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 March 31, 2002 Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware	87-0110150
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Number of shares of common stock outstanding on April 30, 2002: 114,773,617.

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2001	March 31, 2002
Current assets:		
Cash and cash equivalents	$ 154,413	$ 117,885
Restricted cash equivalents	63,257	54,771
Marketable securities	18,465	19,268
Accounts and other receivables	162,310	173,665
Refundable income taxes	3,564	3,346
Receivable from affiliates	844	197
Inventories	262,733	217,092
Prepaid expenses	11,252	9,679
Deferred income taxes	12,999	12,486
Total current assets	689,837	608,389
Other assets:		
Marketable securities	186,549	181,948
Investment in affiliates	211,115	193,506
Receivable from affiliate	20,000	20,000
Loans and other receivables	105,940	107,214
Mining properties	12,410	12,148
Prepaid pension costs	18,411	18,384
Unrecognized net pension obligations	5,901	5,901
Goodwill	349,058	356,475
Other intangible assets	2,440	4,966
Deferred income taxes	3,818	3,773
Other	30,109	33,271
Total other assets	945,751	937,586

Property and equipment:		
Land	28,721	28,467
Buildings	163,995	160,196
Equipment	569,001	573,168
Construction in progress	9,992	13,309
	771,709	775,140
Less accumulated depreciation	253,450	264,555
Net property and equipment	518,259	510,585
	$2,153,847	$2,056,560

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2001	March 31, 2002
Current liabilities:		
Notes payable	$ 46,201	$ 46,382
Current maturities of long-term debt	64,972	114,525
Accounts payable	114,474	79,485
Accrued liabilities	166,488	156,234
Payable to affiliates	38,148	32,877
Income taxes	9,578	8,716
Deferred income taxes	1,821	2,247
Total current liabilities	441,682	440,466
Noncurrent liabilities:		
Long-term debt	497,215	422,845
Accrued OPEB costs	50,146	49,513
Accrued pension costs	33,823	32,382
Accrued environmental costs	54,392	57,782
Deferred income taxes	268,468	266,491
Other	32,642	32,087
Total noncurrent liabilities	936,686	861,100
Minority interest	153,151	146,428
Stockholders' equity:		
Common stock	1,258	1,258
Additional paid-in capital	44,982	45,037
Retained earnings	656,408	645,739
Accumulated other comprehensive income:		

Marketable securities	86,654	88,334
Currency translation	(79,404)	(82,019)
Pension liabilities	(11,921)	(14,134)
Treasury stock	(75,649)	(75,649)
Total stockholders' equity	622,328	608,566
	$ 2,153,847	$ 2,056,560

Commitments and contingencies (Note 1)

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended March 31, 2001 and 2002

(In thousands, except per share data)

	2001	2002
Revenues and other income:		
Net sales	$288,835	$ 253,747
Other, net	44,091	14,940
	332,926	268,687
Costs and expenses:		
Cost of sales	202,691	201,395
Selling, general and administrative	49,193	47,049
Interest	17,110	14,433
	268,994	262,877
	63,932	5,810
Equity in earnings (losses) of:		
Titanium Metals Corporation ("TIMET")	125	(11,840)
Other	658	326
Income (loss) before income taxes	64,715	(5,704)
Provision for income taxes (benefit)	23,722	(1,197)
Minority interest in after-tax earnings (losses)	9,432	(796)
Net income (loss)	$ 31,561	$ (3,711)
Basic and diluted earnings (loss) per share	$ .27	$ (.03)

Cash dividends per share	$ .06	$ .06
Shares used in the calculation of per share amounts:		
Basic earnings per common share	115,162	115,243
Dilutive impact of outstanding stock options	842	--
Diluted earnings per share	116,004	115,243

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three months ended March 31, 2001 and 2002

(In thousands)

	2001	2002
Net income (loss)	$ 31,561	$(3,711)
Other comprehensive income (loss), net of tax:		
Marketable securities adjustment	734	1,680
Currency translation adjustment	(16,910)	(2,615)
Pension liabilities adjustment	(332)	(2,213)
Total other comprehensive income (loss), net	(16,508)	(3,148)
Comprehensive income (loss)	$ 15,053	$(6,859)

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, 2001 and 2002

(In thousands)

	2001	2002
Cash flows from operating activities:		

Net income (loss)	$ 31,561	$ (3,711)
Depreciation, depletion and amortization	18,673	14,856
Legal settlements, net	(10,307)	--
Securities transaction gains, net	--	(1,915)
Proceeds from disposal of marketable securities (trading)	--	8,659
Noncash interest expense	2,437	704
Deferred income taxes	5,273	(402)
Minority interest	9,432	(796)
Other, net	(2,222)	(1,396)
Equity in:		
TIMET	(125)	11,840
Other	(658)	(326)
Distributions from:		
Manufacturing joint venture	1,500	900
Other	--	361
	55,564	28,774
Change in assets and liabilities:		
Accounts and other receivables	(20,201)	(13,994)
Inventories	11,125	44,843
Accounts payable and accrued liabilities	(19,983)	(37,477)
Accounts with affiliates	8,690	(845)
Income taxes	(1,383)	(829)
Other, net	(563)	2,826
Net cash provided by operating activities	33,249	23,298
Cash flows from investing activities:		
Capital expenditures	(11,011)	(9,446)
Purchases of:		
NL common stock	--	(3,271)
CompX common stock	(2,442)	--
Business unit	--	(9,149)
Change in restricted cash equivalents, net	863	(185)
Other, net	309	(63)
Net cash used by investing activities	(12,281)	(22,114)

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Three months ended March 31, 2001 and 2002

(In thousands)

	2001	2002
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 7,000	$ --
Principal payments	(38,914)	(25,445)
Loans from affiliate:		
Loans	27,500	3,924

Repayments	(27,900)	(7,325)
Valhi dividends paid	(6,953)	(6,958)
Distributions to minority interest	(2,701)	(2,446)
Other, net	634	195
Net cash used by financing activities	(41,334)	(38,055)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(20,366)	(36,871)
Currency translation	(1,624)	147
Business unit acquired	--	196
Cash and equivalents at beginning of period	135,017	154,413
Cash and equivalents at end of period	$ 113,027	$ 117,885
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 9,118	$ 8,345
Income taxes, net	13,543	3,301
Business unit acquired - net assets consolidated:		
Cash and cash equivalents	$ --	$ 196
Restricted cash	--	2,685
Goodwill and other intangible assets	--	9,007
Other noncash assets	--	1,259
Liabilities	--	(3,998)
Cash paid	$ --	$ 9,149

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three months ended March 31, 2002

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Marketable securities	Currency translation	Pension liabilities	Treasury stock	Total stockholders' equity
Balance at December 31, 2001	$1,258	$44,982	$ 656,408	$86,654	$(79,404)	$(11,921)	$(75,649)	$ 622,328
Net loss	--	--	(3,711)	--	--	--	--	(3,711)
Dividends	--	--	(6,958)	--	--	--	--	(6,958)
Other comprehensive income (loss), net	--	--	--	1,680	(2,615)	(2,213)	--	(3,148)
Other, net	--	55	--	--	--	--	--	55
Balance at March 31, 2002	$1,258	$45,037	$ 645,739	$88,334	$(82,019)	$(14,134)	$(75,649)	$ 608,566

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of presentation:

The consolidated balance sheet of Valhi, Inc. and Subsidiaries (collectively, the "Company") at December 31, 2001 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at March 31, 2002, and the consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the interim periods ended March 31, 2001 and 2002, have been prepared by the Company, without audit, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made.

The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain information normally included in financial statements prepared in accordance with GAAP has been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (the "2001 Annual Report").

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.

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

Contran Corporation holds, directly or through subsidiaries, approximately 94% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of Valhi and Contran, may be deemed to control such companies.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective January 1, 2002. See Note 14.

Note 2 - Business segment information:

Business segment	Entity	% owned by Valhi at March 31, 2002
Chemicals	NL Industries, Inc.	62%
Component products	CompX International Inc.	69%
Waste management	Waste Control Specialists	90%
Titanium metals	Tremont Group, Inc.	80%

Tremont Group is a holding company which owns 80% of Tremont Corporation ("Tremont") at March 31, 2002. NL owns the other 20% of Tremont Group. Tremont is also a holding company and owns an additional 21% of NL and 39% of Titanium Metals Corporation at March 31, 2002.

	Three months ended March 31,	
	2001	2002

	----	----
	(In millions)	
Net sales:		
Chemicals	$226.1	$202.4
Component products	59.6	48.5
Waste management	3.1	2.8
Total net sales	$288.8	$253.7
Operating income:		
Chemicals	$ 45.4	$ 19.3
Component products	7.0	2.1
Waste management	(3.2)	(2.0)
Total operating income	49.2	19.4
General corporate items:		
Legal settlements, net	30.7	1.9
Interest and dividend income	10.3	8.5
Securities transactions, net	--	1.9
General expenses, net	(9.2)	(11.5)
Interest expense	(17.1)	(14.4)
	63.9	5.8
Equity in:		
TIMET	.1	(11.8)
Other	.7	.3
Income (loss) before income taxes	$ 64.7	$ (5.7)

During the first quarter of 2002, NL purchased shares of its common stock in market transactions for an aggregate of $3.3 million, increasing Valhi's ownership of NL to 62%. As previously reported in the 2001 Annual Report, in January 2002 NL purchased the insurance brokerage operations conducted by EWI Re, Inc. and EWI Re, Ltd. for an aggregate cash purchase price of $9 million. The pro forma impact assuming the acquisition of EWI had occurred as of January 1, 2001 is not material.

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

Note 3 - Marketable securities:

	December 31, 2001	March 31, 2002
	(In thousands)	
Current assets:		
Halliburton Company common stock (available-for-sale)	$ 8,138	$ 10,605
Halliburton Company common stock (trading)	6,744	--
Restricted debt securities (available-for-sale)	3,583	8,663
	$ 18,465	$ 19,268

Noncurrent assets (available-for-sale):

The Amalgamated Sugar Company LLC	$170,000	$170,000
Restricted debt securities	16,121	11,219
Other common stocks	428	729
	$186,549	$181,948

At March 31, 2002, Valhi held approximately 621,000 shares of Halliburton common stock (aggregate cost of $5 million) with a quoted market price of $17.07 per share, or an aggregate market value of $10.6 million. Valhi's LYONs debt obligations are exchangeable at any time, at the option of the LYON holder, for such shares of Halliburton common stock, and the carrying value of such Halliburton shares is limited to the accreted LYONs obligations. Such Halliburton shares are held in escrow for the benefit of the holders of the LYONs. Valhi receives the regular quarterly dividend on all of the Halliburton shares held, including shares held in escrow. Such Halliburton shares are classified as a current asset at March 31, 2002 because the related LYONs obligations, which are redeemable at the option of the holders in October 2002, are classified as a current liability at such date. During the first quarter of 2002, the Company sold approximately 515,000 Halliburton shares classified as trading securities in market transactions for aggregate proceeds of $8.7 million. See Notes 9 and 10. See the 2001 Annual Report for a discussion of the Company's investment in The Amalgamated Sugar Company LLC. The aggregate cost of the debt securities, restricted pursuant to the terms of one of NL's environmental special purpose trusts discussed in the 2001 Annual Report, approximates their net carrying value at March 31, 2002. The aggregate cost of other noncurrent available-for-sale securities is nominal at March 31, 2002.

Note 4 - Accounts and other receivables:

	December 31, 2001	March 31, 2002
	(In thousands)	
Accounts receivable	$ 166,126	$ 177,737
Notes receivable	2,484	2,664
Accrued interest	26	28
Allowance for doubtful accounts	(6,326)	(6,764)
	$ 162,310	$ 173,665

Note 5 - Inventories:

	December 31, 2001	March 31, 2002
	(In thousands)	
Raw materials:		
Chemicals	$ 79,162	$ 43,589
Component products	9,677	8,787
	88,839	52,376
In process products:		
Chemicals	9,675	9,408
Component products	12,619	12,416
	22,294	21,824

Finished products:		
Chemicals	117,976	109,486
Component products	8,494	7,849
	126,470	117,335
Supplies (primarily chemicals)	25,130	25,557
	$262,733	$217,092

Note 6 - Accrued liabilities:

	December 31, 2001	March 31, 2002
	(In thousands)	
Current:		
Employee benefits	$ 39,974	$ 36,342
Environmental costs	64,165	57,184
Interest	5,162	10,357
Deferred income	9,479	6,797
Other	47,708	45,554
	$166,488	$156,234
Noncurrent:		
Insurance claims and expenses	$ 19,182	$ 19,112
Employee benefits	8,616	8,597
Deferred income	1,333	970
Other	3,511	3,408
	$ 32,642	$ 32,087

Note 7 - Other assets:

	December 31, 2001	March 31, 2002
	(In thousands)	
Investment in affiliates:		
TiO_2 manufacturing joint venture	$138,428	$137,528
TIMET	60,272	43,598
Other	12,415	12,380
	$211,115	$193,506
Loans and other receivables:		
Snake River Sugar Company:		
Principal	$ 80,000	$ 80,000

Interest	22,718	24,016
Other	5,706	5,862
	108,424	109,878
Less current portion	2,484	2,664
Noncurrent portion	$105,940	$107,214
Other noncurrent assets:		
Restricted cash equivalents	$ 4,713	$ 10,648
Waste disposal operating permits	2,527	2,333
Refundable insurance deposits	1,609	1,716
Deferred financing costs	1,120	884
Other	20,140	17,690
	$ 30,109	$ 33,271

At March 31, 2002, Tremont held 12.3 million shares of TIMET common stock with a quoted market price of $5.40 per share, or an aggregate of $66 million.

At March 31, 2002, TIMET reported total assets of $647.0 million and stockholders' equity of $260.8 million. TIMET's total assets at March 31, 2002 include current assets of $291.7 million, property and equipment of $267.6 million and goodwill and other intangible assets of $53.4 million. TIMET's total liabilities at March 31, 2002 include current liabilities of $107.2 million, long-term debt of $21.5 million, accrued OPEB and pension costs of $38.5 million and convertible preferred securities of $201.2 million.

During the first quarter of 2002, TIMET reported net sales of $104.4 million, an operating loss of $4.7 million and a net loss of $36.1 million (first quarter of 2001 - net sales of $124.0 million, an operating loss of $1.8 million and a net loss of $3.6 million).

Note 8 - Goodwill and other intangible assets:

Goodwill.

	Operating segment		
	Chemicals	Component products	Total
	(In millions)		
Balance at December 31, 2001	$307.2	$ 41.9	$349.1
Goodwill acquired during the period	7.6	--	7.6
Changes in foreign exchange rates	--	(.2)	(.2)
Balance at March 31, 2002	$314.8	$ 41.7	$356.5

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

Other intangible assets.

	December 31, 2001	March 31, 2002
	(In millions)	
Patents:		
Cost	$3.4	$3.5
Less accumulated amortization	1.0	1.0
Net	2.4	2.5
Customer list:		
Cost	--	2.6
Less accumulated amortization	--	.1
Net	--	2.5
	$2.4	$5.0

The patent intangible asset relates to the estimated fair value of certain patents acquired in connection with the acquisition of certain business units by CompX, and the customer list intangible asset relates to NL's acquisition of EWI discussed in Note 2. The patent intangible asset was, and will continue to be after adoption of SFAS No. 142 effective January 1, 2002, amortized by the straight-line method over the lives of the patents (approximately 11 years remaining at March 31, 2002), with no assumed residual value at the end of the life of the patents. The customer list intangible asset will be amortized by the straight-line method over the estimated seven-year life of such intangible asset (approximately 6.75 years remaining at March 31, 2002), with no assumed residual value at the end of the life of the intangible asset. Amortization expense of intangible assets was approximately $60,000 in the first three months of 2001 and approximately $153,000 in the first three months of 2002, and amortization expense of intangible assets is expected to be approximately $620,000 in each of calendar 2002 through 2006.

Note 9 - Other income:

	Three months ended March 31, 2001	Three months ended March 31, 2002
	(In thousands)	
Securities earnings:		
Dividends and interest	$10,340	$ 8,486
Securities transactions, net	--	1,915
	10,340	10,401
Legal settlement gains, net	30,723	1,920
Noncompete agreement income	1,000	1,000
Currency transactions, net	1,176	308
Pension settlement gain	--	677
Other, net	852	634
	$44,091	$14,940

	=======	=======

The securities transaction gain in 2002 is discussed in Note 3. The litigation settlement gain in 2002 relates to NL's settlement with certain additional former insurance carriers from whom NL had been seeking reimbursement for legal defense expenditures and indemnity coverage claims. The pension settlement gain relates to a defined benefit plan previously sponsored by CompX in The Netherlands.

Note 10 - Notes payable and long-term debt:

	December 31, 2001	March 31, 2002
	(In thousands)	
Notes payable -		
Kronos - non-U.S. bank credit agreements	$ 46,201	$ 46,382
Long-term debt:		
Valhi:		
Snake River Sugar Company	$250,000	$250,000
LYONs	25,472	26,051
Bank credit facility	35,000	35,000
Other	2,880	2,880
	313,352	313,931
Subsidiaries:		
NL Senior Secured Notes	194,000	169,000
CompX bank credit facility	49,000	49,000
Valcor Senior Notes	2,431	2,431
Other	3,404	3,008
	248,835	223,439
	562,187	537,370
Less current maturities	64,972	114,525
	$497,215	$422,845

In March 2002, NL redeemed $25 million principal amount of its Senior Secured Notes at par.

Note 11 - Accounts with affiliates:

	December 31, 2001	March 31, 2002
	(In thousands)	
Current receivables from affiliates:		
TIMET	$ 677	$ 46
Other	167	151
	$ 844	$ 197

Noncurrent receivable from affiliate - loan to Contran family trust	$20,000	$20,000
Payables to affiliates:		
Valhi demand loan from Contran	$24,574	$21,173
Income taxes payable to Contran	6,410	3,253
Louisiana Pigment Company	6,362	7,669
Contran - trade items	501	628
TIMET	286	1
Other, net	15	153
	$38,148	$32,877

Note 12 - Provision for income taxes:

	Three months ended March 31, 2001	2002
	(In millions)	
Expected tax expense (benefit)	$22.7	$(2.0)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	1.0	(.6)
Non-U.S. tax rates	(1.8)	(.2)
Change in NL's and Tremont's deferred income tax valuation allowance, net	(.7)	1.3
No tax benefit for goodwill amortization	1.4	--
U.S. state income taxes, net	.4	.1
Other, net	.7	.2
	$23.7	$(1.2)
Comprehensive provision for income taxes (benefit) allocated to:		
Net income (loss)	$23.7	$(1.2)
Other comprehensive income:		
Marketable securities	--	.7
Currency translation	(2.1)	(.2)
Pension liabilities	(.2)	(1.5)
	$21.4	$(2.2)

Note 13 - Minority interest:

	December 31, 2001	March 31, 2002
	(In thousands)	
Minority interest in net assets:		
NL Industries	$ 68,566	$ 65,290
Tremont Corporation	32,610	29,220

CompX International	44,767	44,530
Subsidiaries of NL	7,208	7,388
	$153,151	$146,428

	Three months ended March 31, 2001	2002
	(In thousands)	
Minority interest in net earnings (losses):		
NL Industries	$ 6,698	$ 1,113
Tremont Corporation	978	(2,510)
CompX International	1,170	417
Subsidiaries of NL	586	184
	$ 9,432	$ (796)

As previously reported, all of Waste Control Specialists aggregate, inception-to-date net losses have accrued to the Company for financial reporting purposes, and all of Waste Control Specialists future net income or net losses will also accrue to the Company until Waste Control Specialists reports positive equity attributable to its other owner. Accordingly, no minority interest in Waste Control Specialists' net assets or net earnings (losses) is reported at March 31, 2002.

Note 14 - Accounting principles newly adopted in 2002:

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

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

GAAP as of the date of the impairment testing.

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

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

As shown in the following table, the Company would have reported net income of $35.5 million, or $.31 per diluted share, in the first quarter of 2001 if the goodwill amortization included in the Company's reported net income had not been recognized.

	Three months ended March 31, 2001	Three months ended March 31, 2002
	(In millions, except per share amounts)	
Net income (loss) as reported	$ 31.6	$ (3.7)
Adjustments:		
Goodwill amortization	4.2	--
Minority interest in goodwill amortization	(.3)	--
Adjusted net income (loss)	$ 35.5	$ (3.7)
Diluted net income (loss) per share as reported	$ .27	$ (.03)
Adjustments:		
Goodwill amortization	.04	--
Minority interest in goodwill amortization	--	--
Adjusted diluted net income (loss) per share	$ .31	$ (.03)

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

Note 15 - Accounting principle not yet adopted:

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

The Company will adopt SFAS No. 145 no later than January 1, 2003. SFAS No. 145, among other things, eliminates the requirement that all gains and losses from the early extinguishment of debt are to be classified as an extraordinary item. Upon adoption of SFAS No. 145, gains and losses from the early extinguishment of debt will be classified as an extraordinary item only if they meet the "unusual and infrequent" criteria contained in Accounting Principles Board Opinion ("APBO") No. 30. In addition, upon adoption of SFAS No. 145, all gains and losses from the early extinguishment of debt that had previously been classified as an extraordinary item will have to be reassesed to determine if they would have met the "unusual and infrequent" criteria of APBO No. 30. Any such gain or loss that would not have met the APBO No. 30 criteria will be retroactively reclassified and reported as a component of income from continuing operations. The Company is still studying SFAS No. 145 to determine if the Company's previously-recognized gains and losses from the early extinguishment of debt would have met the APBO No. 30 criteria for classification as an extraordinary item, and the effect, if any, of adopting SFAS No. 145 on the Company's previously-reported results of operations has not yet been determined.

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

RESULTS OF OPERATIONS:

General

The Company reported a net loss of $3.7 million, or $.03 per diluted share, in the first quarter of 2002 compared to net income of $31.6 million, or $.27 per diluted share, in the first quarter of 2001. Excluding the effects of the items discussed below, the Company would have reported a net loss of $.5 million in the first quarter of 2002 compared to net income of $17.1 million in the first quarter of 2001.

The Company's equity in losses of TIMET in the first quarter of 2002 includes losses of $10.6 million ($5.4 million net of income taxes and minority interest), related to the Company's pro-rata share of TIMET's $27.5 million impairment charge for an other than temporary decline in value of certain preferred securities held by TIMET. Litigation settlement gains in the first quarter of 2002 of $1.9 million ($1.0 million, net of income taxes and minority interest) relate to legal settlements with certain of NL's former insurance carriers, and securities transactions gains in the first quarter of 2002 of $1.9 million ($1.2 million net of income taxes) relate to the disposal of certain shares of Halliburton Company common stock held by the Company and classified as trading securities. The Company's results in the first quarter of 2001 include previously-reported pre-tax legal settlement gains aggregating $30.7 million ($18.4 million net of income taxes and minority interest).

As discussed in Note 14 to the Consolidated Financial Statements, beginning in 2002 the Company no longer recognizes periodic amortization of goodwill in its results of operations. The Company would have reported net income of approximately $35.5 million in the first quarter of 2001, or about $3.9 million higher, if the goodwill amortization included in the Company's reported net income had not been recognized. Of such $3.9 million, approximately $3.6 million and $600,000 relates to amortization of goodwill attributable to the Company's chemicals and component products operating segments, respectively, and approximately $300,000 relates to minority interest associated with the goodwill amortization recognized by certain of the Company's less-than-wholly-owned subsidiaries.

Total operating income in the first quarter of 2002 was lower as compared to the first quarter of 2001 due primarily to lower chemicals earnings at NL and lower component products earnings at CompX.

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Annual Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission including, but not limited to, future supply and demand for the Company's products, the extent of the dependence of certain of the Company's businesses on certain market sectors (such as the dependence of TIMET's titanium metals business on the aerospace industry), the cyclicality of certain of the Company's businesses (such as NL's TiO_2 operations and TIMET's titanium metals operations), the impact of certain long-term contracts on certain of the Company's businesses (such as the impact of TIMET's long-term contracts with certain of its customers and such customers' performance hereunder and the impact of TIMET's long-term contracts with certain of its vendors on its ability to reduce or increase supply or achieve lower costs), customer inventory levels (such as the extent to which NL's customers may, from time to time, accelerate purchases of TiO_2 in advance of anticipated price increases or defer purchases of TiO_2 in advance of anticipated price decreases, or the relationship between inventory levels of TIMET's customers and such customer's current inventory requirements and the impact of such relationship on their purchases from TIMET), changes in raw material and other operating costs (such as energy costs), the possibility of labor disruptions (such as descriptions that could erupt related to the June 2002 expiration of TIMET's labor agreement at its Ohio facility), 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, TiO_2), competitive products and substitute products, customer and competitor strategies, the impact of pricing and production decisions, competitive technology positions, the introduction of trade barriers, fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the Euro and the Canadian dollar), operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions), recoveries from insurance claims and the timing thereof (such as NL's insurance claims with respect to the fire it suffered at one of its German TiO_2 production facilities), potential difficulties in integrating completed acquisitions, the ability of the Company to renew or refinance credit facilities, uncertainties associated with new product development (such as TIMET's ability to develop new end-uses for its titanium products), environmental matters (such as those requiring emission and discharge standards for existing and new facilities), government laws and regulations and possible changes therein (such as a change in Texas state law which would allow the applicable regulatory agency to issue a permit for the disposal of low-level radioactive wastes to a private entity such as Waste Control Specialists, or changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products), the ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters of NL, Tremont and TIMET) and possible future litigation. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

Chemicals

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

	Three months ended March 31, 2001	2002	% Change
	(In millions)		
Net sales	$226.1	$202.4	-10%
Operating income	45.4	19.3	-58%

Chemicals sales and operating income declined in the first quarter of 2002 compared to the first quarter of 2001 due primarily to lower average selling prices for titanium dioxide pigments ("TiO2"), offset in part by higher TiO2 sales volumes. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, NL's average TiO2 selling prices in the first quarter of 2002 were 15% lower than the first quarter of 2001. NL's TiO2 sales volumes in the first quarter of 2002 were a record and were 9% higher than the first quarter of 2001, with higher volumes in North American and European markets offset by lower volumes in export markets. NL's TiO2 production volumes in the first quarter of 2002 were 2% lower than the first quarter of 2001, with operating rates at 96% of capacity in 2002 compared to near full capacity in 2001.

NL expects TiO2 industry demand in 2002 will continue to improve over 2001 levels, because it expects worldwide economic conditions will improve and customer inventory levels will increase. NL's TiO2 production volumes in 2002 are expected to approximate its 2002 TiO2 sales volumes. In January 2002, NL announced certain price increases in all major markets, scheduled to be implemented during the second quarter of 2002. NL is hopeful that it will realize a portion of the announced price increases, but the extent to which NL can realize these and possibly other price increases during 2002 will depend on improving market conditions and global economic recovery. However, because TiO2 prices were generally declining during all of 2001, NL believes that its average TiO2 selling prices in 2002 will be significantly below its average 2001 prices, even if price increases are realized. NL expects its TiO2 sales and productions volumes in 2002 will be higher as compared to 2001, in part due to the effects in 2001 of the previously-reported fire at its Leverkusen, Germany facility. Overall, NL expects its TiO2 operating income in 2002 will be significantly lower than 2001, primarily due to lower average TiO2 selling prices. NL's expectations as to the future prospects of NL and the TiO2 industry are based upon a number of factors beyond NL's control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from NL's expectations, NL's results of operations could be unfavorably affected.

NL has substantial operations and assets located outside the United States (principally Germany, Belgium, Norway and Canada). A significant amount of NL's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, primarily the euro, other major European currencies and the Canadian dollar. In addition, a portion of NL's sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of NL's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Including the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices (in billing currencies) in the first quarter of 2002 decreased 18% compared to the first quarter of 2001. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, decreased TiO_2 sales in the first quarter of 2002 by a net $6.0 million compared to the same period in 2001. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted NL's foreign currency-denominated operating expenses. NL's operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were lower during 2002 as compared to 2001. Overall, the net impact of currency exchange rate fluctuations on NL's operating income comparisons was not significant in the first quarter of 2002 as compared to the first quarter of 2001.

Chemicals operating income, as presented above, is stated net of amortization of Valhi's purchase accounting adjustments made in conjunction with its acquisitions of its interest in NL. Such adjustments result in additional depreciation, depletion and amortization expense beyond amounts separately reported by NL. Such additional non-cash expenses reduced chemicals operating income, as reported by Valhi, by approximately $6.5 million in the first quarter of 2001 and approximately $2.9 million in the first quarter of 2002 as compared to amounts separately reported by NL. The decline from 2001 to 2002 in such additional non-cash expenses relates primarily to ceasing to periodically amortize goodwill beginning in 2002 (the 2001 amount included $3.6 million related to goodwill amortization). See Note 14 to the Consolidated Financial Statements.

Component Products

	Three months ended March 31, 2001	2002	% Change
	(In millions)		
Net sales	$59.6	$48.5	-18%
Operating income	7.0	2.1	-70%

Component products sales and operating income decreased in the first quarter of 2002 compared to the first quarter of 2001 as the manufacturing recession continued to negatively impact CompX's operating results. The decline in sales was spread across all three of CompX's major product lines, as sales of its ergonomic products, slide products and security products declined by 23%, 27% and 11%, respectively, in the first quarter of 2002 compared to the same period in 2001. Operating income comparisons were favorably impacted by ceasing to periodically amortize goodwill, which amounted to approximately $600,000 in the first quarter of 2001 (none in 2002), as well as the impact of certain cost reductions that were implemented. See Note 14 to the Consolidated Financial Statements.

CompX has substantial operations and assets located outside the United States (principally in Canada, The Netherlands and Taiwan). A portion of CompX's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar, the Dutch guilder, the euro and the New Taiwan dollar. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of CompX's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. Excluding the effect of currency, component products sales decreased 17% in the first quarter of 2002 as compared to the same period in 2001, and operating income decreased 67%.

CompX expects the weak economic conditions experienced in 2001 will continue to negatively impact its results of operations in 2002. A significant portion of CompX's business is derived from the office furniture industry, which has historically tended to lag behind the rest of the economy in periods of economic recovery. Ceasing to periodically amortize goodwill, however, will favorably impact component products operating income in 2002 compared to 2001 by an aggregate of approximately $2.5 million.

Waste Management

	Three months ended March 31, 2001	2002
	(In millions)	
Net sales	$3.1	$2.8
Operating loss	(3.2)	(2.0)

Waste Control Specialists' sales decreased in the first quarter of 2002 compared to the first quarter of 2001 due primarily to the effect of weak demand for its waste management services. Waste management's operating losses declined somewhat in the first quarter of 2002 compared to the first quarter of 2001 as the effect of implementing certain cost controls in 2002 more than offset the effects of a 12% decline in sales.

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

Waste Control Specialists is continuing its attempts to increase its sales volumes from waste streams that conform to Waste Control Specialists' permits currently in place. Waste Control Specialists is also continuing to identify and attempt to obtain modifications to its current permits that would allow for treatment, storage and disposal of additional types of wastes. The ability of Waste Control Specialists to achieve increased sales volumes of these waste streams, together with improved operating efficiencies through further cost reductions and increased capacity utilization, are important factors in Waste Control Specialists' ability to achieve improved cash flows. The Company currently believes Waste Control Specialists can become a viable, profitable operation. However, there can be no assurance that Waste Control Specialists' efforts will prove successful in improving its cash flows. Valhi has in the past, and may in the future, consider strategic alternatives with respect to Waste Control Specialists. Depending on the form of the transaction that any such strategic alternative might take, it is possible that the Company might report a loss with respect to such a transaction.

TIMET

	Three months ended March 31, 2001	2002
	(In millions)	
TIMET historical:		
Net sales	$124.0	$104.4
Operating loss	$ (1.8)	$ (4.7)
Impairment of convertible preferred securities	--	(27.5)
Other general corporate, net	1.7	(.6)

Interest expense	(1.5)	(.8)
	(1.6)	(33.6)
Income tax benefit	.6	1.5
Minority interest	(2.6)	(4.0)
Net loss	$ (3.6)	$(36.1)
Equity in earnings (losses) of TIMET	$ .1	$(11.8)

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

TIMET reported lower sales, and a higher operating loss, in the first quarter of 2002 compared to the first quarter of 2001. During the first quarter of 2002, TIMET's mill products sales volumes decreased 16% compared to the first quarter of 2001, and its sales volumes of melted products decreased 37% during the same period. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, TIMET's average selling prices for mill products in the first quarter of 2002 were 7% higher compared to the first quarter of 2001, while selling prices for its melted products increased 8%. TIMET's operating income comparisons were favorably impacted by TIMET ceasing to periodically amortize goodwill recognized on its separate-company books, which amounted to approximately $1.2 million in the first quarter of 2001 (none in 2002).

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

As previously reported, in March 2001, TIMET was notified by one of its customers that a product manufactured from standard grade titanium produced by TIMET contained what has been confirmed to be a tungsten inclusion. TIMET accrued $3.3 million (charged to expense during 2001) for its best estimate of the most likely amount of loss it will incur. However, it may not represent the maximum possible loss, which TIMET is not presently able to estimate, and the amount accrued may be periodically revised in the future as more facts become known.

The economic slowdown that began in 2001 in the economies of the U.S. and other regions of the world combined with the events of September 11, 2001 have resulted in the major commercial airframe and jet engine manufacturers substantially reducing their forecast of engine and aircraft deliveries over the next few years and their production levels in 2002. TIMET continues to expect that aggregate industry mill product shipments will decrease in 2002 by approximately 16% to about 43,000 metric tons and that demand for mill products for the commercial aerospace sector could decline by up to 40% in 2002, primarily due to a combination of reduced aircraft production rates and excess inventory accumulated throughout the aerospace supply chain. Excess inventory accumulation typically leads to order demand for titanium products falling below actual consumption.

Although the current business environment makes it particularly difficult to predict TIMET's future performance, TIMET expects its sales in 2002 will decline to approximately $375 million, reflecting the combined effects of decreases in sales volume, softening of market selling prices and changes in customer and product mix. Mill product sales volumes are expected to decline approximately 20% relative to 2001 to just under 10,000 metric tons, and melted product sales volumes are expected to decline by 35% to under 3,000 metric tons.

The sales volumes decline in 2002 is principally driven by an anticipated reduction in TIMET's commercial aerospace sales volumes of about 30% compared to 2001, partly offset by sales volume growth to other markets. Market selling prices on new orders for titanium products are expected to soften throughout 2002. However, about one-half of TIMET's commercial aerospace volumes are under long-term agreements that provide TIMET with price stability on that portion of its business.

TIMET expects its effective income tax rate in 2002 will vary significantly from the U.S. statutory rate as TIMET does not currently expect that recognition of an income tax benefit associated with its U.S. losses will be appropriate under the "more-likely-than-not" recognition criteria.

Under TIMET's previously-reported amended long-term agreement with Boeing, Boeing will advance TIMET $28.5 million annually from 2002 through 2007. The agreement is structured as a take-or-pay agreement such that Boeing, beginning in calendar year 2002, will forfeit a proportionate part of the $28.5 million annual advance, or effectively $3.80 per pound, in the event that its orders for delivery for such calendar year are less than 7.5 million pounds. TIMET presently intends to recognize as income any forfeitable portion of the advance when it becomes virtually assured that Boeing's annual orders for delivery will be less than 7.5 million pounds. This will generally result in any take-or-pay forfeiture being recognized in TIMET's operating income in the last half of each year. TIMET currently anticipates that Boeing will purchase about 3 million pounds of product in 2002. At this projected order level for 2002, TIMET expects to recognize about $17 million of income in the last half of the year under the Boeing contract's take-or-pay provisions. Those earnings, recognized as other income and included in TIMET's operating income, will distort TIMET's operating income percentages as there will be no corresponding amount reported in TIMET's sales.

For the second quarter of 2002, TIMET expects sales revenue to range between $85 million and $95 million. Mill product sales volumes are expected to be about 2,300 metric tons with melted product shipments of about 600 metric tons. Interest expense should be less than $1 million while minority interest on TIMET's Convertible Preferred Securities should approximate $3.3 million. With these estimates, TIMET expects an operating loss in the second quarter of 2002 of between $10 million and $12 million, and a net loss before special items of between $15 million and $17 million.

In terms of quarterly trends during the year, TIMET continues to expect its results in the last half of 2002 to be improved compared to the first half. That improvement reflects the fact that the estimated $17 million expected to be earned under the take or pay provision of the Boeing contract will be reflected in the last half of the year. However, depending on Boeing's quarterly purchases, it is possible that some amount of income under the take or pay provisions of the Boeing contract could be earned and recognized in the second quarter of 2002.

TIMET's agreement with its labor union at its Ohio plant expires at the end of June 2002. TIMET does not presently anticipate any work stoppage or other labor disruption at any facility, and its outlook for 2002 does not contemplate any such event. However, should TIMET's efforts to negotiate a mutually satisfactory agreement be unsuccessful, any work stoppage or other labor disruption at any facility could materially and adversely affect TIMET's business, results of operations, financial position and liquidity. TIMET expects to undertake certain actions as part of its contingency planning for the possibility of a labor disruption. These actions could include the production of certain inventory earlier than normally scheduled and the incurrence of certain costs, which could have an impact on operating results and working capital. TIMET's anticipated results included herein do not incorporate the effects of any such actions.

General corporate and other items

General corporate interest and dividend income. General corporate interest and dividend income decreased in the first quarter of 2002 compared to the first quarter of 2001 as a slightly higher level of distributions from The Amalgamated Sugar Company LLC in 2002 was more than offset by a lower average interest rate on funds available for investment. Aggregate general corporate interest and dividend income is currently expected to continue to be lower during the remainder of 2002 compared to the same periods in 2001 due primarily to a lower amount of funds available for investment and lower average interest rates.

Legal settlement gains. The $1.9 million legal settlement gains in the first quarter of 2002 relates to NL's settlement with certain former insurance carriers. See Note 9 to the Consolidated Financial Statements. This settlement, similar to certain previously-reported NL legal settlements recognized during 2000 and 2001, resolved court proceedings in which NL had sought reimbursement from the carriers for legal defense costs and indemnity coverage for certain of its environmental remediation expenditures. No further material settlements relating to litigation concerning environmental remediation coverages are expected.

Securities transactions. Securities transactions gains in the first quarter of 2002 relate to the disposal of certain shares of Halliburton Company common stock held by the Company that were classified as trading securities. See Notes 3 and 9 to the Consolidated Financial Statements. The remaining Halliburton shares held by the Company are held in escrow for the benefit of the holders of the Company's LYONs debt obligation, which are exchangeable at any time, at the option of the holder, for such Halliburton shares. Any exchanges of the LYONs in 2002 or thereafter would result in a securities transaction gain for financial reporting purposes.

General corporate expenses. Net general corporate expenses in the first quarter of 2002 were higher compared to the first quarter of 2001 due primarily to higher legal and environmental remediation expenses of NL. NL's $20 million of proceeds from the disposal of its specialty chemicals business unit related to its agreement not to compete in the rheological products business is being recognized as a component of general corporate income (expense) ratably over the five-year non-compete period ending in the first quarter of 2003 ($4 million recognized in each of 1999, 2000 and 2001). See Note 9 to the Consolidated Financial Statements. Net general corporate expenses in the remainder of 2002 are currently expected to continue to be somewhat higher compared to the same periods in 2001.

Interest expense. Interest expense declined in the first quarter of 2002 compared to the first quarter of 2001 due primarily to lower average levels of indebtedness as well as lower average U.S. variable interest rates. Assuming interest rates do not increase significantly from year-end 2001 levels, interest expense in the remainder of 2002 is currently expected to continue to be somewhat lower compared to the same periods in 2001 due to lower anticipated interest rates on variable-rate borrowings in the U.S. and a lower average level of outstanding debt (including Valhi's LYONs).

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 12 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 quarter of 2002, NL reduced its deferred income tax asset valuation allowance by approximately $100,000, primarily as a result of utilization of certain income tax attributes for which the benefit had also not previously been recognized. During the first quarter of 2002, Tremont increased its deferred income tax asset valuation allowance (at the Valhi consolidated level) by a net $1.3 million due primarily because Tremont concluded certain tax attributes do not currently meet the "more-likely-than-not" recognition criteria.

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES:

Consolidated cash flows

Operating activities. Trends in cash flows from operating annual activities (excluding the impact of significant asset dispositions and relative changes in assets and liabilities) are generally similar to trends in the Company's earnings. Changes in assets and liabilities generally result from the timing of production, sales, purchases and income tax payments.

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

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

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

Investing and financing activities. Approximately 58% of the Company's consolidated capital expenditures in the first quarter of 2002 relate to NL, 39% relate to CompX and substantially all of the remainder relates to Waste Control Specialists. Approximately $1.2 million of NL's capital expenditures relates to completing the reconstruction of NL's Leverkusen, Germany TiO_2 production facility that was damaged by fire during 2001. During the first quarter of 2002, NL purchased $3.3 million shares of its common stock in market transactions, and NL purchased the EWI insurance brokerage services operations for $9 million. See Note 2 to the Consolidated Financial Statements.

During the first quarter of 2002, (i) Valhi repaid a net $3.4 million of its short-term demand loans from Contran and (ii) NL redeemed $25 million principal amount of its Senior Secured Notes at par value.

At March 31, 2002, unused credit available under existing credit facilities approximated $95.4 million, which was comprised of $51 million available to

CompX under its revolving credit facility, $8 million available to NL under non-U.S. credit facilities and $36.4 million available to Valhi under its revolving bank credit facility. Provisions contained in certain of the Company's credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity for reasons other than defaults from failing to comply with typical financial covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. The terms of Valhi's revolving bank credit facility could require Valhi to either reduce outstanding borrowings or pledge additional collateral in the event the fair value of the existing pledged collateral falls below specified levels. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. Other than operating leases, neither Valhi nor any of its subsidiaries or affiliates are parties to any off-balance sheet financing arrangements.

Chemicals - NL Industries

At March 31, 2002, NL had cash, cash equivalents and marketable debt and other securities of $157 million, including restricted balances of $81 million, and NL had $8 million available for borrowing under its non-U.S. credit facilities.

NL's board of directors has authorized NL to purchase up to 4.5 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. Through March 31, 2002, NL had purchased 3.5 million of its shares pursuant to such authorizations for an aggregate of $56.9 million, including 228,000 shares purchased during the first quarter of 2002 for an aggregate of $3.3 million.

In March 2002, NL redeemed $25 million principal amount of its Senior Secured Notes at par value. NL may redeem more of its Senior Secured Notes in 2002, although there can be no assurance that any such additional redemption will be called.

Certain of NL's U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including non-income related items and interest. NL's 1998 U.S. federal income tax return is currently being examined by the U.S. tax authorities. NL has granted an extension of the statute of limitations for assessments until September 30, 2003. 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 10.4 million euro ($9 million at March 31, 2002). NL has filed protests to the assessments for the years 1991 to 1997. NL is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments are without merit. No assurance can be given that these tax matters will be resolved in NL's favor in view of the inherent uncertainties involved in court proceedings. NL believes that it has provided adequate accruals for additional taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

NL has been named as a defendant, potentially responsible party, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, NL evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed NL's obligation. NL believes it has provided adequate accruals ($104 million at March 31, 2002) for reasonably estimable costs of such matters, but NL's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocation of such costs among PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately $155 million. NL's estimates of such liabilities have not been discounted to present value, and other than certain previously-reported settlements with respect to certain of NL's former insurance carriers, NL has not recognized any insurance recoveries. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. NL is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage allegedly arising from the sale of lead pigments and lead-based paints, including cases in which plaintiffs purport to represent a class and cases brought on behalf of government entities. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is no assurance that NL will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, NL believes that the pending lead pigment and lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and to effectively overturn court decisions in which NL and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions currently barred by statutes of limitations. NL currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on its consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future.

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

Component products - CompX International

CompX expects to renew its existing revolving bank credit facility prior to its expiration in February 2003. There can be no assurance however, that such renewal will occur, or that CompX will be able to obtain comparable terms under the new credit facility.

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

Waste management - Waste Control Specialists

At March 31, 2002, Waste Control Specialists' indebtedness consists principally of (i) a $4.6 million term loan due in installments through November 2004 and (ii) $14.8 million of other borrowings under a $15 million revolving credit facility that matures in 2004. All of such indebtedness is owed to a wholly-owned subsidiary of Valhi, and is therefore eliminated in the Company's consolidated financial statements. Waste Control Specialists may borrow additional amounts during the remainder of 2002 under its $15 million revolving credit facility.

TIMET

At March 31, 2002, TIMET had net debt of approximately $8.6 million ($14.5 million of debt and $5.9 million of cash and equivalents). At March 31, 2002, TIMET had over $150 million available for borrowing under its worldwide credit facilities. TIMET's U.S. credit facility, a $125 million asset-based revolving credit agreement, expires in February 2003. TIMET is currently negotiating with its lender to extend the maturity date of this agreement on substantially similar terms. The U.S. credit agreement allows the lender to modify the borrowing base formulas at its discretion, subject to certain conditions.

On March 27, 2002, SMC and its U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As a result, TIMET, with the assistance of an external valuation specialist, undertook a further assessment of its investment in SMC and recorded an additional $27.5 million impairment charge to general corporate expense for an other than temporary decline in the fair vale of its investment in SMC, reducing TIMET's carrying amount of its investment in SMC to zero.

TIMET periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its alternative uses of capital, its debt service requirements, the cost of debt and equity capital, and estimated future operating cash flows. As a result of this process, TIMET has in the past and may in the future seek to raise additional capital, modify its common and preferred dividend policies, restructure ownership interests, incur, refinance or restructure indebtedness, repurchase shares of capital stock, sell assets, or take a combination of such steps or other steps to increase or manage its liquidity and capital resources. In the normal course of business, TIMET investigates, evaluates, discusses and engages in acquisition, joint venture, strategic relationship and other business combination opportunities in the titanium, specialty metal and other industries. In the event of any future acquisition or joint venture opportunities, TIMET may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

Tremont Corporation

Tremont is primarily a holding company which, at March 31, 2002, owned approximately 39% of TIMET and 21% of NL. At March 31, 2002, the market value of the 12.3 million shares of TIMET and the 10.2 million shares of NL held by Tremont was approximately $66 million and $170 million, respectively.

In February 2001, Tremont entered into a $13.4 million reducing revolving credit facility with EMS, NL's majority-owned environmental management subsidiary. Such intercompany loan between EMS and Tremont ($12.4 million outstanding at March 31, 2002), collateralized by 10.2 million shares of NL common stock owned by Tremont, is eliminated in Valhi's consolidated financial statements. Tremont has indicated that it may seek to amend the terms of such credit facility during 2002 to, among other things, increase the amount of borrowings available to Tremont under the facility and extend the maturity date. However, there is no assurance that Tremont and EMS will agree to any such amendment.

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

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

General corporate - Valhi

Valhi's operations are conducted primarily through its subsidiaries (NL, CompX, Tremont and Waste Control Specialists). Accordingly, Valhi's long-term ability to meet its parent company level corporate obligations is dependent in large measure on the receipt of dividends or other distributions from its subsidiaries. NL increased its quarterly dividend from $.035 per share to $.15 per share in the first quarter of 2000, and NL further increased its quarterly dividend to $.20 per share in the fourth quarter of 2000. At the current $.20 per share quarterly rate, and based on the 30.1 million NL shares held by Valhi at March 31, 2002, Valhi would receive aggregate annual dividends from NL of approximately $24.1 million. Tremont Group, Inc. owns 80% of Tremont Corporation. Tremont Group is owned 80% by Valhi and 20% by NL. Tremont's quarterly dividend is currently $.07 per share. At that rate, and based upon the 5.1 million Tremont shares owned by Tremont Group at March 31, 2002, Tremont Group would receive aggregate annual dividends from Tremont of approximately $1.4 million. Tremont Group intends to pass-through the dividends it receives from Tremont to its shareholders (Valhi and NL). Based on Valhi's 80% ownership of Tremont Group, Valhi would receive $1.2 million in annual dividends from Tremont Group as a pass-through of Tremont Group's dividends from Tremont. CompX's quarterly dividend is currently $.125 per share. At this current rate and based on the 10.4 million CompX shares held by Valhi and its wholly-owned subsidiary Valcor at March 31, 2002, Valhi/Valcor would receive annual dividends from CompX of $5.2 million. Various credit agreements to which certain subsidiaries or affiliates are parties contain customary limitations on the payment of dividends, typically a percentage of net income or cash flow; however, such restrictions in the past have not significantly impacted Valhi's ability to service its parent company level obligations. Valhi has not guaranteed any indebtedness of its subsidiaries or affiliates. To the extent that one or more of Valhi's subsidiaries were to become unable to maintain its current level of dividends, either due to restrictions contained in the applicable subsidiary's credit agreements or otherwise, Valhi parent company's liquidity could become adversely impacted. In such an event, Valhi might consider reducing or eliminating its dividend or selling interests in subsidiaries or other assets.

At March 31, 2002, Valhi had $7.3 million of parent level cash and cash equivalents, had $35 million of outstanding borrowings under its revolving bank credit agreement and had $21.2 million of short-term demand loans payable to Contran. In addition, Valhi had $36.4 million of borrowing availability under its bank credit facility. During the first quarter of 2002, Valhi sold in market transactions 515,000 shares of Halliburton common stock that had been classified as trading securities for an aggregate of $8.7 million, and used a majority of the proceeds to reduce its outstanding borrowings from Contran. In January and February 2002, the size of Valhi's bank credit facility was increased by an aggregate of $17.5 million to $72.5 million.

Valhi's LYONs do not require current cash debt service. Exchanges of LYONs for Halliburton stock result in the Company reporting income related to the disposition of the Halliburton stock for both financial reporting and income tax purposes, although no cash proceeds are generated by such exchanges. Valhi's potential cash income tax liability that would have been triggered at March 31, 2002, assuming exchanges of all of the outstanding LYONs for Halliburton stock at such date, was approximately $9 million.

At March 31, 2002, the LYONs had an accreted value equivalent to approximately $41.95 per Halliburton share, and the market price of the Halliburton common stock was $17.07 per share. The LYONs, which mature in October 2007, are redeemable at the option of the LYON holder in October 2002 for an amount equal to $636.27 per $1,000 principal amount at maturity, or an aggregate of $27.4 million. Such October 2002 redemption price is equivalent to about $44 per Halliburton share. If the market value of Halliburton common stock equals or exceeds $44 per share in October 2002, the Company does not expect a significant amount of LYONs would be tendered to the Company for redemption at that date. To the extent the Company was required to redeem the LYONs in October 2002 for cash and the market price of Halliburton was less than $44 per share, the Company would likely sell the Halliburton shares underlying the LYONs tendered in order to raise a portion of the cash redemption price due to the LYON holder, and the Company would be required to use other resources to makeup the shortfall due to the LYONs holder.

During calendar 2001, holders representing $92.2 million principal amount at maturity exchanged their LYONs debt obligation for shares of Halliburton common stock. Also during calendar 2001, $50.4 million principal amount at maturity of LYONs were redeemed by the Company for cash at various redemption prices equal to the accreted value of the LYONs on the respective redemption dates. Valhi may consider additional partial redemptions or a full redemption of the remaining notes based on future market conditions and other considerations. There can be no assurance, however, that Valhi will pursue an additional partial redemption or a full redemption of the notes.

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

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 March 31, 2002, the accrued and unpaid interest on the $80 million loan to Snake River aggregated $24.0 million. Such accrued and unpaid interest is classified as a noncurrent asset at March 31, 2002. The Company currently believes it will ultimately realize both the $80 million principal amount and the accrued and unpaid interest, whether through cash generated from the future operations of Snake River and the LLC or otherwise (including any liquidation of Snake River/LLC). Following the repayment of Snake River's third-party senior debt in April 2009, Valhi believes it will receive significant debt service payments on its loan to Snake River as the cash flows that Snake River previously would have been using to fund debt service on its third-party senior debt ($14.5 million in 2002) would then become available, and would be required, to be used to fund debt service payments on its loan from Valhi. Prior to the repayment of the third-party senior debt, Snake River might also make debt service payments to Valhi, if permitted by the terms of the senior debt.

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. The cash proceeds that would be generated from such a disposition would likely be less than the specified redemption price due to Snake River's ability to simultaneously call its $250 million loans to Valhi. As a result, the net cash proceeds 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. In this regard, the indentures governing the publicly-traded debt of NL contain provisions which limit the ability of NL and its subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to the 2001 Annual Report for descriptions of certain legal proceedings.

Cofield, et. al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004491). The time for plaintiffs to timely file an appeal of the previously-reported dismissal of this case has expired, with no notice of appeal having been received by NL.

Lewis, et al. v. Lead Industries Association, et al. (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). In March 2002, the trial court dismissed all claims in this previously-reported case. Plaintiffs have appealed.

Gaines, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-0604). Upon motion to reconsider, the case has been remanded to state court and local paint retailers reinstated as defendants in this previously-reported case.

In re: Lead Paint Litigation, Superior Court of New Jersey, Middlesex County, Case Code 702. One additional municipality has filed suit in this previously-reported case.

Rainer, et al. v. E.I. du Pont de Nemours, et al., No. 5:00CV-223-M; Rainer, et al. v. Bill Richardson, et al., No. 5:00CV-220-M; Shaffer, et al. v. Atomic Energy Commission, et al., No. 5:00CV-307-M. In March 2002, the court approved the previously-reported settlement in these cases and dismissed the claims against NL and NLO, Inc. ("NLO"), and the Department of Energy has agreed to pay the settlement amount. In the previously-reported case of Dew, et al. v. Bill Richardson, et al. ("Dew"), No. 5:00CV-221-M, NL's and NLO's motions to dismiss plaintiffs' claims were granted in part and denied in part. Pretrial proceedings and discovery continue in the Dew case.

Liberty Independent School District, et al. v. Lead Industries Association, et al. (District Court of Liberty County, Texas, No. 63,332). In May 2002, NL was served with an amended complaint in this previously-reported case. The amended complaint adds Liberty County, the City of Liberty, and the Dayton Independent School District as plaintiffs and drops the Lead Industries Association as a defendant.

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

Valhi's 2002 Annual Meeting of Stockholders was held on May 13, 2002. Thomas E. Barry, Norman S. Edelcup, Edward J. Hardin, 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 over 97% of the 114.7 million common shares eligible to vote at the Annual Meeting.

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

(a) Exhibits

None.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended March 31, 2002.

None.

SIGNATURES

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

VALHI, INC.
(Registrant)

Date May 14, 2002

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

Date May 14, 2002

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