(b) With respect to each Tremont Benefit Plan, Tremont has previously delivered or made available to Valhi or its representatives true and complete copies of the following: (i) the plan document and all amendments thereto (or, if such plan is unwritten, a true and complete summary of its terms); (ii) any related trust or other funding vehicle; (iii) if applicable, the two most recent Internal Revenue Service Forms 5500 and related attachments; (iv) if applicable, the most recent Internal Revenue Service determination letter; and (v) any material correspondence or employee communications.

(c) Except as set forth on Schedule 4.13, all contributions and other payments required to have been made by Tremont or any Tremont ERISA Affiliate to any Tremont Benefit Plan (or to any Person pursuant to the terms thereof) have been made or the amount of such payment or contribution obligation has been reflected in the financial statements in Tremont's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

(d) Except as set forth on Schedule 4.13, each of the Tremont Benefit Plans intended to be "qualified" within the meaning of Section 401(a) of the Code and any trust that forms a part of any of the Tremont Benefit Plans that is intended to be exempt under Section 501(a) or Section 501(c)(9) of the Code has been determined by the IRS to be so qualified or exempt, as the case may be, and no circumstances exist that could reasonably be expected to result in the revocation of any such determination. Each of the Tremont Benefit Plans is and has been operated in all material respects in compliance with its terms and all applicable laws, rules and regulations governing such plan, including, without limitation, ERISA and the Code.

(e) Except as set forth on Schedule 4.13, with respect to the Tremont Benefit Plans, individually and in the aggregate, no event has occurred, there does not now exist any condition or set of circumstances, that could reasonably be expected to subject Tremont or any Tremont ERISA Affiliate to any material liability arising under the Code, ERISA or any other applicable Law, or under any indemnity agreement to which Tremont or any Tremont ERISA Affiliate is a party, excluding liability relating to benefit claims and funding obligations payable in the ordinary course.

(f) Other than continuation coverage required to be provided under Section 4980B of the Code or Part 6 of Title I of ERISA or otherwise as provided by state law or as set forth on Schedule 4.13, none of the Tremont Benefit Plans that are "welfare plans," within the meaning of Section 3(1) of ERISA, provides for any benefits with respect to current or former employees for periods extending beyond their retirement or other termination of service, other than benefits the full cost of which is borne by such former employees.

(g) Except as otherwise disclosed to Valhi, the consummation of the Merger will not, either alone or in combination with another event undertaken by Tremont prior to the date hereof, (i) entitle any current or former employee, agent, independent contractor or officer of Tremont to severance pay, unemployment compensation or any other payment, (ii) accelerate the time of payment or vesting or increase the amount of compensation due any such employee, officer, agent or independent contractor or (iii) constitute a "change in control" under any Tremont Benefit Plan.

Section 4.14 Intellectual Property. Title to all registered Intellectual Property is recorded on records in the name of Tremont and, to the extent applicable, all affidavits of continued use and incontestability in respect of such registered intellectual property have been timely filed. Tremont owns or possesses licenses or other valid rights to use, and upon consummation of the transactions contemplated by this Agreement, the Surviving Corporation shall own or possess licenses or other valid rights to use (without the making of any payment to others or the obligation to grant rights to others in exchange), all Intellectual Property necessary to the conduct of the business of Tremont as currently conducted, including, without limitation, all releases required in connection with quotes, testimonials or likenesses utilized in editorial or promotional material. Tremont's right title and interest in such Intellectual Property is not being opposed by any claim or demand or in any proceeding, action, litigation or order to which Tremont or any Person who has granted a license or other right to use Intellectual Property to Tremont or who has been granted a license or other right to use Intellectual Property by Tremont, is a party or subject, nor to the knowledge of Tremont, is any such claim, demand, proceeding, action, litigation, or court order threatened. The conduct of the business of Tremont as currently conducted does not materially infringe or conflict with any intellectual property of others. As used in this Agreement, "Intellectual Property" means (i) all U.S. and foreign trademarks, patents, service marks, trade names, copyrights, mask works and designs that are pending, applied for, granted, or registered in any country or jurisdiction of the world and that are owned by Tremont and used in connection with its business; (ii) all unregistered trademarks, patents, service marks, and trade names that are owned by Tremont and used in connection with its business; and (iii) all licenses, contracts, permissions and other agreements relating to the business to which Tremont is a party relating in any way to rights in any of the foregoing.

Section 4.15 Required Vote of Tremont Stockholders. The affirmative vote of the holders of a majority of the outstanding shares of Tremont Common Stock is required to approve the Merger. No other vote of the stockholders of Tremont is required by Law, the Certificate of Incorporation or the Bylaws of Tremont or otherwise in order for Tremont to consummate the Merger and the transactions contemplated hereby.

Section 4.16 Certain Contracts. Except as disclosed in the Tremont SEC Documents, Tremont is not a party to or bound by (i) any "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC), (ii) any non-competition agreement or any other agreement or obligation that purports to limit in any material respect the manner in which, or the localities in that, all or any material portion of the business of Tremont is or would be conducted, (iii) any exclusive supply or purchase contracts or any exclusive requirements contracts or (iv) any contract or other agreement that would prohibit or materially delay the consummation of the Merger or any of the transactions contemplated by this Agreement (collectively, the "Tremont Contracts"). Tremont has delivered to Valhi or provided to Valhi for review, prior to the execution of this Agreement, complete and correct copies of all Tremont Contracts not filed as exhibits to the Tremont SEC Documents. Each Tremont Contract is valid and binding on Tremont and is in full force and effect, and Tremont has performed in all material respects all obligations required to be performed by it to date under each Tremont Contract, except where such noncompliance would not reasonably be expected to result in a Tremont Material Adverse Effect. To Tremont's knowledge, Tremont has not received notice of any violation or default under (nor does there exist any condition that with the passage of time or the giving of notice or both would result in such a violation or default under) any Tremont Contract.

Section 4.17 Environmental Liability. Except as disclosed in the Tremont SEC Documents, there are no legal, administrative, arbitral or other proceedings, claims, actions, causes of action, private environmental investigations or remediation activities or governmental investigations of any nature pending or, to Tremont's knowledge, threatened against Tremont seeking to impose, or that could reasonably be expected to result in the imposition of any liability or obligation arising under common law or under any local, state or federal environmental Law, including, without limitation, CERCLA, which liability or obligation could reasonably be expected to result in a Tremont Material Adverse Effect. To Tremont's knowledge, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation that could reasonably be expected to result in a Tremont Material Adverse Effect.

Section 4.18 Taxes. Except as set forth on Schedule 4.18, Tremont has (i) filed all Tax returns and reports required to be filed by it (after giving effect to any filing extension properly granted by a Governmental Authority having authority to do so) and all such returns and reports are accurate and complete in all material respects; and (ii) paid all Taxes shown on such returns and reports as required to be paid by it, and, except as disclosed in the Tremont SEC Documents, the most recent financial statements contained in the Tremont SEC Documents reflect an adequate reserve for all material Taxes payable by Tremont for all taxable periods and portions thereof through the date of such financial statements. Since the date of the Tremont Interim Balance Sheet, Tremont has not incurred any material liability for Taxes other than in the ordinary course of business. To Tremont's knowledge, no deficiencies for any Taxes have been proposed, asserted or assessed against Tremont, and no requests for waivers of the time to assess any such Taxes are pending. As used in this Agreement, "Taxes" shall include all federal, state, local and foreign income, property, sales, excise and other taxes, tariffs or governmental charges of any nature whatsoever, together with penalties, interest or additions to Tax with respect thereto.

Section 4.19 Knowledge.

The phrases "to Tremont's knowledge" or "to the knowledge of Tremont" shall mean the actual knowledge of any executive officer of Tremont.

Section 4.20 No Undisclosed Information. To Tremont's knowledge, Tremont has not failed to disclose to Valhi any fact material to the business, properties, prospects, operations, financial condition or results of operations of Tremont. To Tremont's knowledge, no representation or warranty by Tremont contained in this Agreement and no statement contained in any document (including historical financial statements and the Schedules to this Agreement), certificate or other writing furnished or to be furnished by Tremont to Valhi or any of its representatives pursuant to the provisions hereof or in connection with the transactions contemplated hereby, contains or will contain any untrue statement of material fact or omits or will omit to state any material fact necessary, in light of the circumstances under which it was made, in order to make the statements herein or therein not misleading. Notwithstanding the foregoing or any other provision herein, Tremont has made no representation or warranty with respect to any financial or other projections made by Tremont.

ARTICLE V

COVENANTS

Section 5.1 Conduct of Business of Tremont. During the period from the date of this Agreement to the Effective Time, Tremont shall carry on its businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent therewith, use commercially reasonable efforts to preserve intact its current business organization, goodwill and ongoing businesses; provided, however, and without limiting the generality of the foregoing, during the period from the date of this Agreement to the Effective Time, except as expressly permitted or contemplated by this Agreement, as shall be consented by Valhi (which consent shall not be unreasonably withheld or delayed) or as set forth on Schedule 5.1, Tremont shall not and shall not authorize or commit or agree to:

(a) (i) except for dividends paid on Tremont Common Stock in the ordinary course of Tremont's business, consistent with past practice, declare, set aside or pay any dividends on, or make any other distributions in respect of any of Tremont's capital shares, (ii) split, combine or reclassify any capital stock or other partnership interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of such capital shares or partnership interests or (iii) purchase, redeem or otherwise acquire any capital shares of Tremont or any options, warrants or rights to acquire, or security convertible into, such capital shares or partnership interests;

(b) issue, deliver or sell, or grant any option or other right in respect of, any capital shares, any other voting securities (including partnership interests) of Tremont or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities;

(c) except as otherwise contemplated by this Agreement, amend the certificate or articles of incorporation, bylaws, partnership agreement or other comparable charter or organizational documents of Tremont;

(d) merge or consolidate with any Person;

(e) (i) acquire or agree to acquire by merging or consolidating with, or by purchasing all or a substantial portion of the equity securities or all or substantially all of the assets of, or by any other manner, any business or any corporation, partnership, limited liability company, joint venture, association, business trust or other business organization or division thereof or interest therein; (ii) subject to any Lien or sell, lease or otherwise dispose of any material assets or assign or encumber the right to receive income, dividends, distributions and the like except pursuant to contracts or agreements in effect at the date of this Agreement and set forth on Schedule 5.1; (iii) make or agree to make any new capital expenditures, except in accordance with budgets relating to Tremont that have been previously delivered to and approved by Valhi; or (iv) incur any indebtedness for borrowed money or guarantee any such indebtedness of another Person, issue or sell any debt securities or warrants or other rights to acquire any debt securities of Tremont, guarantee any debt securities of another Person, enter into any "keep well" or other agreement to maintain any financial statement condition of another Person or enter into any arrangement having the economic effect of any of the foregoing, prepay or refinance any indebtedness or make any loans, advances or capital contributions to, or investments in, any other Person;

(f) make or rescind any Tax election (unless required by Law or necessary to preserve any of Tremont's subsidiaries as a partnership for federal income tax purposes);

(g) (i) change in any material manner any of its methods, principles or practices of accounting for GAAP or (ii) settle or compromise any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes, or change any of its methods of reporting income or deductions for Tax purposes from those employed in the preparation of the applicable Tax return for the most recently completed taxable year except, in the case of clause (i), as may be required by the SEC, applicable Law or GAAP;

(h) adopt any new employee benefit plan, incentive plan, severance plan, bonus plan, stock option or similar plan, grant new stock options or stock appreciation rights or amend any existing plan or rights, except such changes as are required by Law or that are not more favorable to participants than provisions presently in effect;

(i) except as contractually required pursuant to the terms of agreements existing on the date hereof, pay, discharge, settle or satisfy any claims, liabilities or objections (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of Tremont included in the Tremont SEC Documents or incurred in the ordinary course of business consistent with past practice;

(j) settle any stockholder derivative or class action claims arising out of or in connection with any of the transactions contemplated hereby; or

(k) take any action that would result in (i) any of the representations and warranties of such party (without giving effect to any "knowledge" qualification) set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations and warranties (without giving effect to any "knowledge" qualification) that are not so qualified becoming untrue in any material respect or (iii) any of the conditions to the Merger set forth in Sections 6.1 or 6.2 not being satisfied.

Section 5.2 Conduct of Business of Valhi. During the period from the date of this Agreement to the Effective Time, Valhi shall carry on its businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent therewith, use commercially reasonable efforts to preserve intact its current business organization, goodwill and ongoing businesses; provided, however, and without limiting the generality of the foregoing, during the period from the date of this Agreement to the Effective Time, except as expressly permitted or contemplated by this Agreement, as shall be consented by Tremont (which consent shall not be unreasonably withheld or delayed) or as set forth on Schedule 5.2, Valhi shall not and shall not authorize or commit or agree to:

(a) (i) except for dividends paid on Valhi Common Stock in the ordinary course of Valhi's business, consistent with past practice, declare, set aside or pay any dividends on, or make any other distributions in respect of any of Valhi's capital shares, (ii) split, combine or reclassify any capital stock or other partnership interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of such capital shares or partnership interests or (iii) purchase, redeem or otherwise acquire any capital shares of Valhi or any options, warrants or rights to acquire, or security convertible into, such capital shares or partnership interests;

(b) except as otherwise contemplated by this Agreement, amend the certificate or articles of incorporation, bylaws, partnership agreement or other comparable charter or organizational documents of Valhi;

(c) merge or consolidate with any Person;

(d) acquire or agree to acquire by merging or consolidating with, or by purchasing all or a substantial portion of the equity securities or all or substantially all of the assets of, or by any other manner, any business or any corporation, partnership, limited liability company, joint venture, association, business trust or other business organization or division thereof or interest therein; or

(e) take any action that would result in (i) any of the representations and warranties of such party (without giving effect to any "knowledge" qualification) set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations and warranties (without giving effect to any "knowledge" qualification) that are not so qualified becoming untrue in any material respect or (iii) any of the conditions to the Merger set forth in Sections 6.1 or 6.3 not being satisfied.

Section 5.3 Tremont Board Recommendation. In connection with the Merger and the Tremont Stockholders' Approval, the board of directors of Tremont shall (i) unless this Agreement is earlier terminated in accordance with its terms, recommend to the holders of Tremont Common Stock that they vote in favor of approval of this Agreement and the transactions contemplated hereby and use all commercially reasonable efforts to obtain the necessary approvals by the stockholders of Tremont of this Agreement and the transactions contemplated hereby and (ii) otherwise comply with all legal requirements applicable to such approval.

Section 5.4 Access to Information.

(a) From the date of this Agreement until the Effective Time, (i) each of Valhi and Tremont, upon reasonable notice, will provide to the other and their respective lenders and authorized representatives (including counsel, environmental and other consultants, accountants and auditors) full access during normal business hours to all facilities, personnel and operations and to all books and records of Tremont, Valhi and Sub, (ii) each of Valhi and Tremont will permit the other to make such inspections as it may reasonably require (including without limitation any air, water or soil testing or sampling deemed necessary) and (iii) each of Tremont and Valhi will cause its officers to furnish the other party with such financial and operating data and other information with respect to its business and properties as the other party may from time to time reasonably request.

(b) Valhi and Tremont will hold and will cause their representatives to hold in confidence, all documents and information furnished in connection with this Agreement. Other than documents or information (i) available to the public, (ii) that are or become known by Valhi or Tremont from a source other than Tremont or Valhi, as the case may be, other than by a breach of a confidentiality obligation owed to Tremont or Valhi, respectively, or (iii) required by Law to be disclosed.

Section 5.5 Registration Statement and Proxy Statement. As soon as practicable following the date of this Agreement, Tremont shall prepare and file with the SEC a preliminary Proxy Statement in form and substance reasonably satisfactory to each of Valhi and Tremont, and Valhi shall prepare and file with the SEC the Registration Statement, in which the Proxy Statement will be included. Each of Valhi and Tremont shall use its reasonable commercial efforts to (i) respond to any comments of the SEC and (ii) have the Registration Statement declared effective under the Securities Act and the rules and regulations promulgated thereunder as promptly as practicable after such filing and to keep the Registration Statement effective as long as is reasonably necessary to consummate the Merger. Tremont will use its reasonable commercial efforts to cause the Proxy Statement to be mailed to its stockholders as promptly as practicable after the Registration Statement is declared effective under the Securities Act. Each party will notify the other promptly of the receipt of any comments from the SEC and of any request by the SEC for amendments or supplements to the Registration Statement or the Proxy Statement or for additional information and will supply the other with copies of all correspondence between such party or any of its representatives and the SEC, with respect to the Registration Statement or the Proxy Statement. Whenever any event occurs that is required to be set forth in an amendment or supplement to the Registration Statement or the Proxy Statement, Valhi or Tremont, as the case may be, shall promptly inform the other of such occurrences and cooperate in filing with the SEC and/or mailing to the stockholders of Tremont such amendment or supplement. The Proxy Statement shall, subject to Section 5.3, include the recommendation of the board of directors of Tremont in favor of approval of this Agreement and the transactions contemplated hereby. The Proxy Statement shall also include the Fairness Opinion of the Tremont Financial Advisor. Valhi shall take any action required to be taken under any applicable state securities or "blue sky" laws in connection with the issuance of the Valhi Common Stock pursuant to the Merger, and Tremont shall furnish all information concerning Tremont and the holders of shares of Tremont Common Stock and rights to acquire such shares pursuant to the Tremont Option Plans as may be reasonably requested in connection with any such action. Valhi will use its reasonable commercial efforts to obtain, prior to the effective date of the Registration Statement, all necessary state securities or "blue sky" permits or approvals required to carry out the transactions contemplated hereby.

Section 5.6 Tremont Stockholders' Meeting. Tremont will, as soon as practicable following the date of this Agreement (but in no event sooner than 30 days following the date the Proxy Statement is mailed to the stockholders of Tremont), duly call, give notice of, convene and hold the Tremont Stockholder Meeting for the purpose of obtaining the Tremont Stockholders' Approval as set forth in Section 4.15. Subject to Section 5.3, Tremont will, through its board of directors, recommend to its stockholders approval of this Agreement and the transactions contemplated hereby.

Section 5.7 Reasonable Efforts; Other Actions. Tremont, Valhi and Sub each shall use all commercially reasonable efforts promptly to take, or cause to be taken, all other actions and do, or cause to be done, all other things necessary, proper or appropriate under applicable Law to consummate and make effective the transactions contemplated by this Agreement, including, without limitation, (i) the taking of any actions required to qualify the Merger treatment as a tax-free reorganization within the meaning of Code Section 368(a) and (ii) the obtaining of all necessary consents, approvals or waivers under its material contracts. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement, the officers and directors of the parties hereto shall use reasonable commercial efforts to take all such action.

Section 5.8 Public Announcements. Before issuing any press release or otherwise making any public statements with respect to the Merger, Valhi, Sub and Tremont will consult with each other as to its form and substance and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by Law or the rules of the NYSE.

Section 5.9 Notification of Certain Matters. Each of Tremont and Valhi shall give prompt notice to the other party of (i) any notice of, or other communication relating to, a default or event that, with notice of lapse of time or both, would become a default, received by it subsequent to the date of this Agreement and prior to the Effective Time, under any contract to which it is a party or is subject that could reasonably be expected to result in a Valhi Material Adverse Effect or a Tremont Material Adverse Effect, as the case may be, (ii) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, (iii) any change in their respective financial condition, properties, businesses or results of operations, or the occurrence of any event that is reasonably expected to result in any such change, that in any such event could reasonably be expected to result in a Valhi Material Adverse Effect or Tremont Material Adverse, as the case may be, (iv) the occurrence or existence of any event that would, or could with the passage of time or otherwise, make any representation or warranty contained herein that is qualified as to materiality untrue in any respect or any such representation or warranty that is not so qualified becoming untrue in any material respect or (v) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that the delivery of notice pursuant to this Section 5.9 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice. Each party shall use its reasonable commercial efforts to prevent or promptly remedy the same.

Section 5.10 Expenses. Valhi and Sub, on the one hand, and Tremont, on the other hand, shall bear their respective expenses incurred in connection with this Agreement and the transactions contemplated hereby, except that Valhi and Tremont shall each pay one-half of the expenses incurred in connection with the printing and mailing of the Proxy Statement and the Registration Statement.

Section 5.11 Rule 145 Affiliates. Tremont shall deliver to Valhi a letter identifying all Persons who, as of the date hereof, may be deemed to be an "affiliate" thereof for purposes of Rule 145 under the Securities Act (a "Rule

145 Affiliate") and shall advise Valhi in writing of any Persons who become Rule 145 Affiliates prior to the Effective Time. Tremont shall use all reasonable efforts to cause each Person who is so identified as a Rule 145 Affiliate to deliver to Valhi, no later than the earlier of the 30th day prior to the Effective Time or the date such Person becomes a Rule 145 Affiliate, a written agreement substantially in the form of Exhibit B hereto.

Section 5.12 Stock Exchange Listing. Valhi shall file a listing application on or before the Closing and thereafter shall take all action to effect approval to list on the NYSE, the Valhi Common Stock to be issued pursuant to the Merger.

Section 5.13 State Anti-Takeover Laws. If any "fair price" or "control share acquisition" statute or other similar anti-takeover regulation shall become applicable to the transactions contemplated hereby, Valhi and Tremont and their respective board of directors shall use their reasonable commercial efforts to grant such approvals and to take such other actions as are necessary so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and shall otherwise use their reasonable commercial efforts to eliminate the effects of any such statute or regulation on the transactions contemplated hereby.

Section 5.14 Tax-Free Transaction. From and after the date of this Agreement, each party hereto shall use its reasonable commercial efforts to cause the Merger (or, if the LLC Merger occurs, the Merger followed by the LLC Merger) to qualify, and shall not take, or cause to be taken, any actions that could reasonably be expected to prevent the Merger (or, if the LLC Merger occurs, the Merger followed by the LLC Merger) from qualifying as a "reorganization" under Section 368(a) of the Code with respect to the holders of Tremont Common Stock other than Valhi and TGI.

ARTICLE VI

CONDITIONS PRECEDENT

Section 6.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the fulfillment at or prior to the Closing Date of each of the following conditions:

(a) Registration Statement. The Registration Statement shall have become effective in accordance with the provisions of the Securities Act. No stop order suspending the effectiveness of the Registration Statement shall have been issued by the SEC and remain in effect. All necessary state securities or blue sky authorizations shall have been received.

(b) Stockholder Approval. The requisite vote of the stockholders of Tremont necessary to consummate the transactions contemplated by this Agreement shall have been obtained.

(c) Consents and Approvals. All necessary consents and approvals of any United States or any other Governmental Authority required for the consummation of the transactions contemplated by this Agreement shall have been obtained.

(d) Listing. The Valhi Common Stock issued in the Merger shall have been authorized for listing on the NYSE.

(e) No Orders. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or any of the other transactions contemplated hereby shall be in effect.

(f) "Blue Sky" Permits. Valhi shall have received all state securities or "blue sky" permits and other authorizations necessary to issue the Valhi Common Stock pursuant to this Agreement.

Section 6.2 Conditions to the Obligations of Valhi and Sub to Effect the

Merger. The obligation of Valhi and Sub to effect the Merger and to perform under this Agreement is subject to the fulfillment on or before to the Closing Date of the following additional conditions, any one or more of which may be waived, in writing, by Valhi and Sub:

(a) Representations Accurate. The representations and warranties of Tremont contained herein shall be true and correct on the date of this Agreement and at and on the Closing Date as though such representations and warranties were made at and on such date, except to the extent that the representation or warranty is expressly limited by its terms to another date. This condition shall be deemed satisfied unless any or all breaches of Tremont's representations and warranties in this Agreement (without giving effect to any materiality qualification or limitation) is reasonably expected to result in a Tremont Material Adverse Effect or is reasonably expected to prevent or materially to burden or impair the ability of Tremont to consummate the transactions contemplated by this Agreement. In addition, a representation or warranty of Tremont shall not be deemed to be untrue or incorrect if (i) any of Valhi's executive officers had actual and conscious (and not constructive, imputed or implied) knowledge on the date hereof that such representation or warranty was untrue or incorrect or (ii) such representation or warranty was true on the date hereof and Valhi caused such representation or warranty to subsequently become untrue or incorrect.

(b) Performance. Tremont shall have complied, in all material respects, with all agreements, obligations and conditions required by this Agreement to be complied with by it on or prior to the Closing Date.

(c) Certificates. Valhi and Sub shall have received (i) a duly executed certificate signed by the President or a Vice President of Tremont certifying as to compliance with the conditions set forth in Sections 6.2(a), (b) and (h) and (ii) a duly executed certificate signed by the Secretary of Tremont certifying the accuracy and completeness of the resolutions of the board of directors of Tremont approving this Agreement, the Merger and the transactions contemplated hereby.

(d) Certified Certificate of Incorporation. Valhi and Sub shall have received a certificate of the Secretary of State of the State of Delaware certifying the Certificate of Incorporation of Tremont and all amendments thereof, dated not more than ten days prior to the Closing Date.

(e) Good Standing. Valhi and Sub shall have received a certificate of good standing, or its equivalent, dated no more than ten days prior to the Closing Date, from the State of Delaware and each other state in which Tremont is qualified to do business.

(f) Consents. Valhi and Sub shall have received copies of consents of all third parties necessary for Tremont to execute, deliver and perform this Agreement and consummate the Merger.

(g) Tax Opinion. Valhi and Sub shall have received an executed copy of a tax opinion of Locke Liddell & Sapp LLP, Valhi's legal counsel, to the effect that the Merger (or, if the LLC Merger occurs, the Merger followed by the LLC Merger) will constitute a reorganization within the meaning of Section 368(a) of the Code with respect to the holders of Tremont Common Stock other than Valhi and TGI and, if the LLC Merger occurs, a complete liquidation of Tremont under Section 332 of the Code with respect to Valhi.

(h) No Material Adverse Change. Since the date of this Agreement, there shall have been no change that could reasonably be expected to result in a Tremont Material Adverse Effect.

(i) Agreements with Rule 145 Affiliates. Valhi and Sub shall have received from each Person who is a Rule 145 Affiliate under Section 5.11 an executed copy of the written agreement referred to in Section 5.11 and such agreements shall be in full force and effect and there shall be no breach, or in existence any facts that with passage of time or otherwise could constitute a breach, thereof.

(j) Certificate of Merger. Tremont shall have delivered to Valhi the Certificate of Merger as executed by duly authorized officers of Tremont.

Section 6.3 Conditions to the Obligations of Tremont to Effect the Merger. The obligation of Tremont to effect the Merger and to perform under this Agreement is subject to the fulfillment on or before the Closing Date of the following additional conditions, any one or more of which may be waived, in writing, by Tremont:

(a) Representations Accurate. The representations and warranties of Valhi contained herein shall be true and correct on the date of this Agreement and at and on the Closing Date as though such representations and warranties were made at and on such date, except to the extent that the representation or warranty is expressly limited by its terms to another date. This condition shall be deemed satisfied unless any or all breaches of Valhi's representations and warranties in this Agreement (without giving effect to any materiality qualification or limitation) is reasonably expected to result in a Valhi Material Adverse Effect or is reasonably expected to prevent or materially to burden or impair the ability of Valhi to consummate the transactions contemplated by this Agreement. In addition, a representation or warranty of Valhi shall not be deemed to be untrue or incorrect if any of Tremont's executive officers had actual and conscious (and not constructive, imputed or implied) knowledge on the date hereof that such representation or warranty was untrue or incorrect.

(b) Performance. Valhi and Sub shall have complied, in all material respects, with all agreements, obligations and conditions required by this Agreement to be complied with by them on or prior to the Closing Date.

(c) Certificates. Tremont shall have received (i) a duly executed certificate signed by the President or a Vice President of each of Valhi and Sub certifying as to compliance with the conditions set forth in Sections 6.3(a), (b) and (h) and (ii) a duly executed certificate signed by the Secretary of each of Valhi and Sub certifying the accuracy and completeness of the resolutions of the board of directors of each of Valhi and Sub approving this Agreement, the Merger and the transactions contemplated hereby.

(d) Certified Certificates of Incorporation. Tremont shall have received certificates of the Secretary of State of the State of Delaware certifying the Certificate of Incorporation of Valhi and the Certificate of Incorporation of Sub and all amendments thereof, dated not more than ten days prior to the Closing Date.

(e) Good Standing. Tremont shall have received a certificate of good standing, or its equivalent, dated no more than ten days prior to the Closing Date, from the State of Delaware and each other state in which Valhi and Sub are qualified to do business.

(f) Consents. Tremont shall have received copies of consents of all third parties necessary for Valhi and Sub to execute, deliver and perform this Agreement and consummate the Merger.

(g) Tax Opinion. Tremont shall have received an executed copy of a tax opinion of Piper Rudnick LLP, legal counsel to the Special Committee of the Board of Directors of Tremont, to the effect that the Merger (or, if the LLC Merger occurs, the Merger followed by the LLC Merger) will constitute a reorganization within the meaning of Section 368(a) of the Code with respect to shareholders of Tremont other than Valhi or TGI.

(h) No Material Adverse Change. Since the date of this Agreement, there shall have been no change that could reasonably be expected to result in a Valhi Material Adverse Effect.

(i) Certificate of Merger. Sub shall have delivered to Tremont the Certificate of Merger, executed by duly authorized officers of Sub.

ARTICLE VII

CLOSING

Section 7.1 Time and Place. Subject to the provisions of Articles VI and VIII, the closing of the Merger (the "Closing") shall take place at the offices of Locke Liddell & Sapp LLP, 2200 Ross Avenue, Suite 2200, Dallas, Texas, as soon as practicable, but in no event later than the second business day after the date on which each of the conditions set forth in Article VI (other than those conditions that by their nature are to be satisfied at the Closing but subject to such conditions) have been satisfied or waived, in writing, by the party or parties entitled to the benefit of such conditions; or at such other place or on such other date as Valhi, Sub and Tremont may, in writing, mutually agree. The date on which the Closing actually occurs is herein referred to as the "Closing Date."

Section 7.2 Filings at the Closing. Subject to the provisions of Articles VI and VIII, Tremont, Valhi and Sub shall cause to be executed and filed at the Closing the Certificate of Merger and shall cause the Certificate of Merger to be recorded in accordance with the applicable provisions of the DGCL and shall take any and all other lawful actions and do any and all other lawful things necessary to cause the Merger to become effective.

ARTICLE VIII

TERMINATION AND ABANDONMENT

Section 8.1 Termination by Valhi and/or Tremont. This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval of this Agreement and the transactions contemplated hereby by the stockholders of Tremont:

(a) by the mutual consent of Valhi and Tremont;

(b) by either Valhi or Tremont, if any court of competent jurisdiction or other Governmental Authority shall have issued an order (other than a temporary restraining order), decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the Merger, and such order, decree, ruling or other action shall have become final and nonappealable;

(c) by either Valhi or Tremont, if the Tremont Stockholders' Approval is not obtained at the Tremont Stockholder Meeting;

(d) by either Valhi or Tremont, if the Tremont Financial Advisor shall have withdrawn, modified or changed its Fairness Opinion in a manner adverse to the holders of Tremont Common Stock; or

(e) by either Valhi or Tremont, if the Merger shall not have been consummated by February 28, 2003, provided that a party in material breach of this Agreement may not terminate this Agreement pursuant to this Section 8.1(e).

Section 8.2 Termination by Valhi. This Agreement may be terminated by Valhi at any time prior to the Effective Time, whether before or after approval of this Agreement and the transactions contemplated hereby by the stockholders of Tremont if:

(a) (i) Tremont shall have failed to comply in any material respect with any of the covenants or agreements contained in this Agreement to be complied with by Tremont at or prior to such date of termination or (ii) there exists a breach of any representation or warranty of Tremont contained in this Agreement such that the closing conditions set forth in Section 6.2(a) would not be satisfied, provided, however, that with respect to either (i) or (ii), if such failure or breach is capable of being cured, such failure or breach shall not have been cured within 15 days of delivery to Tremont of written notice of such failure or breach; or

(b) the board of directors of Tremont shall have failed to recommend, or shall have withdrawn, modified or changed its recommendation of this Agreement or the Merger in a manner adverse to Valhi or shall have recommended or issued a neutral recommendation with respect to any proposal in respect of an Acquisition Proposal with a Person other than Valhi or any Affiliate of Valhi (or the Tremont board of directors or any committee thereof shall have resolved to do any of the foregoing).

Section 8.3 Termination by Tremont. This Agreement may be terminated by Tremont at any time prior to the Effective Time, whether before or after approval of this Agreement and the transactions contemplated hereby by the stockholders of Tremont if:

(a) (i) Valhi or Sub shall have failed to comply in any material respect with any of the covenants or agreements contained in this Agreement to be complied with by Valhi or Sub at or prior to such date of termination or (ii) there exists a breach of any representation or warranty of Valhi or Sub contained in this Agreement such that the closing conditions set forth in Section 6.3(a) would not be satisfied, provided, however, that, with respect to either (i) or (ii), if such failure or breach is capable of being cured, such failure or breach shall not have been cured within 15 days of delivery to Valhi or Sub of written notice of such failure or breach;

(b) the board of directors of Tremont shall have failed to recommend, or shall have withdrawn, modified or changed its recommendation of, this Agreement or the Merger in a manner adverse to Valhi or shall have recommended or issued a neutral recommendation with respect to any proposal in respect of an Acquisition Proposal with a Person other than Valhi or any Affiliate of Valhi (or the Tremont board of directors or any committee thereof shall have resolved to do any of the foregoing), in each case in order to permit Tremont to execute a definitive agreement for a transaction contemplated by an Acquisition Proposal from a third party that the board of directors of Tremont determines in its good faith judgment (based on, among other things, the written advice of an independent financial advisor) to be no less favorable to its stockholders than the Merger, taking into account all relevant factors.

Section 8.4 Procedure for Termination. In the event of termination and abandonment of the Merger by Valhi or Tremont pursuant to this Article VIII, written notice thereof shall forthwith be given to the other.

Section 8.5 Effect of Termination and Abandonment. In the event of termination of this Agreement and abandonment of the Merger pursuant to this Article VIII, no party hereto (or any of its directors or officers) shall have any liability or further obligation to any other party to this Agreement, except as provided in this Section 8.5 and in Sections 5.4(b), 5.8 and 5.10. Nothing in this Section 8.5 shall relieve any party from liability for willful breach of this Agreement.

ARTICLE IX

SURVIVABILITY; INVESTIGATION

Section 9.1 Survival of Representations and Warranties. None of the representations, warranties and covenants of Tremont, Valhi or Sub will survive the Effective Time.

Section 9.2 Investigation. The respective representations and warranties of Valhi, Sub and Tremont contained herein or in any certificate or other documents delivered prior to or at the Closing shall not be deemed waived or otherwise affected by any investigation made by any party hereto.

ARTICLE X

MISCELLANEOUS

Section 10.1 Notices.

All notices shall be in writing delivered as follows: If to Valhi or Sub, to:

Valhi, Inc.
5430 LBJ Freeway, Suite 1700

Dallas, TX 75240
Attention: J. Mark Hollingsworth
Vice President and General Counsel
Facsimile No.: (972) 448-1445

With a copy (which copy shall not constitute notice) to:

Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, TX 75206
Attention: Don M. Glendenning, Esq.
Facsimile No.: (214) 740-8800

If to Tremont, to:

Tremont Corporation
1999 Broadway, Suite 4300
Denver, CO 80202
Attention: Robert E. Musgraves
Vice President, General Counsel and Secretary
Facsimile No.: (303) 296-9645

With a copy (which copy shall not constitute notice) to:

Piper Rudnick LLP
1251 Avenue of the Americas
New York, NY 10020-1104
Attention: Theodore Altman, Esq.
Facsimile No.: (212) 835-6001

or to such other address as may have been designated in a prior notice pursuant to this Section 10.1. Notices shall be deemed to be effectively served and delivered (a) when delivered personally, (b) when sent by telephone facsimile (with a copy mailed by first-class U.S. mail), (c) one business day following deposit with a recognized national air courier service or (d) three business days after being deposited in the United States mail in a sealed envelope, postage prepaid, return receipt requested, to the appropriate party.

Section 10.2 Binding Effect. Except as may be otherwise provided herein, this Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties. Except as otherwise specifically provided in this Agreement, nothing in this Agreement is intended or will be construed to confer on any Person other than the parties hereto any rights or benefits hereunder.

Section 10.3 Consent to Jurisdiction. Each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of Delaware or any Delaware state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal court sitting in the State of Delaware or a Delaware state court.

Section 10.4 Headings. The headings and table of contents contained in this Agreement are intended solely for convenience of reference and will be given no effect in the construction or interpretation of this Agreement.

Section 10.5 Exhibits and Schedules.

The Exhibits and Schedules referred to in this Agreement will be deemed to be a part of this Agreement.

Section 10.6 Certain Definitions.

For purposes of this Agreement:

"Acquisition Proposal" means any bona fide proposal with respect to a merger, consolidation, share exchange, tender offer or similar transaction involving Tremont or any purchase or other acquisition of all or any significant portion of the assets of or any equity interest in Tremont.

An "Affiliate" of any Person means another Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first Person.

"Governmental Authority" means any federal, state or local government or any court, administrative or regulatory agency or commission or other governmental authority or agency, domestic or foreign federal, state or local government or agency, domestic or foreign.

"LLC Merger" means the merger of the Surviving Corporation and TGI with and into a limited liability company ("Tremont LLC") all of the interests in which are wholly-owned directly by Valhi, with Tremont LLC surviving the mergers, provided that (i) immediately following such mergers Tremont LLC is treated as a disregarded entity pursuant to Treas. Reg. ss. 1.7701-3(b)(1)(ii), and (ii) at such time, Valhi has no plan or intention to cause Tremont LLC to make an election pursuant to Treas. Reg. ss. 1.7701-3(c) or to take any other action which would result in Tremont LLC not being treated as a disregarded entity.

"NL SEC Documents" means all documents required to be filed under the Securities Act and the Exchange Act by NL Industries, Inc.

"Person" means an individual, corporation, partnership, limited liability company, joint venture, associations, trust, unincorporated organization or other entity.

"TGI Merger" means the merger of Valhi Acquisition Corp. II, a Delaware corporation and a wholly-owned subsidiary of Valhi, with and into TGI pursuant to the Agreement and Plan of Merger, of even date herewith, among Valhi, TGI and Valhi Acquisition Corp. II.

"Valhi Subsidiaries" means NL Industries, Inc., CompX International, Inc. and Waste Control Specialists LLC.

Section 10.7 Governing Law.

This Agreement will be governed by the laws of the State of Delaware without regard to conflict of laws principles thereof.

Section 10.8 Waivers. Compliance with the provisions of this Agreement may be waived only by means of a written instrument specifically referring to this Agreement and signed by the party waiving compliance. No course of dealing, nor any failure or delay in exercising any right, will be construed as a waiver, and no single or partial exercise of a right will preclude any other or further exercise of that or any other right.

Section 10.9 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 10.10 Time Periods. Unless "business days" is specified, any action required hereunder to be taken within a certain number of days will be taken within that number of calendar days; provided, however, that if the last day for taking such action falls on a weekend or a holiday, the period during which such action may be taken will be automatically extended to the next business day.

Section 10.11 Amendment. Subject to compliance with applicable Law, this Agreement may be amended by the parties at any time before or after the approval of Tremont's stockholders; provided, however, that after any such approval, there may not be, without further approval of such the stockholders of Tremont, any amendment of this Agreement that changes the amount or the form of the consideration to be delivered to the holders of Tremont Common Stock hereunder, or which by Law otherwise expressly requires the further approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 10.12 Entire Agreement. This Agreement and the agreements and documents referred to in this Agreement or delivered hereunder are the exclusive statement of the agreement among the parties concerning the subject matter hereof. All negotiations among the parties are merged into this Agreement, and there are no representations, warranties, covenants, understandings, or agreements, oral or otherwise, in relation thereto among the parties other than those incorporated herein and to be delivered hereunder.

Section 10.13 Severability. If any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected thereby. To the extent permitted by applicable Law, each party waives any provision of Law that renders any provision of this Agreement invalid, illegal or unenforceable in any respect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

VALHI, INC.

By: /s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer
and Treasurer

VALHI ACQUISITION CORP.

By: /s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer
and Treasurer

TREMONT CORPORATION

By: /s/ Robert E. Musgraves

Robert E. Musgraves
Vice President, General Counsel
and Secretary

AMENDMENT NO. 1 TO
AGREEMENT AND PLAN OF MERGER

This Amendment No. 1 to Agreement and Plan of Merger, dated November 12, 2002 (this "Amendment"), by and among Valhi, Inc., a Delaware corporation ("Valhi"), Valhi Acquisition Corp., a Delaware corporation and a direct wholly-owned subsidiary of Valhi ("Sub"), and Tremont Corporation, a Delaware corporation ("Tremont"), and will amend the Agreement and Plan of Merger, dated as of November 4, 2002, among Valhi, Sub and Tremont (the "Merger Agreement").

WHEREAS, the parties to the Merger Agreement desire to amend the Merger Agreement to clarify their mutual intent relating thereto.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto hereby agree as follows:

1. The second recital of the Merger Agreement is restated to read in its entirety as follows:

> "WHEREAS, it is intended that, for Federal income tax purposes, the Merger followed by the LLC Merger (as defined below) shall be a tax-free reorganization as described in the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the holders of common stock, par value $1.00 per share ("Tremont Common Stock"), of Tremont, other than Valhi and Tremont Group, Inc., a Delaware corporation ("TGI")."

2. Section 2.1(a) of the Merger Agreement is restated to read in its entirety as follows:

> "(a) Cancellation of Treasury Stock and Valhi-Owned Stock. Each share of Tremont Common Stock (i) that is owned by Valhi, (ii) that is held by Tremont as treasury stock and (iii) that is owned by TGI shall, in each case, automatically be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor."

3. Section 3.15 of the Merger Agreement is restated to read in its entirety as follows:

> "Section 3.15 Certain Tax Matters. Neither Valhi nor, to Valhi's knowledge, any other person, has taken or agreed to take any action that could reasonably be expected to prevent the Merger followed by the LLC Merger from constituting a "reorganization" under Section 368(a) of the Code with respect to the holders of Tremont Common Stock other than Valhi and TGI. Valhi is not aware of any agreement, plan or other circumstance that could reasonably be expected to prevent such qualification."

4. Section 5.14 of the Merger Agreement is restated to read in its entirety as follows:

> "Section 5.14 Tax-Free Transaction. From and after the date of this Agreement, each party hereto shall use its reasonable commercial efforts to cause the Merger followed by the LLC Merger to qualify, and shall not take, or cause to be taken, any actions that could reasonably be expected to prevent the Merger followed by the LLC Merger from qualifying as a "reorganization" under Section 368(a) of the Code with respect to the holders of Tremont Common Stock other than Valhi and TGI."

5. The following Section 5.15 is added to the Merger Agreement:

> "Section 5.15 Other Transactions. Valhi shall cause the TGI Merger to be consummated prior to the Effective Time and shall cause the LLC Merger to be consummated as soon as practicable after the Effective Time."

6. Section 6.2(g) of the Merger Agreement is restated to read in its entirety as follows:

> "(g) Tax Opinion. Valhi and Sub shall have received an executed copy of a tax opinion of Locke Liddell & Sapp LLP, Valhi's legal counsel, to the

effect that the Merger followed by the LLC Merger will constitute a reorganization within the meaning of Section 368(a) of the Code with respect to the holders of Tremont Common Stock other than Valhi and TGI and a complete liquidation of Tremont under Section 332 of the Code with respect to Valhi."

7. Section 6.3(g) of the Merger Agreement is restated to read in its entirety as follows:

"(g) Tax Opinion. Tremont shall have received an executed copy of a tax opinion of Piper Rudnick LLP, legal counsel to the Special Committee of the Board of Directors of Tremont, to the effect that the Merger followed by the LLC Merger will constitute a reorganization within the meaning of Section 368(a) of the Code with respect to shareholders of Tremont other than Valhi or TGI."

8. The following Section 6.3(j) is added to the Merger Agreement:

(j) Closing of the TGI Merger. The TGI Merger shall have become effective.

9. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Merger Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be signed by their respective duly authorized officers as of the date first above written.

VALHI, INC.

By: /s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer and Treasurer

VALHI ACQUISITION CORP.

By: /s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer and Treasurer

TREMONT CORPORATION

By: /s/ Robert E. Musgraves

Robert E. Musgraves
Vice President, General Counsel and Secretary

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger, dated as of November 4, 2002, is entered into by and among Valhi, Inc., a Delaware corporation ("Valhi"), Tremont Group, Inc., a Delaware corporation ("TGI"), and Valhi Acquisition Corp. II, a Delaware corporation and a wholly-owned subsidiary of Valhi ("Sub").

WHEREAS, there are currently outstanding 5,141.421 shares of common stock, par value $.01 per share ("TGI Common Stock"), of TGI, 4,113.421 of which are owned by Valhi and 1,028.000 of which are owned by NL Industries, Inc., a Delaware corporation ("NL"); and

WHEREAS, the board of directors of each of Valhi, TGI and Sub deems the Merger (as defined below) to be desirable and in the best interests of its respective corporation and stockholders.

NOW, THEREFORE, in consideration of the foregoing and of the mutual agreements and covenants contained herein, the parties hereto agree as follows:

1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the "DGCL"), Sub shall be merged with and into TGI (the "Merger") at the Effective Time (as defined below). TGI shall be the surviving corporation (the "Surviving Corporation") in the Merger. From and after the Effective Time, the identity and separate corporate existence of Sub shall cease and TGI shall succeed to and assume all the rights and obligations of Sub.

2. The Effective Time. The parties shall file a certificate of merger or other appropriate documents (the "Certificate of Merger") executed in accordance with the DGCL and shall make all other filings or recordings required under the DGCL. The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, or at such later time that TGI and Sub shall have agreed upon and designated in such filings in accordance with applicable law (the time the Merger becomes effective being the "Effective Time").

3. Effects of the Merger. The Merger shall have the effects set forth in the DGCL.

4. Certificate of Incorporation and Bylaws. The Certificate of Incorporation of Sub, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation except that the name of the corporation specified therein shall be "Tremont Group, Inc.," until duly amended in accordance with applicable law. The Bylaws of Sub, as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Corporation (the "Bylaws") except that the name of the corporation specified therein shall be "Tremont Group, Inc.," until duly amended in accordance with applicable law.

5. Directors and Officers. The directors of Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation, each of whom shall serve in accordance with the DGCL and the Bylaws. The officers of Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation, each of whom shall serve until the earlier of his or her resignation or removal or until his or her successor is duly elected and qualified, as the case may be.

6. Conversion of Shares. By virtue of the Merger and without any action on the part of any holder of capital stock of Valhi, TGI or Sub, at the Effective Time:

(a) each share of TGI Common Stock that is owned by Valhi or is held by TGI as treasury stock shall be converted into and become one share of common stock, par value $.01 per share, of the Surviving Corporation;

(b) subject to Section 7, each share of TGI Common Stock that is owned by NL shall be converted into 3,400 shares (the "Merger Shares") of common stock, par value $.01 per share ("Valhi Common Stock"), of Valhi, or an aggregate of 3,495,200 shares of Valhi Common Stock; and

(c) each share of common stock, par value $.01 per share ("Sub Common Stock"), of Sub shall automatically be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefore.

7. Dissenting Shares. Notwithstanding anything to the contrary contained in this Agreement, holders of TGI Common Stock with respect to which dissenters' rights, if any, are granted by reason of the Merger under the DGCL and who do not vote in favor of the Merger and otherwise comply with Section 262 of the DGCL ("Dissenting Shares"), shall not be entitled to shares of Valhi Common Stock pursuant to Section 6 hereof unless and until the holder thereof shall have failed to perfect or shall have effectively withdrawn or lost such holder's right to dissent from the Merger under the DGCL, and shall be entitled to receive only the payment provided for by Section 262 of the DGCL. If such holder shall have failed to perfect or shall have effectively withdrawn or lost such holder's dissenters' rights under the DGCL, such holders Dissenting Shares shall thereupon be deemed to represent shares of Valhi Common Stock as set forth in Section 6 hereof.

8. Condition to the Merger. In order for the Merger to be effective, the Merger shall have received the requisite approval of the holders of Sub Common Stock and TGI Common Stock pursuant to the DGCL.

9. Certain Understandings.

(a) TGI has been advised and understands that the Merger Shares have not been and will not be registered under the Securities Act of 1933, as amended, or any applicable state securities or "blue sky" laws.

(b) Each certificate representing the Merger Shares shall bear the following legend:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS VALHI HAS BEEN FURNISHED WITH AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO VALHI, TO THE EFFECT THAT SUCH TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION MAY BE EFFECTED WITHOUT REGISTRATION UNDER THE ACT AND UNDER APPLICABLE STATE SECURITIES OR 'BLUE SKY' LAWS."

10. Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval by the stockholders of Sub or TGI, by the mutual written consent of Valhi, Sub and TGI. In the event of termination of this Agreement by the parties hereto, this Agreement shall forthwith become void.

11. Amendment. This Agreement may be amended by the parties hereto at any time before or after approval hereof by the stockholders of TGI or Sub, provided that after any such approval no amendment shall be made that (i) changes the number of shares of TGI Common Stock are to be converted into shares of Valhi Common Stock pursuant to Section 6(b) hereof, (ii) in any way materially adversely affects the rights of holders of shares of TGI Common Stock or (iii) changes any of the principal terms of this Agreement, in each case without the further approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

12. General Provisions

(a) Further Assurances. From time to time, as and when required by the Surviving Corporation or by its successors or assigns, there shall be executed and delivered on behalf of Sub such instruments, and there shall be taken or cause to be taken by it all such further action, as shall be appropriate, advisable or necessary to vest, perfect or confirm, of record or otherwise, in the Surviving Corporation title to and possession of all property, interests, assets, rights, privileges, immunities, powers, franchises and authority of Sub and otherwise to carry out the purposes of this Agreement, and the officers and directors of the Surviving Corporation are fully authorized in the name and on behalf of Sub or otherwise, to take any and all such action and to execute and deliver any and all such instruments.

(b) Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same Agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

(c) Entire Agreement; No Third-Party Beneficiaries. This Agreement and the other agreements entered into in connection herewith (i) constitute the entire Agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement and (ii) are not intended to confer upon any Person other than the parties hereto any rights or remedies.

(d) Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflict of laws thereof.

(e) Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned or delegated, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

VALHI, INC.

By: /s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer
and Treasurer

VALHI ACQUISITION CORP. II

By: /s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer
and Treasurer

TREMONT GROUP, INC.

By: /s/ Steven L. Watson

Steven L. Watson

President

INTERCORPORATE SERVICES AGREEMENT

This INTERCORPORATE SERVICES AGREEMENT (the "Agreement"), effective as of January 1, 2002, amends and supersedes that certain Intercorporate Services Agreement effective as of January 1, 2001 by and between CONTRAN CORPORATION, a Delaware corporation ("Contran"), and VALHI, INC., a Delaware corporation ("Recipient").

Recitals

A. Without direct compensation from Recipient, employees and agents of Contran and affiliates of Contran perform (i) management, financial and administrative functions for Recipient and (ii) pilot services and aircraft management functions with respect to certain aircraft owned or leased by Recipient.

B. Recipient does not separately maintain the full internal capability to perform all necessary management, financial and administrative functions that Recipient requires.

C. The cost of maintaining the additional personnel by Recipient necessary to perform the functions provided for by this Agreement would exceed the fee set forth in Section 3 of this Agreement, and the terms of this Agreement are no less favorable to Recipient than could otherwise be obtained from a third party for comparable services.

D. Recipient desires to continue receiving the services presently provided by Contran and affiliates of Contran and Contran is willing to continue to provide such services under the terms of this Agreement.

Agreement

For and in consideration of the mutual premises, representations and covenants herein contained, the parties hereto mutually agree as follows:

Section 1. Services to be Provided. Contran agrees to make available to Recipient, upon request, the following services (the "Services") to be rendered by the internal staff of Contran and affiliates of Contran:

(a) Consultation and assistance in the development and implementation of Recipient's corporate business strategies, plans and objectives;

(b) Consultation and assistance in management and conduct of corporate affairs and corporate governance consistent with the charter and bylaws of Recipient;

(c) Consultation and assistance in maintenance of financial records and controls, including preparation and review of periodic financial statements and reports to be filed with public and regulatory entities and those required to be prepared for financial institutions or pursuant to indentures and credit agreements;

(d) Consultation and assistance in cash management and in arranging financing necessary to implement the business plans of Recipient;

(e) Consultation and assistance in tax management and administration, including, without limitation, preparation and filing of tax returns, tax reporting, examinations by government authorities and tax planning;

(f) Consultation and assistance with respect to employee benefit plans and incentive compensation arrangements;

(g) Pilot services and aircraft management functions with respect to aircraft owned or leased by Recipient;

(h) Certain administration and management services with respect to Recipient's insurance and risk management needs, including, without limitations, administration of Recipient's:

(i) property and casualty insurance program,

(ii) claims management program,

(iii) property loss control program, and

(i) Such other services as may be requested by Recipient from time to time.

This Agreement does not apply to, and the Services provided for herein do not include, any services that Harold C. Simmons, Glenn R. Simmons or Steven L. Watson may provide to Recipient in their roles as members of Recipient's board of directors or any other activity related to such board of directors.

Section 2. Miscellaneous Services. It is the intent of the parties hereto that Contran provide only the Services requested by Recipient in connection with routine functions related to the ongoing operations of Recipient and not with respect to special projects, including corporate investments, acquisitions and divestitures. The parties hereto contemplate that the Services rendered in connection with the conduct of Recipient's business will be on a scale compared to that existing on the effective date of this Agreement, adjusted for internal corporate growth or contraction, but not for major corporate acquisitions or divestitures, and that adjustments may be required to the terms of this Agreement in the event of such major corporate acquisitions, divestitures or special projects. Recipient will continue to bear all other costs required for outside services including, but not limited to, the outside services of attorneys, auditors, trustees, consultants, transfer agents and registrars, and it is expressly understood that Contran assumes no liability for any expenses or services other than those stated in Section 1. In addition to the fee paid to Contran by Recipient for the Services provided pursuant to this Agreement, Recipient will pay to Contran the amount of out-of-pocket costs incurred by Contran in rendering such Services.

Section 3. Fee for Services. Recipient agrees to pay to Contran $1,044,750 quarterly on the first business day of each quarter, commencing as of January 1, 2002, pursuant to this Agreement.

Section 4. Original Term. Subject to the provisions of Section 5 hereof, the original term of this Agreement shall be from January 1, 2002 to December 31, 2002.

Section 5. Extensions. This Agreement shall be extended on a quarter-to-quarter basis after the expiration of its original term unless written notification is given by Contran or Recipient thirty (30) days in advance of the first day of each successive quarter or unless it is superseded by a subsequent written agreement of the parties hereto.

Section 6. Limitation of Liability. In providing its Services hereunder, Contran shall have a duty to act, and to cause its agents to act, in a reasonably prudent manner, but neither Contran nor any officer, director, employee or agent of Contran or its affiliates shall be liable to Recipient for any error of judgment or mistake of law or for any loss incurred by Recipient in connection with the matter to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of Contran.

Section 7. Indemnification of Contran by Recipient. Recipient shall indemnify and hold harmless Contran, its affiliates and their respective officers, directors and employees from and against any and all losses, liabilities, claims, damages, costs and expenses (including attorneys' fees and other expenses of litigation) to which Contran or any such person may become subject arising out of the Services provided by Contran to the Recipient hereunder, provided that such indemnity shall not protect any person against any liability to which such person would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on the part of such person.

Section 8. Confidentiality. Except as otherwise required by applicable law, each of the parties agrees that it will maintain in confidence all confidential information regarding the other party supplied to it in the course of the performance of this Agreement.

Section 9. Further Assurances. Each of the parties will make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as the other party may reasonably request and as may reasonably be required in order to effectuate the purposes of this Agreement and to carry out the terms hereof.

Section 10. Notices. All communications hereunder shall be in writing and shall be addressed, if intended for Contran, to Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240, Attention: Chairman of the Board, or such other address as it shall have furnished to Recipient in writing, and if intended for Recipient, to Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240, Attention: President or such other address as it shall have furnished to Contran in writing.

Section 11. Amendment and Modification. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated other than by agreement in writing signed by the parties hereto.

Section 12. Successor and Assigns. This Agreement shall be binding upon and inure to the benefit of Contran and Recipient and their respective successors and assigns, except that neither party may assign its rights under this Agreement without the prior written consent of the other party.

Section 13. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the state of Texas.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

CONTRAN CORPORATION

By:

Steven L. Watson, President

VALHI, INC.

By:

Bobby D. O'Brien, Vice President

Exhibit 99.1

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

In connection with the Quarterly Report of Valhi, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven L. Watson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Steven L. Watson

Steven L. Watson
President and Chief Executive Officer
November 14, 2002

Exhibit 99.2

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

In connection with the Quarterly Report of Valhi, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bobby D. O'Brien, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Bobby D. O'Brien

Bobby D. O'Brien
Vice President, Chief Financial Officer and Treasurer
November 14, 2002