SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2000 Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Yes X No

Number of shares of common stock outstanding on October 31, 2000: 114,680,014.

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 1999	September 30, 2000
Current assets:		
Cash and cash equivalents	$ 152,707	$ 147,811
Restricted cash equivalents	17,565	62,667
Accounts and other receivables	202,200	227,100
Refundable income taxes	5,146	11,100
Receivables from affiliates	14,606	4,241
Inventories	219,618	185,002
Prepaid expenses	7,221	12,022
Deferred income taxes	14,330	12,743
Total current assets	633,393	662,686
Other assets:		
Marketable securities	266,362	269,995
Investment in affiliates	256,982	238,062
Loans and notes receivable	83,268	82,973
Mining properties	17,035	12,464
Prepaid pension costs	23,271	20,776
Goodwill	356,523	353,107
Deferred income taxes	2,672	2,163
Other	27,177	31,685
Total other assets	1,033,290	1,011,225

Property and equipment:		
Land	25,952	26,403
Buildings	167,100	157,809
Equipment	550,145	506,590
Construction in progress	13,843	29,519
	757,040	720,321
Less accumulated depreciation	188,554	200,998
Net property and equipment	568,486	519,323
	$2,235,169	$2,193,234

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1999	September 30, 2000
Current liabilities:		
Notes payable	$ 57,076	$ 22,622
Current maturities of long-term debt	27,846	28,570
Accounts payable	70,971	62,325
Accrued liabilities	163,556	183,322
Payables to affiliates	25,266	21,979
Income taxes	7,203	17,255
Deferred income taxes	326	720
Total current liabilities	352,244	336,793
Noncurrent liabilities:		
Long-term debt	609,339	631,088
Accrued OPEB costs	58,756	50,905
Accrued pension costs	39,612	26,696
Accrued environmental costs	73,062	58,595
Deferred income taxes	266,752	273,810
Other	45,164	42,013
Total noncurrent liabilities	1,092,685	1,083,107
Minority interest	200,826	164,766
Stockholders' equity:		
Common stock	1,256	1,257
Additional paid-in capital	43,444	44,287
Retained earnings	538,744	579,840
Accumulated other comprehensive income:		
Marketable securities	127,837	131,108

Currency translation	(40,833)	(67,577)
Pension liabilities	(5,775)	(4,834)
Treasury stock	(75,259)	(75,513)
Total stockholders' equity	589,414	608,568
	$ 2,235,169	$ 2,193,234

Commitments and contingencies (Note 1)

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	1999	2000	1999	2000
Revenues and other income:				
Net sales	$ 303,282	$ 308,122	$ 847,592	$ 929,794
Other, net	15,511	12,649	52,488	90,530
	318,793	320,771	900,080	1,020,324
Costs and expenses:				
Cost of sales	228,981	212,155	626,457	643,195
Selling, general and administrative	45,812	49,627	135,087	152,840
Interest	18,020	17,443	54,383	52,464
	292,813	279,225	815,927	848,499
	25,980	41,546	84,153	171,825
Equity in earnings of:				
Titanium Metals Corporation ("TIMET")	--	(1,486)	--	(7,997)
Tremont Corporation*	(1,102)	--	3,389	--
Waste Control Specialists*	--	--	(8,496)	--
Other	--	554	--	823
Income before income taxes	24,878	40,614	79,046	164,651
Provision for income taxes (benefit)	7,330	17,634	(61,849)	72,698
Minority interest in after-tax earnings	9,341	9,963	68,453	33,481
Income from continuing operations	8,207	13,017	72,442	58,472
Discontinued operations	--	--	2,000	--
Net income	$ 8,207	$ 13,017	$ 74,442	$ 58,472

*Prior to consolidation.

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	1999	2000	1999	2000
Basic earnings per common share:				
Continuing operations	$ .07	$ .11	$ .63	$ .51
Discontinued operations	--	--	.02	--
Net income	$ .07	$ .11	$ .65	$ .51
Diluted earnings per common share:				
Continuing operations	$ .07	$ .11	$ .62	$ .50
Discontinued operations	--	--	.02	--
Net income	$ .07	$ .11	$ .64	$ .50
Cash dividends per share	$ .05	$ .05	$ .15	$ .15
Shares used in the calculation of per share amounts:				
Basic earnings per common share	115,061	115,159	115,018	115,122
Dilutive impact of outstanding stock options	1,190	1,199	1,191	1,143
Diluted earnings per share	116,251	116,358	116,209	116,265

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Nine months ended September 30, 1999 and 2000

(In thousands)

	1999	2000
Net income	$ 74,442	$ 58,472
Other comprehensive income (loss), net of tax:		
Marketable securities adjustment:		
Unrealized gains arising during the period	4,225	3,407
Less reclassification for gains included in net income	(443)	(136)
	3,782	3,271
Currency translation adjustment	(12,763)	(26,744)
Pension liabilities adjustment	(3,568)	941
Total other comprehensive income (loss), net	(12,549)	(22,532)
Comprehensive income	$ 61,893	$ 35,940

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Nine months ended September 30, 2000

(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, 1999	$1,256	$43,444	$ 538,744	$127,837	$(40,833)	$(5,775)	$(75,259)	$ 589,414
Net income	--	--	58,472	--	--	--	--	58,472
Dividends	--	--	(17,376)	--	--	--	--	(17,376)
Other comprehensive income (loss), net	--	--	--	3,271	(26,744)	941	--	(22,532)
Other, net	1	843	--	--	--	--	(254)	590
Balance at September 30, 2000	$1,257	$44,287	$ 579,840	$131,108	$(67,577)	$(4,834)	$(75,513)	$ 608,568

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 30, 1999 and 2000

(In thousands)

	1999	2000
Cash flows from operating activities:		
Net income	$ 74,442	$ 58,472
Depreciation, depletion and amortization	48,091	53,609
Legal settlement, net	--	(43,000)
Securities transactions	(681)	(5,763)
Noncash interest expense	7,261	6,998
Deferred income taxes	(80,610)	38,780
Minority interest	68,453	33,481
Other, net	(7,433)	(11,119)
Equity in:		
TIMET	--	7,997
Tremont Corporation	(3,389)	--
Waste Control Specialists	8,496	--
Discontinued operations	(2,000)	--
Other	--	(823)
Distributions from:		
Manufacturing joint venture	12,050	7,550
Tremont Corporation	655	--
Other	--	81
	125,335	146,263
Change in assets and liabilities:		
Accounts and other receivables	(48,164)	(40,455)
Inventories	40,337	23,091
Accounts payable and accrued liabilities	(7,083)	10,262
Accounts with affiliates	(7,333)	8,758
Income taxes	11,747	7,979
Other, net	(14,289)	(8,343)
Net cash provided by operating activities	100,550	147,555
Cash flows from investing activities:		
Capital expenditures	(38,820)	(39,571)
Purchases of:		
Business units	(53,121)	(9,497)
Tremont common stock	(1,945)	(37,482)
NL common stock	--	(29,180)
CompX common stock	(624)	--
Investment in Waste Control Specialists (prior to consolidation)	(10,000)	--
Change in restricted cash equivalents, net	(12,398)	(377)
Proceeds from disposal of:		
Marketable securities	6,588	158
Discontinued operations	2,000	--
Loans to affiliates:		
Loans	(6,000)	(21,969)
Collections	6,000	21,969
Other, net	(616)	2,176
Net cash used by investing activities	(108,936)	(113,773)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Nine months ended September 30, 1999 and 2000

(In thousands)

	1999	2000
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 97,271	$ 37,797
Principal payments	(94,319)	(49,294)
Loans from affiliate:		
Loans	35,700	6,000
Repayments	(45,200)	(8,082)
Valhi dividends paid	(17,358)	(17,376)
Distributions to minority interest	(2,278)	(7,318)
Other, net	854	3,571
Net cash used by financing activities	(25,330)	(34,702)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(33,716)	(920)
Currency translation	(2,571)	(3,976)
Business units acquired	4,157	--
Consolidation of Waste Control Specialists	734	--
Cash and equivalents at beginning of period	212,183	152,707
Cash and equivalents at end of period	$ 180,787	$ 147,811
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 39,238	$ 37,805
Income taxes, net	7,375	16,950
Business units acquired - net assets consolidated:		
Cash and cash equivalents	$ 4,157	$ --
Goodwill and other intangible assets	15,837	2,561
Other non-cash assets	52,799	8,458
Liabilities	(19,672)	(1,522)
Cash paid	$ 53,121	$ 9,497
Consolidation of Waste Control Specialists - net assets consolidated:		
Cash and cash equivalents	$ 734	$ --
Property and equipment	23,128	--
Other non-cash assets	9,843	--
Liabilities	(22,201)	--
Net investment at date of consolidation	$ 11,504	$ --

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, 1999 has been condensed from the Company's audited consolidated financial statements at that date. The

consolidated balance sheet at September 30, 2000, and the consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the interim periods ended September 30, 1999 and 2000, have been prepared by the Company, without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain prior year amounts have been reclassified to conform to the current year presentation, and certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States 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, 1999 (the "1999 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.

The Company (principally NL) generally undertakes planned major maintenance activities several times each year. Repair and maintenance costs estimated to be incurred in connection with such planned maintenance activities are accrued in advance and are included in cost of goods sold.

Commitments and contingencies are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Legal Proceedings" and the 1999 Annual Report.

Contran Corporation holds, directly or through subsidiaries, approximately 93% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held either by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or by Mr. Simmons directly. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of Valhi and Contran, may be deemed to control such companies.

Note 2 - Business segment information:

Operations	Principal entities	% owned at September 30, 2000
Chemicals	NL Industries, Inc.	60%*
Component products	CompX International Inc.	64%
Titanium metals	Tremont Corporation	62%*
Waste management	Waste Control Specialists	69%

* Tremont is a holding company which owns 39% of TIMET and an additional 20% of NL. NL owns an additional 17% of Tremont.

	Three months ended September 30,		Nine months ended September 30,	
	1999	2000	1999	2000
	(In millions)			
Net sales:				
Chemicals	$242.7	$242.3	$676.8	$724.4
Component products	55.9	63.0	166.1	194.2
Waste management (after consolidation)	4.7	2.8	4.7	11.2
Total net sales	$303.3	$308.1	$847.6	$929.8
Operating income:				
Chemicals	$ 30.0	$ 51.2	$ 95.2	$147.5

Component products	9.8	9.2	29.0	31.6
Waste management (after consolidation)	(1.5)	(3.0)	(1.5)	(6.0)
Total operating income	38.3	57.4	122.7	173.1
General corporate items:				
Legal settlement gain, net	--	--	--	43.0
Interest and dividend income	10.7	9.7	32.2	30.0
Securities transactions	.1	.2	.7	5.8
Other expenses, net	(5.0)	(8.1)	(17.0)	(27.5)
Interest expense	(18.0)	(17.5)	(54.4)	(52.5)
	26.1	41.7	84.2	171.9
Equity in:				
TIMET	--	(1.5)	--	(8.0)
Tremont Corporation	(1.1)	--	3.4	--
Waste Control Specialists	--	--	(8.5)	--
Other	--	.5	--	.8
Income before income taxes	$ 25.0	$ 40.7	$ 79.1	$164.7

In January 2000, CompX acquired a lock producer for an aggregate of $9 million cash consideration. The Company accounted for this acquisition by the purchase method. During the first nine months of 2000, (i) NL purchased shares of its common stock in market transactions for an aggregate of $29.2 million and (ii) Valhi and NL each purchased shares of Tremont common stock in market transactions for an aggregate of $37.5 million. The Company accounted for such increases in its ownership of NL and Tremont by the purchase method (step acquisitions).

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

Note 3 - Marketable securities:

	December 31, 1999	September 30, 2000
	(In thousands)	
Noncurrent assets (available-for-sale):		
The Amalgamated Sugar Company LLC	$170,000	$170,000
Halliburton Company common stock	91,825	98,076
Other common stocks	4,537	1,919
	$266,362	$269,995

At September 30, 2000, Valhi held 2.7 million shares of Halliburton common stock (aggregate cost of $22 million) with a quoted market price of $48.94 per share, or an aggregate market value of $131 million. Valhi's LYONs are exchangeable at any time, at the option of the LYON holder, for such Halliburton shares, and the carrying value of the Halliburton stock is limited to the accreted LYONs obligation. See Note 7. See the 1999 Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the Company's investment in The Amalgamated Sugar Company LLC. The aggregate cost of other available-for-sale common stocks is approximately $8 million at September 30, 2000.

Note 4 - Inventories:

	December 31, 1999	September 30, 2000
	(In thousands)	
Raw materials:		
Chemicals	$ 54,861	$ 38,738
Component products	9,038	11,566
	63,899	50,304
In process products:		
Chemicals	8,065	7,335
Component products	8,669	11,790
	16,734	19,125
Finished products:		
Chemicals	100,973	78,700
Component products	9,898	12,149
	110,871	90,849
Supplies (primarily chemicals)	28,114	24,724
	$219,618	$185,002

Note 5 - Other noncurrent assets:

	December 31, 1999	September 30, 2000
	(In thousands)	
Investment in affiliates:		
TiO2 manufacturing joint venture	$157,552	$150,002
TIMET	85,772	73,660
Other	13,658	14,400
	$256,982	$238,062
Loans and notes receivable:		
Snake River Sugar Company	$ 80,000	$ 80,000
Other	7,259	4,524
	87,259	84,524
Less current portion	3,991	1,551
Noncurrent portion	$ 83,268	$ 82,973
Intangible assets	$ 6,979	$ 6,193
Restricted cash investments	4,710	4,985
Deferred financing costs	3,668	3,095
Other	11,820	17,412

	$ 27,177	$ 31,685

At September 30, 2000, Tremont held 12.3 million shares of TIMET common stock with a quoted market price of $8.19 per share, or an aggregate of $101 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for selected financial information concerning TIMET.

As more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," during 2000 the Company amended the terms of its loan to Snake River Sugar Company whereby, among other things, the interest rate on the loan was decreased from 12.99% to 6.49% effective April 1, 2000.

Note 6 - Accrued liabilities:

	December 31, 1999	September 30, 2000
	(In thousands)	
Current:		
Environmental costs	$ 48,891	$ 63,829
Employee benefits	45,674	42,921
Interest	7,210	14,868
Deferred income	7,924	8,693
Other	53,857	53,011
	$163,556	$183,322
Noncurrent:		
Insurance claims and expenses	$ 21,690	$ 21,946
Employee benefits	11,403	11,869
Deferred income	9,573	6,483
Other	2,498	1,715
	$ 45,164	$ 42,013

Note 7 - Notes payable and long-term debt:

	December 31, 1999	September 30, 2000
	(In thousands)	
Notes payable -		
Kronos - non-U.S. bank credit agreements	$ 57,076	$ 22,622
Long-term debt:		
Valhi:		
Snake River Sugar Company	$250,000	$250,000
LYONs	91,825	98,076
Bank credit facility	21,000	27,000
	362,825	375,076

NL Industries:		
Senior Secured Notes	244,000	244,000
Other	478	256
	244,478	244,256
Other subsidiaries:		
CompX bank credit facility	20,000	31,000
Waste Control Specialists bank term loan	4,304	5,372
Valcor Senior Notes	2,431	2,431
Other	3,147	1,523
	29,882	40,326
	637,185	659,658
Less current maturities	27,846	28,570
	$609,339	$631,088

Note 8 - Accounts with affiliates:

	December 31, 1999	September 30, 2000
	(In thousands)	
Receivables from affiliates:		
Income taxes receivable from Contran	$13,124	$ 3,109
TIMET	907	789
Other	575	343
	$14,606	$ 4,241
Payables to affiliates:		
Demand loan from Contran:		
Tremont	$13,743	$13,943
Valhi	2,282	--
Louisiana Pigment Company	8,381	7,602
Other	860	434
	$25,266	$21,979

Note 9 - Minority interest:

	December 31, 1999	September 30, 2000
	(In thousands)	
Minority interest in net assets:		
NL Industries	$ 57,723	$ 58,798

Tremont Corporation	81,451	39,450
CompX International	53,487	56,641
Subsidiaries of NL	3,903	5,483
Subsidiaries of Tremont	4,159	4,394
Subsidiaries of CompX	103	--
	$200,826	$164,766

	Nine months ended September 30,	
	1999	2000
	(In thousands)	
Minority interest in net earnings (losses):		
NL Industries	$ 59,808	$ 23,500
Tremont Corporation	--	1,223
CompX International	6,478	6,871
Subsidiaries of NL	2,261	1,655
Subsidiaries of Tremont	--	235
Subsidiaries of CompX	(94)	(3)
	$ 68,453	$ 33,481

As previously reported, all of Waste Control Specialists aggregate net losses to date 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 losses is reported at September 30, 2000.

Note 10 - Other income:

	Nine months ended September 30,	
	1999	2000
	(In thousands)	
Securities earnings:		
Dividends and interest	$32,191	$29,978
Securities transactions	681	5,763
	32,872	35,741
Legal settlement gain, net	--	43,000
Noncompete agreement income	3,000	3,000
Currency transactions, net	8,505	4,227
Other, net	8,111	4,562
	$52,488	$90,530

In the second quarter of 2000, NL received 389,691 shares of common stock pursuant to the demutualization of an insurance company from which NL had purchased certain insurance policies. The Company recognized a $5.6 million

securities transaction gain based on the insurance company's initial public offering price of $14.25 per share. NL placed such common stock in a trust, the assets of which may only be used to pay for certain of NL's retiree benefits. The Company accounted for the $5.6 million contribution of the insurance company's common stock to the trust as a reduction of its accrued OPEB costs.

In the second quarter of 2000, NL recognized a $43 million net gain from a June 2000 settlement with one of its two principal former insurance carriers. The settlement resolved a court proceeding in which NL sought reimbursement from the carrier for legal defense expenditures and indemnity coverage for certain of its environmental remediation expenditures. The $43 million gain is stated net of $2 million of commissions associated with the settlement. Proceeds from the settlement were transferred by the carrier in July 2000 to a special purpose trust formed by NL to pay for certain of its future remediation and other environmental expenditures. At September 30, 2000, restricted cash equivalents include $45.6 million held by such special purpose trust.

Note 11 - Provision for income taxes:

	Nine months ended September 30,	
	1999	2000
	(In millions)	
Expected tax expense	$27.7	$57.6
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	13.9	12.9
Change in NL's and Tremont's deferred income tax valuation allowance, net	(89.9)	.9
Settlement of German income tax audits	(36.5)	--
Change in German income tax law	24.1	--
No tax benefit for goodwill amortization	3.0	4.0
U.S. state income taxes, net	(.6)	1.5
Non-U.S. tax rates	(.4)	(4.3)
Other, net	(3.1)	.1
	$(61.8)	$72.7
Comprehensive provision (benefit) for income taxes allocated to:		
Income from continuing operations	$(61.8)	$72.7
Discontinued operations	--	--
Other comprehensive income:		
Marketable securities	1.4	2.0
Currency translation	(7.9)	(19.4)
Pension liabilities	(2.3)	.6
	$(70.6)	$55.9

Note 12 - Accounting principles not yet adopted:

The Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, no later than the first quarter of 2001. Under SFAS No. 133, all derivatives will be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives will depend upon the intended use of the derivative. The impact on the Company of adopting SFAS No. 133, if any, has not yet been determined but will be dependent upon the extent to which the Company is a party to derivative contracts or hedging activities covered by SFAS No. 133 at the time of adoption, including derivatives embedded in non-derivative host contracts. As permitted by the

transition requirements of SFAS No. 133, as amended, the Company will exempt from the scope of SFAS No. 133 all host contracts containing embedded derivatives which were issued or acquired prior to January 1, 1999.

The Company will adopt the SEC's Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition, as amended, in the fourth quarter of 2000. SAB No. 101 provides guidance on the recognition, presentation and disclosure of revenue, including specifying basic criteria that must be met before revenue can be recognized. The impact on the Company of adopting SAB No. 101, if any, has not yet been determined, in part because the Company is studying guidance recently issued by the SEC concerning the exact requirements of SAB No. 101. If the impact of adopting SAB No. 101 is material, the Company will adopt SAB No. 101 retroactively to the beginning of 2000, and previously-reported results of operations for the first three quarters of 2000 would be restated.

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

RESULTS OF OPERATIONS:

The Company reported income from continuing operations of $13.0 million, or $.11 per diluted share, in the third quarter of 2000 compared to income of $8.2 million, or $.07 per diluted share, in the third quarter of 1999. For the first nine months of 2000, the Company reported income from continuing operations of $58.5 million, or $.50 per diluted share, compared to income of $72.4 million, or $.62 per diluted share, in the first nine months of 1999. Excluding the effects of the non-recurring items discussed in the next paragraph, the Company would have reported income from continuing operations of $41.2 million, or $.35 per diluted share, in the first nine months of 2000 compared to income of $20.1 million, or $.17 per diluted share, in the first nine months of 1999.

The Company's year-to-date results in 2000 include a $43 million second quarter pre-tax net gain ($17.3 million, or $.15 per diluted share, net of income taxes and minority interest) related to NL's settlement with one of its two principal former insurance carriers. See Note 10 to the Consolidated Financial Statements. The Company's year-to-date results in 1999 include the previously-reported $90 million second quarter income tax benefit ($52 million, or $.45 per diluted share, net of minority interest) recognized by NL.

Total operating income in the third quarter of 2000 increased 50% compared to the third quarter of 1999, and increased 41% in the first nine months of 2000 compared to the same period in 1999, due principally to higher chemicals earnings at NL.

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, including, but not limited to, statements found in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that 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," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission including, but not limited to, future supply and demand for the Company's products, the extent of the dependence of certain of the Company's businesses on certain market sectors (such as the

dependence of TIMET's titanium metals business on the aerospace industry), the cyclicality of certain of the Company's businesses (such as NL's TiO2 operations and TIMET's titanium metals operations), the impact of certain long-term contracts on certain of the Company's businesses (such as the impact of TIMET's long-term contracts with certain of its customers and such customers' performance thereunder and the impact of TIMET's long-term contracts with certain of its vendors on its ability to reduce or increase supply or achieve lower costs), customer inventory levels (such as the extent to which NL's customers may, from time to time, accelerate purchases of TiO2 in advance of anticipated price increases or defer purchases of TiO2 in advance of anticipated price decreases), changes in raw material and other operating costs (such as energy costs), the possibility of labor disruptions, general global economic conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO2), competitive products and substitute products, customer and competitor strategies, the impact of pricing and production decisions, competitive technology positions, 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), potential difficulties in integrating completed acquisitions (such as CompX's acquisitions of two slide producers in 1999 and its acquisition of a lock producer in January 2000), 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

NL's titanium dioxide pigments ("TiO2") operations are conducted through its wholly-owned subsidiary Kronos, Inc.

	Three months ended September 30,		%	Nine months ended September 30,		%
	1999	2000	Change	1999	2000	Change
	(In millions)			(In millions)		
Net sales	$242.7	$242.3	-0%	$676.8	$724.4	+7%
Operating income	30.0	51.2	+71%	95.2	147.5	+55%

Kronos' operating income in the third quarter and first nine months of 2000 increased compared to the same periods in 1999 due primarily to higher average TiO2 selling prices and higher TiO2 production volumes. In addition, chemicals operating income in 1999 includes a $5.3 million second quarter foreign currency transaction gain related to certain of NL's short-term intercompany cross-border financings that were settled in July 1999.

Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices (in billing currencies) during the third quarter of 2000 were 10% higher than the third quarter of 1999, with increased prices in all major regions and the greatest improvement in European and export markets. Compared to the second quarter of 2000, Kronos' average TiO2 selling prices in the third quarter of 2000 increased 5% and 4% in European and export markets, respectively, and were flat in North

America. Kronos' average TiO2 selling prices in the first nine months of 2000 were 5% higher than the same period in 1999, with increases in all major regions.

Kronos' TiO2 sales volumes in the third quarter of 2000 were near record levels, but were 4% and 6% lower than the levels NL achieved in the third quarter of 1999 and the second quarter of 2000, respectively. TiO2 sales volumes in the first nine months of 2000 were 8% higher than the first nine months of 1999. Kronos' TiO2 production volumes in the third quarter and first nine months of 2000 were 14% and 10% higher, respectively, than the comparable periods in 1999, with operating rates near full capacity in 2000 compared to about 90% capacity utilization in 1999.

NL expects its TiO2 sales volumes for all of 2000 will be higher than its sales volumes in 1999, with NL's volumes in the fourth quarter of 2000 lower than the record levels NL achieved in the fourth quarter of 1999. NL expects its average TiO2 selling prices (in billing currencies) in the fourth quarter of 2000 will be slightly higher than its average selling prices in the third quarter of 2000. NL expects to produce more Ti02 in 2000 than the record 434,000 metric tons NL produced in 1998. As a result of anticipated higher TiO2 average selling prices, higher Ti02 sales and production volumes and its continued focus on controlling costs, NL expects its chemicals operating income in 2000 will be higher than 1999. The extent of the improvement will be determined primarily by the magnitude of realized price increases.

NL's efforts to debottleneck its production facilities to meet long-term demand continue to prove successful. NL expects its TiO2 production capacity will increase by about 25,000 metric tons (primarily at its chloride-process facilities), with only a moderate amount of capital expenditures, increasing NL's aggregate production capacity to about 465,000 metric tons by 2002.

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 third quarter of 2000 increased 4% compared to the third quarter of 1999. Such average TiO2 selling prices in the first nine months of 2000 decreased 1% compared to the same period in 1999. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the Euro, decreased TiO2 sales in the third quarter and first nine months of 2000 by a net $16 million and $47 million, respectively, compared to the same periods in 1999. 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 the 2000 periods compared to 1999, and accordingly NL's average cost per metric ton of Ti02 produced in U.S. dollar terms was lower in 2000. Overall, the net impact of currency exchange rate fluctuations on NL's operating income comparisons, other than the $5.3 million second quarter 1999 foreign currency transaction gain discussed above, was not significant during 2000 compared to 1999.

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 $14.7 million and $14.3 million in the first nine months of 1999 and 2000, respectively, as compared to amounts separately reported by NL. As discussed below, the Company commenced consolidating Tremont's results of operations effective January 1, 2000. Tremont owns 20% of NL and accounts for its interest in NL by the equity method. Tremont also has purchase accounting adjustments made in conjunction with the acquisitions of its interest in NL. Prior to the Company's consolidation of Tremont's results of operations effective January 1, 2000, amortization of such

purchase accounting adjustments were included in the Company's equity in earnings of Tremont. In the first nine months of 2000, amortization of such Tremont purchase accounting adjustments further reduced chemicals operating income, as reported by Valhi, compared to amounts separately reported by NL by approximately $4.7 million. Had the Company consolidated Tremont's results of operations effective January 1, 1999, amortization of Tremont's purchase accounting adjustments related to NL would have further reduced chemicals operating income, as presented above, for the first nine months of 1999 by $5.1 million.

Component Products

	Three months ended September 30,		%	Nine months ended September 30,		%
	1999	2000	Change	1999	2000	Change
	(In millions)			(In millions)		
Net sales	$ 55.9	$ 63.0	+13%	$166.1	$194.2	+17%
Operating income	9.8	9.2	-6%	29.0	31.6	+9%

Component products sales increased in 2000 compared to 1999 due primarily to increased sales of security products and precision ball bearing slide products. Such increased sales of security products and slides were due in part to the effect of acquisitions. Sales of security products in the third quarter of 2000 increased 10% compared to the third quarter of 1999, and sales of slide products increased 25%. Sales of security products and slides were up 18% and 24%, respectively, in the first nine months of 2000 compared to the same period in 1999. During the first nine months of 2000, sales of CompX's ergonomic products were comparable to the first nine months of 1999, and were down 10% in the third quarter of 2000 compared to the third quarter of 1999.

Excluding the effect of acquisitions, component products sales increased nominally in the third quarter of 2000 compared to the third quarter of 1999, and increased 5% in the first nine months of 2000 compared to the same period in 1999, due to higher sales of slides, offset by lower sales of both ergonomic products and security products. Such increase in sales of slide products is due to market share gains and increased demand for CompX's slide products. The decline in sales of ergonomic products and security products is due in part to slower sales to the computer and related products industry sector, as well as market share losses related to ergonomic products.

Component products operating income and operating income margins in 2000 were adversely impacted by a change in product mix, with a lower percentage of sales generated by certain higher-margin products in 2000 compared to 1999, as well as higher than expected manufacturing costs at one of CompX's facilities. Operating income margins also declined in 2000 due to the lower margins associated with the lock operations acquired in January 2000. Excluding the effect of acquisitions, component products operating income was 10% lower in the third quarter of 2000 compared to the third quarter of 1999, and was 1% higher in the first nine months of 2000 compared to the same period in 1999.

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 and the Euro. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of CompX's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. During the first nine months of 2000, weakness in the Euro negatively impacted component products sales and operating income comparisons (principally with respect to slide products). Excluding the effect of currency and acquisitions, component products sales increased 3% in the third quarter of 2000 compared to the third quarter of 1999, and operating income declined 8%. Excluding the effect of currency and acquisitions, component products sales increased 7% in the first nine months of 2000 compared to the same period in

1999, and operating income increased 4%.

Waste Management

As previously reported, the Company commenced consolidating Waste Control Specialists' results of operations in the third quarter of 1999. Prior to consolidation, the Company reported its interest in Waste Control Specialists by the equity method. During the third quarter and first nine months of 1999, Waste Control Specialists reported sales of $4.7 million and $13.0 million, respectively, and operating losses (net loss before interest expense) of $1.5 million and $9.5 million, respectively. The Company's equity in net losses of Waste Control Specialists during the first six months of 1999 (prior to consolidation) was $8.5 million. During the third quarter and first nine months of 2000, Waste Control Specialists reported sales of $2.8 million and $11.2 million, respectively, and operating losses of $3.0 million and $6.0 million, respectively. The improvement in Waste Control Specialists' results of operations in the first nine months of 2000 compared to the first nine months of 1999 is due primarily to the favorable effect of certain cost control measures implemented during the second half of 1999. Waste Control Specialists' operating loss in the third quarter of 2000 was higher than the third quarter of 1999 due primarily to lower sales resulting from weak demand for its waste management services.

The current state law in Texas (where Waste Control Specialists' disposal facility is located) prohibits the applicable Texas regulatory agency from issuing a permit for the disposal of low-level radioactive waste to a private enterprise. During the latest Texas legislative session which ended in May 1999, Waste Control Specialists was supporting a proposed change in state law that would allow the regulatory agency to issue a low-level radioactive waste disposal permit to a private entity. The legislative session ended without any such change in state law. The completion of the 1999 Texas legislative session resulted in a significant reduction in the Company's expenditures for permitting during the last half of 1999 and first nine months of 2000 compared to the first half of 1999. The next session of the Texas legislature convenes in January 2001, and Waste Control Specialists expects to again support a similar proposed change in state law. Waste Control Specialists' expenditures for permitting during the first half of 2001 are expected to be higher than such expenditures during the last half of 2000, but lower than such expenditures during the first half of 1999 during the prior Texas legislative session.

Waste Control Specialists' program to improve operating efficiencies at its West Texas facility and to curtail certain of its corporate and administrative costs has also reduced operating costs in the last half of 1999 and the first nine months of 2000 compared to the first half of 1999. Waste Control Specialists is also continuing its attempts to emphasize its sales and marketing efforts to increase its sales volumes from waste streams that conform to Waste Control Specialists' permits currently in place. Waste Control Specialists has recently hired a new director of sales and marketing who intends to more aggressively pursue opportunities in the hazardous and toxic side of Waste Control Specialists' business. The ability of Waste Control Specialists to achieve increased 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 with its current operating permits. However, there can be no assurance that Waste Control Specialists' efforts will prove successful in improving its cash flows. In the event such efforts are not successful or Waste Control Specialists is not successful in expanding its disposal capabilities for low-level radioactive wastes, it is possible that Valhi will consider other strategic alternatives with respect to Waste Control Specialists.

Tremont Corporation and TIMET

As previously reported, the Company commenced consolidating Tremont's balance sheet at December 31, 1999, and commenced consolidating Tremont's results of operations and cash flows effective January 1, 2000. Prior to December 31, 1999, the Company accounted for its interest in Tremont by the equity method.

Tremont accounts for its interests in both NL and TIMET by the equity method. NL's results of operations are discussed above. Tremont's equity in earnings 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 compared to amounts separately reported by TIMET.

During the third quarter of 2000, TIMET reported sales of $106.7 million, an operating loss of $7.7 million and a net loss of $7.9 million compared to sales of $112.7 million, an operating loss of $7.8 million and a net loss of $7.5 million in the third quarter of 1999. During the first nine months of 2000, TIMET reported sales of $320.3 million, an operating loss of $35.5 million and a net loss of $32.5 million compared to sales of $374.5 million, an operating loss of $8.2 million and a net loss of $13.9 million in the first nine months of 1999. TIMET's results in the third quarter and first nine months of 2000 were below those of the same periods in 1999 due principally to lower mill products average selling prices caused by lower demand in the aerospace market and competitive pricing pressures in certain product lines. While TIMET's mill products sales volumes in the third quarter of 2000 were 1% higher than the third quarter of 1999, TIMET's mill products average selling prices declined 6%. During the first nine months of 2000, TIMET's mill products sales volumes declined 2% compared to the first nine months of 1999, and mill products average selling prices were 7% lower. Sales of ingot and slab represent about 11% of TIMET's sales. TIMET's sales volumes of ingot and slab increased 71% in the third quarter of 2000 compared to the third quarter of 1999, while average selling prices for ingot and slab were unchanged. During the first nine months of 2000, ingot and slab sales volumes increased 18% compared with the first nine months of 1999, and average selling prices declined 3%. Compared to the second quarter of 2000, TIMET's mill products sales volumes in the third quarter of 2000 decreased 2%, while mill products average selling prices were unchanged. Ingot and slab sales volumes in the third quarter of 2000 increased 5% compared to the second quarter of 2000, and ingot and slab average selling prices increased 2%. TIMET's year-to-date results in 2000 also include a net $8.3 million of special items, consisting of restructuring charges, equipment-related impairment charges and environmental remediation charges aggregating $9.5 million, offset by a $1.2 million gain from the sale of its castings joint venture. The restructuring charge relates to personnel reductions of about 200 employees.

In September 2000, TIMET entered into a new four-year collective bargaining agreement with the union representing approximately 250 hourly production and maintenance workers at TIMET's facility in Nevada. The new agreement, which expires in October 2004, provides for, among other things, modest increases in wages and pension benefits over its term.

During the third quarter of 2000, TIMET announced selling price increases on certain of its products. The price increases do not apply to TIMET's existing backlog, to orders under TIMET's existing long-term agreements containing specific provisions governing selling prices or to orders for industrial products. Accordingly, only about 35% of TIMET's sales volumes are expected to be eligible for such price increases. The average prices on TIMET's eligible new orders have thus far been substantially in line with the new price list. However, the volume of transactions to which such price increases are applicable has been relatively low given the short time period since the announcement, and TIMET expects the price increases will not have any significant effect on TIMET's results of operations in the fourth quarter of 2000. TIMET's firm order backlog at September 30, 2000 was approximately $200 million, compared to $160 million at June 30, 2000 and $260 million at September 30, 1999. The increase in backlog at September 30, 2000 reflects primarily the normal seasonal order cycle of TIMET's customer base. TIMET currently believes its sales and operating results in the fourth quarter of 2000 will be similar to its operating results in the third quarter of this year.

TIMET believes the excess amount of titanium that has been present in the titanium supply chain during 2000 will have been significantly reduced by the end of the year, and TIMET currently believes such excess inventory will have less of an impact on TIMET's results of operations during 2001. According to the Airline Monitor, a leading aerospace publication, commercial aircraft build rates are expected to increase from 786 planes in 2000 to 866 planes in 2001 and 918 planes in 2002. TIMET believes worldwide industry titanium mill product shipments will aggregate approximately 53,000 metric tons in 2001, up 10% from an expected 48,000 metric tons in 2000. Such expected increase in worldwide titanium mill product shipments is due primarily to an anticipated increase in demand for aerospace products resulting from the increase in the number of aircraft forecasted to be produced, as well as a reduction in the amount of excess titanium in the supply chain discussed above.

TIMET is currently in negotiations with several customers regarding product requirements and pricing for 2001. These negotiations are on going, and TIMET is presently unable to determine what sales volumes or selling prices will actually be realized with such customers. Principally as a result of the anticipated increase in demand for titanium aerospace products, TIMET currently expects its sales volumes in 2001 will increase by up to 15% from 2000 levels, with sales of between $450 million and $500 million, reflecting the anticipated additional sales volumes, certain price increases and anticipated changes in product mix. While TIMET currently expects to report operating and net losses in 2001, TIMET believes such losses will be substantially reduced from 2000 levels.

In March 2000, TIMET filed the previously-reported lawsuit against The Boeing Company seeking damages estimated in excess of $600 million in connection with TIMET's long-term sales agreement with Boeing. In June 2000, Boeing filed its answer to TIMET's complaint denying substantially all of TIMET's allegations and making certain counterclaims against TIMET. TIMET believes such counterclaims are without merit and intends to vigorously defend against such claims. Discovery is proceeding, and a court date has been set for January 2002. Since April 2000, TIMET and Boeing have been in discussions to determine if a settlement can be reached. Those discussions are on going, and there can be no assurance that any settlement will be reached.

Tremont periodically evaluates the net carrying value of its long-term assets, including its investment in TIMET, to determine if there has been any decline in value below their amortized cost basis that is other than temporary and would, therefore, require a write-down which would be accounted for as a realized loss. At December 31, 1999, after considering what it believed to be all relevant factors, including, among other things, TIMET's consolidated operating results, financial position, estimated asset values and prospects, the Company recorded a non-cash charge to earnings to reduce the net carrying value of its investment in TIMET for an other than temporary impairment. In determining the amount of the impairment charge, Tremont considered, among other things, then-recent ranges of TIMET's NYSE market price and estimates of TIMET's future operating losses which would further reduce Tremont's carrying value of its investment in TIMET as it records additional equity in losses of TIMET. At September 30, 2000, Tremont's net carrying value of its investment in TIMET was $6.00 per share compared to a NYSE market price at that date of $8.19. While generally accepted accounting principles may require an investment in a security accounted for by the equity method to be written down if the market value of that security declines, they do not permit a writeup if the market value subsequently recovers.

General corporate and other items

General corporate. General corporate interest and dividend income decreased in the third quarter and first nine months of 2000 compared to the same periods in 1999 due primarily to a slightly lower level of distributions received from The Amalgamated Sugar Company LLC, as well as a lower interest rate on the Company's $80 million loan to Snake River Sugar Company effective April 1, 2000. Dividend distributions from the LLC were $5.4 million and $16.8 million in the third quarter and first nine months of 2000, respectively, compared to $5.9 million and $17.6 million in the respective periods of 1999. Aggregate general corporate interest and dividend income is currently expected to be lower during the fourth quarter of 2000 compared to the fourth quarter of 1999 due primarily to such lower interest rate on the $80 million loan to Snake River.

Securities transactions in 2000 consist primarily of a $5.6 million second quarter gain related to common stock received by NL from the demutualization of an insurance company from which NL had purchased certain insurance policies. Other securities transactions in both 2000 and 1999 relate principally to the disposition of a portion of the shares of Halliburton Company common stock held by the Company when certain holders of the Company's LYONs debt obligations exercised their right to exchange their LYONs for such Halliburton shares. See Notes 3, 7 and 10 to the Consolidated Financial Statements. Any additional exchanges in 2000 or thereafter would similarly result in additional securities transaction gains.

The $43 million legal settlement gain relates to NL's settlement with a former insurance carrier discussed above. See also Note 10 to the Consolidated Financial Statements. General corporate expenses increased in 2000 compared to the same periods in 1999 due primarily to higher environmental and legal expenses of NL and the effect of consolidating Tremont's results of operations effective January 1, 2000.

Interest expense. Interest expense declined slightly in 2000 compared to the same periods in 1999 due primarily to lower average levels of outstanding indebtedness at NL, offset in part by the effect of consolidating Tremont's results of operations effective January 1, 2000 and higher levels of indebtedness at CompX. Assuming interest rates do not increase significantly from current levels and that there is not a significant reduction in the amount of outstanding LYONs indebtedness from exchanges, interest expense in 2000 is not expected to be significantly different from interest expense in 1999.

Provision for income taxes. The principal reasons for the difference between the Company's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 11 to the Consolidated Financial Statements. Income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of the Company's pre-tax earnings can result in fluctuations in the effective income tax rate. Certain subsidiaries, including NL, Tremont and CompX, are currently not members of the consolidated U.S. tax group of which Valhi is a member, and the Company provides incremental income taxes on such earnings. In addition, Tremont, NL and TIMET are currently each in separate U.S. tax groups, and Tremont provides incremental income taxes on its earnings with respect to both NL and TIMET.

During the first nine months of 2000, NL reduced its deferred income tax valuation allowance by $2.1 million primarily as a result of utilization of certain tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria. During the first nine months of 2000, Tremont increased its deferred income tax valuation allowance by $3.0 million primarily due to its equity in losses of TIMET for which recognition of a deferred tax benefit is not currently considered appropriate by Tremont under the "more-likely-than-not" recognition criteria.

In October 2000, a reduction in the German "base" income tax rate from 30% to 25%, to be effective January 1, 2001, was enacted. Such reduction in the German tax rate is expected to result in an additional net tax expense in the fourth quarter of 2000 of about $3 million (about $2 million net income impact, net of minority interest) due to a revaluation of NL's German tax attributes, including the effect of revaluing certain deferred income tax purchase accounting adjustments with respect to NL's German assets. The reduction in the German income tax rate results in an additional income tax expense because the Company has recognized a net deferred income tax asset with respect to Germany. NL does not expect its future current income tax expense will be affected by this reduction.

Minority interest. See Note 9 to the Consolidated Financial Statements. As discussed above, the Company commenced consolidating Tremont's results of operations beginning in 2000. Consequently, the Company commenced reporting minority interest in Tremont's net earnings or losses beginning in 2000. Minority interest in earnings of Tremont's subsidiaries in 2000 relates to TRECO L.L.C., a 75%-owned subsidiary of Tremont that holds Tremont's interests in certain joint ventures. Minority interest in earnings of NL's subsidiaries relates principally to NL's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS").

Discontinued operations. Discontinued operations in 1999 represent additional consideration received by the Company related to its 1997 disposal of its fast food operations.

Accounting principles not yet adopted. See Note 12 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES:

Consolidated cash flows

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

Investing and financing activities. Approximately 50% of the Company's aggregate capital expenditures during the first nine months of 2000 relate to NL, 42% relate to CompX and substantially all of the remainder relates to Waste Control Specialists.

During the first nine months of 2000, (i) CompX acquired a lock

producer for $9.5 million using borrowings under its unsecured revolving bank credit facility, (ii) NL purchased $29.2 million of shares of its common stock pursuant to its previously-reported share repurchase programs and (iii) NL and Valhi purchased an aggregate of $37.5 million of shares of Tremont common stock.

During the first nine months of 2000, (i) CompX borrowed a net $11 million under its unsecured revolving bank credit facility, (ii) NL repaid Euro 31 million ($29 million when paid) of its Euro-denominated short-term indebtedness and (iii) Valhi borrowed a net $6 million under its bank credit facility and repaid a net $2.3 million of short-term borrowings from Contran.

At September 30, 2000, unused credit available under existing credit facilities approximated $119 million, which was comprised of $69 million available to CompX under its revolving credit facility, $38 million available to NL under non-U.S. credit facilities and $12 million available to Valhi under its revolving bank credit facility. In October 2000, Valhi extended the maturity date of its revolving credit facility one year to November 2001, and the size of the facility was reduced from $50 million to $40 million. The $12 million amount of available borrowings for Valhi under such revolving credit facility at September 30, 2000 includes the impact of this $10 million reduction in the size of the facility.

Chemicals - NL Industries

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 has received tax assessments from the Norwegian tax authorities proposing tax deficiencies of NOK 30 million ($3 million at September 30, 2000) relating to 1994 and 1996. NL is currently litigating the primary issue related to the 1994 assessment in a Norwegian appeals court, and NL believes the outcome of the 1996 assessment is dependent upon the eventual outcome of the 1994 case. NL has granted a lien for both the 1994 and 1996 tax assessments on its Norwegian Ti02 plant in favor of the Norwegian tax authorities.

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

NL has been named as a defendant, potentially responsible party ("PRP"), or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, NL evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed NL's obligation. NL believes it has provided adequate accruals ($110 million at September 30, 2000) 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 $170 million. NL's estimates of such liabilities have not been discounted to present value, and other than the $43 million net settlement discussed above with respect to one of NL's two principal former insurance carriers, NL has not recognized any insurance recoveries, potential or otherwise. NL will continue to pursue similar claims with other insurance carriers. 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, issue additional securities, repurchase shares of its common stock, modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, NL may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals industry or other industries, as well as the acquisition of interests in related entities. In the event of any such transaction, NL may consider using its available cash, issuing its equity securities or refinancing or increasing its indebtedness to the extent permitted by the agreements governing NL's existing debt. In this regard, the indentures governing NL's publicly-traded debt contain provisions which limit the ability of NL and its subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

Component products - CompX International

In January 2000, CompX acquired a lock producer for $9 million cash consideration using borrowings under its bank credit facility. In November 2000, CompX's board of directors authorized CompX to purchase up to 1 million shares of its common stock in open market or privately-negotiated transactions at unspecified prices over an unspecified period of time.

Certain of CompX's sales generated by its Canadian operations are denominated in U.S. dollars. To manage a portion of the foreign exchange rate market risk associated with such receivables or similar exchange rate risk associated with future sales, at September 30, 2000 CompX had entered into a series of short-term forward exchange contracts maturing through March 2001 to exchange an aggregate of $18.2 million for an equivalent amount of Canadian dollars at exchange rates between approximately Cdn. $1.46 and Cdn. $1.48.

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 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, joint ventures or other business combinations in the component products industry. In the event of any such transaction, CompX may consider using available cash, issuing additional equity securities or increasing the indebtedness of CompX or its subsidiaries.

Waste management - Waste Control Specialists

At September 30, 2000, Waste Control Specialists' indebtedness consists principally of (i) a $5.4 million bank term loan due in installments through November 2004 and (ii) $18.5 million of intercompany borrowings owed to a wholly-owned subsidiary of Valhi, of which $15 million is due on December 31, 2001 and $3.5 million is payable on demand. Such intercompany borrowings are eliminated in the Company's consolidated financial statements. Valhi currently expects to provide additional short-term borrowings to Waste Control Specialists

during the fourth quarter of 2000.

Tremont Corporation and Titanium Metals Corporation

Tremont. Tremont is primarily a holding company which, at September 30, 2000, owned approximately 39% of TIMET and 20% of NL. At September 30, 2000, the market value of the 12.3 million shares of TIMET and the 10.2 million shares of NL held by Tremont was approximately $101 million and $216 million, respectively.

In 1998, Tremont entered into a revolving advance agreement with Contran. Through September 30, 2000, Tremont had net borrowings of $13.9 million from Contran under such facility, primarily to fund Tremont's purchases of shares of NL and TIMET common stock. Tremont expects to reduce the outstanding balance of such loan from Contran in the fourth quarter of 2000 as the cash received from its dividends from NL is expected to exceed its other cash requirements (including its own dividends).

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

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.

TIMET. At September 30, 2000, TIMET reported total assets and stockholders' equity of $759.4 million and $363.9 million, respectively. TIMET's total assets at such date include current assets of $246.6 million, property and equipment of $304.2 million and goodwill and other intangible assets of $64.5 million. TIMET's total liabilities at such date include current liabilities of $110.1 million, long-term debt of $30.6 million, accrued OPEB costs of $19.0 million and convertible preferred securities of $201.3 million.

TIMET's plan to address current market conditions includes more effective working capital management, particularly inventories and receivables, both of which were reduced in the first nine months of 2000. Additionally, TIMET received tax refunds of $7.4 million in the first nine months of 2000.

At September 30, 2000, TIMET had net debt of approximately $52 million ($58 million of notes payable and long-term debt and $6 million of cash and equivalents). In February 2000, TIMET entered into a new $125 million U.S. revolving credit agreement which replaced its previous U.S. credit facility. Borrowings under the new facility are limited to a formula-determined borrowing base derived from the value of accounts receivable, inventories and equipment. The new facility limits additional indebtedness of TIMET, prohibits the payment of common stock dividends and contains other covenants customary in lending transactions of this type. In addition, in February 2000 TIMET also entered into a new U.K. credit facility denominated in Pound Sterling which replaced its prior U.K. credit facility. At September 30, 2000, TIMET had $106 million of borrowing availability, principally under these new facilities. TIMET believes these two new credit facilities will provide TIMET with the liquidity necessary for its current market and operating conditions.

At September 30, 2000, TIMET had $201.3 million outstanding of its 6.625% convertible preferred securities. Such convertible preferred securities do not require principal amortization, and TIMET has the right to defer dividend

payments for one or more quarters of up to 20 consecutive quarters. TIMET is prohibited from, among other things, paying dividends on its common stock while dividends are being deferred on the convertible preferred securities. TIMET suspended the payment of dividends on its common stock during the fourth quarter of 1999 in view of, among other things, the continuing weakness in demand for titanium metals products. TIMET's new U.S. credit facility prohibits the payment of dividends on TIMET's common stock, and the facility also prohibits the payment of dividends on the convertible preferred securities under certain conditions. In April 2000, TIMET exercised its rights under the convertible preferred securities and commenced deferring future dividend payments on these securities. Although the dividend payments are deferred, interest will continue to accrue at the coupon rate on the principal and unpaid dividends. TIMET has stated that its goal is to resume dividends on the convertible preferred securities when the outlook for its results of operations improves substantially.

In October 1998, TIMET purchased for cash $80 million of Special Metals Corporation 6.625% convertible preferred stock (the "SMC Preferred Stock"), in conjunction with, and concurrent with, SMC's acquisition of a business unit from Inco Limited. Dividends on the SMC Preferred Stock are being accrued but, through September 30, 2000, have not been paid (with the exception of one quarterly payment received in each of April, July and October 2000) due to limitations imposed by SMC's bank credit agreement. As a result, TIMET has classified its accrued dividends on the SMC preferred securities ($8.1 million at September 30, 2000) as a non-current asset. There can be no assurance that TIMET will receive additional dividends during the remainder of 2000.

A preliminary study of environmental issues at TIMET's Nevada facility was completed late in the first quarter of 2000. TIMET accrued $3.3 million based on the estimated cost of groundwater remediation activities described in the study. The undiscounted environmental remediation charges are expected to be paid over a period of up to thirty years.

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 and related 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.

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 September 30, 2000, Valhi would receive aggregate annual dividends from NL of approximately $24.1 million. Tremont's quarterly dividend is currently $.07 per share. At that rate, and based upon the 3.8 million Tremont shares owned by Valhi at September 30, 2000, Valhi would receive aggregate annual dividends from Tremont of approximately $1.1 million. CompX commenced quarterly dividends of $.125 per share in the fourth quarter of 1999. At this current rate and based on the 10.4 million CompX shares held by Valhi and Valcor, 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 have not significantly impacted Valhi's ability to service its parent company level obligations. Valhi has not guaranteed any indebtedness of its subsidiaries or affiliates. At September 30, 2000, Valhi had $7 million of parent level cash and cash equivalents, including a portion held by Valcor which could be distributed to Valhi, and had $27 million of outstanding borrowings under its revolving bank

credit agreement. In addition, Valhi had $12 million of borrowing availability under its bank credit facility. In October 2000, Valhi extended the maturity date of its revolving credit facility one year to November 2001, and the size of the facility was reduced from $50 million to $40 million. The amount shown as available borrowings for Valhi under such revolving credit facility at September 30, 2000 includes the impact of this $10 million reduction in the size of the facility.

Valhi's LYONs do not require current cash debt service. At September 30, 2000, Valhi held 2.7 million shares of Halliburton common stock, which shares are held in escrow for the benefit of holders of the LYONs. Valhi continues to receive regular quarterly Halliburton dividends (currently $.125 per share) on the escrowed shares. The LYONs are exchangeable at any time, at the option of the holder, for the Halliburton shares owned by Valhi. Exchanges of LYONs for Halliburton stock result in the Company reporting income related to the disposition of the Halliburton stock for both financial reporting and income tax purposes, although no cash proceeds are generated by such exchanges. Valhi's potential cash income tax liability that would have been triggered at September 30, 2000, assuming exchanges of all of the outstanding LYONs for Halliburton stock at such date, was approximately $29 million.

At September 30, 2000, the LYONs had an accreted value equivalent to approximately $36.60 per Halliburton share, and the market price of the Halliburton common stock was $48.94 per share (October 31, 2000 market price of Halliburton - $37.06 per share). Such September 30, 2000 market price of Halliburton is equal to the equivalent accreted LYONs obligation in November 2003. 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. Such October 2002 redemption price is equivalent to about $44.10 per Halliburton share. Assuming the market value of Halliburton common stock exceeds such equivalent redemption value of the LYONS in October 2002, the Company does not expect a significant amount of LYONs would be tendered to the Company for redemption at that date.

Valhi received approximately $73 million cash in early 1997 at the transfer of control of its refined sugar operations previously conducted by the Company's wholly-owned subsidiary, The Amalgamated Sugar Company, to Snake River Sugar Company, an agricultural cooperative formed by certain sugarbeet growers in Amalgamated's area of operation. Pursuant to the transaction, Amalgamated contributed substantially all of its net assets to The Amalgamated Sugar Company LLC, a limited liability company controlled by Snake River, on a tax-deferred basis in exchange for a non-voting ownership interest in the LLC. As part of the transaction, Snake River made certain loans to Valhi aggregating $250 million in January 1997. Such loans bear interest (which is paid monthly) at a weighted average fixed interest rate of 9.4%, are presently nonrecourse to Valhi and are collateralized by the Company's investment in the LLC ($170 million carrying value at September 30, 2000). Snake River's sources of funds for its loans to Valhi, as well as for the $14 million it contributed to The Amalgamated Sugar Company LLC for its voting interest in the LLC, included cash capital contributions by the grower members of Snake River and $192 million in debt financing provided by Valhi in January 1997, of which $100 million was subsequently prepaid in 1997 when Snake River obtained $100 million of third-party term loan financing. In addition, another $12 million of loans from Valhi were prepaid during 1997. After these prepayments, $80 million of Valhi's loans to Snake River Sugar Company remain outstanding. See Notes 3, 5 and 7 to the Consolidated Financial Statements.

The terms of the 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.

The Company has the ability to temporarily take control of the LLC in the event the Company's cumulative distributions from the LLC fall below specified levels. Over the past year, the refined sugar industry has been experiencing, among other things, downward pressure on selling prices due principally to relative supply/demand relationships. Snake River's board of directors is authorized to require the sugarbeet growers to make capital contributions to Snake River in the form of "unit retains." Such unit retain

capital contributions are deducted from the payments made to the growers for supplying the LLC with sugarbeets, thereby decreasing the LLC's raw material costs and increasing its profitability. During each of 1998, 1999 and 2000, Snake River's board of directors authorized and withheld such unit retains in order to, among other things, increase the profitability and cash flows of the LLC.

In part because of the current depressed market conditions for refined sugar, the Company and Snake River held discussions during 2000 in an attempt to reach an agreement whereby, among other things, the Company would provide (i) relief from the level of dividend distributions required to be paid by the LLC to the Company and (ii) modification of certain terms of the Company's $80 million loan to Snake River. In June 2000, the Company and Snake River reached an agreement in principle, and in October 2000 formal agreements were executed, whereby, among other things, (i) the specified levels of cumulative unpaid LLC distributions which allow the Company to temporarily take control of the LLC were increased effective April 2000, (ii) the interest rate on the Company's $80 million loan to Snake River was reduced from 12.99% to 6.49% effective April 1, 2000, (iii) the amount of interest forgone as a result of such reduction in the interest rate on the $80 million loan will be recouped and paid via additional future LLC distributions upon achievement of specified levels of future LLC profitability, (iv) Snake River granted to the Company a lien on substantially all of Snake River's assets to collateralize such $80 million loan, such lien becoming effective generally upon the repayment of Snake River's third-party senior lender and (v) Snake River agreed that the sum of the annual amount of LLC distributions paid by the LLC to the Company and the annual amount of debt service payments paid by Snake River to the Company on the $80 million loan will at least equal the annual amount of interest payments owed by the Company to Snake River on its $250 million in loans from Snake River. Through September 30, 2000, the Company's cumulative distributions from the LLC had not fallen below such amended specified levels, and the Company does not currently have the ability to temporarily take control of the LLC.

Certain covenants contained in Snake River's third-party senior debt limit the amount of debt service payments (principal and interest) which Snake River is permitted to remit to Valhi under Valhi's $80 million loan to Snake River, and such loan is subordinated to Snake River's third-party senior debt. Due to these covenants, Snake River was limited in the amount of debt service it could pay on the $80 million loan to $3 million in 1998, $7.2 million in 1999 and $950,000 in the first nine months of 2000. At September 30, 2000, the accrued and unpaid interest on the $80 million loan to Snake River aggregated $16.2 million (including the effect of reducing the interest rate on such loan from 12.99% to 6.49% effective April 1, 2000). 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).

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 1999 Annual Report and prior 2000 periodic reports for descriptions of certain legal proceedings.

In August 2000, defendants filed an answer denying all of the allegations in the previously-reported Envirocare of Utah, Inc., et al. v. Waste Control Specialists LLC, et al. Waste Control Specialists believes the complaint is without merit and intends to defend against the action vigorously.

City of New York, et al. v. Lead Industries Association, et al. (No. 89-4617). In September 2000, the First Department denied plaintiffs' appeal of the trial court's denial of plaintiffs' motion for summary judgment on the market share issue.

Brenner, et al. v. American Cyanamid, et al. (No. 12596-93). Plaintiffs have filed a notice of appeal.

Sabater, et al. v. Lead Industries Association, et al. (No. 25533/98). In October 2000, defendants filed a third-party complaint against the Federal Home Loan Mortgage Corporation ("FHLMC), and FHLMC removed the case to federal court in the Southern District of New York.

Cofield, et al. v. Lead Industries Association, et al. (No. 24-C-99004491). In August 2000, the federal court dismissed the fraud, indemnification, and nuisance claims, and remanded the case to Maryland state court.

Spring Branch Independent School District v. Lead Industries Association, et al. (No. 2000-31175) and Houston Independent School District v. Lead Industries Association, et al. (No. 2000-33725). In October 2000, NL filed answers in both cases denying all allegations of wrongdoing and liability.

Lewis et al. v. Lead Industries Association, et al. (No. 00CH09800). In October 2000, defendants moved to dismiss all claims. Briefing is not yet completed.

In October 2000, NL was served with a complaint filed in California state court in Carletta Justice, et al. v. Sherwin-Williams Company, et al. (Superior Court of California, County of San Francisco, No. 314686). Plaintiffs are two minors who seek general, special and punitive damages for injuries alleged to be due to ingestion of paint containing lead in their residence. Defendants are NL, the Lead Industries Association, and nine other companies sued as former manufacturers of lead paint. Plaintiffs allege claims for negligence, strict products liability, concert of action, market share liability, and intentional tort. NL intends to deny all allegations of wrongdoing and liability and to defend the case vigorously.

Batavia, New York Landfill. In September 2000, NL finalized the previously-reported consent decree allocating cleanup costs at this site among the PRPs. NL's expected costs pursuant to the consent decree are within previously-accrued amounts.

In October 2000, NL was served with a complaint in Pulliam, et al. vs. NL Industries, Inc., et al. (Superior Court of Marion County, Indiana, No. 49DO20010CT001423) filed on behalf of an alleged class of all persons and entities who own or have owned property or have resided within a one-mile radius of an industrial facility formerly owned by NL in Indianapolis, Indiana. Plaintiffs allege that they and their property have been injured by lead dust and particulates from the facility and seek unspecified actual and punitive damages and a removal of all alleged lead contamination. The time for NL to file

its answer has not yet expired. NL intends to deny all allegations of wrongdoing and to defend the case vigorously.

In August and September 2000, NL and one of its subsidiaries, NLO, Inc., were named as defendants in each of the four lawsuits listed below that were filed in federal court in the Western District of Kentucky against the Department of Energy ("DOE") and a number of other defendants alleging that nuclear material supplied by, among others, the Feed Material Production Center ("FMPC") in Fernald, Ohio, owned by the DOE and formerly managed under contract by NLO, caused injury to employees and others at the DOE's Paducah, Kentucky Gaseous Diffusion Plant ("PGDP"). With respect to each of the four cases listed below, NL believes that the DOE is obligated to provide defense and indemnification pursuant to its contract with NLO, and pursuant to its statutory obligation to do so, as the DOE has done in several previous cases relating to management of the FMPC. NL has so advised the DOE. Answers in the four cases have not been filed, and NL and NLO intend to deny all allegations of wrongdoing and to defend the cases vigorously.

- In Rainer, et al. v. E.I. du Pont de Nemours, et al., ("Rainer I") No. 5:00CV-223-J, plaintiffs purport to represent a class of former employees at the PGDP and members of their households and seek actual and punitive damages of $5 billion each for alleged negligence, infliction of emotional distress, ultra-hazardous activity/strict liability and strict products liability.

- In Rainer, et al. v. Bill Richardson, et al., No. 5:00CV-220-J, plaintiffs purport to represent the same classes regarding the same matters alleged in Rainer I, and allege a violation of constitutional rights and seek the same recovery sought in Rainer I.

- In Dew, et al. v. Bill Richardson, et al., No. 5:00CV00221R, plaintiffs purport to represent classes of all PGDP employees who sustained pituitary tumors or cancer as a result of exposure to radiation and seek actual and punitive damages of $2 billion each for alleged violation of constitutional rights, assault and battery, fraud and misrepresentation, infliction of emotional distress, negligence, ultra-hazardous activity/strict liability, strict products liability, conspiracy, concert of action, joint venture and enterprise liability, and equitable estoppel.

- In Shaffer, et al. v. Atomic Energy Commission, et al., No. 5:00CV00307M, plaintiffs purport to represent classes of PGDP employees and household members, subcontractors at PGDP, and landowners near the PGDP and seek actual and punitive damages of $1 billion each and medical monitoring for the same counts alleged in Dew.

In September 2000, TIMET was named in an action filed by the U.S. Equal Employment Opportunity Commission in federal district court in Las Vegas, Nevada (U.S. Equal Employment Opportunity Commission v. Titanium Metals Corporation, CV-S-00-1172DWH-RJJ). The complaint alleges that several female employees at TIMET's Nevada plant were the subject of sexual harassment. TIMET intends to vigorously defend this action, and TIMET does not presently anticipate that any adverse outcome in this case would be material to TIMET's financial condition, results of operations or liquidity.

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

(a) Exhibits

10.1 - Master Agreement Regarding Amendments to The Amalgamated Sugar Company Documents dated October 19, 2000.

10.2 - Third Amendment to the Company Agreement of The Amalgamated Sugar Company LLC dated October 19, 2000.

10.3 - Third Amendment to the Subordinated Loan Agreement between Snake River Sugar Company and Valhi, Inc. dated October 19, 2000.

10.4 - Contingent Subordinate Pledge Agreement between

Snake River Sugar Company and Valhi, Inc., as acknowledged by First Security Bank National Association as Collateral Agent, dated October 19, 2000.

10.5 - Contingent Subordinate Security Agreement between Snake River Sugar Company and Valhi, Inc., as acknowledged by First Security Bank National Association as Collateral Agent, dated October 19, 2000.

10.6 - Contingent Subordinate Collateral Agency and Paying Agency Agreement among Valhi, Inc., Snake River Sugar Company and First Security Bank National Association dated October 19, 2000.

10.7 - First Amendment to the Subordination Agreement between Valhi, Inc. and Snake River Sugar Company dated October 19, 2000.

10.8 - First Amendment to Option Agreements among Snake River Sugar Company, Valhi Inc., and the holders of Snake River's 10.9% Senior Notes Due 2009 dated October 19, 2000.

10.9 - First Amendment to the Voting Rights and Forbearance Agreement among the Amalgamated Collateral Trust, ASC Holdings, Inc. and First Security Bank National Association dated October 19, 2000.

27.1 - Financial Data Schedule for the nine-month period ended September 30, 2000.

(b) Report on Form 8-K

Report on Form 8-K for the three-month period ended September 30, 2000.

July 26, 2000 - Reported Items 5 and 7.

SIGNATURES

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

VALHI, INC.

(Registrant)

Date November 10, 2000 By /s/ Bobby D. O'Brien

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

Date November 10, 2000 By /s/ Gregory M. Swalwell

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

SIGNATURES

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

VALHI, INC.

(Registrant)

Date November 10, 2000 By

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

Date November 10, 2000 By

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

EXECUTION COPY

MASTER AGREEMENT
REGARDING AMENDMENTS TO
THE AMALGAMATED SUGAR COMPANY DOCUMENTS

This Master Agreement Regarding Amendments to The Amalgamated Sugar Company Documents (this "Master Agreement") is dated October 19, 2000, and is made by and among The Amalgamated Sugar Company LLC, a Delaware limited liability company (the "LLC"), Snake River Sugar Company, an Oregon cooperative corporation ("SRSC"), Valhi, Inc., a Delaware corporation ("Valhi"), Amalgamated Collateral Trust, a Delaware business trust (the "SPT"), ASC Holdings, Inc., a Utah corporation ("ASC"), First Security Bank, National Association, as Collateral Agent under that certain Collateral Agency and Paying Agency Agreement dated as of May 14, 1997 ("FSB"), the holders (the "Senior Noteholders") of SRSC's 10.80% Senior Notes due April 30, 2009 (the "Senior Notes") and U.S. Bank National Association ("U.S. Bank"), as agent of the Working Capital Agreement dated as of January 3, 1997 among the LLC and the banks named therein, as amended.

PRELIMINARY STATEMENTS

Each of the parties to this Master Agreement is also a party to some or all of various documents related to the formation of or borrowings by the LLC or the affiliates of the LLC. The parties to this Master Agreement have determined that it is in their respective best interests to make comprehensive modifications to those documents.

THEREFORE, the parties hereto have agreed to enter into each of the following documents to which they are a party (collectively, the "Agreements"), which Agreements are to become effective contemporaneously:

(a) The Third Amendment to Company Agreement, dated October 19, 2000, by and between the SPT, SRSC and the LLC, and acknowledged by FSB, the Senior Noteholders and U.S. Bank, which shall be in the form of Exhibit A hereto;

(b) That certain Third Amendment to Subordinated Loan Agreement, dated October 19, 2000, by and between SRSC and Valhi and acknowledged by FSB and the Senior Noteholders, which shall be in the form of Exhibit B hereto;

(c) The Contingent Subordinate Pledge Agreement, dated October 19, 2000, by and among SRSC and Valhi, and acknowledged by FSB and the Senior Noteholders, which shall be in the form of Exhibit C hereto;

(d) The Contingent Subordinate Security Agreement, dated October 19, 2000, by and among SRSC and Valhi, and acknowledged by FSB and the Senior Noteholders, which shall be in the form of Exhibit D hereto;

(e) The Contingent Subordinate Collateral Agency and Paying Agency Agreement, dated October 19, 2000, by and between SRSC, Valhi and FSB and acknowledged by the Senior Noteholders, which shall be in the form of Exhibit E hereto;

(f) The First Amendment to Voting Rights and Forbearance Agreement, dated October 19, 2000, by and among the SPT, ASC and FSB, and as acknowledged by the LLC, which shall be in the form of Exhibit F hereto;

(g) The First Amendment to Option Agreements, dated October 19, 2000, by and among SRSC, Valhi and the Senior Noteholders, which shall be in the form of Exhibit G hereto;

(h) The Second Amendment to Note Purchase Agreements, dated October 19, 2000, by and between SRSC and the Senior Noteholders, which shall be in the form of Exhibit H hereto;

(i) The First Amendment to the Distributable Cash Collateral Account Agreement dated October 19, 2000, by and between SRSC and FSB, which shall be in the form of Exhibit I hereto; and

(j) The First Amendment to the Subordination Agreement dated October 19, 2000, by and between SRSC and Valhi, and as accepted by the Senior Noteholders and FSB, which shall be in the form of Exhibit J hereto.

NOW, THEREFORE, in consideration of the foregoing and for other good and sufficient consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. The execution and delivery of all of the Agreements by each party thereto shall be considered a condition precedent to the initial effectiveness of each and every Agreement.

2. Delivery of executed Agreements shall be made to each party to this Master Agreement at the address shown following such party's signature below.

WITNESS WHEREOF, the parties have caused this Master Agreement to be executed by their duly authorized representatives as of October 19, 2000.

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THE AMALGAMATED SUGAR COMPANY LLC,
a Delaware limited liability company

By:/s/ David L. Budge

Name:

Its:

Address: The Amalgamated Sugar Company LLC
c/o Snake River Sugar Company
2427 Lincoln Avenue, P.O. Box 1520
Ogden, Utah 84402
Attention:

SNAKE RIVER SUGAR COMPANY,
an Oregon cooperative corporation

By:/s/ Lawrence L. Corry

Name:

Its:

Address: Snake River Sugar Company
2427 Lincoln Avenue, P.O. Box 1520
Ogden, Utah 84402
Attention:

VALHI, INC., a Delaware corporation

By:/s/ Steven L. Watson

Name:

Its:

Address: Valhi, Inc.
Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2697
Attention: General Counsel

AMALGAMATED COLLATERAL TRUST,
a Delaware business trust

By: ASC HOLDINGS, INC., as Company Trustee

By:/s/ Steven L. Watson

Name:

Its:

Address: Amalgamated Collateral Trust
c/o Valhi, Inc.
Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2697
Attention: General Counsel

ASC HOLDINGS, INC., a Utah corporation

By:/s/ Steven L. Watson

Name:

Its:

Address: ASC Holdings, Inc.
c/o Valhi, Inc.
Three Lincoln Centre
5430 LBJ Freeway, Suite 1700
Dallas, Texas 75240-2697
Attention: General Counsel

FIRST SECURITY BANK, NATIONAL ASSOCIATION, as Collateral Agent under that certain Collateral Agency Agreement dated as of May 14, 1997

By:/s/ C. Scott Nielsen

Name:

Its:

Address: First Security Bank,
National Association
79 South Main Street
Corporate Trust Department
Salt Lake City, Utah 8411
Attention:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By:/s/ Joseph Alouf

Name:

Its:

Address:

Attention:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: CIGNA INVESTMENTS, INC.

By:/s/ Stephen H. Wilson

Name:

Its:

Address:

Attention:

LIFE INSURANCE COMPANY OF NORTH AMERICA

By: CIGNA INVESTMENTS, INC.

By:/s/ Stephen H. Wilson

Name:

Its:

Address:

Attention:

MINNESOTA LIFE INSURANCE COMPANY

By: Advantus Capital Management, INc.

By:/s/ Annette Masterson

Name:

Its:

Address:

Attention:

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

Address:

Attention:

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

Address:

Attention:

U.S. BANK NATIONAL ASSOCIATION, as agent under that certain Working Capital Agreement dated as of January 3, 1997, as amended.

By:/s/ Janice T. Thede

Name:

Its:

Address:

Attention:

EXHIBIT A

The Third Amendment to Company Agreement

EXHIBIT B

Third Amendment to Subordinated Loan Agreement

EXHIBIT C

The Contingent Subordinate Pledge Agreement

EXHIBIT D

The Contingent Subordinate Security Agreement

EXHIBIT E

The Contingent Subordinate Collateral Agency and Paying Agency Agreement

EXHIBIT F

The First Amendment to Voting Rights and Forbearance Agreement

EXHIBIT G

The First Amendment to Option Agreement

EXHIBIT H

Second Amendment to Note Purchase Agreements

EXHIBIT I

First Amendment to Distributable Cash Collateral Account Agreement

EXHIBIT J

First Amendment to Subordination Agreement

EXECUTION COPY

THIRD AMENDMENT TO COMPANY AGREEMENT

This Third Amendment (this "Third Amendment") is dated as of October 19, 2000 between Amalgamated Collateral Trust, a Delaware business trust (the "Trust"), Snake River Sugar Company, an Oregon cooperative corporation ("SRSC") and The Amalgamated Sugar Company LLC, a Delaware limited liability company (the "Company"), and is acknowledged by those certain lenders who have executed this Third Amendment (the "Noteholders") and by U.S. Bank National Association.

RECITALS:

Whereas, ASC Holdings, Inc. (formerly known as The Amalgamated Sugar Company) a Utah corporation ("AGM"), SRSC and the Company are parties to the Company Agreement dated January 3, 1997, effective for tax and accounting purposes as of December 31, 1996, as amended by AGM, SRSC, the Trust and the Company pursuant to the First Amendment dated May 14, 1997 and a Second Amendment dated November 30, 1998 (as so amended, the "Company Agreement");

Whereas, capitalized terms used in this Third Amendment shall have the meanings given to them in the Company Agreement, except as otherwise provided in this Third Amendment.

NOW, THEREFORE, the parties hereto agree as follows:

1. Amendments to Definitions.

(a) The definition of Accrual contained in Article II of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

> "Accrual - means the sum of (i) the positive excess, if any, of (A) the product of $2,224,781 times the cumulative number of months which have elapsed during any Fiscal Year of the Company, commencing with January 1, 1997, less (B) the cash distributions to all Members pursuant to Section 9.3.1(a) in connection with such months and less the cash distributions pursuant to Section 9.3.1(b)(i) for the Fiscal Year relating to such months, plus (ii) interest on any amount determined pursuant to clause (i), compounded annually, at an annual rate of 10.145%, calculated on a daily basis from the date cash distributions for such month are or would have been made pursuant to Section 9.3.1(a) to the date the Accrual relating to such date is actually distributed to the Members pursuant to Section 9.3.1; provided, however, that the Deferral and the Insurance Deferral shall not be included in any Accrual; provided further, however, that commencing on April 1, 2000, interest pursuant to clause (ii) shall be at an annual rate of 6.49% and shall no longer be compounded, but all interest accrued prior to April 1, 2000 (including compounded interest) shall continue to be included in the determination of Accrual and provided further, however, that no interest (including compounded interest) shall continue to bear interest pursuant to clause (ii) subsequent to March 31, 2000."

(b) The definition of Accrual Threshold contained in Article II of the Company Agreement shall be and hereby is amended to read in its entirety as follows:

> "Accrual Threshold - means (i) from January 1, 1997 to April 14, 2000, an amount equal to $10,526,316; (ii) on April 15, 2000 and on the 15th of each of the following eight months, the Accrual Threshold shall be increased by an amount equal to $555,555.55, to a total of $15,526,316 at December 15, 2000; (iii) the Accrual Threshold shall be further increased on the 15th of each of the following twelve months by an amount equal to $416,666.67, to a total of $20,526,316 at December 15, 2001; and (iv) beginning with the Company's 2002 Fiscal Year and continuing until the date of the Principal Reduction, the Accrual Threshold will be further

increased up to the amount of the Beet Payment Withholding relating to such Fiscal Year (with such increase to be applied ratably during the 12 months of such Fiscal Year on the 15th day of each such month); provided, however, that any increase under clause (iv) shall never exceed $3,000,000 in the aggregate in any given Fiscal Year notwithstanding any increase or lack of increase in any prior Fiscal Year, and provided further, however, that there shall be no increase pursuant to clause (iv) for any given Fiscal Year if SRSC's Board of Directors shall have failed to irrevocably approve the SRSC Annual Irrevocable Cash Plan for such Fiscal Year by January 15th of such Fiscal Year."

(c) The definition of Subordinated Principal Reduction contained in Article II of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

"Subordinated Principal Reduction - means, the repayment of all principal, interest and other amounts owing on the SRSC Subordinated Debt."

(d) The definition of Deferral contained in Article II of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

"Deferral - means Deferral A, together with Deferral B and Deferral C."

(e) The definition of Retained Amounts contained in Article II of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

"Retained Amounts - means the sum of (i) 95% of any Accrual, (ii) 100% of any Deferral A, (iii) 95% of any Deferral B, (iv) 80% of any Deferral C and (v) 100% of any Insurance Deferral, in each case including any applicable accrued interest."

(f) The definition of Voting Rights Agreement contained in Article II of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

"Voting Rights Agreement - means the voting rights and forbearance agreement dated as of May 14, 1997 among the Trust, AGM as Company Trustee and the Collateral Agent (and acknowledged by the Company), as the same may be amended from time to time."

(g) The definition of Triggering Event contained in Article II of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

"Triggering Event - means any failure by the Management Committee or the Company to comply in all material respects with any provision of this Company Agreement; provided, however, that so long as the Company has promptly notified the holders of the AGM Interest of the existence of such a failure pursuant to Section 7.2.2(e), such failure (other than a failure to comply with the provisions of Section 6.3(i), 6.3(ii), 6.3(xiv), 6.3(xv), 6.3(xx) and 7.2.3), if capable of being cured, shall not be deemed to be a Triggering Event unless such failure has not been cured within 30 days after the holders of the AGM Interest have given the Company notice."

(h) the definition of Beet Payment contained in Article II of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

"Beet Payment" - means the sum of (i) payments by the Company to SRSC for sugarbeets that would have been incurred if the Company made such payments at the times and pursuant to the terms and conditions as set forth in the Agreement attached as Exhibit D-7 to the Formation Agreement, as such Exhibit D-7 may be amended from time to time, and (ii) effective beginning for the crop year which commences October 1,

2000, incentive payments made by the Company to SRSC to harvest early sugarbeets, provided, however, that the aggregate amount of such incentive payments are equal to or less than the reduced transportation costs resulting from the local processing of such early sugarbeets, and provided further, however, that within 45 days following the completion of each such crop year, the Company shall have delivered to each Member a certificate, certified by a responsible financial officer of the Company, detailing the aggregate amount of such incentive payments made by the Company during the applicable crop year along with a calculation showing the amount of reduced transportation costs resulting from the delivery of such early sugarbeets."

(i) The following new definitions shall be and are hereby added to Article II of the Company Agreement:

"SRSC Subordinated Debt - means SRSC's indebtedness incurred pursuant to the Loan Security Agreement (the "Subordinated Loan Agreement") dated as of January 3, 1997, to be effective for tax and accounting purposes as of December 31, 1996 among SRSC, as Borrower, and Valhi, as Lender, as amended."

"Beet Payment Withholding - means amounts withheld from the Beet Payment, upon approval by the board of directors of SRSC, for the purpose of achieving the required levels of Distributable Cash consistent with the SRSC Annual Irrevocable Cash Plan for any Fiscal Year."

"Deferral A - means the sum of (a) $30,546.18 plus (b) the amounts that otherwise would have been distributed to the holders of the AGM Interest pursuant to Section 9.3.1 but for the provisions of Section 9.3.1(d)(i) and 9.3.1(d)(ii), in each case plus interest at a rate of 10.145% per annum, compounded annually, from the date such distribution would otherwise have been paid to the holder of the AGM Interest (or, in the case of the amount of $30,546.18, from May 14, 1997), provided, however, that any amount arising pursuant to Section 9.3.1(b)(ii) shall bear interest at a rate of 5.0725% per annum, compounded annually, and provided further, however, that all amounts included in this Deferral A will not accrue interest during the period from July 1, 2000 through December 31, 2002."

"Deferral B - means the amount of $3,450,607.00, plus interest at a rate of 5.0725% per annum, compounded annually, from March 27, 1998, provided, however, that this Deferral B will not accrue interest during the period from July 1, 2000 through December 31, 2002."

"Deferral C - means the amount of $4,097,595.00, plus interest at a rate of 5.0725% per annum, compounded annually, from March 27, 1998, provided, however, that this Deferral C will not accrue interest on or after July 1, 2000."

"SRSC Annual Irrevocable Cash Plan - means, starting with the Company's 2001 Fiscal Year, an irrevocable action actually approved by SRSC's Board of Directors by January 15th of each Fiscal Year of the Company whereby, to the extent required, SRSC's Board of Directors shall irrevocably approve Beet Payment Withholdings in amounts sufficient so the Company's actual Distributable Cash for such Fiscal Year distributed to the holders of the AGM Interest, when combined with debt service payments paid by SRSC to Valhi under the SRSC Subordinated Debt during such Fiscal Year, will at least equal the amount of interest payments due on the Valhi Loans during such Fiscal Year, and such SRSC Annual Irrevocable Cash Plan is evidenced, by delivery within five (5) Business Days following its approval, of a certified copy of a SRSC Board of Director's board resolution evidencing such irrevocable approval to each of Valhi, the Trust, AGM, and the holders of the outstanding SR Term Indebtedness."

2. Amendment to Section 6.3. A new Section 6.3(xx) shall be and hereby is added as follows:

"(xx) Effective October 1, 2000, (Y) pay to SRSC any installment of the aggregate Beet Payment for any crop year (other than the final installment) without withholding from such installment an amount equal to a ratable portion of the aggregate Beet Payment Withholding for such crop year, less an amount equal to a ratable portion of the aggregate Unit Retain (as defined pursuant to the terms of SR Term Indebtedness) reduction for such crop year permitted pursuant to the terms of SR Term Indebtedness or (Z) pay to SRSC the final installment of the aggregate Beet Payment for such crop year without withholding from such installment an amount such that the aggregate amount of such withholdings for such crop year will equal the aggregate Beet Payment Withholding for such crop year.

3. Amendment to Section 8.2.3. Section 8.2.3 shall be and is hereby amended by adding the phrase ", provided, however, that commencing January 1, 2000, SRSC shall have no obligation to contribute such additional cash amount to the Company with respect to any Fiscal Year for which SRSC's board of directors shall have irrevocably approved a SRSC Annual Irrevocable Cash Plan related to such Fiscal Year" immediately after the phrase "220,000 acres less the number of acres from which SRSC contracted sugarbeets to the Company during such Fiscal Year".

4. Amendment to Sections 9.1.1(c), 9.1.2(d) and 13.3.2(d)(ii). The phrase "Section 9.3.1(b)(iii)" contained in Sections 9.1.1(c), 9.1.2(d) and 13.3.2(d)(ii) of the Company Agreement shall be and is hereby amended to read "Section 9.3.1(b)(v)".

5. Amendment to Section 9.3.1(b). Section 9.3.1(b) of the Company Agreement shall be and hereby is amended to read in its entirety as follows:

"(b) Within 10 days following the completed audit of the books of the Company for each Fiscal Year commencing with Fiscal Year 1997, the Company will determine its actual Distributable Cash for such Fiscal Year and provide written notice of such determination to each Member. If the Company's actual Distributable Cash for such Fiscal Year (based on such audit) exceeds amounts previously distributed to Members for such Fiscal Year pursuant to Section 9.3.1(a) above, then, within 30 days following such audit, the Company shall distribute to its Members cash in an aggregate amount equal to 100% of such actual Distributable Cash for such Fiscal Year (based on the Company's audit) less amounts actually distributed pursuant to Section 9.3.1(a) above. Such distributions shall be paid in the following percentages and priority:

(i) 95% to the holders of the AGM Interest and 5% to the holders of the SR Interest, until the Members have received, pursuant to this Section 9.3.1(b)(i) and Section 9.3.1(a), cash distributions for such Fiscal Year in an aggregate amount equal to the lesser of (A) the Company's Distributable Cash for such Fiscal Year and (B) $26,697,372 plus any unpaid Accrual as of the beginning of such Fiscal Year, and

(ii) next, 95% to the holders of the AGM Interest and 5% to the holders of the SR Interest, until such holders have received an aggregate amount of $8,888,261 (on a cumulative basis for all Fiscal Years of the Company commencing with Fiscal Year 1998), provided that the Members shall have no right to any distribution pursuant to this Section 9.3.1(b)(ii) for any Fiscal Year following the Company's 2002 Fiscal Year, whether or not the Members have received all or any part of the distribution pursuant to this Section 9.3.1(b)(ii) (provided that this shall not affect the Member's rights to receive any Deferral amount after the Company's 2002 Fiscal Year, to the extent such Deferral amount arose during or prior to the Company's 2002 Fiscal Year), and

(iii) next, 100% to the holders of the SR Interests until such holders have received an aggregate amount equal to the aggregate Beet Payment Withholdings actually withheld by the Company since October 19, 2000 (or, for periods between January 1, 1997 and October 18, 2000, the equivalent thereof), net of the aggregate Unit Retain (as defined pursuant to the terms of SR Term Indebtedness) reduction since January 1, 1997 from the use of SRSC's cash as permitted by the terms of SR Term Indebtedness.

(iv) next, 20% to the holders of the AGM Interest and 80% to the holders of the SR Interest until the holders of the AGM Interest have received an aggregate amount equal to the dollar amount calculated by subtracting the amount of interest actually accrued on the SRSC Subordinated Debt from April 1, 2000 from the interest which otherwise would have accrued on the SRSC Subordinated Debt from April 1, 2000 absent the amendment to the terms of the SRSC Subordinated Debt dated October 19, 2000.

(v) next, 5% to the holders of the AGM Interest and 95% to the holders of the SR Interest for the Company's 1997 Fiscal Year through and including the 2002 Fiscal Year, or 10% to the holders of the AGM Interest and 90% to the holders of the SR Interest, for the Company's 2003 Fiscal Year and thereafter.

To the extent the amounts distributed to the Members pursuant to Section 9.3.1(a) above exceed the Company's actual Distributable Cash for such Fiscal Year (based on the Company's audit), the Members shall be obligated to return to the Company, within 10 days following the completed audit of the books of the Company, an amount of cash equal to any excess of the aggregate amount actually distributed during such Fiscal Year to each Member (pursuant to Section 9.3.1(a) above) over such Member's respective share of the Company's actual Distributable Cash. The parties agree that, in the event any Member of the Company is obligated to return any amounts pursuant to the provisions of this Section 9.3.1(b), the Company may, at its option, withhold such amounts from amounts to be distributed to such Member pursuant to Section 9.3.1 or otherwise, provided, however, that in the case of the Trust, so long as the notes issued pursuant to the Note Purchase Agreements are outstanding, the Company shall not withhold an amount which would cause the Trust to receive an amount, in any month, that is less than the scheduled payments of interest and principal on such notes."

6. Amendment to Section 9.3.1(d). Section 9.3.1(d) of the Company Agreement shall be and is hereby amended to read in its entirety as follows:

"(d) Notwithstanding the foregoing:

(i) the holders of the AGM Interest may not receive any distribution for either of the Company's 1997 or 1998 Fiscal Years that, when added to all other distributions for such Fiscal Year, will exceed an aggregate of $25,362,500;

(ii) until the first distribution date following the date of the Subordinated Principal Reduction, no amount shall be distributed to the holders of the AGM Interest pursuant to the provisions of Sections 9.3.1(b)(ii), (b)(iv) and (b)(v) above, but instead such amounts shall be paid dollar for dollar to the holders of the SR Interest at the times set forth in Section 9.3.1(a) or Section 9.3.1(b), as appropriate;

(iii) following the date of the Subordinated Principal Reduction, amounts which otherwise would have been distributed to the holders of the SR Interest pursuant to Section 9.3.1(b)(ii) through Section 9.3.1(b)(v) shall be reduced, and such distributions shall instead be paid dollar for dollar as follows:

(A) first, 100% to the holders of the AGM Interest until such holders have received an aggregate amount equal to the amount of Deferral A,

(B) next, 95% to the holders of the AGM Interest and 5% to the holders of the SR Interest until such holders have received an aggregate amount equal to the amount of Deferral B,

(C) next, 80% to the holders of the AGM Interest and 20% to the holders of the SR Interest until such holders have received an aggregate amount equal to the amount of

Deferral C."

7. Amendment to Section 9.3.2. The first sentence of Section 9.3.2 shall be and is hereby amended to read in its entirety as follows:

"Except as provided below, the Company shall distribute any Distributable Cash from a Major Capital Event, (i) first, to the Members in an amount equal to any unpaid Accrual, 95% to the holders of the AGM Interest and 5% to the holders of the SR Interest, (ii) second, to the holders of the AGM Interest in an amount equal to any Insurance Deferral, (iii) third, to the holders of the AGM Interest in an amount equal to any Deferral A, (iv) fourth, to the Members in an amount equal to any Deferral B, 95% to the holders of the AGM Interest and 5% to the holders of the SR Interest, (v), fifth, to the Members in an amount equal to any Deferral C, 80% to the holders of the AGM Interest and 20% to the holders of the SR Interest, (vi) sixth, to the Members pro rata in accordance with their Sharing Ratios, until each Member has received an amount under this Section 9.3.2 equal in the aggregate to the Capital Contribution made by each Member, and (vii) seventh, to the Members in the percentages then in effect under Section 9.3.1(b)(v)."

8. Amendment to Section 16.

(a) The following sentence is added immediately after the second sentence of Section 16.1:

> "In addition, to the extent that SRSC's Board of Directors shall have approved the SRSC Annual Irrevocable Cash Plan for any given Fiscal Year, the Company and its Members agree and acknowledge that money damages may not be an adequate remedy for any failure by the Company to distribute to its Members its Distributable Cash for such Fiscal Year in amounts sufficient to comply with such Fiscal Year's SRSC Annual Irrevocable Cash Plan, to comply with the provisions of Section 6.3(xx) or any failure by the Company to otherwise give full effect to such Fiscal Year's SRSC Annual Irrevocable Cash Plan, and that the holders of the AGM Interest may in their sole discretion apply to any court of law or equity or competent jurisdiction for specific performance by the Company to distribute to its Members its Distributable Cash for such Fiscal Year in amounts sufficient to comply with such Fiscal Year's SRSC Annual Irrevocable Cash Plan, to comply with the provisions of Section 6.3(xx) or to otherwise take all actions necessary to carry out, and to give full effect to, such Fiscal Year's SRSC Annual Irrevocable Cash Plan."

(b) Section 16.2.1 of the Company Agreement is hereby amended to read in its entirety as follows:

> "16.2.1 In addition to any other remedies provided by this Company Agreement, if at any time the unpaid Accrual exceeds the Accrual Threshold, or upon the occurrence of a Triggering Event, the holders of the AGM Interest voting separately as a class shall have the right to elect a majority of the representatives to the Management Committee. Whenever the holders of the AGM Interest shall be entitled to elect such representatives in accordance with the terms of this Section 16.2, then at the request of a holders of a Majority of the AGM Interest, the secretary of the Company (or if at the time the Company has no secretary, then the chief executive officer or president of the Company) shall call a special meeting of the holders of the AGM Interest, such special meeting to be held within 60 days after the date on which the Accrual is equal to or exceeds the Accrual Threshold or such Triggering Event occurs and at the request of the holders of a Majority of the AGM Interest, for the purpose of enabling the holders of the AGM Interest to elect such representatives to the Management Committee; provided, however, that such special meeting need not be called if the holders of the AGM Interest have duly elected representatives by a written consent or power of attorney executed by holders of at least a Majority of the AGM Interest or otherwise. At any such special meeting, the presence, in person or by proxy, of a Majority of the AGM Interest shall be required and be sufficient to constitute a quorum for the election of any Management Committee representative and the affirmative vote of Majority of the AGM Interest so present at such meeting shall be sufficient to elect any such representative."

(c) A new Section 16.2.3 shall be and is hereby added to the Company Agreement as follows:

"Notwithstanding the foregoing, the holders of the AGM Interest hereby waive any rights they may have under this Section 16.2 of the Company Agreement by reason of the failure of the Company to pay a distribution pursuant to Section 9.3.1(a) during the period from April 15, 2000 through the effective date of the Third Amendment, or by reason of the unpaid Accrual exceeding the Accrual Threshold during the period from April 15, 2000 through the effective date of the Third Amendment."

9. Conditions Precedent. Each of the following shall be considered a condition precedent to the effectiveness of this Third Amendment:

(a) SRSC's Board of Directors shall have approved on June 15, 2000, the plan of irrevocably approving by January 15 of each Fiscal Year of the Company, Beet Payment Withholdings in an amount sufficient to generate a level of Distributable Cash to be paid to the AGM Interest holder for such Fiscal Year, which, when combined with the debt service payments paid by SRSC to Valhi under the SRSC Subordinated Debt during such Fiscal Year, will at least equal the amount of interest payments due on the Valhi Loans during such Fiscal Year. Additionally, on June 15, 2000, SRSC's Board of Directors will have irrevocably approved a level of Beet Payment Withholdings for the year 2000 such that the level of Distributable Cash to be paid to the AGM Interest holder for the Fiscal Year 2000, when combined with the debt service payments made by SRSC on the SRSC Subordinated Debt during such Fiscal Year, will at least equal the amount of interest payments due on the Valhi Loans during such Fiscal Year. Each of SRSC Board of Director actions shall be evidenced by a certified copy of such SRSC Board of Director's board resolutions evidencing such actions.

(b) SRSC will have made modifications to the covenants contained in the Note Purchase Agreements and all related documentation consistent with this Third Amendment to the Company Agreement and that certain Third Amendment to the Amended and Restated Subordinated Loan Agreement of even date, which modifications must be satisfactory to Valhi in all material respects.

(c) All parties thereto shall execute the Third Amendment to the Subordinated Loan Agreement and the related Contingent Subordinate Pledge Agreement, Contingent Subordinate Security Agreement and Contingent Subordinate Collateral Agency and Paying Agency Agreement.

(d) All parties thereto shall have executed and delivered to all other parties thereto that certain Master Agreement dated October 19, 2000, by and among the parties hereto, among others.

10. Condition to Continuing Effectiveness. The parties hereto agree and acknowledge that if at any time following the execution of this Third Amendment, either (i) SRSC's Board of Directors shall fail to approve by January 15th of any year the SRSC Annual Irrevocable Cash Plan for such Fiscal Year or (ii) the unpaid Accrual exceeds the Accrual Threshold (as adjusted by this Third Amendment), then, at the option of the holders of the AGM Interest in their sole discretion, which option may be exercised by said holders by giving notice to SRSC and the Company pursuant to Section 15.6 the Company Agreement, this Third Amendment shall immediately become retroactively null and void and the terms of the Company Agreement shall retroactively be as in effect immediately prior to the execution of this Third Amendment; provided, however, that any such nullification of this Third Amendment shall not relieve either the Company or SRSC of their respective obligations to fully carry out and take all actions provided for and consistent with any SRSC Annual Irrevocable Cash Plan previously approved by SRSC's Board of Directors for any given Fiscal Year, and the holders of the AGM Interest shall retain their rights pursuant to Section 8(a) hereof regardless of whether or not the holders of the AGM Interest exercise their rights pursuant to this Section 10.

11. Representations and Warranties. Each of the parties represents and warrants that the execution, delivery and performance by such party of this Third Amendment are within its powers, have been duly authorized by all necessary action and do not and will not contravene or conflict with any provision applicable to such party, the charter, the declaration of trust with bylaws of such party, or any order, judgment or decree of any Court or other agency of government or any contractual obligation binding on such party, and this Third Amendment and the Company Agreement, as amended as of the date hereof, are the legal, valid and binding obligations of such party and enforceable against such

party in accordance with their terms.

12. Miscellaneous.

(a) Captions. Section captions used in this Third Amendment are for convenience only, and shall not affect the construction of this Third Amendment.

(b) Governing Law. This Third Amendment shall be a contract made under and governed by the laws of the State of Delaware, without regard to conflict of law principles.

(c) Counterparts. This Third Amendment may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same amendment.

(d) Successors and Assigns. This Third Amendment shall be binding upon the parties and their respective successors and assigns, and shall inure to the sole benefit of the parties their successors and assigns.

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IN WITNESS WHEREOF, This Third Amendment to the Company Agreement is dated as of the day and year first above written.

AMALGAMATED COLLATERAL TRUST
By: ASC HOLDINGS, INC., as Company Trustee

By:/s/ Steven L. Watson

Name: Steven L. Watson
Title: President

SNAKE RIVER SUGAR COMPANY

By:/s/ Lawrence L. Corry

Name:

Title:

THE AMALGAMATED SUGAR COMPANY LLC

By:/s/ David L. Budge

Name:

Title:

ACKNOWLEDGED:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Joseph Alouf

Its:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY
By: CIGNA INVESTMENTS, INC.

By: /s/ Stephen H. Wilson

Its:

LIFE INSURANCE COMPANY OF NORTH AMERICA
By: CIGNA INVESTMENTS, INC.

By: /s/ Stephen H. Wilson

Its:

MINNESOTA LIFE INSURANCE COMPANY
By: Advantus Capital Management, Inc.

By: /s/ Annette Masterson

Its:

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

U.S. BANK NATIONAL ASSOCIATION, as agent

under that certain Working Capital Agreement dated
as of January 3, 1997, as amended

By: /s/ Janice T. Thede

Its:

EXECUTION COPY

THIRD AMENDMENT TO SUBORDINATED LOAN AGREEMENT

This Third Amendment to Subordinated Loan Agreement (this "Third Amendment") is dated October 19, 2000, and is made by and between Snake River Sugar Company, an Oregon cooperative corporation, as Borrower (the "Company"), and Valhi, Inc., a Delaware corporation, as Lender ("Valhi"), and is acknowledged by the holders of those certain Senior Notes issued by the Company due April 30, 2009.

PRELIMINARY STATEMENTS

The Company and Valhi are parties to a Subordinated Loan Agreement dated January 3, 1997, as amended and restated May 14, 1997 (the "Existing Agreement"), as further amended by the Second Amendment to the Subordinated Loan Agreement dated as of November 30, 1998 (the "Second Amendment"), and as further amended by this Third Amendment, (the "Subordinated Loan Agreement"). All capitalized terms defined in the Subordinated Loan Agreement not otherwise defined in this Third Amendment shall have the same meanings herein as in the Subordinated Loan Agreement.

The Company and Valhi have agreed to amend the Subordinated Loan Agreement as set forth herein.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties, subject to satisfaction of the conditions noted below, the Company and Valhi hereby agree as follows:

1. Modification of Financial Covenants.

1.1 Section 10.8(a) of the Subordinated Loan Agreement shall be and is hereby amended in its entirety to read as follows:

> "(a) The Company will not permit, as at the end of each fiscal quarter of the Company, the ratio of Consolidated Senior Debt to Distributable Cash for the period of four LLC fiscal quarters ending on or closest (but prior) to such date to exceed (i) 11.25:1.00 from the date of the Closing to and including November 30, 1997; (ii) 12.00:1.00 from December 1, 1997 to and including May 30, 1999; (iii) 10.50:1.00 from June 1, 1999 to and including November 30, 1999; (iv) 7.75:1.00 from December 1, 1999 to and including February 29, 2000; (v) 8.00:1.00 from March 1, 2000 to and including May 31, 2000; (vi) 7.50:1.00 from June 1, 2000 to and including May 31, 2001; (vii) 8.50:1.00 from June 1, 2001 to and including August 31, 2001; (viii) 7.00:1.00 from September 1, 2001 to and including February 28, 2002; (ix) 6.50:1.00 from March 1, 2002 to and including August 31, 2002; (x) 6.00:1.00 from September 1, 2002 to and including February 28, 2003; (xi) 5.00:1.00 from March 1, 2003 to and including November 30, 2003; (xii) 4.50:1.00 from December 1, 2003 to and including November 30, 2006; and (xiii) 3.50:1.00 thereafter; provided, however, that following the date upon which Valhi purchases all of the Senior Notes upon exercise of its rights under all of those certain Option Agreements between Valhi, the Company and the holders of the Senior Notes, the ratios contained in this Section 10.8(a) shall be such ratios during such time periods as described in Section 10.8(a) of the Note Purchase Agreements and Senior Notes as in effect immediately prior to such exercise by Valhi."

1.2 Section 10.8(b) of the Subordinated Loan Agreement shall be and is hereby amended in its entirety to read as follows:

> "(b) The Company will not permit, as at the end of each fiscal quarter of the Company, the ratio of Consolidated Total Debt to Distributable Cash for the period of four LLC fiscal quarters ending on or closest (but prior) to such date to exceed (i) 8.00:1.00 from the date of the Closing to and including November 30, 1997; (ii)18.00:1.00 from December 1, 1997 to and including May 30, 1999; (iii) 16.00:1.00 from June 1, 1999 to and including November 30, 1999; (iv) 12.00:1.00 from December 1, 1999 to and including February 29, 2000; (v) 14.00:1.00 from March 1, 2000 to and including May 31, 2000; (vi) 12.00:1.00 from June 1, 2000 to and including May 31, 2001; (vii)

13.75:1.00 from June 1, 2001 to and including August 31, 2001; (viii) 11.75:1.00 from September 1, 2001 to and including February 28, 2002; (ix) 10.00:1.00 from March 1, 2002 to and including August 31, 2002; (x) 9.50:1.00 from September 1, 2002 to and including February 28, 2003; (xi) 6.75:1.00 from March 1, 2003 to and including November 30, 2003; (xii) 6.00:1.00 from December 1, 2003 to and including November 30, 2006; and (xiii) 5.00:1.00 thereafter; provided, however, that following the date upon which Valhi purchases all of the Senior Notes upon exercise of its rights under all of those certain Option Agreements between Valhi, the Company and the holders of the Senior Notes, the ratios contained in this Section 10.8(b) shall be such ratios during such time periods as described in Section 10.8(b) of the Note Purchase Agreements and Senior Notes as in effect immediately prior to such exercise by Valhi."

1.3 Section 10.8(c) of the Subordinated Loan Agreement shall be and is hereby amended in its entirety to read as follows:

"(c) The Company will not permit, as at the end of any fiscal quarter of the Company, the ratio of (x) the sum of Distributable Cash for the period of four LLC fiscal quarters ending on or closest (but prior) to such date and Consolidated operating lease and rent payments of the Company and its Subsidiaries for the period of four fiscal quarters ending on such date to (y) Consolidated Fixed Charges to be less than (i) 1.50:1.00 from the date of the Closing to and including November 30, 1997; (ii) 0.50:1.00 from December 1, 1997 to and including May 30, 1999; (iii) 0.60:1.00 from June 1, 1999 to and including November 30, 1999; (iv) 0.85:1.00 from December 1, 1999 to and including February 29, 2000; (v) 0.80:1.00 from March 1, 2000 to and including May 31, 2000; (vi) 0.90:1.00 from June 1, 2000 to and including February 28, 2002; (vii) 1.00:1.00 from March 1, 2002 to and including February 28, 2003; and (viii) 1.75:1.00 thereafter; provided, however, that following the date upon which Valhi purchases all of the Senior Notes upon exercise of its rights under all of those certain Option Agreements between Valhi, the Company and the holders of the Senior Notes, the ratios contained in this Section 10.8(c) shall be such ratios during such time periods as described in Section 10.8(c) of the Note Purchase Agreements and Senior Notes as in effect immediately prior to such exercise by Valhi."

1.4 Section 10.8(d) of the Subordinated Loan Agreement shall be and is hereby amended in its entirety to read as follows:

"(d) The Company will not permit LLC to have at any time a ratio of (A) accounts receivable plus inventory on ---- a FIFO basis (excluding sugar that is collateral for CCC Loans), to (B) the aggregate outstanding amount of the Bank Loans, of less than (i) 1.60:1.00 from the date of Closing to and including November 29, 1998; (ii) 1.55:1.00 from November 30, 1998 to and including September 29, 2000; and (iii) 1.40:1.00 thereafter, provided, however, that following the date upon which Valhi purchases all of the Senior Notes upon exercise of its rights under all of those certain Option Agreement between Valhi, the Company and the holders of the Senior Notes, the ratio contained in this Section 10.8(d) shall be the first ratio as described in Section 10.8(b) of the Note Purchase Agreements and Senior Notes as in effect immediately prior to such exercise by Valhi."

1.5 A new Section 10.8(h) shall be and is hereby added to read as follows:

"10.8(h). Notwithstanding the forgoing Sections 10.8(a) through 10.8(g), upon the Company satisfying the Conversion Condition, then all covenants contained in Section 10.8 of the Existing Agreement shall apply for all purposes of the Subordinated Loan Agreement, from and after the first day of fiscal quarter immediately following satisfaction of such Conversion Condition (after giving effect, however, to the amendment set forth in Sections 4.5, 4.6, 4.7 and 4.8 of the Second Amendment but not to any other amendment affecting Section 10.8 set forth in the Second Amendment, and provided that the date "December 1, 2001" set forth in Section 10.8(a)(ii) and in Section 10.8(b)(iii) of the Existing Agreement shall be deemed changed to "December 1, 2000," the date "December 1, 2004" set forth in Section 10.8(a)(iii) and in Section 10.8(b)(iv) of the Existing Agreement shall be deemed changed to "December 1, 2003," and the date "December 1, 2002" set forth in Section 10.8(c)(ii) of the Existing Agreement shall be deemed changed to "December 1, 2001")."

2. Amendment to the Second Amendment. The first sentence of Section 2 of the Second Amendment is hereby deleted. Section 3 of the Second Amendment is hereby deleted. Section 4.9 of the Second Amendment is hereby deleted.

3. Amendment of Section 8.1(b). The Subordinated Loan Agreement shall be and is hereby amended by adding the following to the end of Section 8.1(b):

"Notwithstanding the forgoing, to the extent permitted by the terms of the Note Purchase Agreements and the Senior Notes, beginning in 2000 the Company may, in any given year, use cash on deposit in the Distributable Cash Collateral Account to reduce the Unit Retain for such year in an amount equal to or less than the Beet Payment Withholding (as defined in the Company Agreement) for such year, and such cash from the Distributable Cash Collateral Account shall not be required to be used by the Company to prepay the Obligations pursuant to this Section 8.1(b), provided that the actual amount paid by the Company for the purchase of sugarbeets pursuant to the Grower Contracts for such year shall never exceed the Beet Payment (as defined in the Company Agreement).

Notwithstanding the forgoing or any other provision of this Agreement, Valhi and the Company hereby agree, for the benefit of the Noteholders, that notwithstanding the absence of a Default or an Event of Default under the Note Purchase Agreements and the Senior Notes which would constitute a Specified Default under the Subordination Agreement, Valhi shall not be entitled to receive, and the Company shall not make, any payments pursuant to this Section 8.1(b) or otherwise on the Subordinated Debt except as permitted by Section 10.5 of the Note Purchase Agreements, provided, however, that when (x) the Company has achieved full compliance with the Original Covenants (as defined in the First Amendment to the Note Purchase Agreements) for a period of four consecutive fiscal quarters ending on the last day of a fiscal year of the Company, (y) the LLC would have been able to pay aggregate distributions during such four consecutive fiscal quarters pursuant to Sections 9.3.1(a) and 9.3.1(b) of the Company Agreement of at least $26,697,372 before giving effect to any Beet Payment Withholding during such four consecutive fiscal quarters and (z) the Company has delivered to the Noteholders an Officer's Certificate in accordance with Sections 7.1 and 7.2(a), respectively, of the Note Purchase Agreements, with a copy to Valhi, along with audited financial statements demonstrating such compliance (collectively, the "Conversion Condition"), then (i) the Company shall be required to make the election set forth in clause (i) of the fourth full paragraph of Section 1.2(b) of the First Amendment to the Note Purchase Agreements, (ii) the Company shall be required to promptly prepay the Obligations within five Business Days using all available cash on hand, and (iii) thereafter the Company shall be required to use all Excess Cash Flow subsequently generated to prepay the Obligations and shall not use any Excess Cash Flow subsequently generated for any other purpose, including making advances to or additional investments in the LLC or any other Subsidiary of the Company, prepaying the Senior Notes or repaying Unit Retains owing to the Company's shareholders, provided, however, that any and all payments on the Subordinated Debt which are made following the satisfaction of the Conversion Condition set forth above may be made only in accordance with the Original Covenants and all other covenants and conditions set forth in the Transaction Documents, and provided further that no Default or Event of Default under the Note Purchase Agreements exists or would result from such payments.

Notwithstanding the forgoing, between the period from May 15, 1997 and October 19, 2000, Valhi shall be entitled to receive, and the Company may pay to Valhi, the amounts of $2,679,000 (paid in 1997), $2,864,844 (paid in 1998), $7,200,000 (paid in 1999) and $950,000 (paid in 2000) representing interest accrued on the Subordinated Debt.

Notwithstanding the forgoing, following the date when the Senior Notes are paid in full, the Company shall use all Excess Cash Flow to prepay the Obligations and shall not use any Excess Cash Flow for any other purpose, including making advances to or additional investments in the LLC or any other Subsidiary of the Company, prepaying the Senior Notes or repaying Unit Retains owing to the Company's shareholders.

Valhi hereby waives all rights and remedies otherwise available to it pursuant to Section 12 as a result of the Company's failure to comply with the payment provisions of this Section 8.1(b) with respect to amounts that are not permitted to be paid to Valhi pursuant to the terms of this Section 8.1(b), the Note Purchase Agreements and the Senior Notes."

4. Amendment of Section 8.2. Subsections 8.2(a) and (b) of the Subordinated Loan Agreement shall be and are hereby amended to read in their entirety as follows:

"(a) Rate. Prior to January 1, 1999, the outstanding principal balance of the $80,000,000 Note shall bear interest at a rate per annum (meaning 360 days) equal to 10.99 percent, and commencing January 1, 1999, the outstanding principal balance of the Subordinated Notes shall bear interest at a rate per annum (meaning 360 days) equal to 12.99 percent; provided, however, that commencing on April 1, 2000, the outstanding principal balance of the $80,000,000 Note shall bear interest at a rate per annum (meaning 360 days) equal to 6.49 percent. The outstanding principal balance, if any, of the Collateral Deposit Note and the Contribution Note shall bear interest at a rate per annum (meaning 360 days) equal to 10.145 percent. After the occurrence and during the continuance of an Event of Default, each Subordinated Note and all other Obligations shall, at your option, bear interest at a rate per annum (meaning 360 days) equal to the Default Rate."

"(b) Computation and Payment of Interest. Interest on the Subordinated Notes and all other Obligations shall be computed on the daily principal balance on the basis of a 360-day year consisting of twelve 30-day months and shall be payable monthly in arrears on the last day of each month, provided, however, that interest shall only be payable to the extent provided in Section 8.1(b). Interest not paid on a monthly basis will be compounded annually from the applicable monthly date; provided, however, that commencing on April 1, 2000, interest not paid on a monthly basis will no longer be compounded, but all interest accrued prior to April 1, 2000 (including compounded interest) shall remain due and payable, and provided further, however, that no interest (including previously compounded interest) shall continue to bear interest pursuant to this Subsection 8.2 subsequent to March 31, 2000. Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, the payment may be made on the next succeeding Business Day and such extension of time shall be included in the computation of the amount of interest or fees due hereunder."

5. Amendment to Section 9.9. Section 9.9 shall be and is hereby amended to read in its entirety as follows: "9.9 Annual Security Interest Opinion.

Commencing within 30 days following occurrence of a Grant Effectiveness Condition (as defined in the Contingent Subordinated Security Agreement), and for each calendar year thereafter on or before March 15 of such calendar year, the Company shall cause to be delivered to Valhi an opinion of counsel, reasonably acceptable to Valhi (with John Lemke, general counsel of the LLC, being acceptable counsel), covering the matters set forth in paragraphs 23 through 28 of Exhibit 4.4(a) of the Note Purchase Agreement and Senior Notes. Such opinion of counsel shall describe the actions that will, in the opinion of such counsel, be required to maintain the Lien and security interest of the Collateral Agent with respect to the Collateral in the following calendar year."

6. Amendment of Section 10.3. Subsection 10.3(a) of the Subordinated Loan Agreement shall be and is hereby amended to read in its entirety as follows:

"(a) Liens securing the Senior Notes and the Subordinated Notes."

7. Amendment of Section 11. Section 11 of the Subordinated Loan Agreement shall be and hereby is amended by (i) adding the phrase "or, following the occurrence of the Grant Effectiveness Condition (as defined therein), in any Collateral Document" immediately after the phrase "the Company defaults in the performance of or compliance with any term contained herein" in Section 11(c), (ii) deleting the punctuation mark "." at the end of clause (k) and replacing it with "; or", and (iii) new Sections 11(l) and 11(m) shall be and are hereby added as follows:

"(l) Effective October 1, 2000, the LLC shall (Y) pay to the Company any installment of the aggregate Beet Payment (as defined in the Company Agreement) for any crop year (other than the final installment) without withholding from such installment an amount equal to a ratable portion of the aggregate Beet Payment Withholding for such crop year, less an amount equal to a ratable portion of the aggregate Unit Retain reduction for such crop year permitted pursuant to the terms of the Note Purchase Agreements and Senior Notes or (Z) pay to the Company the final installment of the aggregate Beet Payment (as defined in the Company Agreement) for such crop year without withholding from such installment an amount such that the aggregate amount of such withholdings for such crop year will equal the aggregate Beet Payment Withholding for such crop year.

(m) Any Collateral Document shall, at any time, cease to be in full force and effect (other than by reason of a release of Collateral thereunder in accordance with the terms hereof or thereof, the satisfaction in full of all obligations of the Company under this Subordinated Loan Agreement or any other termination of such Collateral Document in accordance with the terms hereof or thereof) or shall be declared null and void, or the validity or enforceability thereof shall be contested in writing by any Person, or, following the occurrence of the Grant Effectiveness Condition (as defined in the applicable Collateral Document), the Collateral Agent shall not have or shall cease to have, for any reason (other than the failure of the Collateral Agent or any holder of the Subordinated Notes to take any action within its control), a valid security interest in any Collateral purported to be covered thereby, perfected and with the priority required by this Agreement and the relevant Collateral Document and subject only to Liens permitted under this Agreement and the applicable Collateral Document."

8. Amendment to Section 17.1 Section 17.1 shall be and is hereby amended by (i) adding the phrase ", the Collateral Documents" immediately after the phrase "This Agreement" contained in the first sentence of Section 17.1, (ii) by deleting from the first sentence in Section 17.1 the phrase ", if required pursuant to the Subordination Agreement," and (iii) by adding the phrase "or any section of the Collateral Documents" immediately after the phrase "Sections 8, 11(a), 11(b), 12, 17 or 20" contained in the last sentence of section 17.1.

9. Amendment of Definitions.

(a) The following definitions contained in Schedule A of the Subordinated Loan Agreement shall be and are hereby amended to read in its entirely as follows:

""Company Agreement" means the Company Agreement of the LLC as it may be amended or modified from time to time."

""Note Purchase Agreements" means the Note Purchase Agreements dated as of the date of Closing between the Company and each of the purchasers of the Senior Notes pursuant to such agreements, as such Note Purchase Agreements may be amended or modified from time to time."

""Senior Notes" means the Company's 10.8% Senior Notes due April 30, 2009, as such Senior Notes may be amended or modified from time to time."

""Excess Cash Flow" means, with respect to any period, Distributable Cash for the comparable period of LLC ending on or closest (but prior) to the last day of such period, less (i) actual debt service in respect of Senior Debt described in clause (i) of the definition of "Senior Debt" (including, without limitation, any Debt of Persons other than the Company guaranteed by the Company), including, without limitation, the Senior Notes, (ii) patronage dividends actually paid to the Company's shareholders and (iii) Permitted Operating Expenses."

""Unit Retain" means a withholding of beet crop payments due to the grower shareholders of the Company as imposed by the Company's board of directors, including without limitation

amounts resulting from Beet Payment Withholdings (as defined in the Company Agreement)."

"Loan Documents" means this Agreement, the Subordinated Notes, the Collateral Documents and all other instruments, documents and agreements executed by or on behalf of the Company and delivered concurrently herewith or at any time hereafter for the benefit of you in connection with the Subordinated Notes and other transactions contemplated by this Agreement, all as amended, restated, supplemented or otherwise modified from time to time.

(b) The following definitions shall be and are hereby added to Schedule A of the Subordinated Loan Agreement as follows:

""Conversion Condition" shall have the meaning set forth in Section 8.1(b)."

"Collateral" means (a) "Pledged Collateral" as defined in the Contingent Subordinate Pledge Agreement and (b) "Collateral" as defined in the Contingent Subordinate Security Agreement.

"Collateral Agent" means FSB, or any successor Collateral Agent under the Contingent Subordinated Collateral Agency and Paying Agency Agreement.

"Collateral Documents" means the Contingent Subordinate Pledge Agreement, the Contingent Subordinate Security Agreement, the Contingent Subordinate Collateral Agency and Paying Agency Agreement or any agreements referred to therein.

"Contingent Subordinate Collateral Agency and Paying Agency Agreement" means that certain Contingent Subordinate Collateral Agency and Paying Agency Agreement dated as of October 19, 2000 by and among Valhi, the Company and FSB, as such may be amended or modified from time to time.

"Contingent Subordinate Pledge Agreement" means that certain Contingent Subordinate Pledge Agreement dated as of October 19, 2000 by and between the Company and Valhi and acknowledged by FSB as Collateral Agent, as such may be amended or modified from time to time.

"Contingent Subordinate Security Agreement" means that certain Contingent Subordinate Security Agreement dated as of October 19, 2000 by and between the Company and Valhi and acknowledged by FSB as Collateral Agent, as such may be amended or modified from time to time.

"FSB" means First Security Bank, National Association.

"Valhi" means Valhi, Inc., a Delaware corporation.

10. Amendment of Section 6.3 of the Second Amendment. Subsection 6.3 of the Second Amendment shall be and is hereby amended to read in its entirety as follows:

"6.3 Governing Law. This Second Amendment, and the rights of the parties hereto, shall be governed by and construed in accordance with the laws of the State of Utah."

11. New Section 22.12. A new Section 22.12 shall be and is hereby added to read in its entirety as follows:

" 22.12. Certain Rights of Specific Performance.

To the extent that the Company's Board of Directors shall have approved the SRSC Annual Irrevocable Cash Plan (as defined in the Company Agreement) for any given Fiscal Year (as defined in the Company Agreement), the Company agrees and acknowledges that money damages may not be an adequate remedy for any failure by the Company to make debt service payments to Valhi under this Subordinated Loan Agreement for such Fiscal Year in amounts sufficient to comply with such Fiscal Year's SRSC Annual Irrevocable Cash Plan or any failure by the Company to otherwise give full effect to such Fiscal Year's SRSC Annual

Irrevocable Cash Plan, and that Valhi may in its sole discretion apply to any court of law or equity or competent jurisdiction for specific performance by the Company to make debt service payments to Valhi under this Subordinated Loan Agreement for such Fiscal Year in amounts sufficient to comply with such Fiscal Year's SRSC Annual Irrevocable Cash Plan or to otherwise take all actions necessary to carry out, and to give full effect to, such Fiscal Year's SRSC Annual Irrevocable Cash Plan, subject always, however, to the limitations contained in Section 8.1(b) hereof."

12. Conditions Precedent. Each of the following shall be considered a condition precedent to the effectiveness of this Third Amendment:

(b) The Company will obtain modifications to the Note Purchase Agreements and the Senior Notes, which modifications must be satisfactory to Valhi in all material respects.

(c) The Company will execute and delivery to Valhi (i) a Contingent Pledge Agreement in the form attached to this Third Amendment as Exhibit A; (ii) a Contingent Security Agreement in the form attached to this Third Amendment as Exhibit B; and (iii) a Contingent Collateral Agency and Paying Agency Agreement in the form attached to this Third Amendment as Exhibit C.

(d) The execution and delivery by all of the parties thereto of that certain Master Agreement dated October 19, 2000, by and among the parties hereto, among others.

13. Condition to Continuing Effectiveness. The parties hereto agree and acknowledge that if at any time following the execution of this Third Amendment, either (i) the Company shall fail to approve by January 15th of any year the SRSC Annual Irrevocable Cash Plan (as defined in the Company Agreement) for such fiscal year of the LLC or (ii) the unpaid Accrual exceeds the Accrual Threshold (as both are defined in the Company Agreement), then this Third Amendment shall immediately become retroactively null and void and the terms of the Subordinated Loan Agreement shall retroactively be as in effect immediately prior to the execution of this Third Amendment.

14. Representations and Warranties:

(e) Valhi Representations and Warranties. Valhi hereby represents and warrants as follows:

(i) Organization and Authority Valhi is an organization duly and validly incorporated and existing and in good standing under the laws of the State of Delaware and has full corporate power to enter into and perform its obligations under this Third Amendment.

(ii) Authorization; Enforceability. The execution, delivery. and performance of this Third Amendment by Valhi are within the corporate power of Valhi and have been duly authorized by all necessary corporate action on the part of Valhi. This Third Amendment is the legally valid and binding agreement of Valhi, enforceable against Valhi in accordance with its terms.

(iii) No Violation or Conflict. The execution, delivery and performance of this Third Amendment by Valhi do not and will not violate any law or the Certificate of Incorporation or Bylaws of Valhi, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, agreement, instrument, order, judgment or decree to which Valhi is a party or by which Valhi is bound, which violation, conflict, breach or default would have a material adverse effect on Valhi's ability to consummate the transactions contemplated hereby.

(f) Company Representations and Warranties. The Company hereby represents and warrants as follows:

(i) Organization and Authority. The Company is a cooperative corporation duly and validly organized and existing and in good standing under the laws of the State of Oregon and has full power to enter into and perform its obligations under this Third Amendment.

(ii) Authorization; Enforceability. The execution, delivery and performance of this Third Amendment by the Company are within the power of the Company and have been duly authorized by all necessary action on the part of the Company. This Third Amendment is the legally valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(iii) No Violation or Conflict. The execution, delivery and performance of this Third Amendment by the Company do not and will not violate any law or the organizational documents of the Company, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, agreement, instrument, order, judgment or decree to which the Company is a party or by which the Company is bound, which violation, conflict, breach or default would have a material adverse effect on the Company's ability to consummate the transactions contemplated hereby.

15. Miscellaneous.

(g) Enforceability; Validity. Each party hereto expressly agrees that this Third Amendment shall be specifically enforceable in any court of competent jurisdiction in accordance with its terms and against each of the parties hereto.

(h) Successors and Assigns. All of the covenants and agreements contained in this Third Amendment shall be binding upon, and inure to the benefit of, the respective parties and their successors, assigns, heirs, executors, administrators and other legal representatives, as the case may be.

(i) Governing Law. This Third Amendment, and the rights of the parties hereto, shall be governed by and construed in accordance with the laws of the State of Utah.

(j) Counterparts. This Third Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(k) Amendment; Waiver. No amendment, modification, termination or waiver of any provision of this Third Amendment, and no consent to any departure by any party therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto. Any such amendment, modification, termination, waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

(l) Severability. If any provision of this Third Amendment shall be declared void or unenforceable by any court or administrative board of competent jurisdiction, such provision shall be deemed to have been severed from the remainder of this Third Amendment, and this Third Amendment shall continue in all other respects to be valid and enforceable.

IN WITNESS WHEREOF, the parties hereby have caused this Third Amendment to be duly executed and delivered by their respective officers thereunder duly authorized as of the date first written above.

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SNAKE RIVER SUGAR COMPANY

By:/s/ Lawrence L. Corry

Its:

VALHI, INC.

By:/s/ Steven L. Watson

Its:

ACKNOWLEDGED:

THE PRUDENTIAL INSURANCE
COMPANY OF AMERICA

By:/s/ Joseph Alouf

Its:

CONNECTICUT GENERAL LIFE
INSURANCE COMPANY

By: CIGNA INVESTMENTS, INC.

By:/s/ Stephen H. Wilson

Its:

LIFE INSURANCE COMPANY
OF NORTH AMERICA

By: CIGNA INVESTMENTS, INC.

By:/s/ Stephen H. Wilson

Its:

MINNESOTA LIFE INSURANCE COMPANY

By: Advantus Capital

Management, Inc.

By:/s/ Annette Masterson

Its:

THE LINCOLN NATIONAL LIFE
INSURANCE COMPANY

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

LINCOLN LIFE & ANNUITY COMPANY
OF NEW YORK

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

EXECUTION COPY

CONTINGENT SUBORDINATE PLEDGE AGREEMENT

This CONTINGENT SUBORDINATE PLEDGE AGREEMENT (this "Agreement") is dated as of October 19, 2000 and entered into by and between SNAKE RIVER SUGAR COMPANY, an Oregon cooperative corporation ("Pledgor"), and VALHI, INC., a Delaware corporation ("Secured Party") and is acknowledged by FIRST SECURITY BANK, NATIONAL ASSOCIATION, as Collateral Agent for the holders of the Senior Notes referred to below ("FSB") and the holders of said Senior Notes.

PRELIMINARY STATEMENTS

A. Pledgor is the legal and beneficial owner of (i) the limited liability company membership interest (the "Pledged Equity") listed in Part A of Schedule I annexed hereto and issued by The Amalgamated Sugar Company LLC, a Delaware limited liability company (the "LLC"), and (ii) the indebtedness (the "Pledged Debt") described in Part B of said Schedule I and issued by the obligor (the "Obligor") named therein.

B. Pursuant to those certain Note Purchase Agreements (said Note Purchase Agreements, as they may hereafter be amended, supplemented or otherwise modified from time to time, being the "Note Purchase Agreements"), each dated May 14, 1997 and as amended as of November 30, 1998, between Pledgor and the holders of the Senior Notes (the "Senior Noteholders"), Pledgor has issued to the Senior Noteholders $100,000,000 aggregate principal amount of its 10.80% Senior Notes due April 30, 2009 (said Senior Notes, as they may hereafter be amended, supplemented or otherwise modified from time to time, being the "Senior Notes," and together with the debt associated therewith, the "Senior Debt").

C. Pursuant to the Collateral Agency Agreement, dated as of May 14, 1997, among the Senior Noteholders and FSB (the "Collateral Agency Agreement"), the Senior Noteholders have appointed FSB to act as Collateral Agent for the Senior Noteholders.

D. In connection with the Note Purchase Agreements, Pledgor and FSB have entered into a pledge agreement dated as of May 14, 1997 (the "SR Pledge Agreement") and a related Security Agreement dated May 14, 1997 (the "Security Agreement") whereby Pledgor has pledged the Pledged Collateral (as defined below) to FSB, as collateral agent, for the Senior Noteholders.

E. Pledgor and Secured Party are parties to a Subordinated Loan Agreement dated January 3, 1997, as amended and restated May 14, 1997 and as amended as of November 30, 1998, (said Subordinated Loan Agreement, as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Subordinated Loan Agreement").

F. Pledgor desires that certain further amendments be made to the Subordinated Loan Agreement.

G. It is a condition precedent to the amendment of even date herewith to the Subordinated Loan Agreement that Pledgor shall have undertaken the obligations and granted the contingent subordinate security interest contemplated by this Agreement, subject only to the provisions of the SR Pledge Agreement and the senior pledge made by Pledgor in connection therewith.

NOW, THEREFORE, in consideration of the premises and in order to induce the Secured Party to amend the Subordinated Loan Agreement and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Pledgor hereby agrees with Secured Party as follows:

SECTION 1. Definitions. Terms defined in the Subordinated Loan Agreement and not otherwise defined herein are used herein as therein defined.

SECTION 2. Contingent Subordinate Pledge of Security. Immediately upon the occurrence of the earliest to occur of the following (the "Grant Effectiveness Condition"): (i) the full payment of the Secured Obligations, as defined in the Security Agreement ("Senior Secured Obligations"), (ii) the date upon which Secured Party purchases all of the Senior Notes upon an exercise of its rights under all of those certain Option Agreements between Secured Party, Pledgor and the Senior Noteholders, and (iii) the date at which the outstanding balance of

the Senior Secured Obligations is less than the amount of cash or cash equivalents contained in the Distributable Cash Collateral Account (as such term is defined in the Note Purchase Agreements), and such cash or cash equivalents have been irrevocably and indefeasibly dedicated by the Pledgor to, and are available solely for (as evidenced by a written certificate from the Pledgor to the Senior Noteholders, acknowledged by Secured Party) payment of the Senior Secured Obligations at the sole and absolute discretion of the Senior Noteholders, Pledgor will pledge and assign to Secured Party, and grants to Secured Party a contingent, subordinate, security interest in all of Pledgor's right, title and interest in and to the following (the "Pledged Collateral") which security interest shall become immediately effective only upon occurrence of a Grant Effectiveness Condition.

(a) the Pledged Equity and any certificates representing the Pledged Equity and any interest of Pledgor in the entries on the books of any financial intermediary pertaining to the Pledged Entity, and all dividends, cash, warrants, rights, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Equity;

(b) the Pledged Debt and the instruments evidencing the Pledged Debt, all of the Pledgor's rights in and to any and all collateral for the Pledged Debt, and all interest, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the foregoing;

(c) all of Pledgor's rights in, under and pursuant to (as each of the following documents is defined in the Note Purchase Agreements, collectively, the "Pledged Debt Documents"): (i) the SPT Guaranty; (ii) the SPT Pledge Agreement, together with all Pledged Collateral defined therein; (iii) the Indemnification Pledge Agreement, together with all Collateral defined therein; and (iv) the Valhi Entity Pledge Agreement, together with all Collateral defined therein, such rights to include, without limitation, the following rights: (x) all rights of Pledgor to receive proceeds of any insurance, indemnity, warranty or guaranty with respect to the Pledged Debt Documents, (y) all claims of Pledgor for damages arising out of any breach of or default under the Pledged Debt Documents and (z) all rights of Pledgor to terminate, amend, supplement, modify or exercise rights or options under the Pledged Debt Documents, to perform thereunder and to compel performance and otherwise exercise all remedies thereunder;

(d) all additional equity interests, and all securities convertible into and warrants, options and other rights to purchase or otherwise acquire any equity interests, in any issuer of the Pledged Equity from time to time acquired by Pledgor in any manner (which interests shall be deemed to be part of the Pledged Equity), any certificates or other instruments representing such additional equity interests, securities, warrants, options or other rights and any interest of Pledgor in the entries on the books of any financial intermediary pertaining to such additional equity interests, and all dividends, cash, warrants, rights, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional equity interests, securities, warrants, options or other rights;

(e) all additional indebtedness from time to time owed to Pledgor by any obligor on the Pledged Debt and the instruments evidencing such indebtedness, and all interests, cash instruments, collateral and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such indebtedness, including without limitation the AGM Interest;

(f) all equity interests, and all securities convertible into and warrants, options and other rights to purchase or otherwise acquire any equity interests, in any Person that, on or after the date of this Agreement, becomes, as a result of any occurrence, a direct Subsidiary of Pledgor (which equity interests shall be deemed to be part of the Pledged Equity), any certificates or other instruments representing such equity interests, securities, warrants, options or other rights and any interest of Pledgor in the entries on the books of any financial intermediary pertaining to such equity interests, and all dividends, cash, warrants, rights, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such equity interests, securities, warrants, options or other rights;

(g) all indebtedness from time to time owed to Pledgor by any Person

that, after the date of this Agreement, becomes, as a result of any occurrence, a direct or indirect Subsidiary of Pledgor, and all interest, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such indebtedness; and

(h) to the extent not covered by clauses (a) through (g) above, all proceeds of any or all of the foregoing Pledged Collateral. For purposes of this Agreement, the term "proceeds" includes whatever is receivable or received when Pledged Collateral or proceeds are sold, exchanged, collected or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, proceeds of any indemnity or guaranty payable to Pledgor or Secured Party from time to time with respect to any of the Pledged Collateral. Nothing in this Agreement shall be deemed to grant Secured Party a security interest in the AGM Interest or any proceeds of the AGM Interest, except to the extent of Pledgor's interest therein assigned to Pledgor pursuant to the Pledged Debt Documents.

SECTION 3. Security for Obligations. Immediately upon occurrence of the Grant Effectiveness Condition, this Agreement shall secure, and the Pledged Collateral will be collateral security for, the prompt payment or performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. ss.362(a)), of all obligations and liabilities of every nature of Pledgor now or hereafter existing under or arising out of or in connection with the Subordinated Loan Agreement and the other Loan Documents, and all extensions or renewals thereof, whether for principal, interest (including without limitation interest that, but for the filing of a petition in bankruptcy with respect to Pledgor, would accrue on such obligations), fees, expenses, indemnities or otherwise, whether voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later increased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from Secured Party as a preference, fraudulent transfer or otherwise (all such obligations and liabilities being the "Underlying Debt"), and all obligations of every nature of Pledgor now or hereafter existing under this Agreement (all such obligations of Pledgor, together with the Underlying Debt, being the "Secured Obligations").

SECTION 4. Delivery of Pledged Collateral: Payment Directions. (a) Immediately upon occurrence of the Grant Effectiveness Condition, all certificates or instruments representing or evidencing the Pledged Collateral shall be delivered to and held by or on behalf of Secured Party pursuant hereto and shall be in suitable form for transfer by delivery or, as applicable, shall be accompanied by Pledgor's endorsement, where necessary, or duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Secured Party. Immediately upon occurrence of the Grant Effectiveness Condition, Secured Party shall have the right, at any time in its discretion and without notice to Pledgor, to transfer to or to register in the name of Secured Party or any of its nominees any or all of the Pledged Collateral, subject only to the revocable rights specified in Section 8(a).

(b) Pledgor agrees that it will, immediately upon occurrence of the Grant Effectiveness Condition, direct the LLC, the Obligor and any other applicable Person, as the case may be, to make all payments of distributions, dividends, principal, interest and any other amounts in respect of any of the Pledged Collateral directly to Secured Party, to be applied as provided in the Contingent Collateral Agency and Paying Agency Agreement by and among Pledgor, Secured Party and FSB.

SECTION 5. Representations and Warranties. Pledgor represents and warrants as follows:

(a) Due Authorization, etc. of Pledged Collateral. All of the Pledged Equity has been duly authorized and validly issued and is fully paid and nonassessable. All of the Pledged Debt has been duly authorized, authenticated or issued, and delivered and is the legal, valid and binding obligation of the issuers thereof and is not in default.

(b) Description of Pledged Collateral. The Pledged Equity constitutes 5.3% of the membership interests in the LLC. Except as may otherwise be provided in the Company Agreement (i) there are no agreements outstanding with respect to any Pledged Equity, (ii) there are no outstanding warrants, options or other

rights to purchase any Pledged Equity and (iii) there is no property that is now or may hereafter become convertible into, or that requires the issuance or sale of, any Pledged Equity. The Pledged Debt includes all of the issued and outstanding intercompany indebtedness evidenced by a promissory note of the respective issuers thereof owing to Pledgor.

(c) Ownership of Pledged Collateral. Pledgor is the legal, record and beneficial owner of the Pledged Collateral free and clear of any Lien, except for the security interest created in connection with the SR Pledge Agreement and the contingent subordinate security interest pursuant to this Agreement and subject to the restrictions set forth in the Company Agreement.

(d) Governmental Authorizations. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for either (i) this pledge by Pledgor of the Pledged Collateral pursuant to this Agreement and the grant by Pledgor of the contingent subordinate security interest granted hereby, (ii) the execution, delivery or performance of this Agreement by Pledgor, or (iii) the exercise by Secured Party of the voting or other rights, or the remedies in respect of the Pledged Collateral immediately upon occurrence of the Grant Effectiveness Condition provided for in this Agreement (except as may be required in connection with a disposition of Pledged Collateral by laws affecting the offering and sale of securities generally).

(e) Perfection. Immediately upon occurrence of the Grant Effectiveness Condition, the pledge of the Pledged Collateral pursuant to this Agreement shall create a valid and perfected subordinate security interest in the Pledged Collateral, securing the payment of the Secured Obligations.

(f) Margin Regulations. The pledge of the Pledged Collateral pursuant to this Agreement does not violate Regulation G, T, U or X of the Board of Governors of the Federal Reserve System.

(g) Other Information. All information heretofore, herein or hereafter supplied to Secured Party by or on behalf of Pledgor with respect to the Pledged Collateral is accurate and complete in all material respects.

SECTION 6. Transfers and Other Liens: Additional Pledged Collateral: etc. Following the occurrence of the Grant Effectiveness Condition, Pledgor shall:

(a) not, except as expressly permitted by the terms of the Note Purchase Agreements and/or the Subordinated Loan Agreement, (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Pledged Collateral or (ii) create or suffer to exist any Lien upon or with respect to any of the Pledged Collateral, except for the security interests under the SR Pledge Agreement and the contingent subordinate security interest pursuant to this Agreement;

(b) (i) cause each issuer of Pledged Equity not to issue any equity in addition to or in substitution for the Pledged Equity issued by such issuer, except to Pledgor, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof and occurrence of the Grant Effectiveness Condition, any and all additional equity of each issuer of Pledged Equity, and (iii) pledge hereunder, immediately upon acquisition (directly or indirectly) thereof by Pledgor and occurrence of the Grant Effectiveness Condition, any and all equity of any Person that, after the date of this Agreement, becomes, as a result of any occurrence, a direct or indirect subsidiary of Pledgor;

(c) (i) pledge hereunder, immediately upon their issuance and occurrence of the Grant Effectiveness Condition, any and all instruments or other evidences of additional indebtedness from time to time owed to Pledgor by any obligor on the Pledged Debt, and (ii) pledge hereunder, immediately upon their issuance and occurrence of the Grant Effectiveness Condition, any and all instruments or other evidences of indebtedness from time to time owed to Pledgor by any Person that after the date of this Agreement becomes, as a result of any occurrence, a direct or indirect subsidiary of Pledgor;

(d) promptly notify Secured Party of any event of which Pledgor becomes aware causing material loss or depreciation in the value of the Pledged Collateral;

(e) promptly deliver to Secured Party all written notices received by it with respect to the Pledged Collateral; and

(f) pay promptly when due all taxes, assessments and governmental

charges or levies imposed upon, and all claims against, the Pledged Collateral, except to the extent the validity thereof is being contested in good faith; provided that Pledgor shall in any event pay such taxes, assessments, charges, levies or claims not later than five days prior to the date of any proposed sale under any judgement, writ or warrant of attachment entered or filed against Pledgor or any of the Pledged Collateral as a result of the failure to make such payment.

SECTION 7. Further Assurances: Pledge Amendments.

(a) Pledgor agrees that from time to time, after occurrence of the Grant Effectiveness Condition, at the expense of Pledgor, Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that Secured Party may request, in order to perfect and protect any present or contingent subordinate security interest granted or purported to be granted hereby or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Pledged Collateral. Without limiting the generality of the foregoing, Pledgor will: (i) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as Secured Party may request, in order to perfect and preserve the present or contingent subordinate security interest granted or purported to be granted hereby, including without limitation upon occurrence of the Grant Effectiveness Condition, and (ii) at Secured Party's request, appear in and defend any action or proceeding that may affect Pledgor's title to or Secured Party's security interest in all or any part of the Pledged Collateral.

(b) Pledgor further agrees that it will, upon obtaining any additional equity or securities required to be pledged hereunder as provided in Section 6(b) or (c), promptly (and in any event within five Business Days) deliver to Secured Party, as applicable, either a Contingent Subordinate Pledge Amendment (prior to occurrence of the Grant Effectiveness Condition) or Non-Contingent Subordinate Pledge Amendment (after occurrence of the Grant Effectiveness Condition), duly executed by Pledgor, in substantially the form of Schedule II or Schedule III, respectively, annexed hereto (each a "Pledge Amendment"), in respect of the additional Pledged Equity or Pledged Debt to be pledged pursuant to this Agreement. Pledgor hereby authorizes Secured Party to attach each Pledge Amendment to this Agreement and agrees that all Pledged Equity or Pledged Debt listed on any Pledge Amendment delivered to Secured Party shall for all purposes hereunder be considered Pledged Collateral; provided that the failure of Pledgor to execute a Pledge Amendment with respect to any additional Pledged Equity or Pledged Debt pledged pursuant to this Agreement shall not impair the security interest of Secured Party therein or otherwise adversely affect the rights and remedies of Secured Party hereunder with respect thereto.

SECTION 8. Voting Rights Following Occurrence of Grant Effectiveness Condition; Etc.

(a) Upon and following occurrence of the Grant Effectiveness Condition, so long as no Event of Default shall have occurred and be continuing:

(i) Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the Subordinated Loan Agreement.

(ii) Secured Party shall promptly execute and deliver (or cause to be executed and delivered) to Pledgor all such proxies and other instruments as Pledgor may from time to time reasonably request for the purpose of enabling Pledgor to exercise the voting and other consensual rights which it is entitled to exercise pursuant to paragraph (i) above.

(b) Upon and following occurrence of the Grant Effectiveness Condition and upon the occurrence and during the continuation of an Event of Default and upon written notice from Secured Party to Pledgor, all rights of Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled, to exercise pursuant to Section 8(a)(i) shall cease, and all such rights shall thereupon become vested in Secured Party who shall thereupon have the sole right to exercise such voting and other consensual rights.

(c) Upon occurrence of the Grant Effectiveness Condition, in order to permit Secured Party to exercise the voting and other consensual rights which it may be entitled to exercise pursuant to Section 8(b), (i) Pledgor shall promptly execute and deliver (or cause to be executed and delivered) to Secured Party all

such proxies and other instruments as Secured Party may from time to time reasonably request and (ii) without limiting the effect of the immediately preceding clause (i), Pledgor grants to Secured Party, an irrevocable proxy to vote the Pledged Equity and to exercise all other rights, powers, privileges and remedies to which a holder of the Pledged Equity would be entitled (including, without limitation, giving or withholding written consents of equity holders, calling special meetings of equity holders and voting at such meetings), which proxy shall be effective, automatically and without the necessity of any action (including any transfer of any Pledged Equity on the record books of the issuer thereof) by any other Person (including the issuer of the Pledged Equity or any officer or agent thereof), upon the occurrence of an Event of Default and which proxy shall only terminate upon the payment in full in cash of the Secured Obligations.

SECTION 9. Special Provisions With Respect to the Pledged Debt Documents.

(a) Upon and following occurrence of the Grant Effectiveness Condition, Pledgor shall at its expense:

(i) perform and observe all terms and provisions of the Pledged Debt Documents to be performed or observed by it, maintain the Pledged Debt Documents in full force and effect, enforce the Pledged Debt Documents in accordance with their terms, and take all such action to such end as may be from time to time requested by Secured Party; and

(ii) furnish to Secured Party, promptly upon receipt thereof, copies of all notices, requests and other documents received by Pledgor under or pursuant to the Pledged Debt Documents, and from time to time furnish to Secured Party such information and reports regarding the Pledged Debt Documents as Secured Party may reasonably request.

(b) Upon and following occurrence of the Grant Effectiveness Condition, except as expressly permitted by the Subordinated Loan Agreement, Pledgor shall not, without the express written consent of the Secured Party:

(i) cancel or terminate any of the Pledged Debt Documents or consent to or accept any cancellation or termination thereof;

(ii) amend or otherwise modify the Pledged Debt Documents or give any consent, waiver or approval thereunder;

(iii) waive any default under or breach of the Pledged Debt Documents; or

(iv) take any other action in connection with the Pledged Debt Documents that would impair the value of the interest or rights of Pledgor thereunder or that would impair the interest or rights of Secured Party.

SECTION 10. Secured Party Appointed Attorney-in-Fact. Pledgor irrevocably appoints Secured Party, which appointment shall become effective immediately upon occurrence of the Grant Effectiveness Condition, as Pledgor's attorney-in-fact, with full authority in the place and stead of Pledgor and in the name of Pledgor, Secured Party or otherwise, from time to time in Secured Party's discretion to take any action and to execute any instrument that Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including without limitation:

(a) to file one or more financing or continuation statements, or amendments thereto, relative to all or any part of the Pledged Collateral without the signature of Pledgor;

(b) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of and constituting any of the Pledged Collateral;

(c) to receive, endorse and collect any instruments made payable i to Pledgor representing any dividend, principal or interest payment or other distribution in respect of and constituting the Pledged Collateral or any part thereof and to give full discharge for the same;

(d) to file any claims or take any action or institute any proceedings that Secured Party may deem necessary or desirable for the collection of any of the Pledged Collateral or otherwise to enforce the rights of Secured Party with respect to any of the Pledged Collateral; and

(e) to execute on behalf of Pledgor a pledge agreement that is neither subordinated or contingent but is otherwise similar to this Agreement in all material respects.

SECTION 11. Secured Party May Perform. Following occurrence of the Grant Effectiveness Condition, if Pledgor fails to perform any agreement contained herein, Secured Party may itself perform, or cause performance of, such agreement, and the expenses of Secured Party incurred in connection therewith shall be payable by Pledgor under Section 15(b).

SECTION 12. Standard of Care. The powers conferred on Secured Party hereunder are solely to protect its interest in the Pledged Collateral and shall not impose any duty upon it to exercise any such powers. Except for the exercise of reasonable care in the custody of any Pledged Collateral in its possession and the accounting for moneys actually received by it hereunder, Secured Party shall have no duty as to any Pledged Collateral, it being understood that Secured Party shall have no responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to any Pledged Collateral, whether or not Secured Party has or is deemed to have knowledge of such matters, (b) taking any necessary steps (other than steps taken in accordance with the standard of care set forth above to maintain possession of the Pledged Collateral) to preserve rights against any parties with respect to any Pledged Collateral, (c) taking any necessary steps to collect or realize upon the Secured Obligations or any guarantee therefor, or any part thereof, or any of the Pledged Collateral, or (d) initiating any action to protect the Pledged Collateral against the possibility of a decline in market value. Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of Pledged Collateral in its possession if such Pledged Collateral is accorded treatment substantially equal to that which such Secured Party accords its own property consisting of negotiable securities.

SECTION 13. Remedies.

(a) Following occurrence of the Grant Effectiveness Condition, if any Event of Default shall have occurred and be continuing, Secured Party may exercise in respect of the Pledged Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code as in effect in any relevant jurisdiction (the "Code") (whether or not the Code applies to the affected Pledged Collateral), and Secured Party may also in its sole discretion, without notice except as specified below, sell the Pledged Collateral or any part thereof in one or more parcels at public or private sale, at any exchange or broker's board or at any of Secured Party's offices or elsewhere, for cash, on credit or for future delivery, at such time or times and at such price or prices and upon such other terms as Secured Party may deem commercially reasonable, irrespective of the impact of any such sales on the market price of the Pledged Collateral. Secured Party may be the purchaser of any or all of the Pledged Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Pledged Collateral sold at any such public sale, to use and apply any of the Secured Obligations as a credit on account of the purchase price for any Pledged Collateral payable by Secured Party at such sale. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of Pledgor, and Pledgor hereby waives (to the extent permitted by applicable law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to Pledgor and FSB of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Pledgor hereby waives any claims against Secured Party arising by reason of the fact that the price at which any Pledged Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if Secured Party accepts the first offer received and does not offer such Pledged Collateral to more than one offeree. If the proceeds of any sale or other disposition of the Pledged Collateral are insufficient to pay all the Secured Obligations, Pledgor shall be liable for the deficiency and the fees of any attorneys employed by Secured Party to collect such deficiency.

(b) Pledgor recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as from time to time amended (the "Securities Act"), and applicable state securities laws, Secured Party may be compelled, with respect to any sale of all or any part of the Pledged Collateral conducted without prior registration or qualification of such Pledged Collateral under the Securities Act and/or such state securities laws, to agree to, among other things, acquire the Pledged Collateral for its own account, for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges that any such private sales may be at prices and on terms less favorable than those obtainable through a public sale without such restrictions (including, without limitation, a public offering made pursuant to a registration statement under the Securities Act) and, notwithstanding such circumstances, Pledgor agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that Secured Party shall have no obligation to engage in public sales and no obligation to delay the sale of any Pledged Collateral for the period of time necessary to permit the issuer thereof to register it for a form of public sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would, or should, agree to so register it.

(c) If Secured Party determines to exercise its right to sell any or all of the Pledged Collateral, upon written request, Pledgor shall and shall cause each issuer of any Pledged Equity to be sold hereunder from time to time to furnish to Secured Party all such information as Secured Party may request in order to determine the extent to which such equity interest and any instruments included in the Pledged Collateral may be sold by Secured Party in exempt transactions under the Securities Act and the rules and regulations of the Securities and Exchange Commission thereunder, as the same are from time to time in effect.

SECTION 14. Application of Proceeds. Except as expressly provided elsewhere in this Agreement, all proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Pledged Collateral may, in the discretion of Secured Party, be held by Secured Party as Pledged Collateral for, and/or then, or at any time thereafter, applied in full or in part by Secured Party against, the Secured Obligations in the following order of priority:

FIRST: To the payment of all costs and expenses of such sale, collection or other realization, including reasonable compensation to Secured Party and its agents and counsel, and all other expenses, liabilities and advances made or incurred by Secured Party in connection therewith, and all amounts for which Secured Party is entitled to indemnification hereunder and all advances made by Secured Party hereunder for the account of Pledgor, and to the payment of all costs and expenses paid or incurred by Secured Party in connection with the exercise of any right or remedy hereunder, all in accordance with Section 15;

SECOND: To the payment of all other Secured Obligations in such order as Secured Party shall elect; and

THIRD: To the payment to or upon the order of Pledgor, or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

SECTION 15. Indemnity and Expenses.

(a) Pledgor agrees to indemnify Secured Party from and against any and all claims, losses and liabilities in any way relating to, growing out of or resulting from this Agreement and the transactions contemplated hereby (including, without limitation, enforcement of this Agreement), except to the extent such claims, losses or liabilities result solely from Secured Party's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

(b) Pledgor shall pay to Secured Party upon demand the amount of any and all costs and expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, that Secured Party may incur in connection with (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Pledged Collateral, (iii) the exercise or enforcement of any of the rights of Secured Party hereunder, or (iv) the failure by Pledgor to perform or observe any of the provisions hereof.

SECTION 16. Continuing Subordinate Security Interest: Transfer of Secured Obligations. Upon occurrence of the Grant Effectiveness Condition, this Agreement shall create a continuing subordinate security interest in the Pledged Collateral and shall (a) remain in full force and effect until the payment in full in cash of all Secured Obligations, (b) be binding upon Pledgor, its successors and assigns, and (c) inure, together with the rights and remedies of Secured Party hereunder, to the benefit of Secured Party and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), Secured Party may assign or otherwise transfer the Subordinated Loan Agreement, the other Loan Documents and the Secured Obligations evidenced thereby to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted herein or otherwise. Upon the payment in full in cash of all Secured Obligations, the subordinate security interest granted hereby shall terminate, and all rights to the Pledged Collateral shall revert to Pledgor. Upon any such termination Secured Party will, at Pledgor's expense, execute and deliver to Pledgor such documents as Pledgor shall reasonably request to evidence such termination, and Pledgor shall be entitled to the return, upon its request and at its expense, against receipt and without recourse to Secured Party, of such of the Pledged Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof

SECTION 17. Condition Precedent. The execution and delivery of that certain Master Agreement dated October 19, 2000, by and among the parties hereto, among others, shall be a condition precedent to the initial effectiveness of this Amendment.

SECTION 18. Amendments Etc. No amendment, modification, termination or waiver of any provision of this Agreement, and no consent to any departure by Pledgor therefrom, shall in any event be effective unless the same shall be in writing and signed by Secured Party and, in the case of any such amendment or modification, by Pledgor. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

SECTION 19. Notices. Any notice or other communication herein required or permitted to be given shall be in writing and may be personally served or sent by telefacsimile, United States mail or courier service and shall be deemed to have been given when delivered in person or by courier service, upon receipt of telefacsimile, or three Business Days after depositing it in the United States mail with postage prepaid and properly addressed. For the purposes hereof, the address of each party hereto shall be as set forth under such party's name on the signature pages hereof or, as to either party, such other address as shall be designated by such party in a written notice delivered to the other party hereto.

SECTION 20. Failure or Indulgence Not Waiver, Remedies Cumulative. No failure or delay on the part of Secured Party in the exercise of any power, right or privilege hereunder shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude any other or further exercise thereof or of any other power, right or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 21. Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 22. Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

SECTION 23. Full Subordination. Notwithstanding anything herein to the contrary, (i) all rights granted to Secured Party pursuant to this Agreement are subject and subordinated to all rights granted in favor of FSB under the SR Pledge Agreement and the related documents and (ii) prior to the occurrence of the Grant Effectiveness Condition (or, in the case of the Grant Effectiveness Condition described in clause (iii) of Section 2 hereof, prior to the satisfaction of the requirement set forth in Section 24 below), Secured Party shall not exercise any remedies or initiate or pursue any proceedings of any nature whatsoever against the Pledged Collateral or the Pledgor.

SECTION 24. Dedication of Distributable Cash Collateral Account. Notwithstanding

anything to the contrary herein, at the first date upon which the outstanding balance of the Senior Secured Obligations is less than the amount of cash or cash equivalents contained in the Distributable Cash Collateral Account, the Pledgor hereby agrees to immediately dedicate that portion, and only that portion, of the Distributable Cash Collateral Account, irrevocably and indefeasibly, necessary for the full payment of the Senior Secured Obligations in such form as reasonably required by the Senior Noteholders so that such Distributable Cash Collateral Account will be available solely for payment of the Senior Secured Obligations at the sole and absolute discretion of the Senior Noteholders. Secured Party hereby agrees and acknowledges that upon the dedication of the Distributable Cash Collateral Account as provided herein, such Distributable Cash Collateral Account will not constitute Pledged Collateral pursuant to this Agreement.

SECTION 25. Governing Law; Terms. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF UTAH (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF DELAWARE), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, EXCEPT TO THE EXTENT THAT THE CODE PROVIDES THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR PLEDGED COLLATERAL ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF UTAH.

SECTION 26. Consent to Jurisdiction and Service of Process. ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST PLEDGOR ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE COUNTY OF DALLAS, STATE OF TEXAS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT PLEDGOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT. Pledgor hereby agrees that service of all process in any such proceeding in any such court may be made by registered or certified mail, return receipt requested, to Pledgor at its address provided in accordance with Section 18, such service being hereby acknowledged by Pledgor to be sufficient for personal jurisdiction in any action against Pledgor in any such court and to be otherwise effective and binding service in every respect. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of Secured Party to bring proceedings against Pledgor in the courts of any other jurisdiction.

SECTION 27. Waiver of Jury Trial. PLEDGOR AND SECURED PARTY HEREBY AGREE TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. The scope of this waiver is intended to be all encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Pledgor and Secured Party each acknowledge that this waiver is a material inducement for Pledgor and Secured Party to enter into a business relationship, that Pledgor and Secured Party have already relied on this waiver in entering into this Agreement and that each will continue to rely on this waiver in their related future dealings. Pledgor and Secured Party further warrant and represent that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

SECTION 28. Third Party Beneficiaries. The Senior Noteholders from time to time shall be third party beneficiaries of this Agreement, and no amendment, consent, waiver or other modification of the terms hereof may be entered into, issued or granted without the prior written consent of such holders.

SECTION 29. Counterparts. This Agreement may be executed in one or more counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF, Pledgor and Secured Party have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

VALHI, INC.

By:/s/ Steven L. Watson

Name: Steven L. Watson
Title: President

SNAKE RIVER SUGAR COMPANY

By:/s/ Lawrence L. Corry

Name:

Title:

ACKNOWLEDGED:

FIRST SECURITY BANK, NATIONAL ASSOCIATION

By: /s/ C. Scott Nielsen

Its:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Joseph Alouf

Its:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: CIGNA INVESTMENTS, INC.

By: /s/ Stephen H. Wilson

Its:

LIFE INSURANCE COMPANY OF NORTH AMERICA

By: CIGNA INVESTMENTS, INC.

By: /s/ Stephen H. Wilson

Its:

MINNESOTA LIFE INSURANCE COMPANY

By: Advantus Capital Management, Inc.

By: /s/ Annette Masterson

Its:

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By: /s/ Annette M. Teders

Its:

SCHEDULE I

Attached to and forming a part of the Contingent Subordinate Pledge Agreement dated as of October 19, 2000 between Snake River Sugar Company, as Pledgor, and Valhi, Inc., as Secured Party.

Part A

Equity Issuer	Equity Interest
The Amalgamated Sugar Company LLC	SR Interest, as defined in the Company Agreement

Part B

Debt Issuer	Debt Instrument	Amount of Indebtedness

Valhi, Inc.	Limited Recourse Promissory Note	$212,500,000.00
Valhi, Inc.	Subordinated Promissory Note	$ 37,500,000.00

SCHEDULE II

CONTINGENT SUBORDINATE PLEDGE AMENDMENT

This Contingent Subordinate Pledge Amendment, dated _____, 20__, is delivered pursuant to Section 7(b) of the Contingent Subordinate Pledge Agreement referred to below. The undersigned hereby agrees that this Contingent Subordinate Pledge Amendment may be attached to the Contingent Subordinate Pledge Agreement, dated October 19, 2000, between the undersigned and Valhi, Inc., as Secured Party (the "Contingent Subordinate Pledge Agreement," capitalized terms defined therein being used herein as therein defined) and that the [Pledged Equity] [Pledged Debt] listed on this Contingent Subordinate Pledge Amendment shall be deemed to be part of the [Pledged Equity] [Pledged Debt] and shall become part of the Pledged Collateral and shall secure all Secured Obligations following occurrence of the Grant Effectiveness Condition.

SNAKE RIVER SUGAR COMPANY

By:

Name:

Title:

Equity Issuer	Equity Interest

Debt Issuer	Amount of Indebtedness

ACKNOWLEDGED AND ACCEPTED:

VALHI, INC.

By:

Name:

Title:

SCHEDULE III

NON-CONTINGENT PLEDGE AMENDMENT

This Non-Contingent Pledge Amendment, dated _____, 20__, is delivered pursuant to Section 7(b) of the Contingent Subordinate Pledge Agreement referred to below. The undersigned hereby agrees that this Non-Contingent Pledge Amendment may be attached to the Contingent Subordinate Pledge Agreement, dated October 19, 2000, between the undersigned and Valhi, Inc., as Secured Party (the "Contingent Pledge Agreement," capitalized terms defined therein being used herein as therein defined) and that the [Pledged Equity] [Pledged Debt] listed on this Pledge Amendment shall immediately be deemed to be part of the [Pledged Equity] [Pledged Debt] and shall become part of the Pledged Collateral and shall secure all Secured Obligations. Pledgor hereby acknowledges that the Grant Effectiveness Condition has previously been satisfied.

SNAKE RIVER SUGAR COMPANY

By:

Name:

Title:

Equity Issuer	Equity Interest
Debt Issuer	Amount of Indebtedness

EXECUTION COPY

CONTINGENT SUBORDINATE SECURITY AGREEMENT

This CONTINGENT SUBORDINATE SECURITY AGREEMENT (this "Agreement") is dated as of October19, 2000 and entered into by and between SNAKE RIVER SUGAR COMPANY, an Oregon cooperative ("Grantor"), and VALHI, INC., a Delaware Corporation ("Secured Party") and is acknowledged by FIRST SECURITY BANK, NATIONAL ASSOCIATION, as Collateral Agent for the holders of the Senior Notes referred to below ("FSB"), and the holders of said Senior Notes.

PRELIMINARY STATEMENTS

A. Pursuant to those certain Note Purchase Agreements (said Note Purchase Agreements as they may hereafter be amended, the "Note Purchase Agreements"), each dated May 14, 1997 and amended as of November 30, 1998, between Grantor and the purchasers referred to therein, Grantor has issued $100,000,000 aggregate principal amount of its 10.80% Senior Notes due April 30, 2009 (said Senior Notes, as they may hereafter be amended, supplemented or otherwise modified from time to time, being the "Senior Notes," and together with the debt associated therewith, the "Senior Debt").

B. Pursuant to the Collateral Agency and Paying Agency Agreement, dated as of May 14, 1997, among the holders of the Senior Notes and FSB (the "Agency Agreement"), the holders of the Senior Notes have appointed FSB to act as Collateral Agent for the holders of the Senior Notes.

C. In connection with the Note Purchase Agreements, Grantor and FSB have entered into a Security Agreement dated as of May 14, 1997 (the "Security Agreement") and a related Pledge Agreement dated May 14, 1997 (the "SR Pledge Agreement") whereby Grantor has pledged the Collateral (as defined below) to FSB, as Collateral Agent, for the holders of the Senior Notes.

D. Grantor and Secured Party are parties to a Subordinated Loan Agreement dated January 3, 1997, as amended and restated May 14, 1997 and amended as of November 30, 1998, (said Subordinated Loan Agreement, as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Subordinated Loan Agreement").

E. Grantor desires that certain further amendments be made to the Subordinated Loan Agreement.

F. It is a condition precedent to the amendment of even date herewith to the Subordinated Loan Agreement (the "Third Amendment") that Grantor shall have undertaken the obligations and granted the contingent, subordinate security interest contemplated by this Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Secured Party to enter into the Third Amendment and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Grantor hereby agrees with Secured Party as follows:

SECTION 1. Certain Definitions. Terms defined in the Subordinated Loan Agreement and not otherwise defined herein are used herein as therein defined.

SECTION 2. Grant of Contingent Subordinate Security Interest. Immediately upon the occurrence of the earliest to occur of the following (the "Grant Effectiveness Condition"): (i) the full payment of the Secured Obligations, as defined in the Security Agreement (the "Senior Secured Obligations"), (ii) the date upon which Secured Party purchases all of the Senior Notes upon an exercise of its rights under all of those certain Option Agreements between Secured Party, Grantor and the holders of the Senior Notes, and (iii) the date at which the outstanding balance of the Senior Secured Obligations is less than the amount of cash or cash equivalents contained in the Distributable Cash Collateral Account, as such term is defined in the Note Purchase Agreements, and such cash or cash equivalents have been irrevocably and indefeasibly dedicated by Grantor to, and are available solely for (as evidenced by a written certificate from Grantor to the holders of the Senior Notes, acknowledged by Secured Party) payment of the Senior Secured Obligations at the sole and absolute discretion of the holders of the Senior Notes, Grantor will assign to Secured Party, and hereby grants to Secured Party a contingent subordinate security interest in, all of Grantor's right, title and interest in and to the

following (which assignment shall be effective only upon the occurrence of a Grant Effectiveness Condition), in each case whether now or hereafter existing or in which Grantor now has or hereafter acquires an interest and wherever the same may be located (the "Collateral"):

(a) all equipment in all of its forms, all parts thereof and all accessions thereto (any and all such equipment, parts and accessions being the "Equipment");

(b) all inventory in all of its forms (including, but not limited to, (i) all goods held by Grantor for sale or lease or to be furnished under contracts of service or so leased or furnished, (ii) all raw materials, work in process, finished goods, and materials used or consumed in the manufacture, packing, shipping, advertising, selling, leasing, furnishing or production of such inventory or otherwise used or consumed in Grantor's business, (iii) all goods in which Grantor has an interest in mass or a joint or other interest or right of any kind and (iv) all goods which are returned to or repossessed by Grantor) and all accessions thereto and products thereof (all such inventory, accessions and products being the "Inventory") and all negotiable documents of title (including without limitation warehouse receipts, dock receipts and bills of lading) issued by any Person covering any Inventory;

(c) all accounts, contract rights, chattel paper, documents, instruments, general intangibles and other rights and obligations of any kind arising out of or in connection with the sale or lease of goods or the rendering of services and all rights in, to and under all security agreements, leases and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, documents, instruments, general intangibles or other obligations, excluding, however, accounts receivable from The Amalgamated Sugar Company LLC ("LLC") arising from the sale of sugarbeets from Grantor to LLC (any and all such accounts, contract rights, chattel paper, documents, instruments, general intangibles and other obligations being the "Accounts", and any and all such security agreements, leases and other contracts being the "Related Contracts");

(d) all agreements and contracts with growers of sugarbeets or with other Persons relating to the purchase by Grantor of sugarbeets, as each such agreement may be amended, supplemented or otherwise modified from time to time (said agreements, as so amended, supplemented or otherwise modified, being referred to herein individually as an "Assigned Agreement" and collectively as the "Assigned Agreements"), including without limitation (i) all rights of Grantor to receive farm products (including sugarbeets) and moneys due or to become due under or pursuant to the Assigned Agreements, (ii) all rights of Grantor to receive proceeds of any insurance, indemnity, warranty or guaranty with respect to the Assigned Agreements, (iii) all claims of Grantor for damages arising out of any breach of or default under the Assigned Agreements, and (iv) all rights of Grantor to terminate, amend, supplement, modify or exercise rights or options under the Assigned Agreements, to perform thereunder and to compel performance and otherwise exercise all remedies thereunder;

(e) all deposit accounts;

(f) all trademarks, tradenames, tradesecrets, business names, patents, patent applications, licenses, copyrights, registrations and franchise rights, and all goodwill associated with any of the foregoing;

(g) to the extent not included in any other paragraph of this Section 2, all other general intangibles (including without limitation tax refunds, rights to payment or performance, choses in action and judgments taken on any rights or claims included in the Collateral);

(h) all plant fixtures, business fixtures and other fixtures and storage and office facilities, and all accessions thereto and products thereof;

(i) all books, records, ledger cards, files, correspondence, computer programs, tapes, disks and related data processing software that at any time evidence or contain information relating to any of the Collateral or are otherwise necessary or helpful in the collection thereof or realization thereupon; and

(j) all proceeds, products, rents and profits of or from any and all of the foregoing Collateral and, to the extent not otherwise included, all payments under insurance (whether or not the Secured Party is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral. For purposes of this Agreement, the term "proceeds" includes whatever is receivable or received when

Collateral or proceeds are sold, exchanged, collected or otherwise disposed of, whether such disposition is voluntary or involuntary.

SECTION 3. Security for Obligations. Following occurrence of the Grant Effectiveness Condition, this Agreement shall secure, and the Collateral will be collateral security for, the prompt payment or performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. ss.362(a)), of all obligations and liabilities of every nature of Grantor now or hereafter existing under or arising out of or in connection with the Subordinated Loan Agreement and the other Loan Documents, and all extensions or renewals thereof, whether for principal, interest (including without limitation interest that, but for the filing of a petition in bankruptcy with respect to Grantor, would accrue on such obligations), fees, expenses, indemnities or otherwise, whether voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later increased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from Secured Party as a preference, fraudulent transfer or otherwise (all such obligations and liabilities being the "Underlying Debt"), and all obligations of every nature of Grantor now or hereafter existing under this Agreement (all such obligations of Grantor, together with the Underlying Debt, being the "Secured Obligations").

SECTION 4. Grantor Remains Liable. Anything contained herein to the contrary notwithstanding, (a) Grantor shall remain liable under any contracts and agreements included in the Collateral, to the extent set forth therein, to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by Secured Party of any of its rights hereunder shall not release Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral, and (c) Secured Party shall not have any obligation or liability under any contracts and agreements included in the Collateral by reason of this Agreement, nor shall Secured Party be obligated to perform any of the obligations or duties of Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 5. Representations and Warranties. Grantor represents and warrants as follows: ----------

(a) Ownership of Collateral. Except for (i) the security interests created by the Security Agreement and the contingent, subordinate security interest pursuant to this Agreement and (ii) Liens created, incurred, assumed or permitted to exist pursuant to the Note Purchase Agreements, the Subordinated Loan Agreement or documents related thereto, Grantor owns the Collateral free and clear of any Lien. Except such as may have been filed in favor of FSB relating to the Security Agreement or Secured Party relating to this Agreement or such as shall be released in connection with the execution of this Agreement, no effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any filing or recording office.

(b) Location of Equipment and Inventory. All of the Equipment and Inventory is, as of the date hereof, located at Grantor's chief place of business.

(c) Office Locations: Other Names. The chief place of business, the chief executive office and the office where Grantor keeps its records regarding the Accounts and all originals of all chattel paper that evidence Accounts is located at 2427 Lincoln Avenue, Ogden, Utah 84402. Grantor has not in the past done, and does not now do, business under any other name (including any trade-name or fictitious business name).

(d) Delivery of Certain Collateral. All notes and other instruments (excluding checks) comprising any and all items of Collateral have been delivered to FSB duly endorsed and accompanied by duly executed instruments of transfer or assignment in blank.

(e) Governmental Authorizations. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for either (i) the grant by Grantor of the contingent, subordinate security interest granted hereby, (ii) the execution, delivery or performance of this Agreement by Grantor, or (iii) the perfection of or the exercise by Secured Party of its rights and remedies hereunder (except as may have been taken by or at the direction of Grantor).

(f) Perfection. Following occurrence of the Grant Effectiveness Condition, this Agreement, together with the filing of UCC-1 Financing Statements with the Secretary of State (or Department of Business Regulation, if applicable) of the states of Utah, Idaho, Oregon and Washington, will create a valid, perfected subordinate security interest in the Collateral, securing the payment of the Secured Obligations, and all filings and other actions necessary or desirable to perfect and protect such subordinate security interest will have been duly made or taken.

(g) Other Information. All information heretofore, herein or hereafter supplied to Secured Party by or on behalf of Grantor with respect to the Collateral is accurate and complete in all material respects.

SECTION 6. Further Assurances.

(a) Grantor agrees that from time to time, including without limitation following occurrence of the Grant Effectiveness Condition, at the expense of Grantor, Grantor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that Secured Party may request, in order to perfect and protect any contingent or present security interest granted or purported to be granted hereby or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, following occurrence of the Grant Effectiveness Condition, Grantor will: (i) mark conspicuously each item of chattel paper included in the Accounts and, at the request of Secured Party, each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to Secured Party, indicating that such Collateral is subject to the subordinate security interest granted hereby, (ii) at the request of Secured Party, deliver and pledge to Secured Party hereunder all promissory notes and other instruments (including checks) and all original counterparts of chattel paper constituting Collateral, duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Secured Party, (iii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as Secured Party may request, in order to perfect and preserve the security interests granted or purported to be granted hereby, (iv) promptly after the acquisition by Grantor of any item of Equipment which is covered by a certificate of title under a statute of any jurisdiction under the law of which indication of a security interest on such certificate is required as a condition of perfection thereof, execute and file with the registrar of motor vehicles or other appropriate authority in such jurisdiction an application or other document requesting the notation or other indication of the security interest created hereunder on such certificate of title, (v) within 30 days after the end of each calendar quarter, deliver to Secured Party or its agent copies of all such applications or other documents filed during such calendar quarter and copies of all such certificates of title issued during such calendar quarter indicating the security interest created hereunder in the items of Equipment covered thereby, (vi) at any reasonable time, upon request by Secured Party, exhibit the Collateral to and allow inspection of the Collateral by Secured Party, or persons designated by Secured Party, and (vii) at Secured Party's request, appear in and defend any action or proceeding that may affect Grantor's title to or Secured Party's security interest in all or any part of the Collateral.

(b) Grantor hereby authorizes Secured Party, following occurrence of the Grant Effectiveness Condition, to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of Grantor. Grantor agrees that, following occurrence of the Grant Effectiveness Condition, a carbon, photographic or other reproduction of this Agreement or of a financing statement signed by Grantor shall be sufficient as a financing statement and may be filed as a financing statement in any and all jurisdictions.

(c) Grantor will furnish to Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may reasonably request, all in reasonable detail.

SECTION 7. Certain Covenants of Grantor. Following occurrence of the Grant Effectiveness Condition, Grantor shall:

(a) not use or permit any Collateral to be used unlawfully or in violation of any provision of this Agreement or any applicable statute, regulation or

ordinance or any policy of insurance covering the Collateral;

(b) notify Secured Party of any change in Grantor's name, identity or corporate structure within 15 days of such change;

(c) give Secured Party 30 days' prior written notice of any change in Grantor's chief place of business, chief executive office or residence or the office where Grantor keeps its records regarding the Accounts and all originals of all chattel paper that evidence Accounts;

(d) if Secured Party gives value to enable Grantor to acquire rights in or the use of any Collateral, use such value for such purposes; and

(e) pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims (including claims for labor, materials and supplies) against, the Collateral, except to the extent the validity thereof is being contested in good faith; provided that Grantor shall in any event pay such taxes, assessments, charges, levies or claims not later than five days prior to the date of any proposed sale under any judgement, writ or warrant of attachment entered or filed against Grantor or any of the Collateral as a result of the failure to make such payment.

SECTION 8. Special Covenants With Respect to Equipment and Inventory. Following occurrence of the Grant Effectiveness Condition, Grantor shall:

(a) keep the Equipment and Inventory at 2427 Lincoln Avenue, Ogden, Utah 84402 or, upon 30 days' prior written notice to Secured Party, at such other places in jurisdictions where all action that may be necessary or desirable, or that Secured Party may request, in order to perfect and protect any contingent or present security interest granted or purported to be granted hereby, or to enable Secured Party to exercise and enforce its rights and remedies hereunder, with respect to such Equipment and Inventory shall have been taken; and

(b) cause any and all Equipment to be maintained and kept in good condition, repair and working order, ordinary wear and tear excepted, and in accordance with reasonable commercial practices, and shall forthwith, or, in the case of any loss or damage to any of the Equipment when subsection (c) of Section 9 is not applicable, as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements and other improvements in connection therewith that are necessary or desirable to such end. Grantor shall promptly furnish to Secured Party a statement respecting any material loss or damage to any of the Equipment.

SECTION 9. Insurance.

(a) Following occurrence of the Grant Effectiveness Condition, and following the date upon which the book value of any of Grantor's Equipment and/or Inventory exceeds $250,000, Grantor shall, at its own expense, maintain insurance with respect to the Equipment and Inventory in accordance with the terms of the Subordinated Loan Agreement. Such insurance shall include, without limitation, property damage insurance and liability insurance. Each policy for property damage insurance shall provide for all losses (except for losses of less than $ 250,000 per occurrence) to be paid directly to Secured Party. Each policy shall in addition name Grantor and Secured Party as insured parties thereunder (without any representation or warranty by or obligation upon Secured Party) as their interests may appear and have attached thereto a loss payable clause acceptable to Secured Party that shall (i) contain an agreement by the insurer that any loss thereunder shall be payable to Secured Party notwithstanding any action, inaction or breach of representation or warranty by Grantor, (ii) provide that there shall be no recourse against Secured Party for payment of premiums or other amounts with respect thereto, and (iii) provide that at least 30 days' prior written notice of cancellation, material amendment, reduction in scope or limits of coverage or of lapse shall be given to Secured Party by the insurer. Grantor shall, if so requested by Secured Party, deliver to Secured Party original or duplicate policies of such insurance and, as often as Secured Party may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further, Grantor shall, at the request of Secured Party, duly execute and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 6(a) and cause the respective insurers to acknowledge notice of such assignment.

(b) Following occurrence of the Grant Effectiveness Condition, reimbursement under any liability insurance maintained by Grantor pursuant to this Section 9 may be paid directly to the Person who shall have incurred liability covered by such insurance. In case of any loss involving damage to Equipment or Inventory

when subsection (c) of this Section 9 is not applicable, Grantor shall make or cause to be made the necessary repairs to or replacements of such Equipment or Inventory, and any proceeds of insurance maintained by Grantor pursuant to this Section 9 shall be paid to Grantor as reimbursement for the costs of such repairs or replacements.

(c) Following occurrence of the Grant Effectiveness Condition, upon (i) the occurrence and during the continuation of any Event of Default or (ii) the actual or constructive loss (in excess of $250,000 per occurrence) of any Equipment or Inventory, all insurance payments in respect of such Equipment or Inventory shall be paid to and applied by Secured Party as specified in Section 19.

SECTION 10. Special Covenants with Respect to Accounts and Related Contracts.

(a) Following occurrence of the Grant Effectiveness Condition, Grantor shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Accounts and Related Contracts, and all originals of all chattel paper that evidence Accounts, at the location therefor specified in Section 5 or, upon 30 days' prior written notice to Secured Party, at such other location in a jurisdiction where all action that may be necessary or desirable, or that Secured Party may request, in order to perfect and protect any security interest granted or purported to be granted hereby, or to enable Secured Party to exercise and enforce its rights and remedies hereunder, with respect to such Accounts and Related Contracts shall have been taken. Grantor will hold and preserve such records and chattel paper and will permit representatives of Secured Party at any time during normal business hours to inspect and make abstracts from such records and chattel paper, and Grantor agrees to render to Secured Party, at Grantor's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto. Promptly upon the request of Secured Party, Grantor shall deliver to Secured Party complete and correct copies of each Related Contract.

(b) Following occurrence of the Grant Effectiveness Condition, Grantor shall, for not less than 5 years from the date on which such Account arose, maintain (i) complete records of each Account, including records of all payments received, credits granted and merchandise returned, and (ii) all documentation relating thereto.

(c) Following occurrence of the Grant Effectiveness Condition, except as otherwise provided in this subsection (c), Grantor shall continue to collect, at its own expense, all amounts due or to become due to Grantor under the Accounts and Related Contracts. In connection with such collections, Grantor may take (and, at Secured Party's direction, shall take) such action as Grantor or Secured Party may deem necessary or advisable to enforce collection of amounts due or to become due under the Accounts; provided, however, that Secured Party shall have the right at any time, upon the occurrence and during the continuation of an Event of Default or an event that, with the giving of notice or the lapse of time, or both, would become an Event of Default and upon written notice to Grantor of its intention to do so, to notify the account debtors or obligors under any Accounts of the assignment of such Accounts to Secured Party and to direct such account debtors or obligors to make payment of all amounts due or to become due to Grantor thereunder directly to Secured Party, to notify each Person maintaining a lockbox or similar arrangement to which account debtors or obligors under any Accounts have been directed to make payment to remit all amounts representing collections on checks and other payment items from time to time sent to or deposited in such lockbox or other arrangement directly to Secured Party and, upon such notification and at the expense of Grantor, to enforce collection of any such Accounts and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Grantor might have done. After receipt by Grantor of the notice from Secured Party referred to in the proviso to the preceding sentence, (i) all amounts and proceeds (including checks and other instruments) received by Grantor in respect of the Accounts and the Related Contracts shall be received in trust for the benefit of Secured Party hereunder, shall be segregated from other funds of Grantor and shall be forthwith paid over or delivered to Secured Party in the same form as so received (with any necessary endorsement) to be held as cash Collateral and applied as provided by Section 19, and (ii) Grantor shall not adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any account debtor or obligor thereof, or allow any credit or discount thereon.

SECTION 11. Special Provisions With Respect to the Assigned Agreements.

(a) Following occurrence of the Grant Effectiveness Condition, Grantor shall at

its expense:

(i) perform and observe all terms and provisions of the Assigned Agreements to be performed or observed by it, maintain the Assigned Agreements in full force and effect, enforce the Assigned Agreements in accordance with their terms, and take all such action to such end as may be from time to time reasonably requested by Secured Party; and

(ii) furnish to Secured Party, promptly upon receipt thereof, copies of all notices, requests and other documents received by Grantor under or pursuant to the Assigned Agreements, and from time to time furnish to Secured Party such information and reports regarding the Assigned Agreements as Secured Party may reasonably request.

(b) Following occurrence of the Grant Effectiveness Condition, Grantor shall not:

(i) cancel or terminate any of the Assigned Agreements or consent to or accept any cancellation or termination thereof;

(ii) amend or otherwise modify the Assigned Agreements or give any consent, waiver or approval thereunder;

(iii) waive any default under or breach of the Assigned Agreements; or

(iv) take any other action in connection with the Assigned Agreements that would impair the value of the interest or rights of Grantor thereunder or that would impair the interest or rights of Secured Party except as permitted or required under the Security Agreement;

(v) if the effect of any of the foregoing could reasonably be expected to have a Material Adverse Effect.

SECTION 12. Deposit Accounts. Following occurrence of the Grant Effectiveness Condition, upon the occurrence and during the continuation of an Event of Default, Secured Party may exercise dominion and control over, and refuse to permit further withdrawals (whether of money, securities, instruments or other property) from any deposit accounts maintained with Secured Party constituting part of the Collateral.

SECTION 13. License of Patents, Trademarks. Copyrights. etc. Grantor hereby assigns, transfers and conveys to Secured Party, effective following occurrence of the Grant Effectiveness Condition and the occurrence of the first Event of Default thereafter, the nonexclusive right and license to use all trademarks, tradenames, copyrights, patents or technical processes owned or used by Grantor that relate to the Collateral and any other collateral granted by Grantor as security for the Secured Obligations, together with any goodwill associated therewith, all to the extent necessary to enable Secured Party to use, possess and realize on the Collateral and to enable any successor or assign to enjoy the benefits of the Collateral. This right and license shall inure to the benefit of all successors, assigns and transferees of Secured Party and its successors, assigns and transferees, whether by voluntary conveyance, operation of law, assignment, transfer, foreclosure, deed in lieu of foreclosure or otherwise. Such right and license is granted free of charge, without requirement that any monetary payment whatsoever be made to Grantor.

SECTION 14. Transfers and Other Liens. Following occurrence of the Grant Effectiveness Condition, Grantor shall not:

(a) except as permitted pursuant to the Note Purchase Agreements and the Subordinated Loan Agreement, sell, assign (by operation of law or otherwise) or otherwise dispose of any of the Collateral; or

(b) except for (i) the security interests created by the Security Agreement and the contingent, subordinate security interest pursuant to this Agreement and (ii) Liens created, incurred, assumed or permitted to exist pursuant to the Note Purchase Agreements and the Subordinated Loan Agreement, create or suffer to exist any Lien upon or with respect to any of the Collateral to secure the indebtedness or other obligations of any Person.

SECTION 15. Secured Party Appointed Attorney-in-Fact. Effective upon occurrence of the Grant Effectiveness Condition, Grantor hereby irrevocably appoints Secured Party as Grantor's attorney-in-fact, with full authority in the place and stead of Grantor and in the name of Grantor, Secured Party or otherwise, upon the occurrence of an Event of Default and in Secured Party's discretion, to

take any action and to execute any instrument that Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including without limitation:

(a) to obtain and adjust insurance required to be maintained by Grantor or paid to Secured Party pursuant to Section 9;

(b) to ask for, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;

(c) to receive, endorse and collect any drafts or other instruments, documents and chattel paper in connection with clauses (a) and (b) above;

(d) to file any claims or take any action or institute any proceedings that Secured Party may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Secured Party with respect to any of the Collateral;

(e) to pay or discharge taxes or Liens (other than Liens permitted under this Agreement or the Subordinated Loan Agreement) levied or placed upon or threatened against the Collateral, the legality or validity thereof and the amounts necessary to discharge the same to be determined by Secured Party in its sole discretion, any such payments made by Secured Party to become obligations of Grantor to Secured Party, due and payable immediately without demand;

(f) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with Accounts and other documents relating to the Collateral;

(g) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though Secured Party were the absolute owner thereof for all purposes, and to do, at Secured Party's option and Grantor's expense, at any time or from time to time, all acts and things that Secured Party deems necessary to protect, preserve or realize upon the Collateral and Secured Party's security interest therein in order to effect the intent of this Agreement, all as fully and effectively as Grantor might do; and

(h) to execute on behalf of Grantor a security agreement that is neither subordinated or contingent but is otherwise similar to this Agreement in all material respects..

SECTION 16. Secured Party May Perform. Following occurrence of the Grant Effectiveness Condition, Grantor fails to perform any agreement contained herein, Secured Party may itself perform, or cause performance of, such agreement, and the expenses of Secured Party incurred in connection therewith shall be payable by Grantor under Section 20.

SECTION 17. Standard of Care. The powers conferred on Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the exercise of reasonable care in the custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, Secured Party shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of Collateral in its possession if such Collateral is accorded treatment substantially equal to that which Secured Party accords its own property.

SECTION 18. Remedies. Following occurrence of the Grant Effectiveness Condition, if any Event of Default shall have occurred and be continuing, Secured Party may exercise in respect of the Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code as in effect in any relevant jurisdiction (the "Code") (whether or not the Code applies to the affected Collateral), and also may (a) require Grantor to, and Grantor hereby agrees that it will at its expense and upon request of Secured Party forthwith, assemble all or part of the Collateral as directed by Secured Party and make it available to Secured Party at a place to be designated by Secured Party that is reasonably convenient to both parties, (b) enter onto the property where any Collateral is located and take possession thereof with or without judicial process, (c) prior to the disposition of the Collateral, store,

process, repair or recondition the Collateral or otherwise prepare the Collateral for disposition in any manner to the extent Secured Party deems appropriate, (d) take possession of Grantor's premises or place custodians in exclusive control thereof, remain on such premises and use the same and any of Grantor's equipment for the purpose of completing any work in process, taking any actions described in the preceding clause (c) and collecting any Secured Obligation, and (e) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of Secured Party's offices or elsewhere, for cash, on credit or for future delivery, at such time or times and at such price or prices and upon such other terms as Secured Party may deem commercially reasonable. Secured Party may be the purchaser of any or all of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public sale, to use and apply any of the Secured Obligations as a credit on account of the purchase price for any Collateral payable by Secured Party at such sale. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of Grantor, and Grantor hereby waives (to the extent permitted by applicable law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Grantor hereby waives any claims against Secured Party arising by reason of the fact that the price at which any Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if Secured Party accepts the first offer received and does not offer such Collateral to more than one offeree. If the proceeds of any sale or other disposition of the Collateral are insufficient to pay all the Secured Obligations, Grantor shall be liable for the deficiency and the fees of any attorneys employed by Secured Party to collect such deficiency.

SECTION 19. Application of Proceeds. Except as expressly provided elsewhere in this Agreement, all proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of Secured Party, be held by Secured Party as Collateral for, and/or then, or at any other time thereafter, applied in full or in part by Secured Party against, the Secured Obligations in the following order of priority:

FIRST: To the payment of all costs and expenses of such sale, collection or other realization, including reasonable compensation to Secured Party and its agents and counsel, and all other expenses, liabilities and advances made or incurred by Secured Party in connection therewith, and all amounts for which Secured Party is entitled to indemnification hereunder and all advances made by Secured Party hereunder for the account of Grantor, and to the payment of all costs and expenses paid or incurred by Secured Party in connection with the exercise of any right or remedy hereunder, all in accordance with Section 20;

SECOND: To the payment of all other Secured Obligations in such order as Secured Party shall elect; and

THIRD: To the payment to or upon the order of Grantor, or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

SECTION 20. Indemnity and Expenses.

(a) Grantor agrees to indemnify Secured Party from and against any and all claims, losses and liabilities in any way relating to, growing out of or resulting from this Agreement and the transactions contemplated hereby (including, without limitation, enforcement of this Agreement), except to the extent such claims, losses or liabilities result solely from Secured Party's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

(b) Grantor shall pay to Secured Party upon demand the amount of any and all

costs and expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, that Secured Party may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of Secured Party hereunder, or (iv) the failure by Grantor to perform or observe any of the provisions hereof.

SECTION 21. Continuing Security Interest; Transfer of Subordinated Loan. Following occurrence of the Grant Effectiveness Condition, this Agreement shall create a continuing subordinate security interest in the Collateral and shall (a) remain in full force and effect until the payment in full in cash of the Secured Obligations, (b) be binding upon Grantor, its successors and assigns, and (c) inure, together with the rights and remedies of Secured Party hereunder, to the benefit of Secured Party and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), the Secured Party may assign or otherwise transfer the Subordinated Loan to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted herein or otherwise. Upon the payment in full in cash of all Secured Obligations, the security interest granted hereby shall terminate, and all rights to the Collateral shall revert to Grantor. Upon any such termination Secured Party will, at Grantor's expense, execute and deliver to Grantor such documents as Grantor shall reasonably request to evidence such termination.

SECTION 22. Amendments; Etc. No amendment, modification, termination or waiver of any provision of this Agreement, and no consent to any departure by Grantor therefrom, shall in any event be effective unless the same shall be in writing and signed by Secured Party and, in the case of any such amendment or modification, by Grantor. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

SECTION 23. Notices. Any notice or other communication herein required or permitted to be given shall be in writing and may be personally served or sent by telefacsimile, United States mail or courier service and shall be deemed to have been given when delivered in person or by courier service, upon receipt of telefacsimile or three Business Days after depositing it in the United States mail with postage prepaid and properly addressed. For the purposes hereof, the address of each party hereto shall be as set forth under such party's name on the signature pages hereof or, as to either party, such other address as shall be designated by such party in a written notice delivered to the other party hereto.

SECTION 24. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of Secured Party in the exercise of any power, right or privilege hereunder shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude any other or further exercise thereof or of any other power, right or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 25. Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 26. Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

SECTION 27. Governing Law; Terms. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF UTAH (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, EXCEPT TO THE EXTENT THAT THE CODE PROVIDES THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF UTAH.

SECTION 28. Consent to Jurisdiction and Service Of Process. ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST GRANTOR ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF TEXAS AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT GRANTOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY,

THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT. Grantor hereby agrees that service of all process in any such proceeding in any such court may be made by registered or certified mail, return receipt requested, to Grantor at its address provided in Section 23, such service being hereby acknowledged by Grantor to be sufficient for personal jurisdiction in any action against Grantor in any such court and to be otherwise effective and binding service in every respect. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of Secured Party to bring proceedings against Grantor in the courts of any other jurisdiction.

SECTION 29. Waiver of Jury Trial. GRANTOR AND SECURED PARTY HEREBY AGREE TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Grantor and Secured Party each acknowledge that this waiver is a material inducement for Grantor and Secured Party to enter into a business relationship, that Grantor and Secured Party have already relied on this waiver in entering into this Agreement and that each will continue to rely on this waiver in their related future dealings. Grantor and Secured Party further warrant and represent that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

SECTION 30. Full Subordination. Notwithstanding anything herein to the contrary, (i) all rights granted to Secured Party pursuant to this Agreement are subject and subordinated to all rights granted in favor of FSB under the Security Agreement and the related documents and (ii) prior to the occurrence of the Grant Effectiveness Condition (or, in the case of the Grant Effectiveness Condition contained in clause (iii) of Section 2 hereof, prior to the satisfaction of the requirement set forth in Section 31 below), Secured Party shall not exercise any remedies or initiate or pursue any proceedings of any nature whatsoever against the Collateral or Grantor.

SECTION 31. Dedication of Distributable Cash Collateral Account. Notwithstanding anything to the contrary herein, at the first date upon which the outstanding balance of the Senior Secured Obligations is less than the amount of cash or cash equivalents contained in the Distributable Cash Collateral Account, Grantor hereby agrees to immediately dedicate that portion, and only that portion, of the Distributable Cash Collateral Account, irrevocably and indefeasibly, necessary for the full payment of the Senior Secured Obligations in such form as reasonably required by the holders of the Senior Notes so that such Distributable Cash Collateral Account will be available solely for payment of the Senior Secured Obligations at the sole and absolute discretion of the holders of the Senior Notes. Secured Party hereby agrees and acknowledges that upon the dedication of the Distributable Cash Collateral Account as provided herein, such Distributable Cash Collateral Account will not constitute Collateral pursuant to this Agreement.

SECTION 32. Third Party Beneficiaries. The holders from time to time of the Senior Notes shall be third party beneficiaries of this Agreement, and no amendment, consent, waiver or other modification of the terms hereof may be entered into, issued or granted without the prior written consent of such holders.

SECTION 33. Counterparts. This Agreement may be executed in one or more counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

IN WITNESS WHEREOF, Grantor and Secured Party have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

[The remainder of this page intentionally left blank]

SNAKE RIVER SUGAR COMPANY

By: /s/ Lawrence L. Corry

Name:

Title:

Notice Address:

SNAKE RIVER SUGAR COMPANY
2427 Lincoln Avenue
P.O. Box 1520
Ogden, Utah 84402

VALHI, INC.

By: /s/ Steven L. Watson

Name:

Its:

Notice Address:

VALHI, INC.
Three Lincoln Centre
5480 LBJ Freeway, Suite 1700
Dallas, Texas 75240-26(7
Attention: General Counsel

ACKNOWLEDGED

FIRST SECURITY BANK, NATIONAL ASSOCIATION,
as Collateral Agent

By: /s/ C. Scott Nielsen

Name:

Title:

Notice Address:

FIRST SECURITY BANK, NATIONAL ASSOCIATION

79 South Main Street
Corporate Trust Department
Salt Lake City, Utah 84111

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Joseph Alouf

Its:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: CIGNA INVESTMENTS, INC.

By: /s/ Stephen H. Wilson

Its:

LIFE INSURANCE COMPANY OF NORTH AMERICA

By: CIGNA INVESTMENTS, INC.

By: /s/ Stephen H. Wilson

Its:

MINNESOTA LIFE INSURANCE COMPANY

By: Advantus Capital Management, Inc.

By: /s/ Annette Masterson

Its:

THE LINCOLN NATIONAL LIFE
INSURANCE COMPANY

By: LINCOLN INVESTMENT
MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

LINCOLN LIFE & ANNUITY
COMPANY OF NEW YORK

By: LINCOLN INVESTMENT
MANAGEMENT, INC.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Its:

EXECUTION COPY

CONTINGENT SUBORDINATE COLLATERAL AGENCY AND PAYING AGENCY AGREEMENT

This CONTINGENT SUBORDINATE COLLATERAL AGENCY AND PAYING AGENCY AGREEMENT (this "Agreement") is made and dated as of October 19, 2000 by and among the Valhi, Inc., a Delaware corporation, ("Secured Party"), SNAKE RIVER SUGAR COMPANY, an Oregon cooperative (the "Company"), and FIRST SECURITY BANK, NATIONAL ASSOCIATION ("FSB"), as collateral agent for and representative of the Secured Party with respect to the Pledged Collateral (as hereinafter defined) (in such capacity, the "Collateral Agent") and as paying agent for the Company (in such capacity, the "Paying Agent"). The Collateral Agent and the Paying Agent are sometimes referred to herein as the "Agent".

PRELIMINARY STATEMENTS

A. Pursuant to those certain Note Purchase Agreements (said Note Purchase Agreements, as they may hereafter be amended (the "Note Purchase Agreements"), each dated May 14, 1997, and as amended as of November 30, 1998, between Grantor and the purchasers referred to therein, Grantor has issued $100,000,000 aggregate principal amount of its 10.80% Senior Notes due April 30, 2009 (said Senior Notes, as they may hereafter be amended, supplemented or otherwise modified from time to time, being the "Senior Notes," together with the debt associated therewith, the "Senior Debt").

C. In connection with the Note Purchase Agreements, the Company and FSB have entered into a Collateral Agency and Paying Agency Agreement dated as of May 14, 1997 (the "Agency Agreement"), a related Security Agreement dated May 14, 1997 (the "Security Agreement") and a related Pledge Agreement (the "SR Pledge Agreement").

D. The Company and Secured Party are parties to a Subordinated Loan Agreement dated January 3, 1997, as amended and restated May 14, 1997, and as amended as of November 30, 1998, (said Subordinated Loan Agreement, as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Subordinated Loan Agreement").

E. The Company desires that certain amendments be made to the Subordinated Loan Agreement.

F. It is a condition precedent to the amendment of even date herewith to the Subordinated Loan Agreement (the "Third Amendment") that the parties hereto shall have undertaken the obligations contemplated by this Agreement.

G. Pursuant to a Contingent Subordinate Pledge Agreement and a Contingent Subordinate Security Agreement both of even date herewith, the Company has assigned, contingent upon the occurrence of the earliest to occur of the following (the "Grant Effectiveness Condition"): (i) the full payment of the Secured Obligations, as defined in the Security Agreement (the "Senior Secured Obligations"), (ii) the date upon which Secured Party purchases all of the Senior Notes upon an exercise of its rights under all of those certain Option Agreements between Secured Party, the Company and the holders of the Senior Notes, and (iii) the date at which the outstanding balance of the Senior Secured Obligations is less than the amount of cash or cash equivalents contained in the Distributable Cash Collateral Account (as such term is defined in the Note Purchase Agreements), and such cash or cash equivalents have been irrevocably and indefeasibly dedicated by the Company to, and are available solely for (as evidenced by a written certificate from the Company to the holders of the Senior Notes, acknowledged by Secured Party) payment of the Senior Secured Obligations at the sole and absolute discretion of the holders of the Senior Notes, certain rights to Secured Party or its agent, including rights the Company may have pursuant to certain documents referred to in the Contingent Subordinate Pledge Agreement, including (as each of the following documents is defined in the Note Purchase Agreements): (i) the SPT Guaranty; (ii) the SPT Pledge Agreement, together with all Pledged Collateral defined therein; (iii) the Indemnification Pledge Agreement, together with all Collateral defined therein; and (iv) the Valhi Entity Pledge Agreement, to the Collateral Agent (the SPT Guaranty, the SPT Pledge Agreement, the Indemnification Pledge Agreement and the Valhi Entity Pledge Agreement being referred to herein collectively as the "Pledge Documents," and the "Pledged Collateral" and "Collateral" referred to in the Pledge Documents being referred to herein collectively as the "Collateral");

NOW, THEREFORE, in consideration of the premises and in order to induce Secured Party to enter into the Third Amendment and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company hereby agrees with Secured Party and FSB as follows:

SECTION 1. Definitions. All capitalized terms used herein without definition shall have the meanings assigned to such terms in the Subordinated Loan Agreement. The following terms used in this Agreement shall have the following meanings:

"Affiliate" shall, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Person" shall mean any individual, corporation, company, voluntary association, partnership, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

"Proceeds" shall mean all amounts paid or payable for the benefit of Secured Party or the Collateral Agent pursuant to, or upon the exercise of remedies under, the Contingent Subordinate Pledge Agreement.

"Secured Obligations" means all Obligations secured by the Pledge Documents.

SECTION 2. Appointment and Duties of Collateral Agent.

a. Appointment of Collateral Agent. Secured Party, by its execution of this Agreement or its acceptance of the benefits of this Agreement, the Contingent Subordinate Security Agreement and the Contingent Subordinate Pledge Agreement hereby appoints FSB as the collateral agent as its agent and attorney-in-fact, effective immediately upon occurrence of the Grant Effectiveness Condition, to do the following:

(i) to enter into on behalf of, and act as agent for, Secured Party under the Pledge Documents;

(ii) to timely prepare and provide to Secured Party and, as applicable, the Company, the notices, certificates and other documents called for in the Pledge Documents;

(iii) to take all action expressly required under the Pledge Documents or in written instructions from Secured Party to perfect, and maintain the respective perfection of, the Secured Parties' security interests in the Pledged Collateral covered by the Pledge Documents;

(iv) to hold each item of Collateral which is evidenced by a certificate or an instrument in its possession in the State of Utah pursuant to the terms hereof on behalf and for the benefit of the Secured Party;

(v) to sell the Collateral, to collect any proceeds therefrom, and to apply such proceeds in accordance with the terms of this Agreement and the Pledge Documents;

(vi) to receive and/or release Collateral in accordance with the terms of the Pledge Documents; and

(vii) to take such other actions as the Collateral Agent shall be directed to take, either by the terms of the Pledge Documents or by written instructions of the Secured Party, to carry out the foregoing and to perform the duties and obligations set forth in the Pledge Documents and to effect the purposes of this Agreement.

b. Acceptance by Collateral Agent. The Collateral Agent hereby agrees to act as agent for and representative of the Secured Party, effective immediately upon the occurrence of the Grant Effectiveness Condition, pursuant to the terms and

conditions of, and to fully and timely perform its duties under, this Agreement and the Pledge Documents until the satisfaction in full in cash and discharge of the Secured Obligations. By its execution and delivery of this Agreement, the Collateral Agent accepts its appointment as Collateral Agent, effective immediately upon occurrence of the Grant Effectiveness Condition, and agrees to, among other things: (i) take the actions and otherwise exercise the rights and perform the duties described in Section 2.a. above, (ii) notify Secured Party of the occurrence of a Default or Event of Default of which it has knowledge and any material adverse change or development in the perfection of the security interest of the Collateral Agent, for the benefit of the Secured Party, in the Collateral of which it has knowledge; (iii) execute and cause to be filed all financing statements, if any, and other documents (including without limitation, at the direction of the Secured Party, continuation statements and financing statement amendments) necessary or appropriate to perfect and maintain the security interest of the Collateral Agent, for the benefit of the Secured Party, in the Collateral; (iv) release Collateral in accordance with the terms of the Pledge Documents; (v) upon the occurrence of a Default or Event of Default of which it has knowledge, solicit direction from the Secured Party as to any disposition or other action with respect to the Collateral; (vi) effectuate any actions called for by the Secured Party, (vii) conduct any foreclosure or other disposition of the Collateral in a commercially reasonable manner in accordance with the written instructions of the Secured Party; and (viii) distribute the proceeds from any such foreclosure or other disposition in accordance with the Pledge Documents.

c. Collateral to be held in State of Utah. The Collateral Agent shall at all times hold and maintain possession of the Collateral evidenced by instruments or certificates in the State of Utah.

SECTION 3. Appointment and Duties of Paying Agent.

a. Appointment of Paying Agent. The Company and the Secured Party, by their execution of this Agreement or their acceptance of the benefits of this Agreement and the Pledge Documents, hereby appoint FSB as Paying Agent, effective immediately upon the occurrence of the Grant Effectiveness Condition, to do the following:

(i) to receive and hold payments of principal, interest and other amounts in respect of the Subordinated Loan Agreement (the "Subordinated Loan Payments") and apply such Subordinated Loan Payments, as set forth in this Agreement and the Subordinated Loan Agreement;

(ii) to take such other actions as the Paying Agent shall be required to take by the terms of the Subordinated Loan Agreement, to carry out the foregoing and to perform the duties and obligations set forth in the Subordinated Loan Agreement with respect to the payment of the Subordinated Loan Agreement and to effect the purposes of this Agreement.

b. Acceptance by Paying Agent. Effective immediately upon the occurrence of the Grant Effectiveness Condition, the Paying Agent hereby agrees to act as agent for and representative of the Company and Secured Party pursuant to the terms and conditions of, and to fully and timely perform its duties under, this Agreement and the Subordinated Loan Agreement until the satisfaction in full and discharge of the Secured Obligations. By its execution and delivery of this Agreement, the Paying Agent accepts its appointment as Paying Agent and agrees to, among other things, take the actions and otherwise exercise the rights and perform the duties described in this Section 3.

c. Duties of Paying Agent. Effective immediately upon the occurrence of the Grant Effectiveness Condition, the Paying Agent shall act as paying agent with respect to the Subordinated Loan Agreement. Further, effective immediately upon the occurrence of an Grant Effectiveness Condition, the Paying Agent shall make payments of the Subordinated Loan Payments to the Secured Party at the time, at the place and in the manner provided therefor in the Subordinated Loan Agreement. In no event shall the failure of the Paying Agent to make any payments hereunder or under the Subordinated Loan Agreement relieve the Company of its obligations to make due and punctual payment or under the Subordinated Loan Agreement.

SECTION 4. Instructions to Collateral Agent; Direction by Secured Party. Upon occurrence of the Grant Effectiveness Condition, the Collateral Agent hereby agrees to act with respect to the Pledged Collateral and otherwise under this Agreement (other than with respect to administrative actions and actions to preserve and protect the Pledged Collateral) only upon the written instructions

of, or with the consent of, the Secured Party.

SECTION 5. The Agent.

a. Duties and Responsibilities. The Agent shall have such powers, and such duties on behalf of the Secured Party, as are set forth herein, in the Subordinated Loan Agreement, the Contingent Subordinate Pledge Agreement and the Contingent Subordinate Security Agreement and as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Subordinate Loan Agreement, the Contingent Subordinate Security Agreement or the Contingent Subordinate Pledge Agreement, the Agent shall not have any duties or responsibilities except those expressly set forth herein, in the Subordinated Loan Agreement, the Contingent Subordinate Security Agreement and the Contingent Subordinate Pledge Agreement (together with such other powers as are reasonably incidental thereto), and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or the Pledge Documents or otherwise exist against the Agent.

b. Deletion of Duties, Etc. The Agent may exercise any of its powers and perform any of its duties hereunder or under the Subordinated Loan Agreement, the Contingent Subordinate Security Agreement or the Contingent Subordinate Pledge Agreement by or through agents or employees and shall be entitled to consult with legal counsel, accountants and other experts selected by it. Any action taken or omitted to be taken or suffered in good faith by the Agent in accordance with the opinion of such counsel, accountants or other experts shall be full justification and protection to it.

c. Indemnification. The Company, and to the extent the Company fails to perform its obligation under this Section 5.c., the Secured Party hereby indemnifies the Agent in its capacity as the Collateral Agent and in its capacity as the Paying Agent from and against any and all claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements or any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in connection with or arising out of any action taken or omitted to be taken or suffered in good faith by the Agent under this Agreement; provided that neither the Company nor the Secured Party shall be liable for any portion of any claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or willful misconduct of the Agent. The agreements in this Section 5 shall survive the payment of all amounts payable under the Subordinated Loan Agreement.

d. Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees or agents shall be liable to the Secured Party for any action taken or omitted to be taken or suffered by it or them hereunder or in connection herewith, except for its or their own gross negligence or willful misconduct. The Agent shall not be liable to the Secured Party for the effectiveness, enforceability, value, sufficiency, or validity of this Agreement, Subordinated Loan Agreement, the Pledge Documents or of the Collateral. Without limiting the generality of the foregoing, the Agent shall not be responsible to the Secured Party for any statements, warranties or representations made by the Company in or in connection with the Pledge Documents or any other document relating to the Collateral. The Agent shall be entitled to rely on any communication, instrument, paper or other document, including without limitation any certificates provided by the Company (absent manifest error), believed by it to be genuine and correct and to have been signed or sent by the proper parties. The Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first have received written direction from the Secured Party. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or the Pledge Documents in accordance with the written consent or written instructions of the Secured Party. Except as expressly set forth in the Pledge Documents, the Agent shall be under no duty or responsibility to the Secured Party to ascertain or to inquire into the performance or observance by the Company or any other party of any of the provisions of the Subordinated Loan Agreement, the Pledge Documents or any other document.

e. Standard of Care. Except for the exercise of reasonable care in the custody of any Collateral in its possession and the accounting for moneys actually received by it under the Pledge Documents, the Collateral Agent shall have no duty as to any Collateral it being understood that the Collateral Agent shall have no responsibility for (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to any Collateral whether or not the Collateral Agent has or is deemed to have knowledge of such matters, (ii) taking any necessary steps (other than steps

taken in accordance with the standard of care set forth above to maintain possession of the Collateral) to preserve rights against any parties with respect to any Collateral, (iii) taking any necessary steps to collect or realize upon the Secured Obligations or any guarantee therefor, or any part thereof, or any of the Collateral except as set forth in the Contingent Subordinate Pledge Agreement, or (iv) initiating any action to protect the Collateral against the possibility of a decline in market value. The Collateral Agent shall be deemed to have exercised reasonable care in the custody and preservation of Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Collateral Agent uses in the custody and preservation of trust property.

f. Independent Credit Investigation. Secured Party expressly acknowledges that the Agent has not made any representations or warranties to it and that no act taken by the Agent shall be deemed to constitute any representation or warranty by the Agent to any such party. The Secured Party acknowledges that it has taken and will continue to take such actions and to make such investigations as it deems necessary to inform itself of the affairs of the Company, and that, in entering into this Agreement and the Subordinate Loan Agreement it has not relied and will not rely upon any information or representations furnished or given by the Agent.

g. The Agent in Its Individual Capacity. FSB, in its individual capacity, and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Company, Secured Party or LLC and their respective affiliates as though FSB were not the Agent hereunder.

h. Knowledge of Default, etc. The Agent shall be entitled to assume that no Default, Event of Default or material adverse change or development in the perfection of the security interest of the Agent in the Collateral exists, unless the officers of the Agent immediately responsible for matters concerning this Agreement shall have obtained actual knowledge of such Default, Event of Default or material adverse change or development through the performance of the Agent's duties hereunder and under the Pledge Documents (including without limitation the performance of calculations called for by the Pledge Documents) or shall have been notified in writing by the Company or the Secured Party that it considers that a Default, Event of Default or such material adverse change or development exists and specifying the general nature thereof.

i. No Duty to Provide Additional Credit Information; No Responsibility for Perfection or Priority of Liens. etc. Except as expressly set forth herein or in the Pledge Documents, the Agent shall not have any duty or responsibility to provide the Secured Party with any credit information concerning the affairs, financial condition or business of the Company which may at any time come into the possession of the Agent (other than any such credit information specifically provided to the Agent in connection with the Pledge Documents or requested by the Secured Party) or any responsibility for the perfection or priority of any lien or the failure by the Secured Party to perform any of their obligations under the Pledge Documents; provided that, upon the request of the Secured Party, the Agent shall file UCC continuation statements in respect of any financing statements previously filed pursuant hereto or to any other Pledge Document.

j. Resignation or Removal of the Collateral Agent. FSB may resign as the Collateral Agent hereunder at any time by giving 30 days' prior written notice thereof to the Secured Party and may be removed at any time with or without cause by an instrument in writing delivered to the Company and FSB and signed by the Secured Party; provided no resignation or removal shall be effective until a successor Collateral Agent shall have accepted appointment as set forth below. Upon any such notice of resignation or removal, the Secured Party shall, within 15 days of such resignation or removal, appoint a, successor Collateral Agent. If an instrument of acceptance by a successor Collateral Agent shall not have been delivered to a resigning or removed Collateral Agent within 30 days after notice of resignation or removal has been given as set forth above, such resigning or removed Collateral Agent may petition any court of competent jurisdiction for the appointment of a successor Collateral Agent. Upon the acceptance of any appointment as successor Collateral Agent, that successor shall thereupon establish such accounts as are provided for in the Contingent Subordinate Pledge Agreement, shall take all actions as may be necessary or appropriate to perfect the security interest created under the Contingent Subordinate Pledge Agreement, and shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Collateral Agent, and the retiring or removed Collateral Agent shall, upon the payment of its charges hereunder, promptly (i) transfer to such successor agent all items of Collateral held by the retiring or removed Collateral Agent,

together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Collateral Agent under this Agreement, and (ii) execute and deliver to such successor Collateral Agent such amendments to financing statements, and take all such other actions as may be necessary or appropriate in connection with the assignment to such successor Collateral Agent of the security interests created under the Pledge Documents, whereupon the refiring or removed Collateral Agent shall be discharged from its duties and obligations under this Agreement and the Pledge Documents. After any retiring or removed Collateral Agent's resignation or removal hereunder as Collateral Agent, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement while it was the Collateral Agent hereunder.

k. Resignation or Removal of the Paying Agent. The Paying Agent shall at all times be the same Person that is the Collateral Agent under this Agreement. Written notice of resignation by the Collateral Agent pursuant to paragraph 6.j. above shall also constitute notice of resignation as Paying Agent under this Agreement; removal of the Collateral Agent pursuant to paragraph 6.j. above shall also constitute removal as Paying Agent under this Agreement; and appointment of a successor Collateral Agent pursuant to paragraph j above shall also constitute appointment of a successor Paying Agent under this Agreement. Upon the acceptance of any appointment as Collateral Agent under paragraph 6.j. above by a successor Collateral Agent, that successor Paying Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Paying Agent under this Agreement, and the retiring or removed Paying Agent under this Agreement shall promptly transfer to such successor Secured Party all sums held hereunder, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Paying Agent under this Agreement whereupon such retiring or removed Paying Agent shall be discharged from its duties and obligations under this Agreement. After any retiring or removed Paying Agent's resignation or removal hereunder as Paying Agent, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement while it was Paying Agent hereunder.

l. Waiver. Any waiver, forbearance, failure or delay by the Agent in exercising, or the exercise or beginning of exercise by the Agent of, any right, power or remedy, simultaneous or later, shall not preclude the further, simultaneous or later exercise thereof and every right, power or remedy of the Agent shall continue in full force and effect until such right, power or remedy is specifically waived in a written instrument executed by the Agent.

m. Notice of Transfer. Company shall provide the Agent with written notice of any transfer of the Subordinated Loan within three (3) days of such transfer. Upon such notice, the transferee shall be entitled to all benefits of this Agreement, and the Agent shall treat such transferee as a Secured Party for all purposes hereof. Prior to such notice, the Agent shall be justified in treating the prior Secured Party as the owner thereof and as a Secured Party for all purposes hereof and shall not be responsible for ascertaining whether a transfer has occurred.

n. Fees; Expenses. The Company shall pay to the Agent upon demand the amount of any and all reasonable costs and expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, that the Agent may incur in connection with (i) the acceptance and administration of this Agreement and its duties as Agent hereunder, (ii) the custody or preservation of, or the sale of, collection from or other realization upon, any of the Pledged Collateral or (iii) the exercises and enforcements of any rights of the Agent hereunder or under the Pledge Documents. The provisions of this Section 5.m. shall survive the termination of this Agreement.

SECTION 6. Delivery of Subordinated Loan Agreement by Company. On or before October 19, 2000, the Company shall deliver to the Collateral Agent a true, correct and complete copy of the Subordinated Loan Agreement as then in effect. Immediately after the Subordinated Loan Agreement shall have been amended, supplemented, restated or otherwise modified in any manner, the Company shall deliver to the Collateral Agent a true, correct and complete copy of such amendment, supplement, restatement or modification. The Collateral Agent shall be entitled to assume that there has been no amendment, supplement, restatement or modification of the Subordinated Loan Agreement, unless the officers of the Collateral Agent immediately responsible for matters concerning this Agreement shall have obtained actual knowledge of such amendment, supplement, restatement or modification through the performance of the Agent's duties hereunder and under the Pledge Documents or shall have received a copy of such amendment, supplement, restatement or modification from the Company or Secured Party.

SECTION 7. Waiver of Set Off. The Agent hereby waives, with respect to all of its existing and future claims against the Company, all existing and future rights of set-off, banker's liens, deduction or similar rights against any or all of the items (and proceeds thereof) that come into its possession in connection with any Pledged Collateral, other than claims for amounts owed to FSB solely in its capacity as the Collateral Agent hereunder.

SECTION 8. Termination of this Agreement. Except as otherwise specifically provided herein, this Agreement shall terminate upon the satisfaction in full in cash or discharge of all Secured Obligations. Without limiting the foregoing, the bankruptcy, insolvency, dissolution or other similar event or condition of any Person, including the Company, shall not operate to terminate this Agreement.

SECTION 9. Continuation of Perfection. Following occurrence of the Grant Effectiveness Condition, to the extent the Collateral Agent has perfected a security interest in any of the Collateral, by way of possession, filing or otherwise, on behalf of the holders of the Senior Notes, the Collateral Agent's perfection of said security interest in the Collateral shall immediately inure to the benefit of the Secured Party under this Agreement. In order for the Collateral Agent to immediately perfect a security interest in the Collateral for the benefit of the Secured Party upon occurrence of the Grant Effectiveness Condition, the Company hereby authorizes and instructs the Collateral Agent to (i) retain possession of, on behalf of and for the benefit of Secured Party, any Collateral in which the Collateral Agent has previously perfected a security interest by way of possession prior to occurrence of the Grant Effectiveness Condition and (ii) file amended, revised, continuation or new filing statements, on behalf of and for the benefit of Secured Party, regarding any Collateral in which the Collateral Agent has previously perfected a security interest by way of filing prior to occurrence of the Grant Effectiveness Condition.

SECTION 10. Miscellaneous.

a. Assignment. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective permitted successors and assigns, but does not otherwise create, and shall not be construed as creating, any rights enforceable by any Person other than the Agent and the Secured Parties, in their respective capacities as such.

b. Amendments. No amendment or waiver of any provision of this Agreement or the Pledge Agreement shall in any event be effective unless the same shall be in writing and shall have been approved by the Secured Party and, as to Section 5, the Agent. No such amendment shall change any of the obligations of the Company without the Company's written consent, which shall not be unreasonably withheld.

c. Severability. If any provision of this Agreement, or the application thereof to any Person, place, or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable, or void, the remainder of this Agreement and such provisions as applied to other Persons, places and circumstances shall remain in full force and effect.

d. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

e. Direction by Secured Party. Without the prior written consent of the Secured Party, the Collateral Agent shall not (i) terminate this Agreement or the Pledge Agreement, (ii) release any of the Pledged Collateral, except as specifically provided in the Pledge Agreement or (iii) subordinate the security interest granted in the Pledge Documents to any Person.

f. Full Subordination. Notwithstanding anything herein to the contrary, (i) all rights granted to Secured Party pursuant to this Agreement are subject and subordinated to all rights granted in favor of FSB under the Agency Agreement and the related documents and (ii) prior to the occurrence of the Grant Effectiveness Condition (or, in the case of the Grant Effectiveness Condition described in clause (iii) of Preliminary Statement G hereof, prior to the satisfaction of the requirement set forth in Section 10(g) below), Secured Party shall not exercise any remedies or initiate or pursue any proceedings of any nature whatsoever against the Collateral, the Pledged Documents or the Company.

g. Dedication of Distributable Cash Collateral Account. Notwithstanding anything to the contrary herein, at the first date upon which the outstanding balance of the Senior Secured Obligations is less than the amount of cash or cash

equivalents contained in the Distributable Cash Collateral Account, the Company hereby agrees to immediately dedicate that portion, and only that portion, of the Distributable Cash Collateral Account, irrevocably and indefeasibly, necessary for the full payment of the Senior Secured Obligations in such form as reasonably required by the Holders of the Senior Notes so that such Distributable Cash Collateral Account will be available solely for payment of the Senior Secured Obligations at the sole and absolute discretion of the Holders of the Senior Note. Secured Party hereby agrees and acknowledges that upon the dedication of the Distributable Cash Collateral Account as provided herein, such Distributable Cash Collateral Account will not constitute Collateral pursuant to this Agreement.

h. Governing Law; Terms. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF UTAH (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, EXCEPT TO THE EXTENT THAT THE UCC PROVIDES THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF UTAH.

i. Consent to Jurisdiction and Service of Process. ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST COLLATERAL AGENT ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF TEXAS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT COLLATERAL AGENT ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON COVENANTS AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT. Collateral Agent hereby agrees that service of all process in any such proceeding in any such court may be made by registered or certified mail, return receipt requested, to Collateral Agent, such service being hereby acknowledged by Collateral Agent to be sufficient for personal jurisdiction in any action against Collateral Agent in any such court and to be otherwise effective and binding service in every respect. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of the Secured Party to bring proceedings against Collateral Agent in the courts of any other jurisdiction.

j. Waiver of Jury Trial. THE PARTIES HERETO HEREBY AGREE TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF TIES AGREEMENT. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims, and all other common law and statutory claim. The parties hereto each acknowledge that this waiver is a material inducement for each party to enter into a business relationship, that each party has already relied on this waiver in entering into this Agreement and that each will continue to rely on this waiver in their related future dealings. The parties hereto further warrant and represent that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

k. Third Party Beneficiaries. The holders from time to time of the Senior Notes shall be third party beneficiaries of this Agreement, and no amendment, consent, waiver or other modification of the terms hereof may be entered into, issued or granted without the prior written consent of such holders.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized

officers as of the day and year first above written.

FIRST SECURITY BANK,
NATIONAL ASSOCIATION, as
Collateral Agent and Paying Agent

By: /s/ Val T. Orton

Name:

Title:

SNAKE RIVER SUGAR COMPANY

By: /s/ Lawrence L. Corry

Name:

Title:

VALHI, INC.

By: /s/ Steven L. Watson

Name:

Title:

ACKNOWLEDGED:

THE PRUDENTIAL INSURANCE
COMPANY OF AMERICA

By:/s/ Joseph Alouf

Name:

Title:

CONNECTICUT GENERAL LIFE
INSURANCE COMPANY
By: CIGNA Investments, Inc.

By: /s/ Stephen H. Wilson

Name:

Title:

LIFE INSURANCE COMPANY OF NORTH AMERICA
By: CIGNA Investments, Inc.

By: /s/ Stephen H. Wilson

Name:

Title:

THE LINCOLN NATIONAL LIFE
INSURANCE COMPANY

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By: /s/Annette M. Teders

Its:

LINCOLN LIFE & ANNUITY COMPANY
OF NEW YORK

By: LINCOLN INVESTMENT MANAGEMENT, INC.
Its Attorney-in-Fact

By: /s/Annette M. Teders

Its:

MINNESOTA LIFE INSURANCE COMPANY
By: Advantus Capital Management, Inc.

By:/s/ Annette Masterson

Name:

Title:

First Amendment to
Subordination Agreement

This First Amendment dated as of October 19, 2000 (this "First Amendment") to the Subordination Agreement dated as of May 14, 1997 is between Snake River Sugar Company, an Oregon cooperative ("Borrower"), and Valhi, Inc., a Delaware corporation ("Subordinated Creditor"), in favor of the holders from time to time of the Senior Notes referred to below (the "Senior Debt Holders") and First Security Bank, National Association, as Collateral Agent for the Senior Debt Holders.

PRELIMINARY STATEMENTS

A. Pursuant to those certain Note Purchase Agreements, each dated May 14, 1997, as amended as of November 30, 1998 and as of October 19, 2000 (as so amended, and as otherwise amended, amended and restated, supplemented or otherwise modified from time to time, the "Note Purchase Agreements"), between Borrower and the Senior Debt Holders, Borrower has issued to the Senior Debt Holders $100,000,000 aggregate principal amount of its 10.80% Senior Notes due April 30, 2009 (the "Senior Notes").

B. Pursuant to a Loan and Security Agreement dated as of January 3, 1997, as amended and restated by the Subordinated Loan Agreement dated as of May 14, 1997, and as further amended as of November 30, 1998 and the date hereof (as so amended, and as otherwise amended, amended and restated, supplemented or otherwise modified from time to time, the "Subordinated Agreement"), between Subordinated Creditor and Borrower, Borrower has issued to Subordinated Creditor certain subordinated notes (the "Subordinated Notes").

C. Pursuant to the Subordination Agreement dated as of May 14, 1997 between Borrower and Subordinated Creditor (the "Original Agreement," the terms defined therein and not otherwise defined herein being used herein as therein defined), Borrower and Subordinated Creditor have made certain provisions in favor of the Senior Debt Holders for the subordination of the Subordinated Notes to the Senior Notes.

D. In connection with the Second Amendment to Note Purchase Agreements between Borrower and the Senior Debt Holders (the "Second Amendment to Note Purchase Agreements") and the Third Amendment to Subordinated Loan Agreement between Borrower and Subordinated Creditor, each dated as of the date hereof, Borrower and Subordinated Creditor now desire to amend the Original Agreement in the respects, but only in the respects, hereinafter set forth.

NOW, THEREFORE, upon the full and complete satisfaction of the conditions precedent to the effectiveness of this First Amendment set forth in Section 3 hereof, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Borrower and Subordinated Creditor do hereby agree as follows:

Section 1. Amendments

1.1 Section 4.a of the Original Agreement shall be and hereby is amended in its entirety as follows:

"a. If Subordinated Creditor receives any payment or Distribution of Assets of Borrower which Subordinated Creditor is not entitled to retain or receive under the provisions of this Agreement or the Subordinated Agreement, such payment or assets shall be delivered forthwith by Subordinated Creditor to the Collateral Agent for the benefit of the Senior Debt Holders for application to the Senior Debt, in the form received except for the addition of any endorsement or assignment necessary to effect a transfer of all rights therein to the Collateral Agent for the benefit of the Senior Debt Holders. The Collateral Agent for the benefit of the Senior Debt Holders is irrevocably authorized by Subordinated Creditor to supply any required endorsement or assignment which may have been omitted. Until so delivered, any such payment or collateral shall be held by Subordinated Creditor in trust for the Senior Debt Holders."

1.2 The definition of "Specified Default" appearing in Section 1.c of the Original Agreement shall be and is hereby amended by deleting the word "and" appearing at the end of clause (v) thereof, deleting the punctuation mark "." at the end of clause (vi) thereof and replacing it with "; and" and adding the

following after clause (vi) thereof:

"(vii) Sections 11(p), 11(q) and 11(r)."

Section 2. Representations and Warranties of Company

Subordinated Creditor represents and warrants to the Senior Debt Holders (which representation and warranty shall survive the execution and delivery of this First Amendment) that all the representations and warranties contained in Section 9 of the Original Agreement are true and correct in all material respects with the same force and effect as if made by Subordinated Creditor on and as of the date hereof; except, however, that the Subordinated Agreement was amended pursuant to the Second Amendment to Subordinated Loan Agreement dated as of November 30, 1998, and the Subordinated Agreement will be amended pursuant to the Third Amendment to Subordinated Loan Agreement dated as of the date hereof.

Section 3. Conditions to Effectiveness of this First Amendment.

This First Amendment shall become effective in accordance with Section 3 of the Second Amendment to Note Purchase Agreements.

Section 4. Miscellaneous

4.1 This First Amendment shall be construed in connection with and as part of the Original Agreement, and except as modified and expressly amended by this First Amendment, all terms, conditions, and covenants contained in the Original Agreement are hereby ratified and shall be and remain in full force and effect.

4.2 Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this First Amendment may refer to the Original Agreement without making specific reference to this First Amendment, but nevertheless all such references shall include this First Amendment unless the context otherwise requires.

4.3 The descriptive headings of the various Sections or parts of this First Amendment are for convenience only and shall not affect the meaning or construction of any of the provisions hereof.

4.4 This First Amendment shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York, excluding choice-of-law principles of the law of such State which would require the application of the laws of a jurisdiction other than such State.

4.5 This First Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but all together only one agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Borrower and Subordinated Creditor have caused this First Amendment to be duly executed and delivered for the benefit of the Senior Debt Holders by their respective officers thereunto duly authorized as of the date first written above.

SNAKE RIVER SUGAR COMPANY

By: /s/ David L. Budge

Name:

Title:

VALHI, INC.

By: /s/ Steven L. Watson

Name:

Title:

Accepted this 19th day of October, 2000:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Joseph Alouf

Name:

Title:

Accepted this 19th day of October, 2000:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By CIGNA Investments, Inc.

By: /s/ Stephen H. Wilson

Name:

Title:

Accepted this 19th day of October, 2000:

LIFE INSURANCE COMPANY OF NORTH AMERICA

By CIGNA Investments, Inc.

By: /s/ Stephen H. Wilson

Name:

Title:

Accepted this 19th day of October, 2000:

THE MINNESOTA LIFE INSURANCE COMPANY

By Advantus Capital Management, Inc.

By: /s/ Guy M. deLambert

Name:

Title:

Accepted this 19th day of October, 2000:

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

By Lincoln Investment Management, Inc.
Its Attorney-In-Fact

By: /s/ Annette Teders

Name:

Title:

Accepted this 19th day of October, 2000:

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

By Lincoln Investment Management, Inc.
Its Attorney-In-Fact

By: /s/ Annette M. Teders

Name:

Title:

Accepted this 19th day of October, 2000:

FIRST SECURITY BANK, NATIONAL ASSOCIATION,
as Collateral Agent

By: /s/ Val Orton

Name:

Title:

EXECUTION COPY

FIRST AMENDMENT TO OPTION AGREEMENTS

This FIRST AMENDMENT TO OPTION AGREEMENTS (this "Amendment") dated effective as of October 19, 2000, is by and among Snake River Sugar Company, an Oregon cooperative corporation (the "Company"), Valhi, Inc., a Delaware corporation ("Valhi"), and the holders of the Company's 10.8% Senior Notes due April 30, 2009 (the "Senior Notes") whose names are set forth on the signature pages of this Amendment (the "Noteholders").

PRELIMINARY STATEMENTS

The Company, Valhi and the Noteholders are parties to those certain Option Agreements dated as of May 14, 1997 (the "Option Agreements"). All capitalized terms defined in the Option Agreements and not otherwise defined in this Amendment shall have the same meanings herein as in the Option Agreements.

The Company, Valhi and the Noteholders have agreed to amend certain documents related to the Option Agreements and wish to clarify that the Option Agreements pertain to those related documents as amended.

NOW, THEREFORE, in consideration of the foregoing and for other good and sufficient consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. The Option Agreements shall be amended as follows:

(a) All references to the "Loan Agreement" in the Option Agreements shall be to said Loan Agreement as such may be amended or modified from time to time.

(b) All references to the "Note Purchase Agreements" in the Option Agreements shall be to said Note Purchase Agreements as such may be amended or modified from time to time.

(c) All references to the "Option Notes" in the Option Agreements shall be to said Options Notes as such may be amended or modified from time to time.

2. The Company agrees to provide a copy of any amendment, modification, waiver or restatement of the Senior Notes or the Note Purchase Agreements to Valhi within five (5) Business Days after execution of any such amendment, modification, waiver or restatement. The Company and Valhi agree and acknowledge that if any such amendment, modification, waiver or restatement of the Senior Notes or the Note Purchase Agreements is not provided to Valhi by the Company within the time period required herein, then, at Valhi's sole option, such amendment, modification, waiver or restatement shall retroactively be null and void upon (but only upon) the closing of the purchase of all of the Option Notes following the exercise by Valhi of all of its rights under the Option Agreements.

3. Each of the parties represents and warrants that the execution, delivery and performance by such party of this Amendment are within its powers, have been duly authorized by all necessary action and do not and will not contravene or conflict with any provision of law applicable to such party, the charter, declaration of trust or bylaws of such party, or any order, judgment or decree of any court or other agency of government or any contractual obligation binding upon such party, and the Option Agreements, as amended by this Amendment, are legal, valid and binding obligations of such party enforceable against such party in accordance with their terms.

4. The execution and delivery of that certain Master Agreement dated October 19, 2000, by and among the parties hereto, among others, shall be a condition precedent to the initial effectiveness of this Amendment.

5. This Amendment may be executed in two or more counterparts, each of which shall be deemed to be an original, but each of which together shall constitute one and the same document.

6. This Amendment shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to the

principals of conflicts of laws thereof.

7. This Amendment shall be binding upon, and to the benefit of, and be enforceable by the heirs, personal representatives, successors and assigns of the parties hereto.

8. Except as specifically amended by this Amendment, the Option Agreements shall remain in full force and effect and are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties have caused this Amendment to be effective on the day and year first above written.

[The remainder of this page intentionally left blank]

Valhi, Inc.

By:/s/ Steven L. Watson

Name: Steven L. Watson
Title: President

Snake River Sugar Company

By:/s/ Lawrence L. Corry

Name:

Title:

The Prudential Insurance Company of America

By:/s/ Joseph Alouf

Name:

Title:

Connecticut General Life Insurance Company
By: CIGNA Investments, Inc.

By:/s/ Stephen H. Wilson

Name:

Title:

Life Insurance Company of North America
By: CIGNA Investments, Inc.

By:/s/ Stephen H. Wilson

Name:

Title:

Minnesota Life Insurance Company
By: Advantus Capital Management, Inc.

By:/s/ Annette Masterson

Name:

Title:

The Lincoln National Life Insurance Company
By: Lincoln Investment Management, Inc.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Name:

Title:

Lincoln Life & Annuity Company of New York
By: Lincoln Investment Management, Inc.
Its Attorney-in-Fact

By:/s/ Annette M. Teders

Name:

Title:

EXECUTION COPY

FIRST AMENDMENT TO VOTING RIGHTS AND FORBEARANCE AGREEMENT

This First Amendment to Voting Rights and Forbearance Agreement (this "Amendment") is made this 19 day of October, 2000 by and among (i) Amalgamated Collateral Trust, a Delaware business trust (the "SPT") created pursuant to the Deposit Trust Agreement (the "Deposit Trust Agreement") dated as of May 14, 1997 between ASC Holdings, Inc., a Utah corporation ("Amalgamated"), Wilmington Trust Company, as Resident Trustee (as defined on the Deposit Trust Agreement), and Amalgamated, as Company Trustee (as defined on the Deposit Trust Agreement), (ii) Amalgamated, as holder of the Certificate of Beneficial Interest issued by the SPT, (iii) Amalgamated, as the Company Trustee under the Deposit Trust Agreement, and (iv) First Security Bank, National Association, as Collateral Agent (the "Collateral Agent") under the Collateral Agency Agreement dated as of May 14, 1997 among Snake River Sugar Company, an Oregon agricultural cooperative ("Snake River"), the Collateral Agent and the purchasers (the "Purchasers") referred to in the Note Purchase Agreements dated May 14, 1997, as such may be amended or modified from time to time (the "Note Purchase Agreement"), between the Purchasers and Snake River. Terms defined in the Note Purchase Agreements and not otherwise defined herein shall have the meanings provided in the Note Purchase Agreements.

PRELIMINARY STATEMENTS

The parties to this Amendment are parties to a Voting Rights and Forbearance Agreement dated as of May 14, 1997 (the "Voting Rights Agreement").

The parties hereto have agreed to amend certain documents related to the Voting Rights Agreement and wish to clarify that the Voting Rights Agreement pertains to those related documents as amended.

NOW, THEREFORE, in consideration of the foregoing and for other good and sufficient consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. The Voting Rights Agreement shall be amended as follows:

(a) All references to the "Company Agreement" in the Voting Rights Agreement shall be to said Company Agreement as such may be amended or modified from time to time.

(b) All references to the "Note Purchase Agreements" in the Voting Rights Agreement shall be to said Note Purchase Agreements as such may be amended or modified from time to time.

(c) All references to the "Senior Notes" in the Voting Rights Agreement shall be to said Senior Notes as such may be amended or modified from time to time.

2. Representations and Warranties. Each of the parties represents and warrants that the execution, delivery and performance by such party of this Amendment are within its powers, have been duly authorized by all necessary action and do not and will not contravene or conflict with any provision of law applicable to such party, the charter, declaration of trust or bylaws of such party, or any order, judgment or decree of any court or other agency of government or any contractual obligation binding upon such party, and the Voting Rights Agreement, as amended as of the date hereof, is a legal, valid and binding obligation of such party enforceable against such party in accordance with its terms.

3. Condition Precedent. The execution and delivery of that certain Master Agreement dated October 19, 2000, by and among the parties hereto, among others, shall be a condition precedent to the initial effectiveness of this Amendment.

4. General Provisions.

(a) All of the covenants and agreements contained in this Amendment shall be binding upon, and inure to the benefit of, the respective parties and their successors, assigns, heirs, executors,

administrators and other legal representatives, as the case may be.

(b) This Amendment, and the rights of the parties hereto, shall be governed by and construed in accordance with the laws of the State of Delaware.

(c) This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(d) No amendment, modification, termination or waiver of any provision of this Amendment, and no consent to any departure by the Company Trustee therefrom, shall in any event be effective unless the same shall be in writing and signed by the other parties hereto and, in the case of any such amendment or modification, by the Company Trustee. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

(e) If any provision of this Amendment shall be declared void or unenforceable by any court or administrative board of competent jurisdiction, such provision shall be deemed to have been severed from the remainder of this Amendment, and this Amendment shall continue in all other respects to be valid and enforceable.

(f) Nothing herein shall limit in any way the rights and remedies of the Collateral Agent under any of the Pledge Agreements.

(g) Except as specifically amended by this Amendment, the Voting Rights Agreement shall remain in full force and effect and is hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment to be effective as of the date first above written.

AMALGAMATED COLLATERAL TRUST

By: Wilmington Trust Company, not in its individual capacity but solely as Trustee

By: /s/ Charisse L. Rodgers

Name:

Title:

ASC HOLDINGS, INC., individually and as Company Trustee

By: /s/ Steven L. Watson

Name: Steven L. Watson

Title: President

FIRST SECURITY BANK, NATIONAL ASSOCIATION, as Collateral Agent

By: /s/ C. Scott Nielsen

Name:

Title

As of the first date written above, The Amalgamated Sugar Company LLC, a Delaware limited liability company (the "Company"), hereby acknowledges and agrees to be bound by the terms and provisions of the foregoing First Amendment to Voting Rights and Forbearance Agreement; provided, however, that the Company shall neither be a party to, nor a third party beneficiary of, the foregoing agreement.

THE AMALGAMATED SUGAR
COMPANY LLC

By: /s/ David L. Budge

Name:

Title:

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