

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 June 30, 2003

Commission file number 1-5467

VALHI, INC.
(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

87-0110150

(IRS Employer
Identification No.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697
(Address of principal executive offices) (Zip Code)

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

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

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

Number of shares of the Registrant's common stock outstanding on July 31, 2003:
119,441,578.

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2002	June 30, 2003
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 94,679	\$ 77,108
Restricted cash equivalents	52,489	25,649
Marketable securities	9,717	10,676
Accounts and other receivables	170,623	212,224
Refundable income taxes	3,161	26,692
Receivable from affiliates	3,947	492
Inventories	239,533	231,156
Prepaid expenses	15,867	8,428
Deferred income taxes	14,114	14,216
	-----	-----
Total current assets	604,130	606,641
	-----	-----
Other assets:		
Marketable securities	179,582	173,306
Investment in affiliates	155,549	154,366
Receivable from affiliate	18,000	16,000
Loans and other receivables	111,255	113,871
Mining properties	16,545	15,209
Prepaid pension costs	17,572	17,209
Unrecognized net pension obligations	5,561	6,439
Goodwill	364,994	371,602
Other intangible assets	4,413	4,139
Deferred income taxes	1,934	--
Other	31,120	24,742

	-----	-----
Total other assets	906,525	896,883
	-----	-----
Property and equipment:		
Land	31,725	34,483
Buildings	180,311	201,382
Equipment	677,268	734,870
Construction in progress	12,605	18,326
	-----	-----
	901,909	989,061
Less accumulated depreciation	337,783	392,847
	-----	-----
Net property and equipment	564,126	596,214
	-----	-----
	\$2,074,781	\$2,099,738
	=====	=====

VALHI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2002	June 30, 2003
	-----	-----
Current liabilities:		
Current maturities of long-term debt	\$ 4,127	\$ 5,974
Accounts payable	108,970	88,766
Accrued liabilities	149,466	116,697
Payable to affiliates	20,122	21,142
Income taxes	8,344	7,082
Deferred income taxes	3,627	2,170
	-----	-----
Total current liabilities	294,656	241,831
	-----	-----
Noncurrent liabilities:		
Long-term debt	605,740	640,535
Accrued pension costs	54,930	57,003
Accrued OPEB costs	45,474	39,462
Accrued environmental costs	50,660	69,758
Deferred income taxes	255,735	236,543
Other	31,984	29,177
	-----	-----
Total noncurrent liabilities	1,044,523	1,072,478
	-----	-----
Minority interest	120,846	101,572
	-----	-----
Stockholders' equity:		
Common stock	1,262	1,340
Additional paid-in capital	47,657	117,880
Retained earnings	629,773	634,836
Accumulated other comprehensive income:		
Marketable securities	84,264	85,251
Currency translation	(35,590)	(15,716)
Pension liabilities	(36,961)	(37,220)
Treasury stock	(75,649)	(102,514)

	-----	-----
Total stockholders' equity	614,756	683,857
	-----	-----
	\$ 2,074,781	\$ 2,099,738
	=====	=====

Commitments and contingencies (Notes 11 and 14)

VALHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	----	----	----	----
Revenues and other income:				
Net sales	\$ 279,051	\$ 317,393	\$ 532,798	\$ 622,779
Other, net	16,793	8,221	31,733	16,823
	-----	-----	-----	-----
	295,844	325,614	564,531	639,602
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	222,651	245,505	424,046	481,604
Selling, general and administrative ..	43,666	67,042	90,715	123,387
Interest	15,930	14,710	30,363	29,129
	-----	-----	-----	-----
	282,247	327,257	545,124	634,120
	-----	-----	-----	-----
	13,597	(1,643)	19,407	5,482
Equity in earnings of:				
Titanium Metals Corporation ("TIMET")	(2,717)	(1,106)	(14,557)	(3,880)
Other	(14)	(184)	312	500
	-----	-----	-----	-----
Income (loss) before income taxes ..	10,866	(2,933)	5,162	2,102
Provision for income taxes (benefit) ..	1,591	(25,381)	394	(23,372)
Minority interest in after-tax earnings	2,903	4,669	2,107	6,099
	-----	-----	-----	-----
Income before cumulative effect of change in accounting principle ...	6,372	17,779	2,661	19,375
Cumulative effect of change in accounting principle	--	--	--	586
	-----	-----	-----	-----
Net income	\$ 6,372	\$ 17,779	\$ 2,661	\$ 19,961
	=====	=====	=====	=====
Pro forma income before cumulative effect of change in accounting principle*	\$ 6,362	\$ 17,779	\$ 2,640	\$ 19,375
	=====	=====	=====	=====

VALHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	----	----	----	----
Basic and diluted earnings per share:				
Income before cumulative effect of				
change in accounting principle	\$.05	\$.15	\$.02	\$.16
Cumulative effect of change in accounting principle	--	--	--	.01
	-----	-----	-----	-----
Net income	\$.05	\$.15	\$.02	\$.17
	=====	=====	=====	=====
Pro forma income before cumulative effect of change in accounting principle*				
	\$.05	\$.15	\$.02	\$.16
	=====	=====	=====	=====
Cash dividends per share	\$.06	\$.06	\$.12	\$.12
	=====	=====	=====	=====
Shares used in the calculation of per share amounts:				
Basic earnings per common share	115,257	120,165	115,250	119,225
Dilutive impact of outstanding stock options	357	167	517	153
	-----	-----	-----	-----
Diluted earnings per share	115,614	120,332	115,767	119,378
	=====	=====	=====	=====

* Assumes Statement of Financial Accounting Standards No. 143 had been adopted as of January 1, 2002. See Note 13.

Balance at June 30, 2003 ...	\$1,340	\$117,880	\$ 634,836	\$85,251	\$(15,716)	\$(37,220)	\$(102,514)	\$ 683,857
	=====	=====	=====	=====	=====	=====	=====	=====

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2002 and 2003

(In thousands)

	2002	2003
	----	----
Cash flows from operating activities:		
Net income	\$ 2,661	\$ 19,961
Depreciation, depletion and amortization	29,936	35,531
Securities transaction gains, net	(1,915)	(537)
Proceeds from disposal of marketable securities (trading)	8,659	50
Non-cash interest expense	2,031	1,176
Deferred income taxes	4,753	(22,163)
Minority interest	2,107	6,099
Other, net	(7,388)	(4,496)
Equity in:		
TIMET	14,557	3,880
Other	(312)	(500)
Cumulative effect of change in accounting principle	--	(586)
Distributions from:		
Manufacturing joint venture	2,250	800
Other	361	--
	-----	-----
	57,700	39,215
Change in assets and liabilities:		
Accounts and other receivables	(17,993)	(32,773)
Inventories	69,096	25,292
Accounts payable and accrued liabilities	(60,190)	(10,556)
Accounts with affiliates	(6,366)	16,659
Income taxes	(3,270)	(23,928)
Other, net	4,749	5,354
	-----	-----
Net cash provided by operating activities	43,726	19,263
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(19,973)	(18,372)
Purchases of:		
TIMET common stock	--	(977)
TIMET debt securities	--	(158)
NL common stock	(3,272)	--
Business unit	(9,149)	--
Collection of loans to affiliate	--	2,000
Change in restricted cash equivalents, net	421	695
Other, net	2,505	1,272
	-----	-----
Net cash used by investing activities	(29,468)	(15,540)
	-----	-----

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Six months ended June 30, 2002 and 2003

(In thousands)

	2002	2003
	----	----
Cash flows from financing activities:		
Indebtedness:		
Borrowings	\$ 319,275	\$ 22,106
Principal payments	(266,945)	(16,293)
Deferred financing costs paid	(9,342)	(416)
Loans from affiliate:		
Loans	7,135	4,594
Repayments	(9,225)	(15,043)
Valhi dividends paid	(13,915)	(14,898)
Distributions to minority interest	(4,907)	(3,531)
Other, net	1,096	253
	-----	-----
Net cash provided (used) by financing activities	23,172	(23,228)
	-----	-----
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	37,430	(19,505)
Currency translation	3,431	1,934
Business unit acquired	196	--
Cash and equivalents at beginning of period	154,413	94,679
	-----	-----
Cash and equivalents at end of period	\$ 195,470	\$ 77,108
	=====	=====
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	\$ 32,332	\$ 29,370
Income taxes, net	9,811	8,886
Business unit acquired - net assets consolidated:		
Cash and cash equivalents	\$ 196	\$ --
Restricted cash equivalents	2,685	--
Goodwill and other intangible assets	9,007	--
Other non-cash assets	1,259	--
Liabilities	(3,998)	--
	-----	-----
Cash paid	\$ 9,149	\$ --
	=====	=====

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

The consolidated balance sheet of Valhi, Inc. and Subsidiaries (collectively, the "Company") at December 31, 2002 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 2003, and the consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the interim periods ended June 30, 2002 and 2003, 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, and certain prior year amounts have been reclassified to conform to the current year presentation. The accompanying consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 Annual Report").

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

Contran Corporation holds, directly or through subsidiaries, approximately 90% 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. 143, Accounting for Asset Retirement Obligations, effective January 1, 2003. See Note 13.

As disclosed in the 2002 Annual Report, the Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion ("APBO") No. 25, Accounting for Stock Issued to Employees, and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is greater than or equal to the market price on the grant date. In the fourth quarter of 2002, NL commenced accounting for its stock options using the variable accounting method of APBO No. 25, which requires the intrinsic value of all unexercised stock options (including stock options with an exercise price at least equal to the market price on the date of grant) to be accrued as an expense, with subsequent increases (decreases) in NL's market price resulting in recognition of additional compensation expense (income). Net compensation cost recognized by the Company in accordance with APBO No. 25 was nil in each of the second quarter and first six months of 2002, and net compensation expense recognized by the Company was \$500,000 and nil in the second quarter and first six months of 2003, respectively.

The following table presents what the Company's consolidated net income (loss), and related per share amounts, would have been in the 2002 and 2003 periods presented if Valhi and its subsidiaries and affiliates had each elected to account for their respective stock-based employee compensation related to stock options in accordance with the fair value-based recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for all awards granted subsequent to January 1, 1995.

Three months ended		Six months ended	
June 30,		June 30,	
2002	2003	2002	2003
----	----	----	----

(In millions, except per share amounts)

Net income as reported	\$ 6.4	\$ 17.8	\$ 2.7	\$ 20.0
Adjustments, net of applicable income tax effects and minority interest, of stock-based employee compensation expense determined:				
Under APBO No. 25	--	.3	--	--
Under SFAS No. 123	(.6)	(.4)	(1.3)	(.8)
	-----	-----	-----	-----
Pro forma net income	\$ 5.8	\$ 17.7	\$ 1.4	\$ 19.2
	=====	=====	=====	=====
Basic and diluted net income per share:				
As reported	\$.05	\$.15	\$.02	\$.17
Pro forma .....	.05	.15	.01	.16

Note 2 - Business segment information:

Business segment	% owned at Entity	June 30, 2003
Chemicals	NL Industries, Inc.	85%
Component products	CompX International Inc.	69%
Waste management	Waste Control Specialists LLC	90%
Titanium metals	TIMET	41%

The Company's ownership of NL includes 64% owned directly by Valhi and 21% owned directly by Tremont LLC, a wholly-owned subsidiary of Valhi. The Company's ownership of TIMET includes 40% owned directly by Tremont LLC and 1% owned directly by Valhi. During the first six months of 2003, the Company acquired additional shares of TIMET common stock in market transactions for an aggregate of \$977,000, increasing the Company's ownership of TIMET to 41% at June 30, 2003. NL (NYSE: NL), CompX (NYSE: CIX), and TIMET (NYSE: TIE) each file periodic reports with the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934, as amended.

Chemicals operating income, as presented below, differs from amounts separately reported by NL due to amortization of purchase accounting basis adjustments recorded by the Company. Similarly, the Company's equity in earnings of TIMET differs from the Company's pro-rata share of TIMET's separately-reported results. Component products operating income, as presented below, may differ from amounts separately reported by CompX because the Company defines operating income differently than CompX.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2002	2003	2002	2003
	----	----	----	----

(In millions, except per share amounts)

Net sales:

Chemicals	\$226.9	\$266.6	\$429.3	\$519.6
Component products	51.1	49.7	99.6	100.7
Waste management	1.1	1.1	3.9	2.5
	-----	-----	-----	-----
Total net sales	\$279.1	\$317.4	\$532.8	\$622.8
	=====	=====	=====	=====

Operating income:

Chemicals	\$ 21.7	\$ 31.7	\$ 41.0	\$ 62.4
Component products	2.2	.9	4.3	2.2
Waste management	(2.1)	(3.6)	(4.1)	(5.6)

	-----	-----	-----	-----
Total operating income	21.8	29.0	41.2	59.0
General corporate items:				
Interest and dividend income	8.4	8.0	16.9	16.3
Securities transaction gains, net	--	.2	1.9	.5
Legal settlements, net .....	.5	.7	2.4	.7
Foreign currency transaction gain	6.3	--	6.3	--
Gain on disposal of fixed assets	1.6	--	1.6	--
General expenses, net	(9.0)	(24.8)	(20.5)	(41.9)
Interest expense	(16.0)	(14.7)	(30.4)	(29.1)
	-----	-----	-----	-----
	13.6	(1.6)	19.4	5.5
Equity in:				
TIMET	(2.7)	(1.1)	(14.5)	(3.9)
Other	--	(.2)	.3	.5
	-----	-----	-----	-----
Income (loss) before income taxes ..	\$ 10.9	\$ (2.9)	\$ 5.2	\$ 2.1
	=====	=====	=====	=====

At December 31, 2002, Valhi and NL owned 80% and 20%, respectively, of Tremont Group, Inc., and Tremont Group owned approximately 80% of Tremont Corporation. In addition, Valhi and NL each owned a nominal number of Tremont shares directly. In February 2003, Valhi completed two consecutive merger transactions pursuant to which Tremont Group and Tremont both became wholly-owned subsidiaries of Valhi. Under these merger transactions, (i) Valhi issued 3.5 million shares of its common stock to NL in exchange for NL's 20% ownership interest in Tremont Group and (ii) Valhi issued 3.4 shares of its common stock (plus cash in lieu of fractional shares) to Tremont stockholders (other than Valhi and Tremont Group) in exchange for each share of Tremont common stock held by such stockholders, or an aggregate of 4.3 million shares of Valhi common stock, in each case in a tax-free exchange. A special committee of Tremont's board of directors, consisting of members unrelated to Valhi who retained their own independent financial and legal advisors, recommended approval of the second merger. Subsequent to these two mergers, Tremont Group and Tremont merged to form Tremont LLC, also wholly owned by Valhi. The number of shares of Valhi common stock issued to NL in exchange for NL's 20% ownership interest in Tremont Group was equal to NL's 20% pro-rata interest in the shares of Tremont common stock held by Tremont Group, adjusted for the 3.4 exchange ratio in the second merger.

For financial reporting purposes, the Tremont shares previously held by NL (either directly or indirectly through NL's ownership interest in Tremont Group) were already considered as part of the Valhi consolidated group's ownership of Tremont to the extent of Valhi's ownership interest in NL. Therefore, that portion of such Tremont shares was not considered as held by the Tremont minority stockholders. As a result, the Valhi shares issued to NL in the merger transactions described above were deemed to have been issued in exchange for the Tremont shares held by the Tremont minority interest only to the extent that Valhi did not have an ownership interest in NL. At June 30, 2003, NL and its subsidiaries owned an aggregate of 4.7 million shares of Valhi common stock, including 3.5 million shares received by NL in the merger transactions described above and 1.2 million shares previously acquired by NL. As discussed in the 2002 Annual Report, the amount shown as treasury stock in the Company's consolidated balance sheet for financial reporting purposes includes the Company's proportional interest in the shares of Valhi common stock held by NL. Accordingly, a portion of the 3.5 million shares of Valhi common stock issued to NL in the merger transactions were reported as treasury stock, and were not deemed to have been issued in exchange for Tremont shares held by the minority interest, since they represent shares issued to "acquire" the portion of the Tremont shares already held directly or indirectly by NL that were considered as part of the Valhi consolidated group's ownership of Tremont.

The following table presents the number of Valhi common shares that were issued pursuant to the merger transactions described above.

	Equivalent
Tremont	Valhi
shares	shares (1)

Valhi shares issued to NL in exchange for NL's ownership interest in Tremont Group:

Valhi shares issued to NL(2)		3,495,200	
Less shares deemed Valhi has issued to itself based on Valhi's ownership interest in NL		(2,957,288)	-----
		537,912	-----
Valhi shares issued to the Tremont stockholders:			
Total number of Tremont shares outstanding	6,424,858		
Less Tremont shares held by Tremont Group and Valhi(3)	(5,146,421)		-----
	1,278,437	4,346,686	=====
Less fractional shares converted into cash		(1,758)	
Less shares deemed Valhi has issued to itself based on Valhi's ownership interest in NL(4)		(23,494)	-----
		4,321,434	-----
Net Valhi shares issued to acquire the Tremont minority interest		4,859,346	=====

- (1) Based on the 3.4 exchange ratio.
- (2) Represents 5,141,421 shares of Tremont held by Tremont Group, multiplied by NL's 20% ownership interest in Tremont Group, adjusted for the 3.4 exchange ratio in the merger.
- (3) The Tremont shares held by Tremont Group and Valhi were cancelled in the merger transactions.
- (4) Represents shares of Tremont held directly by NL, multiplied by Valhi's ownership interest in NL and adjusted for the 3.4 exchange ratio.

For financial reporting purposes, the merger transactions described above were accounted for by the purchase method (step acquisition of Tremont). The shares of Valhi common stock issued to the Tremont minority interest were valued at \$10.49 per share, representing the average of Valhi's closing NYSE stock price for the period beginning two trading days prior to the November 5, 2002 public announcement of the signing of the definitive merger agreement and ending two trading days following such public announcement. The shares of Valhi common stock issued to acquire the Tremont shares held by NL that were already considered as part of the Valhi's consolidated groups ownership of Tremont, which were reported as treasury stock, were valued at carryover cost basis of approximately \$19.2 million. The following presents the purchase price for the step acquisition of Tremont. The value assigned to the shares of Valhi common stock issued is \$10.49 per share, as discussed above.

	Valhi shares issued -----	Assigned value -----
(In millions)		
Net Valhi shares issued	4,859,346 =====	\$51.0
Plus cash fees and expenses		0.9 -----
Total purchase price		\$51.9 =====

The purchase price has been allocated based upon a preliminary estimate of the fair value of the net assets acquired as follows:

	Amount (In millions)
Book value of historical minority interest in Tremont's net	
assets acquired	\$28.7
Remaining purchase price allocation:	
Increase property and equipment to fair value	3.5
Increase mining properties to fair value	.5
Reduce Tremont's accrued OPEB costs to accumulated benefit obligations	4.4
Adjust deferred income taxes	8.9
Goodwill	5.9

Purchase price	\$51.9 =====

The adjustments to increase the carrying value of property and equipment and mining properties relate to such assets of NL, and gives recognition to the effect that Valhi's acquisition of the minority interest in Tremont results in an increase in Valhi's effective ownership of NL due to Tremont's ownership of NL. The reduction in Tremont's accrued OPEB costs to an amount equal to the accumulated benefit obligations eliminates the unrecognized prior service credit and the unrecognized actuarial gains. The adjustment to deferred income taxes includes (i) the deferred income tax effect of the estimated purchase price allocated to property and equipment, mining properties and accrued OPEB costs and (ii) the effect of adjusting the deferred income taxes separately-recognized by Tremont (principally an elimination of a deferred income tax asset valuation allowance separately-recognized by Tremont which Valhi does not believe is required to be recognized at the Valhi level under the "more-likely-than-not" recognition criteria).

Assuming the merger transactions had been completed as of January 1, 2002, the Company would have reported net income of \$1.3 million, or \$.01 per diluted share, in the first six months of 2002. Such pro forma effect on the Company's reported net income in the first six months of 2003 was not material.

As noted above, the Company's proportional interest in shares of Valhi common stock held by NL are reported as treasury stock in the Company's consolidated balance sheet. As a result of the merger transactions discussed above, the acquisition of minority interest in Tremont effectively resulted in an increase in the Company's overall ownership of NL due to Tremont's 21% ownership interest in NL. Accordingly, as a result of the merger transactions noted above, the Company also recognized a \$7.6 million increase in its treasury stock attributable to the shares of Valhi common stock held by NL. At June 30, 2003, the amount reported as treasury stock, at cost, in the Company's consolidated balance sheet includes an aggregate of \$37.9 million attributable to the 4.7 million shares of Valhi common stock held by NL (or 85% of NL's aggregate original cost basis in such shares of \$44.8 million).

Note 3 - Marketable securities:

	December 31, 2002 ----	June 30, 2003 ----
	(In thousands)	
Current assets:		
Restricted debt securities (available-for-sale)	\$ 9,670	\$ 10,676
Halliburton Company common stock (trading)	47	--
	-----	-----
	\$ 9,717	\$ 10,676
	=====	=====

Noncurrent assets (available-for-sale):

The Amalgamated Sugar Company LLC	\$170,000	\$170,000
Restricted debt securities	9,232	3,099
Other common stocks	350	207
	-----	-----
	\$179,582	\$173,306
	=====	=====

Note 4 - Accounts and other receivables:

	December 31, 2002	June 30, 2003
	-----	-----
	(In thousands)	
Accounts receivable	\$ 174,644	\$ 218,116
Notes receivable	2,221	416
Accrued interest	114	13
Allowance for doubtful accounts	(6,356)	(6,321)
	-----	-----
	\$ 170,623	\$ 212,224
	=====	=====

Note 5 - Inventories:

	December 31, 2002	June 30, 2003
	-----	-----
	(In thousands)	
Raw materials:		
Chemicals	\$ 54,077	\$ 34,641
Component products	6,573	8,155
	-----	-----
	60,650	42,796
	-----	-----
In process products:		
Chemicals	15,936	16,980
Component products	12,602	12,149
	-----	-----
	28,538	29,129
	-----	-----
Finished products:		
Chemicals	109,978	115,506
Component products	12,296	10,182
	-----	-----
	122,274	125,688
	-----	-----
Supplies (primarily chemicals)	28,071	33,543
	-----	-----
	\$239,533	\$231,156
	=====	=====

Note 6 - Accrued liabilities:

	December 31, 2002	June 30, 2003
	-----	-----
	(In thousands)	

Current:

Employee benefits	\$ 43,534	\$ 42,653
Environmental costs	57,496	25,640
Deferred income	6,018	781
Interest	317	446
Other	42,101	47,177
	-----	-----
	\$149,466	\$116,697
	=====	=====

Noncurrent:

Insurance claims and expenses	\$ 16,416	\$ 15,489
Employee benefits	10,409	9,124
Deferred income	1,875	820
Asset retirement obligations	1,665	1,431
Other	1,619	2,313
	-----	-----
	\$ 31,984	\$ 29,177
	=====	=====

The asset retirement obligations are discussed in Note 13.

Note 7 - Other assets:

	December 31, 2002	June 30, 2003
	-----	-----
	(In thousands)	

Investment in affiliates:

TIMET:

Common stock	\$ 12,920	\$ 11,874
Debt securities	--	163
	-----	-----
	12,920	12,037
TiO2 manufacturing joint venture	130,009	129,209
Other	12,620	13,120
	-----	-----
	\$155,549	\$154,366
	=====	=====

Loans and other receivables:

Snake River Sugar Company:

Principal	\$ 80,000	\$ 80,000
Interest	27,910	30,506
Other	5,566	3,781
	-----	-----
	113,476	114,287
Less current portion	2,221	416
	-----	-----
Noncurrent portion	\$111,255	\$113,871
	=====	=====

Other noncurrent assets:		
Deferred financing costs	\$ 10,588	\$ 10,669
Refundable insurance deposits	1,864	1,918
Waste disposal operating permits	1,754	1,368
Restricted cash equivalents	2,158	780
Other	14,756	10,007
	-----	-----
	\$ 31,120	\$ 24,742
	=====	=====

At June 30, 2003, the Company held 1.3 million shares of TIMET common stock with a quoted market price of \$32.10 per share, or an aggregate of \$42 million.

At June 30, 2003, TIMET reported total assets of \$564.4 million and stockholders' equity of \$144.1 million. TIMET's total assets at such date include current assets of \$276.4 million, property and equipment of \$242.2 million and investment in joint ventures of \$21.8 million. TIMET's total liabilities at such date include current liabilities of \$106.9 million, long-term debt of \$9.3 million, accrued OPEB and pension costs aggregating \$75.1 million and convertible preferred securities (excluding deferred distributions) of \$201.2 million.

During the first six months of 2003, TIMET reported net sales of \$201.1 million, an operating loss of \$10.2 million and a loss before cumulative effect of a change in accounting principle of \$19.8 million (2002 - net sales of \$198.7 million, an operating loss of \$11.7 million and a loss before cumulative effect of change in accounting principle of \$48.4 million).

During the first six months of 2003, the Company purchased 14,700 shares of TIMET's 6.625% convertible preferred securities (with an aggregate liquidation amount of \$735,000) for an aggregate cost of \$158,000, including expenses. Such shares represent less than 1% of the aggregate 4 million convertible preferred securities that are outstanding. Each share of TIMET's convertible preferred securities is convertible into .1339 shares of TIMET's common stock. TIMET has the right to defer payments of distributions on the convertible preferred securities for up to 20 consecutive quarters, although distributions continue to accrue at the coupon rate during the deferral period on the liquidation amount and any unpaid distributions. In October 2002, TIMET exercised such deferral rights starting with the quarterly distribution payable in December 2002. The convertible preferred securities mature in 2026, and do not require any amortization prior to maturity. TIMET may currently redeem the convertible preferred securities, at its option, for 102.65% of liquidation amount, declining to 100% in December 2006 and thereafter. The convertible preferred securities are accounted for as available-for-sale marketable securities carried at estimated fair value. At June 30, 2003, the amortized cost basis of the convertible preferred securities approximated their carrying amount, and Contran held an additional 1.7 million shares of such convertible preferred securities.

Note 8 - Other income:

	Six months ended	
	June 30,	
	2002	2003
	----	----
	(In thousands)	

Securities earnings:

Dividends and interest	\$16,930	\$ 16,329
Securities transactions, net	1,915	537
	-----	-----
	18,845	16,866
Legal settlement gains, net	2,355	650
Noncompete agreement income	2,000	333
Currency transactions, net	3,890	(4,465)
Pension settlement gain	677	--

Other, net	3,966	3,439
	-----	-----
	\$31,733	\$ 16,823
	=====	=====

Note 9 - Long-term debt:

	December 31, 2002	June 30, 2003
	-----	-----
	(In thousands)	
Valhi:		
Snake River Sugar Company	\$250,000	\$250,000
Revolving bank credit facility	--	5,000
	-----	-----
	250,000	255,000
	-----	-----
Subsidiaries:		
Kronos International:		
Senior Secured Notes	296,942	325,784
Bank credit facility	27,077	34,293
CompX bank credit facility	31,000	30,000
Valcor Senior Notes	2,431	--
Other	2,417	1,432
	-----	-----
	359,867	391,509
	-----	-----
	609,867	646,509
	-----	-----
Less current maturities	4,127	5,974
	-----	-----
	\$605,740	\$640,535
	=====	=====

In February 2003, the Company redeemed the Valcor Senior Notes at par. In March 2003, NL borrowed euro 15 million (\$16.1 million when borrowed) under its revolving bank credit facility, and in April 2003 NL repaid kroner 80 million (\$11.0 million when repaid) under such facility.

Note 10 - Accounts with affiliates:

	December 31, 2002	June 30, 2003
	-----	-----
	(In thousands)	
Current receivables from affiliates:		
Income taxes receivable from Contran	\$ 3,481	\$ --
Other	466	492
	-----	-----
	\$ 3,947	\$ 492
	=====	=====

Noncurrent receivable from affiliate - loan to Contran family trust	\$18,000 =====	\$16,000 =====
Payables to affiliates:		
Valhi demand loan from Contran	\$11,171	\$ 722
Income taxes payable to Contran	--	10,699
Louisiana Pigment Company	7,614	8,291
Contran - trade items	1,292	1,420
Other, net	45	10
	-----	-----
	\$20,122 =====	\$21,142 =====

Note 11 - Provision for income taxes (benefit):

	Six months ended June 30,	
	2002	2003
	----	----
	(In millions)	
Expected tax expense	\$ 1.8	\$.7
Refund of prior-year German taxes	--	(24.6)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies .....	.3	.4
Non-U.S. tax rates	(.7)	(.5)
Change in deferred income tax valuation allowance, net	(1.5)	(.4)
U.S. state income taxes, net .....	.1	.7
Other, net .....	.4	.3
	-----	-----
	\$.4	\$ (23.4)
	=====	=====
Comprehensive provision for income taxes (benefit) allocated to:		
Income before cumulative effect of change in accounting principle	\$.4	(23.4)
Cumulative effect of change in accounting principle	--	.3
Other comprehensive income:		
Marketable securities	1.3	.8
Currency translation	3.2	2.7
Pension liabilities	(1.5)	--
	-----	-----
	\$ 3.4	\$ (19.6)
	=====	=====

Certain of the Company'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. For example:

- o NL's and NL's majority-owned subsidiary, NL Environmental Management Services, Inc. ("EMS") 1998 U.S. federal income tax returns are being examined by the U.S. tax authorities, and NL and EMS have granted extensions of the statute of limitations for assessments of tax with respect to their 1998 and 1999 income tax returns until September 30, 2004. Based upon the course of the examination, NL anticipated that the IRS would propose a substantial tax deficiency, including penalties and interest, related to a restructuring transaction. In an effort to avoid protracted litigation and minimize the hazards of such litigation, NL applied to take part in an IRS settlement initiative applicable to transactions similar to the restructuring transaction, and in April 2003 NL received notification

from the IRS that NL had been accepted into such settlement initiative. Under the initiative, no penalties will be assessed and final settlement with the IRS is to be reached through negotiation and, if necessary, through a specified arbitration procedure. NL anticipates that settlement of the matter will likely occur in 2004, resulting in payments of federal and state tax and interest ranging from \$33 million to \$45 million. Additional payments in later years may be required as part of the settlement. NL believes it has provided adequate accruals to cover the currently expected range of settlement outcomes.

- o 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 million (\$12 million at June 30, 2003). 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 is without merit. In April 2003, NL received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999 that, including interest, is expected to approximate euro 13 million (\$15 million). NL believes the proposed assessment related to 1999 is without merit, and in April 2003 NL filed a written response in opposition to the notification of intent to assess.
- o NL has received a notification from the Norwegian tax authorities of their intent to assess tax deficiencies of approximately kroner 12 million (\$2 million) relating to 1998 through 2000. NL has objected to this proposed assessment in a written response to the Norwegian tax authorities.
- o In the first quarter of 2003, NL was notified by the German federal fiscal court that they had ruled in NL's favor concerning a claim for refund suit in which NL sought refunds of prior taxes paid during the periods 1990 through 1997. NL has filed certain amended German tax returns and expects to file additional amended German tax returns claiming such refunds for all years affected by the court's decision, which is expected to result in an estimated total net refund of taxes and interest equivalent to approximately \$40 million. Receipt of the German tax refunds is subject to satisfaction of various procedural requirements, including a review and acceptance of the amended German tax returns by the German authorities. Certain of these procedural requirements were satisfied in the second quarter of 2003 with respect to a portion of the refund claim, and in July 2003 the German tax authorities refunded to NL a portion of the total anticipated refund. The portion received in July was euro 21.5 million (\$24.6 million at June 30, 2003 exchange rates). NL has reflected this tax refund in its second quarter of 2003 results of operations. NL expects to receive the remaining refunds over the next six to nine months, a portion of which may result in an additional income tax benefit.

No assurance can be given that these tax matters will be resolved in the Company's favor in view of the inherent uncertainties involved in settlement initiatives, court and tax proceedings. The Company believes that it has provided adequate accruals for additional taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

Note 12 - Minority interest:

December 31, 2002	June 30, 2003
-----	-----

(In thousands)

Minority interest in net assets:

NL Industries	\$ 40,880	\$ 45,957
CompX International	44,539	46,902
Tremont Corporation	26,911	--
Subsidiaries of NL	8,516	8,713
	-----	-----
	\$120,846	\$101,572

=====

Six months ended
June 30,

2002 2003
----- -----

(In thousands)

Minority interest in income (loss) before
cumulative effect of change in
accounting principle:

NL Industries	\$ 3,550	\$ 5,886
CompX International	676	272
Tremont Corporation	(2,489)	(217)
Subsidiaries of NL	370	158
	-----	-----
	\$ 2,107	\$ 6,099
	=====	=====

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 through June 30, 2003.

Subsequent to February 2003, following completion of the merger of Valhi and Tremont discussed in Note 2, the Company no longer reports minority interest in Tremont's net assets or net earnings (losses).

Minority interest in NL's subsidiaries relates to NL's majority-owned environmental management subsidiary, 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 in Note 14.

Note 13 - Accounting principle newly adopted in 2003:

Asset retirement obligations. The Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations, on 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 is 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 is accreted to its future value, and the capitalized cost is depreciated over the useful life of the related asset. Future revisions in the estimated fair value of the asset retirement obligation, due to changes in the amount and/or timing of the expected future cash flows to settle the retirement obligation, are accounted for prospectively as an adjustment to the previously-recognized asset retirement cost. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement.

Under the transition provisions of SFAS No. 143, at the date of adoption on January 1, 2003 the Company recognized (i) an asset retirement cost capitalized as an increase to the carrying value of its property and equipment, (ii) accumulated depreciation on such capitalized cost and (iii) a liability for the asset retirement obligation. Amounts resulting from the initial application of SFAS No. 143 were measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost was measured as of the date the asset retirement obligation was incurred. Cumulative accretion on the asset retirement obligation, and accumulated depreciation on the asset retirement cost, was recognized for the time period from the date the asset retirement cost and liability would have been recognized had the provisions of SFAS No. 143 been in effect at the date the liability was

incurred, through January 1, 2003. The difference, if any, between the amounts to be recognized as described above and any associated amounts recognized in the Company's balance sheet as of December 31, 2002 was recognized as a cumulative effect of a change in accounting principles as of the date of adoption. The effect of adopting SFAS No. 143 as of January 1, 2003 was a net gain of approximately \$600,000 as summarized in the table below. Such change in accounting relates principally to accounting for closure and post-closure obligations at the Company's waste management operations.

	Amount (In millions)
Increase in carrying value of net property and equipment:	
Cost	\$.8
Accumulated depreciation	(.2)
Investment in TIMET	(.1)
Decrease in carrying value of previously-accrued closure and Post-closure activities	1.7
Asset retirement obligations recognized	(1.3)
Deferred income taxes	(.3)

Net impact	\$.6 =====

The increase in the asset retirement obligations from January 1, 2003 (\$1.3 million) to June 30, 2003 (\$1.4 million) is due to accretion expense, which is reported as a component of cost of goods sold in the accompanying statement of operations. If the Company had adopted SFAS No. 143 as of January 1, 2002, the asset retirement obligations would have been \$1.1 million and \$1.2 million at January 1, 2002 and June 30, 2002, respectively.

Note 14 - Commitments and contingencies:

Lead pigment litigation - NL.

Since 1987, NL, other former manufacturers of lead pigments for use in paint and lead-based paint, and the Lead Industries Association have been named as defendants in various legal proceedings seeking damages for personal injury and property damage allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, large U.S. cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These legal proceedings seek recovery under a variety of theories, including public and private nuisance, negligent product design, failure to warn, strict liability, breach of warranty, conspiracy/concert of action, enterprise liability, market share liability, intentional tort, and fraud and misrepresentation.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and asserted health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. Most of these legal proceedings are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of the defendants.

NL believes these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. NL has neither lost nor settled any of these cases. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. Liability that may result, if any, cannot reasonably be estimated. Considering NL's previous involvement in the lead and lead pigment businesses, there can be no assurance that additional litigation similar to that currently pending will not be filed, and there can be no assurance that NL will not incur

future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases.

Environmental matters and litigation.

General. The Company's operations are governed by various federal, state, local and foreign environmental laws and regulations. The Company's policy is to comply with environmental laws and regulations at all of its plants and to continually strive to improve environmental performance in association with applicable industry initiatives. The Company believes that its operations are in substantial compliance with applicable requirements of environmental laws. From time to time, the Company may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs.

The Company records liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future expenditures are generally not discounted to their present value. Recoveries of remediation costs from other parties, if any, are recognized as assets when their receipt is deemed probable. At June 30, 2003, no receivables for recoveries have been recognized.

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

NL. Some of NL's current and former facilities, including several divested secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, NL has been named as a defendant, PRP, or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") or similar state laws in approximately 70 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, its subsidiaries and their predecessors, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although NL may be jointly and severally liable for such costs, in most cases, it is only one of a number of PRPs who may also be jointly and severally liable. In addition, NL is a party to a number of lawsuits filed in various jurisdictions alleging CERCLA or other environmental claims.

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. See Note 12. At June 30, 2003, NL had accrued \$88 million for those environmental matters which NL believes are reasonably estimable. NL believes it is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to NL for sites for which NL believes it is possible to estimate costs is approximately \$125 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.

At June 30, 2003, NL had \$24 million in restricted cash, restricted cash

equivalents and restricted marketable debt securities held by special purpose trusts, the assets of which can only be used to pay for certain of NL's future environmental remediation and other environmental expenditures. Such restricted balances declined by approximately \$28 million in the second quarter of 2003 due primarily to a \$30.8 million payment made by NL related to the final settlement of NL's previously-reported Granite City, Illinois lead smelter site. NL may have to pay up to an additional \$700,000 related to this site upon completion of an EPA audit of certain response costs. No further material expenditures related to this site are expected to be made.

Tremont. 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 (\$1.4 million at June 30, 2003) to cover its share of probable and reasonably estimable environmental obligations for these activities. Tremont currently expects that the nature and extent of any final remediation measures that might be imposed with respect to this site will be known by 2005. Currently, no reasonable estimate can be made of the cost of any such final remediation measure, and accordingly Tremont has accrued no amounts at June 30, 2003 for any such cost. The amount accrued at June 30, 2003 represents Tremont's best estimate of the costs to be incurred through 2004 with respect to the interim remediation measures.

TIMET. At June 30, 2003, TIMET had accrued approximately \$3.8 million for environmental cleanup matters, principally related to TIMET's facility in Nevada and a former TIMET facility in California.

Other. The Company has also accrued approximately \$6 million at June 30, 2003 in respect of other environmental cleanup matters, including amounts related to one Superfund site in Indiana where the Company, as a result of former operations, has been named as a PRP and certain former sites of the disposed building products segment. Such accrual is near the upper end of the range of the Company's estimate of reasonably possible costs for such matters.

Other litigation.

Reference is made to the 2002 Annual Report and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 for a discussion of certain other legal proceedings.

In May 2003, the parties reached an agreement in the previously-reported Finnsugar Bioproducts, Inc. v. The Amalgamated Sugar Company LLC, et al. pursuant to which, among other things, all prior disputes were settled on mutually-agreeable terms. As part of the settlement agreement, (i) Finnsugar entered into a covenant not to sue Amalgamated Research, Inc., a wholly-owned subsidiary of the Company, and Amalgamated Research's current and future licensees and/or sublicensees, for infringement under all claims of certain specified patents and (ii) this case, and a previously-reported related case (Finnsugar Bioproducts, Inc. v. The Monitor Sugar Company) to which the Company was not a party, were both dismissed with prejudice.

In May 2003, trial was held in the previously-reported Gutierrez - Palmenberg, Inc. vs. Waste Control Specialists, LLC, and resulted in a stipulated judgment against Waste Control Specialists for \$464,000, including interest and attorney fees.

In June 2003, TIMET settled its previously-reported litigation U.S. Equal Employment Opportunity Commission v. Titanium Metals Corporation. The amount paid by TIMET to settle this litigation was not material.

In June 2003, NL was served with a complaint in Rhines, et al. v. A.O. Smith, et al. (Circuit Court of Covington County, Mississippi, Civil Action No. 2002-191C). This case was brought on behalf of approximately 3,593 plaintiffs against approximately 265 defendants, alleging injury as a result of exposure to asbestos.

In June 2003, the court dismissed as moot the previously-reported case In Re Tremont Corporation Shareholders Litigation. The court retained jurisdiction of this action for the purpose of determining plaintiffs' application for an award of counsel fees and reimbursement of expenses. In August 2003, plaintiffs' counsel filed an application for fees and expenses in the aggregate amount of \$300,000. Defendants intend to vigorously contest any award of counsel fees or reimbursement of expenses.

In June 2003, Valhi was served with a complaint in Ken Bigham, et al. v. Valhi, Inc. et al. (No. GN302008, 126th Judicial District, District Court of Travis County, Texas). Plaintiffs allege, among other things, that defendants breached duties of loyalty owed to plaintiffs with respect to their investment in Waste Control Specialists and that defendants committed acts not in good faith. Plaintiffs seek, among other things, unspecified damages and reimbursement of expenses. Valhi believes, and understands that each of the other defendants believes, that the allegations are without merit, and Valhi intends, and understands that each of the other defendants intend, to contest the action vigorously. In July 2003, defendants filed a motion to transfer venue with respect to all of a portion of the action to Dallas County, Texas. A hearing on defendants' motion is scheduled for September 2003.

NL's Belgian subsidiary and various of its Belgian employees are the subject of an investigation by Belgian authorities relating to an accident resulting in two fatalities that occurred in NL's Belgian facility in October 2000. The investigation stage, which could ultimately result in civil and criminal sanctions against NL, was completed in 2002. In May 2003, the Belgian authorities referred the proceedings against NL's Belgian subsidiary and certain of its Belgian employees to the criminal court for trial. The matter has been set for trial in October 2003.

Other matters.

TIMET is the primary obligor on two \$1.5 million workers' compensation bonds issued on behalf of a former subsidiary that TIMET sold in 1989. The bonds were provided as part of the conditions imposed on the former subsidiary in order to self-insure its workers' compensation obligations. The former subsidiary filed for Chapter 11 bankruptcy protection in July 2001, and discontinued payment on the underlying workers' compensation claims in November 2001. During 2002, TIMET received notices that the issuers of the bonds were required to make payments on one of the bonds with respect to certain of these claims and were requesting reimbursement from TIMET. Based upon current loss projections, TIMET accrued \$1.5 million for this matter in 2002. Through June 30, 2003, TIMET has reimbursed the issuer approximately \$600,000 under this bond. At this time, one claimant has submitted minor claims under the second bond. TIMET has made immaterial payments to this claimant, and TIMET does not currently anticipate additional claimants with respect to this bond. Accordingly, TIMET has recorded no accrual for any potential claims that could be filed under the second bond. TIMET may revise its estimated liability under these bonds in the future as additional facts become known or claims develop.

As of June 30, 2003, TIMET had \$2.2 million accrued for pending and potential future claims associated with certain standard grade titanium produced by TIMET, which was subsequently found to contain tungsten inclusions as a result of tungsten contaminated silicon purchased from an outside vendor. This amount represents TIMET's best estimate of the most likely amount of loss to be incurred. This amount does not represent the maximum possible loss (which is not possible for TIMET to estimate at this time) and may be periodically revised in the future as more facts become known. As of June 30, 2003, TIMET has received claims aggregating approximately \$5.0 million and has made settlement payments aggregating \$600,000. Pending claims are being investigated and negotiated. TIMET believes that certain claims are without merit or can be settled for less than the amount of the original claim. There is no assurance that all potential claims have 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. In April 2003, TIMET received notice that the silicon supplier had filed a voluntary bankruptcy petition under Chapter 11. TIMET is currently investigating what effect, if any, this bankruptcy may have on TIMET's potential recovery. TIMET has not recorded any recoveries related to this matter as of June 30, 2003.

Note 15 - Accounting principles not yet adopted:

The Company is required to comply with the consolidation requirements of FASB Interpretation ("FIN") No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, beginning in the third quarter of 2003. The Company is still studying this newly-issued interpretation. While the Company

currently does not believe it has any involvement with any variable interest entity (as that term is defined in FIN No 46), the interpretation is complex, and the staff of the FASB continues to provide implementation guidance, and therefore the impact of adopting the consolidation requirements of FIN No. 46 has not yet been determined.

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

RESULTS OF OPERATIONS:

General

The Company reported net income of \$17.8 million, or \$.15 per diluted share, in the second quarter of 2003 compared to income of \$6.4 million, or \$.05 per diluted share, in the second quarter of 2002. Excluding the effects of the items summarized in the table below, the Company would have reported a net loss of \$.02 per diluted share in the second quarter of 2003 compared to net income of \$.01 per diluted share in the second quarter of 2002. For the first six months of 2003, the Company reported income before cumulative effect of change in accounting principle of \$19.4 million, or \$.16 per diluted share, compared to income of \$2.7 million, or \$.02 per diluted share, in the first six months of 2002. Excluding the effects of the items summarized in the table below, the Company would have reported a loss before cumulative effect of change in accounting principle of \$.01 per diluted share in the first six months of 2003 compared to income of \$.01 per diluted share in the first six months of 2002.

The Company believes the analysis presented in the following table is useful in understanding the comparability of its results of operations for the 2002 and 2003 periods presented. Each of these items are more fully discussed below in the applicable sections of this "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations" or in the 2002 Annual Report.

	Income before cumulative effect of change in accounting principle - diluted earnings per share -			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2002	2003	2002	2003
	----	----	----	----
German income tax benefit (1)	\$--	\$.17	\$--	\$.17
Equity in earnings of TIMET-impairment provision (2)	--	--	(.05)	--
Foreign currency transaction gain (3) .....	.04	--	.04	--
Legal settlement gains, net (4)	--	--	.01	--
Securities transaction gains, net	--	--	.01	--
Other, net .....	.01	(.02)	.01	(.01)
	----	----	----	----
	\$.05	\$.15	\$.02	\$.16
	=====	=====	=====	=====

(1) NL's German claim for refund suit.

(2) TIMET's provisions for other than temporary declines in value of the convertible preferred securities of Special Metals Corporation.

(3) NL's foreign currency transaction gain related to the extinguishment of certain NL intercompany indebtedness.

- (4) Settlements NL reached with certain of its principal former insurance carriers.

Total operating income increased 33% in the second quarter of 2003 compared to the same period in 2002, and increased 43% in the first six months of 2003 compared to the first six months of 2002, due to higher chemical earnings at NL, offset in part by lower component products operating income at CompX and a higher operating loss 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 future results to differ materially from those described herein 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 SEC including, but not limited to, the following:

- o Future supply and demand for the Company's products,
- o 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),
- o The cyclicity of certain of the Company's businesses (such as NL's TiO2 operations and TIMET's titanium metals operations),
- o 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),
- o Customer inventory levels (such as the extent to which NL's customers may, from time to time, accelerate purchases of TiO2 in advance of anticipated price increases or defer purchases of TiO2 in advance of anticipated price decreases, 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),
- o Changes in raw material and other operating costs (such as energy costs),
- o The possibility of labor disruptions,
- o General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO2),
- o Competitive products and substitute products,
- o Customer and competitor strategies,
- o The impact of pricing and production decisions,
- o Competitive technology positions,
- o The introduction of trade barriers,
- o Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian kroner and the Canadian dollar),
- o Operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions),
- o Recoveries from insurance claims and the timing thereof,
- o Potential difficulties in integrating completed acquisitions,
- o The ability of the Company to renew or refinance credit facilities,
- o Uncertainties associated with new product development (such as TIMET's ability to develop new end-uses for its titanium products),
- o Environmental matters (such as those requiring emission and discharge standards for existing and new facilities),
- o Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products),

- o The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- o The ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters of NL, Tremont and TIMET), and
- o Possible future litigation.

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

Chemicals

Selling prices for TiO2, NL's principal product, were generally decreasing during the first quarter of 2002, were generally flat during the second quarter of 2002, were generally increasing during the third and fourth quarters of 2002 and the first quarter of 2003 and were generally flat during the second quarter of 2003. NL's TiO2 operations are conducted through its wholly-owned subsidiary Kronos, Inc.

	Three months ended			Six months ended		
	June 30,		%	June 30,		%
	2002	2003	Change	2002	2003	Change
	-----	-----	-----	-----	-----	-----
	(In millions, except percentages)					
Net sales	\$226.9	\$266.6	+18%	\$429.3	\$519.6	+21%
Operating income	21.7	31.7	+46%	41.0	62.4	+52%

Chemicals sales and operating income increased in 2003 compared to the same periods of 2002 due primarily to higher average selling prices for titanium dioxide pigments ("TiO2") and higher TiO2 production volumes, partially offset by higher operating costs (particularly for energy). Excluding 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 second quarter of 2003 were 7% higher than the second quarter of 2002, with the greatest improvement in European and export markets, and were 6% higher in the first six months of 2003 compared to the first six months of 2002. Expressed in U.S. dollars computed using actual foreign currency exchange rates prevailing during the periods, NL's average TiO2 selling prices in the second quarter of 2003 were 19% higher than the second quarter of 2002, and were 18% higher in the first six months of 2003 compared to the same period of 2002.

NL's TiO2 sales volumes in the second quarter of 2003 decreased 1% compared to the record second quarter of 2002. NL's TiO2 sales volumes in the first six months of 2003, a new record for NL, were 2% higher than the first six months of 2002. NL's TiO2 production volumes in the second quarter of 2003 were 6% higher than the second quarter of 2002, and were 8% higher in the first six months of 2003 compared to the same period of 2002, with operating rates at near full capacity in both the 2003 and 2002 periods. NL's TiO2 production volumes in the second quarter of 2003 were an all-time quarterly record for NL, and NL's TiO2 production volumes in the first six months of 2003 were an all-time first half record for NL as well.

NL expects its TiO2 operating income in 2003 will be higher than 2002, primarily due to higher average TiO2 selling prices, slightly higher TiO2 sales volumes and higher TiO2 production volumes, partially offset by higher operating costs, particularly for energy. NL's TiO2 production volumes in 2003 are expected to be higher than NL's TiO2 sales volumes in 2003, with NL's finished inventories rising modestly. 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 market place, 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 (particularly in 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. When translated from billing currencies to U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, NL's average TiO2 selling prices in the second quarter of 2003 increased 19% compared to the second quarter of 2002 (a 2% increase compared to the first quarter of 2003), and such average selling prices were up 18% in the first six months of 2003 compared to the same period in 2002. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro and the Canadian dollar, increased TiO2 sales in the second quarter and first six months of 2003 by a net \$27.7 million and \$54.4 million, respectively, compared to the same periods in 2002. 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 in 2003 compared to the same periods of 2002. Overall, currency exchange rate fluctuations resulted in a net decrease in NL's operating income in the second quarter and first six months of 2003 of \$600,000 and \$2.4 million, respectively.

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 \$5.8 million in the first six months of 2002 and approximately \$7.4 million in the first six months of 2003 as compared to amounts separately reported by NL.

Component products

	Three months ended			Six months ended		
	June 30,		%	June 30,		%
	2002	2003	Change	2002	2003	Change
	(In millions, except percentages)					
Net sales	\$ 51.1	\$ 49.7	- 3	\$ 99.6	\$100.7	+ 1%
Operating income	2.2	.9	-60%	4.3	2.2	-48%

Component products sales were slightly lower in the second quarter of 2003 compared to the second quarter of 2002 due primarily to lower sales volumes of slide products, partially offset by the favorable effect of fluctuations in foreign currency exchange rates. Component product sales were slightly higher in the first six months of 2003 compared to the same period in 2002 as the favorable effect of fluctuations in foreign currency exchange rates more than offset the unfavorable effect of lower volumes in ergonomic products. Sales of slide and security products decreased 4% and 2%, respectively, in the second quarter of 2003 compared to the second quarter of 2002 (with a year-to-date increase of 4% for slides, while security products were flat). Sales of ergonomic products in the second quarter and first six months of 2003 decreased 4% and 9%, respectively, due principally to lower sales volumes.

Despite the increase in sales in the first six months of 2003, operating income declined due primarily to unfavorable changes in product mix (with a lower mix of higher-margin ergonomic product sales) and expenses associated with the consolidation of CompX's two Canadian facilities into one facility, as well as the unfavorable effect of fluctuations in foreign currency exchange rates

discussed below. Expenses associated with the Canadian plant consolidation, which commenced in the first quarter of 2003, were approximately \$800,000 during the first six months of 2003 (including \$400,000 in the second quarter). Benefits associated with this consolidation are expected to begin to be realized in the second half of 2003.

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. During the second quarter and first six months of 2003, currency exchange rate fluctuations of the Canadian dollar and the euro positively impacted component products sales comparisons with the same periods of 2002 (principally with respect to slide products), but currency exchange rate fluctuations of the Canadian dollar, the New Taiwan dollar and the euro negatively impacted component products operating income comparisons for the same periods. Excluding the effects of currency, component products sales would have decreased 7%, and operating income would have declined only 19%, in the second quarter of 2003 compared to the same period in 2002. Excluding the effects of currency, component products sales would have decreased 3%, and operating income would have declined only 11%, in the first six months of 2003 compared to the first six months of 2002.

While CompX believes signs of an economic recovery are beginning to surface in the overall economy, CompX has not experienced a strengthening in its customer orders as of the end of the second quarter of 2003. For the remainder of the year, CompX does not expect this situation will change significantly since a majority of CompX's customers are in the office furniture industry, which tends to lag behind the overall economy in a recovery. Additionally, the European office furniture industry experienced continued economic decline in the spring of 2003 that has put added pressure on CompX's operating results. In response to current economic conditions, CompX continues to focus on improving lean manufacturing efficiency and cost improvement initiatives as well as pursuit of business opportunities for its products outside of the office furniture industry. In addition, due to continued challenges of its European operations, CompX is currently undergoing an analysis of cost saving initiatives and strategic alternatives with respect to its European operations. This analysis, which is currently expected to be completed by the end of the third quarter of 2003, may result in charges for asset impairment, including goodwill, and other restructuring charges during the second half of 2003. CompX believes its balance sheet, which has enabled spending on growth and profitability improvement initiatives despite the difficulties of the market environment, continues to provide CompX with the ability to take advantage of new business opportunities as they arise.

Waste management

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	----	----	----	----
	(In millions)			
Net sales	\$1.1	\$1.1	\$3.9	\$2.5
Operating income	(2.1)	(3.6)	(4.1)	(5.6)

Waste management sales decreased, and the operating loss increased, in the second quarter and first six months of 2003 compared to the same periods of 2002 due to continued weak demand for waste management services as well as costs incurred in 2003 related to certain licensing activities. Waste Control Specialists' continued emphasis on cost controls helped to mitigate the effect of lower sales. Waste Control Specialists also continues to explore opportunities to obtain certain types of new business that, if obtained, could

increase its sales, and decrease its operating loss, in the second half of 2003 as compared to the first half of the year.

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 authorizations 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 low-level and mixed radioactive wastes.

Prior to June 2003, the state law in Texas (where Waste Control Specialists' disposal facility is located) prohibited the applicable Texas regulatory agency from issuing a license for the disposal of a broad range of low-level and mixed radioactive waste to a private enterprise operating a disposal facility in Texas. In June 2003, a new Texas state law was enacted that allows the regulatory agency to issue a low-level radioactive waste disposal license to a private entity, such as Waste Control Specialists. Waste Control Specialists currently expects to apply for such a disposal license with the applicable regulatory agency in the first half of 2004. The length of time that the regulatory agency will take to review and act upon the license application is uncertain, although Waste Control Specialists does not currently expect the agency would issue any final decision on the license application before the end of 2006. There can be no assurance that Waste Control Specialists will be successful in obtaining any such license.

Waste Control Specialists is continuing its attempts to increase its sales volumes from waste streams that conform to authorizations it currently has in place. Waste Control Specialists is also continuing to identify certain waste streams, and attempting 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, even if Waste Control Specialists is unsuccessful in obtaining a license for the disposal of a broad range of low-level and mixed radioactive wastes. 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. There can be no assurance that the Company would not report a loss with respect to any such strategic transaction.

Equity in earnings of TIMET

	Three months ended		Six months ended	
	June 30,		June 30,	
	2002	2003	2002	2003
	----	----	----	----

(In millions)

TIMET historical:

Net sales	\$ 94.3	\$101.8	\$198.7	\$201.1
Operating loss	\$ (7.0)	\$ (2.1)	\$ (11.7)	\$ (10.2)
Impairment of convertible preferred securities	--	--	(27.5)	--
Other general corporate, net	(.3)	(.2)	(.8)	(.7)
Interest expense	(.7)	(.5)	(1.5)	(1.2)
	-----	-----	-----	-----
	(8.0)	(2.8)	(41.5)	(12.1)

Income tax benefit (expense)	(.6)	--	.8	(.5)
Minority interest	(3.7)	(3.6)	(7.7)	(7.2)
	-----	-----	-----	-----

Loss before cumulative effect of

Equity in losses of TIMET	\$ (2.7)	\$ (1.1)	\$ (14.5)	\$ (3.9)
	=====	=====	=====	=====

TIMET reported higher sales, and a lower operating loss, in the second quarter and first six months of 2003 compared to the same periods of 2002. During the second quarter of 2003, TIMET's mill product sales volumes increased 2% compared to the second quarter of 2002, and sales volumes of melted products increased 109%. The improvement in melted products sales volumes reflects new customer relationships, share gains and changes in product mix. TIMET's average selling prices in billing currencies for its mill products in the second quarter of 2003 (as adjusted to exclude the effect of changes in product mix) were 8% lower than the second quarter of 2002, and such average selling prices for melted products declined 13%. Expressed in U.S. dollars computed using actual foreign currency exchange rates prevailing during the periods, TIMET's average selling prices for mill products (as adjusted to exclude the effect of changes in product mix) decreased 2% in the second quarter of 2003 compared to the second quarter of 2002. Substantially all of TIMET's melted products are sold in U.S. dollars.

During the first six months of 2003, TIMET's mill product sales volumes decreased 7% compared to the first six months of 2002, while sales volumes of melted products increased 80%. TIMET's average selling prices in billing currencies for its mill products in the first six months of 2003 (as adjusted to exclude the effect of changes in product mix) were 7% lower than the first six months of 2002, and such average selling prices for melted products declined 13%. Expressed in U.S. dollars computed using actual foreign currency exchange rates prevailing during the periods, TIMET's average selling prices for mill products (as adjusted to exclude the effect of changes in product mix) decreased 2% in the first six months of 2003 compared to the first six months of 2002.

The percentage changes in TIMET's average selling prices for its melted and mill products discussed above have been calculated to exclude the effect of changes in product mix during the respective periods. Expressed in U.S. dollars and based upon TIMET's actual product mix during the respective periods, TIMET's average selling prices for mill products in the second quarter of 2003 decreased 3% compared to the second quarter of 2002, and average selling prices for its melted products decreased 16% (year-to-date increase of 2% for mill products, and year-to-date decrease of 16% for melted products).

TIMET's operating results in the second quarter of 2003 were favorably impacted by improved average plant operating rates, which were approximately 59% of capacity during the second quarter of 2003 compared to 56% during the second quarter of 2002. During the first six months of 2003, TIMET's average plant operating rates declined to 55% of capacity compared to 60% during the first six months of 2002. TIMET's operating results in 2003 were also favorably impacted by the effect of TIMET's cost reduction efforts.

TIMET's results in the first six months of 2002 include a first quarter \$27.5 million provision for an other than temporary impairment of TIMET's investment in the convertible preferred securities of Special Metals Corporation. In addition, TIMET's effective income tax rate in both the 2002 and 2003 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. and U.K. losses under the "more-likely-than-not" recognition criteria.

As previously discussed in the 2002 Annual Report, imports of certain titanium products into the U.S. are generally subject to a 15% tariff. In July 2003, the United States government denied a petition previously filed by the Government of Kazakhstan that would have allowed titanium sponge to be imported duty free into the U.S. from Kazakhstan and Russia. TIMET's Nevada sponge operations represent the last remaining titanium sponge production of any size in the U.S. As a result, the normal 15% tariff will continue to apply to all imports of titanium sponge into the U.S. However, titanium wrought products imported into the U.S. from Russia carry no import tariff, and a action on

petition filed by TIMET seeking removal of duty-free treatment for such imports has been deferred.

The commercial airline industry business environment continues to face many challenges. The weak economy and the uncertainties surrounding the recent war in Iraq, as well as the potential threat of further terrorist attacks, have extended the down cycle in the commercial airline market. Further, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") virus in Asia has also negatively impacted demand for commercial air travel to that region. However, with the SARS virus seemingly under control, commercial air traffic results appear to be headed in a positive direction, although still well below pre-September 11, 2001 levels. The Airline Monitor, a leading aerospace publication, forecasts that the major U.S. airlines will lose nearly \$6.5 billion in 2003 after incurring \$11 billion in losses in 2002. In addition, The Airline Monitor's most recent forecast (published in July 2003) of large commercial aircraft deliveries projects deliveries by Boeing and Airbus to be 580 airplanes in 2003, decreasing 8% to 535 deliveries in 2004 and forecast to reach a low-point of 475 deliveries in 2005, an 18% decrease from estimated 2003 levels. The Airline Monitor delivery projections do not reach 2003 levels again until 2007.

TIMET currently expects that its sales for the full year 2003 will be approximately \$375 million to \$395 million, principally as a result of expected increased volumes for melted products and the favorable effect from the weakening of the U.S. dollar compared to the euro and the British pound sterling, offset in part by slightly lower sales volumes for mill products and lower pricing for melted products. TIMET's mill product sales volumes in 2003 are expected to approximate 8,700 metric tons, which reflects a 2% decrease from 2002 levels. Melted product sales volumes in 2003 are expected to approximate 4,250 metric tons, which reflects a 77% increase over 2002 levels. These melted products volume gains are due in part to new customer relationships, share gains at certain customers, increased military aerospace business and, to a lesser extent, a shift in purchasing preference by certain customers in favor of ingot and away from wrought products. TIMET expects demand for titanium will soften during the second half of 2003 and continue to soften into 2004.

TIMET's operating margins are affected by a number of factors including, among others, customer and product mix, material yields, plant operating rates, raw material costs, labor and energy costs. Raw material costs represent the largest portion of TIMET's manufacturing cost structure. TIMET expects to manufacture a significant portion of its titanium sponge requirements in 2003.

TIMET expects the aggregate cost of purchased sponge to remain relatively stable in 2003. TIMET is experiencing higher prices for certain types of scrap but has mitigated those increased costs by utilizing other cheaper raw material inputs. Overall, TIMET expects its capacity utilization should average approximately 54% in 2003. However, TIMET's practical capacity utilization measures can vary significantly based on product mix. TIMET has implemented a number of actions to reduce its manufacturing costs, including supplier price concessions and implementing stringent spending controls and programs to improve manufacturing yields. These cost reduction efforts have improved gross margins, and TIMET now expects that its gross margins will be about 2% for the year.

TIMET currently anticipates that Boeing will purchase about 1.2 million pounds of product in 2003 under its long-term supply agreement with TIMET. At this projected order level, TIMET expects to recognize about \$24 million of income under the take-or-pay provisions of such supply agreement in 2003, substantially all of which is expected to be recognized in the third and fourth quarters of 2003 (\$500,000 was recognized in the second quarter of 2003). Any such earnings will be reported as operating income, but will not be included in sales revenue, sales volume or gross margin.

TIMET anticipates its effective consolidated income tax rate will be significantly below the U.S. statutory rate, because it does not expect to record any income tax benefit on U.S. or U.K. losses generated in 2003.

TIMET expects to report an operating loss in 2003 of \$5 million to \$15 million, and a net loss of \$25 million to \$35 million.

The Company accounts for its interest in TIMET by the equity method. The Company's equity in earnings of TIMET differs from the amounts that would be expected by applying the Company's ownership percentage to TIMET's separately-reported earnings because of the effect of amortization of purchase accounting adjustments made by the Company in conjunction with the Company's

acquisitions of its interests in TIMET. Amortization of such basis differences generally increases earnings (or reduces losses) attributable to TIMET as reported by the Company, and aggregated \$4.1 million and \$4.0 million in the first six months 2002 and 2003, respectively.

The Company 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 June 30, 2003, the Company's net carrying value of its investment in TIMET was \$9.15 per share compared to a NYSE market price at that date of \$32.10 per share. The Company will continue to monitor and evaluate the value of its investment in TIMET. In the event the Company determines any decline in value of its investment in TIMET below its net carrying value has occurred which is other than temporary, the Company would report a write-down at that time.

General corporate and other items

General corporate interest and dividend income. General corporate interest and dividend income decreased in the second quarter and first six months of 2003 compared to the same periods of 2002 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 2003 compared to same periods in 2002 due primarily to a lower amount of funds available for investment and lower average interest rates.

Securities transactions. Securities transaction gains in the first six months of 2003 relate principally to a first quarter gain of \$316,000 related to NL's receipt of shares of Valhi common stock in exchange for shares of Tremont common stock held directly or indirectly by NL (such gain being attributable to NL stockholders other than the Company). See Note 2 to the Consolidated Financial Statements.

General corporate expenses. Net general corporate expenses in the second quarter and first six months of 2003 were higher than the same periods of 2002 due primarily to higher environmental remediation expenses of NL (principally related to one formerly-owned site of NL for which the remediation process is expected to occur over the next several years) and higher legal expenses of NL. Such environmental and legal expenses are included in selling, general and administrative expenses. In addition, NL's \$20 million of proceeds from the disposal of its specialty chemicals business unit in January 1998 related to its agreement not to compete in the rheological products business was being recognized as a component of general corporate income (expense) ratably over the five-year non-compete period ending in January 2003 (\$2 million recognized in the first six months of 2002 and \$333,000 recognized in the first six months of 2003). See Note 8 to the Consolidated Financial Statements. Net general corporate expenses in calendar 2003 are currently expected to be higher during then calendar 2002, in part due to the effect of recognizing no more income related to NL's non-compete agreement as well as higher expected legal and environmental expenses of NL.

Interest expense. Interest expense declined in the second quarter and first six months of 2003 as compared to the same periods in 2002 due primarily to the net effects of lower average levels of indebtedness of Valhi parent, higher average levels of indebtedness of NL and lower average interest rates on NL indebtedness. Assuming interest rates do not increase significantly from current levels, interest expense in the remainder of 2003 is expected to continue to approximate the amounts for the same periods in 2002.

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.

During the first six months of 2003, NL reduced its deferred income tax asset valuation allowance by approximately \$400,000, primarily as a result of utilization of certain income tax attributes for which the benefit had not previously been recognized.

Minority interest. See Note 12 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 at June 30, 2003.

Following completion of the merger transactions in which Tremont became wholly owned by Valhi in February 2003, the Company no longer reports minority interest in Tremont's net assets or earnings. See Note 2 to the Consolidated Financial Statements.

Accounting principle newly adopted in 2003. See Note 13 to the Consolidated Financial Statements.

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 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 can significantly affect comparisons of cash flow from operating activities from period to period and generally result from the timing of production, sales, purchases and income tax payments. For example, relative changes in assets and liabilities resulted in a net use of cash of \$20 million in the first six months of 2003 compared to a net use of cash of \$14 million in the first six months of 2002, with substantially all of such relative change related to NL's operations.

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.

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. Also, proceeds from the disposal of marketable securities classified as trading securities are reported as a component of cash flows from operating activities, and such proceeds will generally differ from the amount of the related gain or loss on disposal.

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 75% of the Company's consolidated capital expenditures in the first six months of 2003 relate to NL, 23% relate to CompX and substantially all of the remainder relate to Waste Control Specialists.

During the first six months of 2003, (i) the Company purchased additional shares of TIMET common stock for \$977,000, and the Company purchased a nominal number of shares of TIMET's convertible preferred securities for \$158,000 and (ii) NL collected \$2 million of its loan to one of the Contran family trusts described in Note 1 to the Consolidated Financial Statements.

During the first six months of 2003, (i) Valhi repaid a net \$10.4 million of its short-term demand loans from Contran, (ii) CompX repaid a net \$1 million under its revolving bank credit facility and (iii) NL borrowed an aggregate of euro 15 million (\$16 million when borrowed) of borrowings under its European revolving bank credit facility and NL repaid kroner 80 million (\$11 million when repaid) under such facility.

At June 30, 2003, unused credit available under existing credit facilities approximated \$183.4 million, which was comprised of \$17.5 million available to CompX under its new revolving credit facility, \$57.0 million available to NL under non-U.S. credit facilities, \$45.0 million available to NL under its U.S. credit facility and \$63.9 million available to Valhi under its revolving bank credit facility.

Chemicals - NL Industries

At June 30, 2003, NL had cash, cash equivalents and marketable debt securities of \$93 million, including restricted balances of \$38 million, and NL had \$102 million available for borrowing under its U.S. and non-U.S. credit facilities.

See Note 11 to the Consolidated Financial Statements for certain income tax examinations currently underway with respect to certain of NL's income tax returns in various U.S. and non-U.S. jurisdictions, and see Note 14 to the Consolidated Financial Statements with respect to certain legal proceedings and environmental matters with respect to NL.

In addition to those legal proceedings described in Note 14 to the Consolidated Financial Statements, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (i) 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 (ii) effectively overturn court decisions in which NL and other pigment manufacturers have been successful. Examples of such proposed legislation include bills that 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 that would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date that are expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity, imposition of market share liability or other legislation could have such an effect.

At June 30, 2003, NL had the equivalent of approximately \$470 million of income tax loss carryforwards in Germany with no expiration date. However, NL has provided a deferred income tax asset valuation allowance against substantially all of these tax loss carryforwards because NL currently believes they do not meet the "more-likely-than-not" recognition criteria. On August 1, 2003 the German federal government proposed new tax law amendments that would limit the annual utilization of income tax loss carryforwards, to become effective in 2004. This proposal is similar to a proposal the German federal government introduced in 2002 that was never enacted. There can be no assurance that these proposed law amendments will be enacted and, if enacted, when they would become effective. Such proposal, if enacted as proposed, would significantly affect NL's future income tax expense and cash tax payments.

In August 2003, NL announced that its board of directors had approved a plan to distribute to its shareholders one share of common stock of its wholly-owned subsidiary, Kronos, Inc., for every two shares of NL common stock

held. Approximately 23.85 million shares of Kronos common stock would be distributed, representing approximately 48.9% of Kronos' outstanding shares. The plan would also involve a recapitalization of Kronos through Kronos' distribution of a \$200 million promissory note payable by Kronos to NL immediately prior to the distribution of the shares of Kronos common stock. Kronos has filed a Form 10 registration statement with the SEC relating to the distribution of its common stock. Kronos intends to apply for listing of its shares of common stock on the New York Stock Exchange. NL currently expects the distribution will occur in the fourth quarter of 2003. Completion of the distribution would have no impact on the Company's consolidated financial position, results of operations or cash flows.

NL periodically evaluates its liquidity requirements, alternative uses of capital, its dividend policy, capital needs and availability of resources in view of, among other things, its dividend policy, debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, NL has in the past and may in the future seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, issue additional securities, 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 related entities. In the event of any such transaction, NL may consider using its then-available cash, issuing its equity securities or increasing its indebtedness to the extent permitted by the agreements governing NL's existing debt.

Component products - CompX International

CompX believes that its cash on hand, together with cash generated from operations and borrowing availability under its new bank credit facility, will be sufficient to meet CompX's liquidity needs for working capital, capital expenditures and debt service requirements for the foreseeable future. CompX suspended its regular quarterly dividend of \$.125 per share in the second quarter of 2003.

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

Waste management - Waste Control Specialists

At June 30, 2003, Waste Control Specialists' indebtedness consists principally of \$26.1 million of borrowings owed to a wholly-owned subsidiary of Valhi, all of which matures in November 2004. Such indebtedness is eliminated in the Company's consolidated financial statements. Waste Control Specialists will likely borrow additional amounts during 2003 under its revolving credit facility with such Valhi subsidiary.

TIMET

At June 30, 2003, TIMET had \$135 million of borrowing availability under its various U.S. and European credit agreements. TIMET presently expects to generate \$40 million to \$50 million in cash flow from operations during 2003, principally driven by reductions in working capital, especially inventory, and the deferral of distributions on the convertible preferred securities, as discussed below. TIMET received the 2003 advance of \$27.7 million (\$28.5 million

less \$800,000 for 2002 subcontractor purchases) from Boeing in early January 2003.

See Note 14 to the Consolidated Financial Statements for certain legal proceedings, environmental matters and other contingencies associated with TIMET. 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 consolidated 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 consolidated results of operations or cash flows in a particular period.

At June 30, 2003, TIMET had 4,024,820 shares outstanding of its 6.625% convertible preferred securities, representing an aggregate \$201.2 million liquidation amount, that mature in 2026. Each security is convertible into shares of TIMET common stock at a conversion rate of .1339 shares of TIMET common stock per convertible preferred security. Such convertible preferred securities do not require principal amortization, and TIMET has the right to defer distributions on the convertible preferred securities for one or more quarters of up to 20 consecutive quarters, provided that such deferral period may not extend past the 2026 maturity date. TIMET is prohibited from, among other things, paying dividends or reacquiring its capital stock while distributions are being deferred on the convertible preferred securities. In October 2002, TIMET elected to exercise its right to defer future distributions on its convertible preferred securities for a period of up to 20 consecutive quarters. Distributions will continue to accrue at the coupon rate on the liquidation amount and unpaid distributions. This deferral was effective starting with TIMET's December 1, 2002 scheduled payment. TIMET may consider resuming payment of distributions on the convertible preferred securities once the outlook for TIMET's results from operations improves substantially.

TIMET periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its alternative uses of capital, 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, or in light of its current outlook, 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 or debt securities, 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 LLC

See Note 14 to the Consolidated Financial Statements for certain legal proceedings and environmental matters with respect to Tremont.

In October 2002, Tremont entered into a \$15 million revolving credit facility with NL, collateralized by 10.2 million shares of NL common stock owned by Tremont. The new facility, which matures in December 2004, is eliminated in Valhi's consolidated financial statements. At June 30, 2003, no amounts were outstanding under Tremont's loan facility with NL and \$15 million was available to Tremont for additional borrowings.

General corporate - Valhi

Valhi's operations are conducted primarily through its subsidiaries and affiliates (NL, CompX, Waste Control Specialists and TIMET). 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 and affiliates. At NL's current \$.20 per share quarterly rate, and based on the 40.4 million NL shares held directly or indirectly by Valhi at June 30, 2003 (including the 10.2 million NL shares now held by Tremont LLC, a wholly-owned subsidiary of Valhi), Valhi would directly or indirectly receive aggregate annual regular dividends from NL of approximately \$32.3 million. In the second quarter of 2003, CompX suspended its regular quarterly dividend of \$.125 per share. TIMET is currently prohibited from paying dividends on its common stock due to its election to defer payment of interest on its convertible securities.

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 June 30, 2003, Valhi had \$5.4 million of parent level cash and cash equivalents, had \$5 million outstanding under its revolving bank credit agreement and had \$722,000 of short-term demand loans payable to Contran. In addition, Valhi had \$63.9 million of borrowing availability under its bank credit facility.

In May 2003, Valhi purchased 14,700 shares of TIMET's convertible preferred securities at a cash price of \$10 per share pursuant to a previously-reported tender offer.

The terms of The Amalgamated Sugar Company LLC Company Agreement 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 2003, Valhi currently expects that distributions received from the LLC in 2003 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 June 30, 2003, the accrued and unpaid interest on the \$80 million loan to Snake River aggregated \$30.5 million and is classified as a noncurrent asset. 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 currently scheduled complete repayment of Snake River's third-party senior debt in April 2008, 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 (\$13.6 million in 2003) 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.

Non-GAAP financial measures

In an effort to provide investors with additional information regarding the Company's results as determined by accounting principles generally accepted in the United States of America ("GAAP"), the Company has disclosed certain non-GAAP information which the Company believes provides useful information to investors:

- o NL discloses percentage changes in its average TiO2 selling prices in billing currencies, which excludes the effects of foreign currency translation. TIMET discloses percentage changes in its average mill and melted product selling prices excluding the effects of changes in product mix. In addition, TIMET also discloses percentage changes in its average mill product selling prices in billing currencies, as further adjusted to exclude the effects of changes in product mix. In each case, such percentage changes are disclosed to facilitate period-to-period comparisons. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods. Depending on the composition of changes in product mix, the percentage change in average selling prices excluding the affect of changes in product mix can be higher, or lower, than such percentage change would be using the actual product mix prevailing during the respective periods.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Steven L. Watson, the Company's 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 June 30, 2003. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

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

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

There has been no change to the Company's system of internal controls over financial reporting during the quarter ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to (i) the 2002 Annual Report, (ii) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and (iii) Note 14 to the Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q for descriptions of certain legal proceedings, which information is incorporated herein by reference.

County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. CV788657). In July 2003, the trial court granted defendants' motion to dismiss all remaining claims in this previously-described case. The time for appeal has not yet run.

State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). In June 2003, the court set April 5, 2004 as the date for the retrial of Phase I of this previously-described case.

Lewis et al. v. Lead Industries Association, et al. (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). In June 2003, the appellate court affirmed the dismissal of five of the six counts of plaintiffs' complaint in this previously-described case, but reversed the dismissal of the conspiracy count. The time for appeal has not yet run.

Borden, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-587). In June 2003, plaintiffs and defendants jointly moved the court to vacate the previously-described October 2003 trial date.

Quitman County School District v. Lead Industries Association, et al. (Circuit Court of Quitman County, Mississippi, Case No. 2001-0106). In June 2003, the court set a trial date of September 13, 2004 in this previously-described case.

Thomas v. Lead Industries Association, et al. (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411). In June 2003, plaintiff appealed the trial court's grant of summary judgment for defendants in this previously-described case.

City of St. Louis v. Lead Industries Association, et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 002-245, Division 1). In May 2003, plaintiffs filed an amended complaint alleging only a nuisance claim in this previously-described case. Defendants' renewed motion to dismiss and motion for summary judgment are pending. Plaintiffs have moved the Court to set an October 2003 trial date.

City of Milwaukee v. NL Industries, Inc. and Mautz Paint (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV0030066). In May 2003, the court vacated the previously-described October 2003 trial date. In July 2003, the court granted defendants' motion for summary judgment. The time for appeal has not yet run.

Justice et al. v. Sherwin-Williams, et al. (Superior Court of California,

County of San Francisco, No. 314686). This previously-described case has been voluntarily dismissed without prejudice by plaintiffs.

Sabater, et al. v. Lead Industries Association, et al. (Supreme Court of the State of New York, County of Bronx, Index No. 25533/98). Plaintiffs' motion for class certification is pending in this previously-described case.

Herd v. ASARCO, et al. (Case No. CJ-2001-443), Reeves v. ASARCO, et al. (Case No. CJ-02-8), Carr v. ASARCO, et al. (Case No. CJ-02-59), Edens v. ASARCO et al. (Case No. CJ-02-245), and Koger v. ASARCO et al. (Case No. CJ-02-284). In May 2003, NL was voluntarily dismissed with prejudice by plaintiffs from these previously-described cases.

Cole, et al. v. ASARCO Incorporated et al. (U.S. District Court for the Northern District of Oklahoma, Case No. 03C V327 EA (J)). In June 2003, NL was served with a complaint in this purported class action on behalf of two classes of persons living in the Picher/Cardin, Oklahoma, area: (1) a medical monitoring class of persons who have lived in the area since 1994; and (2) a property owner class of residential, commercial and government property owners. Plaintiffs are nine individuals and, in their official capacities, the Mayor of Picher and the Chairman of the Picher/Cardin School Board. Plaintiffs allege causes of action in trespass and nuisance and seek a medical monitoring program, a relocation program, property damages, and punitive damages.

Crawford, et al. v. ASARCO, Incorporated, et al. (Case No. CJ-03-304); Barr, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-305); Brewer, et al. v. ASARCO Incorporated, et al. (Case No. CJ-03-306); Kloer, et al. v. ASARCO, Incorporated, et al. (Case No. CJ-03-307); Rhoten, et al. v. Asarco Incorporated, et al. (Case No. CJ-03-308) (all in the District Court in and for Ottawa County, State of Oklahoma). In July 2003, NL was served with complaints in these five cases asserting personal injuries due to exposure to lead from mining waste on behalf of, respectively, two, four, two, three, and four children. Each complaint alleges causes of action in negligence, strict liability, nuisance, and attractive nuisance; and each seeks \$20 million in compensatory and \$20 million in punitive damages. NL intends to answer each complaint denying all liability and to defend itself vigorously.

United States of America v. NL Industries, Inc., et al., (United States District Court for the Southern District of Illinois, Civ. No. 91-CV 00578). In May 2003, the court entered the previously-described consent decree between the United States and NL involving NL's former Granite City, Illinois lead smelter site. Pursuant to the consent decree, in June 2003 NL paid \$30.8 million to the United States, and NL will pay up to an additional \$.7 million upon completion of an EPA audit of certain response costs.

Item 4. Submission of Matters to a Vote of Security Holders.

Valhi's 2003 Annual Meeting of Stockholders was held on May 21, 2003. Thomas E. Barry, Norman S. Edelcup, W. Hayden McIlroy, Glenn R. Simmons, Harold C. Simmons, J. Walter Tucker, Jr. and Steven L. Watson were elected as directors, each receiving votes "For" their election from at least 98.0% of the 119.4 million common shares eligible to vote at the Annual Meeting.

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

(a) Exhibits

- 31.1 - Certification
- 31.2 - Certification
- 32.1 - Certification.

The Company has retained a signed original of any of the above exhibits that contains signatures, and the Company will provide such exhibit to the Commission or its staff upon request.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended June 30, 2003.

May 1, 2003 - Reported Items 7 and 9. May 5, 2003 - Reported Items 7 and 9. May 21, 2003 - Reported Items 7 and 9. June 3,

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 August 11, 2003

By /s/ Bobby D. O'Brien

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

Date August 11, 2003

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:

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

Date: August 11, 2003

/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:

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

Date: August 11, 2003

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

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 June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Steven L. Watson, President and Chief Executive Officer of the Company, and 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/ Steven L. Watson

/s/ Bobby D. O'Brien

Steven L. Watson
President and Chief Executive Officer
August 11, 2003

Bobby D. O'Brien
Vice President, Chief Financial Officer
and Treasurer
August 11, 2003

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