SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE

ACT OF 1934 - FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common stock ($.01 par value per share)	New York Stock Exchange Pacific Stock Exchange
9.25% Liquid Yield Option Notes, due October 20, 2007	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None.

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K.

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

AS OF FEBRUARY 28, 1997, 114,365,414 SHARES OF COMMON STOCK WERE OUTSTANDING. THE AGGREGATE MARKET VALUE OF THE 9.6 MILLION SHARES OF VOTING STOCK HELD BY NONAFFILIATES OF VALHI, INC. AS OF SUCH DATE APPROXIMATED $77 MILLION.

DOCUMENTS INCORPORATED BY REFERENCE

THE INFORMATION REQUIRED BY PART III IS INCORPORATED BY REFERENCE FROM THE REGISTRANT'S DEFINITIVE PROXY STATEMENT TO BE FILED WITH THE COMMISSION PURSUANT TO REGULATION 14A NOT LATER THAN 120 DAYS AFTER THE END OF THE FISCAL YEAR COVERED BY THIS REPORT.

[INSIDE FRONT COVER]

A chart showing (i) Valhi's 56% ownership of NL Industries, Inc., (ii) Valhi's 100% ownership of Valcor, Inc., (iii) Valhi's 50% ownership of Waste Control Specialists LLC and (iv) Valcor's 100% ownership of CompX International

Inc. and Sybra, Inc.

PART I

ITEM 1. BUSINESS

Valhi, Inc. (NYSE: VHI), based in Dallas, Texas, has continuing operations in the chemicals, component products, fast food and waste management industries. Information regarding the Company's business segments and the operating subsidiaries conducting such businesses is set forth below. Business and geographic segment financial information is included in Note 2 to the Company's Consolidated Financial Statements, which information is incorporated herein by reference.

Chemicals NL Industries, Inc.	NL is the world's fourth-largest producer of titanium dioxide pigments ("TiO2"), used for imparting whiteness, brightness and opacity to a wide range of products including paints, plastics, paper, fibers and other "quality-of-life" products. NL had an estimated 11% share of worldwide TiO2 sales volume in 1996. NL is also the world's largest producer of rheological additives for solvent-based systems. NL has production facilities throughout Europe and North America.
Component Products CompX International Inc. (formerly National Cabinet Lock, Inc.)	CompX International is a leading North American manufacturer of ergonomic office workstation components, mechanical locks and precision ball bearing drawer slides for furniture and other markets.
Fast Food Sybra, Inc.	Sybra is the third-largest franchisee of Arby's restaurants with 150 stores clustered principally in Texas, Michigan, Pennsylvania and Florida.
Waste Management Waste Control Specialists LLC	Waste Control Specialists, formed in late 1995, recently completed construction of the initial phase of its West Texas facility for the processing, treatment, storage and disposal of hazardous and toxic wastes. The first wastes were received for disposal in February 1997. Waste Control Specialists is also seeking authorizations for, among other things, the treatment, storage and disposal of low-level and mixed radioactive wastes.

Valhi, a Delaware corporation, is the successor of the 1987 merger of The Amalgamated Sugar Company and LLC Corporation. Contran Corporation holds, directly or through subsidiaries, approximately 91% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons, of which Mr. Simmons is the sole trustee. Mr. Simmons is Chairman of the Board, President and Chief Executive Officer of Contran and Valhi and may be deemed to control such companies.

In September 1996, Medite Corporation, the Company's wholly-owned building products subsidiary, signed three separate letters of intent involving the sale of substantially all of its assets. The first transaction, involving the sale of Medite's timber and timberlands, closed in October 1996 for approximately $118 million cash consideration, of which approximately $53 million of the cash proceeds were used to pay off and terminate Medite's U.S. bank credit facilities. The second transaction, involving the sale of Medite's Irish medium density fiberboard ("MDF") subsidiary, closed in November 1996 for approximately $61.5 million cash consideration plus the assumption of approximately $21 million of Irish bank debt. The third transaction, involving the sale of Medite's Oregon MDF facility, closed in February 1997 for approximately $36 million cash consideration plus the assumption of approximately $3.7 million of Medite indebtedness. These three transactions generated total consideration to Medite of approximately $240 million. Medite has also determined to permanently close its two small Oregon timber conversion facilities. The stud lumber facility, closed in December 1996, is being dismantled and Medite will sell the

salvageable machinery and equipment. Medite continues to operate the veneer facility on a short-term basis and expects to either sell or close this facility in 1997. See Note 19 to the Consolidated Financial Statements.

On January 3, 1997, the Company completed the transfer of control of the refined sugar operations previously conducted by the Company's wholly-owned subsidiary, The Amalgamated Sugar Company, to Snake River Sugar Company, an Oregon agricultural cooperative formed by certain sugarbeet growers in Amalgamated's areas of operations. 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. Snake River's sources of funds for its loans to Valhi, as well as for the $14 million it contributed to the LLC for its voting ownership 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. See Note 20 to the Consolidated Financial Statements.

The Company has executed agreements involving the sale of its fast food operations conducted by the Company's wholly-owned subsidiary, Sybra, Inc. The proposed sale would be accomplished in simultaneous transactions that would include the sale of certain restaurant real estate owned by Sybra to one party for $45 million cash consideration, and Valcor's sale of 100% of the stock of Sybra to another party for approximately $39.7 million cash consideration, of which approximately $23.7 million would be used to repay Sybra bank indebtedness. These transactions are subject to, among other things, completion of customary due diligence procedures, the purchaser of Sybra's stock obtaining necessary financing for the transaction and certain consents from third parties. If completed, the transactions are expected to close in the second quarter of 1997, at which time the Company estimates it would report a pre-tax gain on disposal in excess of $24 million. There can be no assurance that any such transactions will be completed.

During 1994, Valhi purchased additional NL common shares in market transactions and thereby increased its direct ownership of NL from 49% to more than 50% in mid-December 1994. Accordingly, the Company ceased to report its interest in NL by the equity method and commenced reporting NL as a consolidated subsidiary. The Company consolidated NL's financial position at December 31, 1994 and consolidated NL's results of operations and cash flows beginning in 1995. Tremont Corporation, a Contran affiliate, holds an additional 18% of NL's outstanding common stock. See Note 3 to the Consolidated Financial Statements.

The statements in this Annual Report on Form 10-K relating to matters that are not historical facts including, but not limited to, statements found in this Item 1 - "Business", in Item 3 - "Legal Proceedings", and in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations", are forward-looking statements that involve risks and uncertainties. Factors that could cause actual future results to differ materially from those expressed in such forward-looking statements include, but are not limited to, future supply and demand for the Company's products (including cyclicality thereof), general economic conditions, competitive products, customer and competitor strategies, the impact of pricing and production decisions, environmental matters, government regulations and possible changes therein, the ultimate resolution of pending litigation and possible future litigation, completion of pending asset/business unit dispositions and other risks and uncertainties discussed elsewhere herein in this Annual Report, including, without limitation, the sections referenced above.

CHEMICALS - NL INDUSTRIES, INC.

NL Industries (NYSE: NL) is an international producer and marketer of TiO_2 and specialty chemicals to customers in over 100 countries from facilities located throughout Europe and North America. Kronos, Inc., the largest of NL's two principal operating subsidiaries, is the world's fourth-largest TiO_2 producer, with an estimated 11% share of worldwide TiO_2 sales volume in 1996. Approximately one-half of Kronos' 1996 sales volume was in Europe, where Kronos is the second-largest producer of TiO_2. Specialty chemicals, primarily rheological additives, are produced through NL's Rheox, Inc. subsidiary. In 1996, Kronos accounted for 86% of NL's sales and Rheox accounted for 14%.

NL's objective is to maximize its total shareholder returns by (i) focusing on continued cost control, (ii) investing in certain cost effective debottlenecking projects to increase TiO_2 production capacity and productivity and (iii) deleveraging as excess liquidity becomes available.

TiO2 products and operations. Titanium dioxide pigments are chemical products used for imparting whiteness, brightness and opacity to a wide range of products, including paints, paper, plastics, fibers and ceramics. TiO2 is considered to be a "quality-of-life" product with demand affected by the gross domestic product in various regions of the world.

Demand, supply and pricing within the TiO2 industry is cyclical, and changes in industry economic conditions can significantly impact NL's earnings and operating cash flows. NL's average TiO2 selling prices have been declining since the last half of 1995, which followed an upturn in TiO2 prices that began in the third quarter of 1993. NL expects TiO2 prices will begin to increase during the second quarter of 1997 as the impact of recently-announced price increases takes effect. Despite the recent decline in TiO2 selling prices, industry wide demand for TiO2 grew in 1996, and Kronos' record 1996 sales volume was about 6% higher than 1995. NL's expectations as to the future prospects of the TiO2 industry are based on several factors beyond NL's control, principally continued worldwide growth of gross domestic product and the absence of technological advancements in or modifications to TiO2 processes that would result in material and unanticipated increases in production efficiencies. To the extent that actual developments differ from NL's expectations, NL and the TiO2 industry's future performance could be unfavorably affected.

Kronos has an estimated 18% share of European TiO2 sales volume and an estimated 12% share of North American TiO2 sales volume. Consumption per capita in the United States and Western Europe far exceeds that in other areas of the world and these regions are expected to continue to be the largest consumers of TiO2. A significant market for TiO2 could emerge in Eastern Europe, the Far East and China if the economies in these countries develop to the point where quality-of-life products, including TiO2, are in greater demand. Kronos believes that, due to its strong presence in Western Europe, it is well positioned to participate in growth in the Eastern European market.

NL believes that there are no effective substitutes for TiO2. However, extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used in a number of Kronos' markets. Generally, extenders are used to reduce to some extent the utilization of higher cost TiO2. The use of extenders has not significantly affected TiO2 consumption over the past decade because extenders generally have, to date, failed to match the performance characteristics of TiO2. NL believes that the use of extenders will not materially alter the growth of the TiO2 business in the foreseeable future.

NL currently produces over 40 different TiO2 grades, sold under the Kronos and Titanox trademarks, which provide a variety of performance properties to meet customers' specific requirements. Major TiO2 customers include international paint, paper and plastics manufacturers. Kronos and its distributors and agents sell and provide technical services for its products to over 4,000 customers with the majority of sales in Europe and North America.

Kronos and its predecessors have produced and marketed TiO2 in North America and Europe for over 70 years. As a result, Kronos believes that it has developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products in domestic and international markets. By volume, about one-half of Kronos' 1996 TiO2 sales were to Europe, with 37% to North America and the balance to export markets. Kronos' international operations are conducted through Kronos International, Inc. ("KII"), a German-based holding company formed in 1989 to manage and coordinate NL's manufacturing operations in Europe and Canada.

Kronos is also engaged in the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the pigment production processes). Water treatment chemicals are used as treatment and conditioning agents for industrial effluents and municipal wastewater and in the manufacture of iron pigments.

TiO2 manufacturing process, properties and raw materials. TiO2 is manufactured by Kronos using both the chloride process and the sulfate process. Approximately two-thirds of Kronos' current production capacity is based on its chloride process, which generates less waste than the sulfate process. Although most end-use applications can use pigments produced by either process, chloride process pigments are generally preferred in certain segments of the coatings and plastics applications, and sulfate process pigments are generally preferred for certain paper, fibers and ceramics applications. Due to environmental factors and customer considerations, the proportion of TiO2 industry sales represented by chloride process pigments has increased relative to sulfate process pigments in the past few years, and chloride process production facilities in 1996

represented approximately 56% of industry capacity.

Kronos currently has four TiO2 facilities in Europe (Leverkusen and Nordenham, Germany; Langerbrugge, Belgium; and Fredrikstad, Norway). In North America, Kronos has a facility in Varennes, Quebec and, through a manufacturing joint venture discussed below, a one-half interest in a plant in Lake Charles, Louisiana. Kronos' principal German operating subsidiary leases the land under its Leverkusen production facility pursuant to a lease expiring in 2050. The Leverkusen plant, with almost one-third of Kronos' current TiO2 production capacity, is located within an extensive manufacturing complex owned by Bayer AG, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, Bayer provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen plant. Both the lease and supplies and services agreement restrict NL's ability to transfer ownership or use of the Leverkusen plant. Kronos also has a governmental concession with an unlimited term to operate its ilmenite mine in Norway.

Kronos' TiO2 production in 1996 was 373,000 metric tons, compared to the record 393,000 metric tons produced in 1995 and 357,000 tons in 1994. Kronos reduced its production rates in early 1996 in response to softening demand and its high inventory levels at the end of 1995. As demand increased during 1996 and inventories declined, Kronos' production rates were increased to near full capacity in late 1996. Kronos believes its annual attainable production capacity is approximately 400,000 metric tons, including its one-half interest in the Louisiana plant. Following completion of its $35 million debottlenecking expansion of its Leverkusen, Germany chloride-process facility in late 1997, Kronos' expects its worldwide annual attainable production capacity will increase to about 410,000 metric tons.

The primary raw materials used in the TiO2 chloride production process are chlorine, coke and titanium-containing feedstock derived from beach sand ilmenite and natural rutile ore. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited number of suppliers around the world, principally in Australia, Africa, Canada, India and the United States. Kronos purchases slag refined from beach sand ilmenite from Richards Bay Iron and Titanium (Proprietary) Ltd. (South Africa), approximately 50% of which is owned by Q.I.T. Fer et Titane Inc. ("QIT"), an indirect subsidiary of RTZ Corp., under a long-term supply contract expiring in 2000. Natural rutile ore, another chloride feedstock, is purchased primarily from RGC Mineral Sands Limited (Australia) under a long-term supply contract that also expires in 2000. Raw materials under these contracts are expected to meet Kronos' chloride feedstock requirements over the next several years. NL does not expect to encounter difficulties in obtaining new long-term supply contracts prior to expiration of its existing contracts.

The primary raw materials used in the TiO2 sulfate production process are sulfuric acid and titanium-containing feedstock derived primarily from rock and beach sand ilmenite. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. As one of the few vertically-integrated producers of sulfate process pigments, Kronos operates a Norwegian rock ilmenite mine which provided all of Kronos' feedstock for its European sulfate process pigment plants in 1996. Kronos also purchases sulfate grade slag under contracts negotiated annually with RTZ and, through 1997, with Tinfos Titanium and Iron K/S.

Kronos believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate through the remainder of the decade. Kronos does not anticipate experiencing any interruptions of its raw material supplies because of its long-term supply contracts. However, political and economic instability in the countries where NL purchases its raw material supplies could adversely affect the availability of such feedstock.

TiO2 manufacturing joint venture. Subsidiaries of Kronos and Tioxide Group, Ltd. ("Tioxide"), a wholly-owned subsidiary of Imperial Chemicals Industries PLC ("ICI"), each own a 50%-interest in a manufacturing joint venture. The joint venture owns and operates a chloride process TiO2 plant in Lake Charles, Louisiana. Production from the plant is shared equally by Kronos and Tioxide pursuant to separate offtake agreements.

A supervisory committee, composed of four members, two of whom are appointed by each partner, directs the business and affairs of the joint

venture, including production and output decisions. Two general managers, one appointed and compensated by each partner, manage the day-to-day operations of the joint venture acting under the direction of the supervisory committee.

The manufacturing joint venture is intended to be operated on a break-even basis, and accordingly Kronos' transfer price for its share of the TiO2 produced is equal to its share of the joint venture's production costs and interest expense. Kronos' share of the production costs are reported as part of cost of sales as the related TiO2 acquired from the joint venture is sold, and Kronos' share of the joint venture's interest expense is reported as a component of interest expense.

Specialty chemicals products and operations. Rheological additives produced by Rheox control the flow and leveling characteristics of a variety of products, including paints, inks, lubricants, sealants, adhesives and cosmetics. Organoclay rheological additives are clays which have been chemically reacted with organic chemicals and compounds. Rheox produces rheological additives for both solvent-based and water-based systems. Rheox is the world's largest producer of rheological additives for solvent-based systems, and is also a supplier for rheological additives used in water-based systems. Rheological additives for solvent-based systems accounted for 80% of Rheox's sales in 1996, with the remainder being principally rheological additives for water-based systems. Rheox has introduced a number of new products during the past three years, the majority of which are for water-based systems, which are sold into a larger market than solvent-based systems. Rheox believes water-based additives will account for an increasing portion of its sales in the long term. Rheox's plants are in Charleston, West Virginia, Newberry Springs, California, St. Louis, Missouri, Livingston, Scotland and Nordenham, Germany.

Sales of rheological additives generally follow growth in gross domestic product in Rheox's principal markets and are influenced by the volume of shipments of the worldwide coatings industry. Since Rheox's rheological additives are used in industrial coatings, plant and equipment spending has an influence on demand for this product line.

The primary raw materials for rheological additives are bentonite clays, hectorite clays, quaternary amines, polyethylene waxes and castor oil derivatives. Bentonite clays are currently purchased under a three-year contract, renewable through 2004, with a subsidiary of Dresser Industries, Inc., which has significant bentonite reserves in Wyoming. This contract assures Rheox the right to purchase its anticipated requirements of bentonite clays for the foreseeable future, and Dresser's reserves are believed to be sufficient for such purpose. Hectorite clays are mined from company-owned reserves in Newberry Springs, California, which NL believes are adequate to supply its needs for the foreseeable future. The Newberry Springs ore body contains the largest known commercial deposit of hectorite clays in the world. Quaternary amines are purchased primarily from a joint venture company 50%-owned by Rheox and are also generally available on the open market from a number of suppliers. Castor oil-based rheological additives are purchased from sources outside the United States. Rheox has a supply contract with a manufacturer of these products, which may not be terminated without 180 days notice by either party.

Competition. The TiO2 industry is highly competitive. During the early 1990's, TiO2 supply exceeded demand, primarily due to new chloride-process capacity coming on-stream. Relative supply/demand relationships, which had a favorable impact on industry-wide prices during the late 1980's, had a negative impact during the subsequent downturn. During 1994 and the first half of 1995, strong growth in demand improved industry capacity utilization and resulted in increases in worldwide TiO2 prices. Kronos believes that the increased demand during such period was partially due to customers stocking inventories. In the second half of 1995 and first half of 1996, customers reduced inventory levels, which reduced industry-wide demand. Demand improved in the second half of 1996, indicating, Kronos believes, that customer inventories had returned to more-normal levels. Price increases were announced in late 1996 by most major producers, including Kronos, and the results of such announcements are expected to impact second-quarter 1997 operating results. However, no assurance can be given that price trends will conform to NL's expectations.

Worldwide capacity additions in the TiO2 market resulting from construction of grassroot plants require significant capital expenditures and substantial lead time (typically three to five years in NL's experience) for, among other things, planning, obtaining environmental approvals and construction. No grassroot plants have been announced, but industry capacity can be expected to increase as Kronos and its competitors complete debottlenecking projects at existing facilities. Based on factors described under "TiO2 products and

operations" above, NL expects that the average annual increase in industry capacity from announced debottlenecking projects will be less than the average annual demand growth for TiO2 during the next few years.

Kronos competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO2 grades are considered specialty pigments, the majority of grades and substantially all of Kronos' production are considered commodity pigments with price generally being a most significant competitive factor. Kronos has an estimated 11% share of worldwide TiO2 sales volume, and believes that it is the leading marketer of TiO2 in a number of countries, including Germany and Canada. Kronos' principal competitors are E.I. du Pont de Nemours & Co.; Tioxide; Millennium Chemicals, Inc., formerly a unit of Hanson PLC; Kemira Oy; Ishihara Sangyo Kaisha, Ltd; Bayer AG; Thann et Mulhouse and Kerr-McGee Corporation. These eight competitors have estimated individual worldwide shares of TiO2 sales volume ranging from 3% to 21%, and an aggregate estimated 75% share of TiO2 sales volume. Du Pont has about one-half of total U.S. TiO2 production capacity and is Kronos' principal North American competitor. ICI announced in January 1997 that it intends to spin-off its Tioxide unit to its shareholders in the next six to 18 months.

Competition in the specialty chemicals industry generally focuses on product uniqueness, quality and availability, technical service, knowledge of end-use applications and price. Rheox's principal competitors for rheological additives for solvent-based systems are LaPorte PLC and Sud-Chemie AG. Principal competitors for water-based systems are Rohm and Haas Company, Hercules Incorporated and Union Carbide Corporation.

Research and development. NL's expenditures for research and development and certain technical support programs have averaged approximately $11 million during the past three years, with Kronos accounting for about three-fourths of the annual spending. TiO2 research and development activities are conducted principally at KII's Leverkusen, Germany facility. Such activities are directed primarily towards improving both the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications. Activities relating to rheological additives are conducted primarily in the U.S. and are directed towards the development of new products for water-based systems, environmental applications and new end-use applications for existing product lines.

Patents and trademarks. Patents held for products and production processes are believed to be important to NL and contribute to the continuing business activities of Kronos and Rheox. NL continually seeks patent protection for its technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties. In connection with the formation of the manufacturing joint venture with Tioxide, Kronos and certain of its subsidiaries exchanged proprietary chloride process and product technologies with Tioxide and certain of its affiliates, and use by each recipient of the other's technology in Europe was restricted until October 1996. NL does not expect that the technology sharing arrangement with Tioxide will materially impact its competitive position within the TiO2 industry. See "-- TiO2 manufacturing joint venture." NL's major trademarks, including Kronos, Titanox and Rheox, are protected by registration in the United States and elsewhere with respect to those products it manufactures and sells.

Customer base and seasonality. NL believes that neither its aggregate sales nor those of any of its principal product groups are concentrated in or materially dependent upon any single customer or small group of customers. Neither NL's business as a whole nor that of any of its principal product groups is seasonal to any significant extent. Due in part to the increase in paint production in the spring to meet spring and summer painting season demand, TiO2 sales are generally higher in the second and third calendar quarters than in the first and fourth calendar quarters. Sales of rheological additives are influenced by the worldwide industrial protective coatings industry, where second calendar quarter sales are generally the strongest.

Employees. As of December 31, 1996, NL employed approximately 3,100 persons (excluding the joint venture employees), with 400 employees in the United States and 2,700 at non-U.S. sites. Hourly employees in production facilities worldwide, including the TiO2 joint venture, are represented by a variety of labor unions, with labor agreements having various expiration dates. NL believes its labor relations are satisfactory.

Regulatory and environmental matters. Certain of NL's businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws. As with other companies engaged in similar businesses, certain past and current operations and products of NL have the potential to

cause environmental or other damage. NL has implemented and continues to implement various policies and programs in an effort to minimize these risks. NL's policy is to achieve compliance with applicable environmental laws and regulations at all of its facilities and to strive to improve its environmental performance. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies thereunder, could adversely affect NL's production, handling, use, storage, transportation, sale or disposal of such substances as well as NL's financial position, results of operations or liquidity.

NL's U.S. manufacturing operations are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act, and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), as well as the state counterparts of these statutes. NL believes that all of its U.S. plants and the Louisiana plant owned and operated by the joint venture are in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. From time to time, NL facilities may be subject to environmental regulatory enforcement under such statutes. Resolution of such matters typically involves the establishment of compliance programs. Occasionally, resolution may result in the payment of penalties, but to date such penalties have not involved amounts having a material adverse effect on NL's consolidated financial position, results of operations or liquidity.

NL's European and Canadian production facilities operate in an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers which allow them to issue operating permits required for the plants to operate. NL believes all of its European and Canadian plants are in substantial compliance with applicable environmental laws.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory denominator is provided by the European Union ("EU"). Germany, Belgium and the United Kingdom, each a member of the EU, follow the initiatives of the EU; Norway, although not a member, generally patterns its environmental regulatory actions after the EU. Kronos believes it is in substantial compliance with agreements reached with European environmental authorities and with an EU directive to control the effluents produced by TiO_2 production facilities. Rheox also believes it is in substantial compliance with environmental regulations in Germany and the United Kingdom.

NL has a contract with a third party to treat certain German sulfate-process effluents. Either party may terminate the contract after giving four years notice with regard to the Nordenham plant. After December 1998, and only under certain circumstances, Kronos may terminate the contract after giving six months notice with regard to the Leverkusen plant.

In order to reduce sulfur dioxide emissions into the atmosphere consistent with applicable environmental regulations, Kronos is completing the installation of off-gas desulfurization systems at its Norwegian and German plants at a cost of approximately $30. The Louisiana manufacturing joint venture installed a $16 million off-gas desulfurization system, and Kronos completed an $11 million wastewater treatment chemical purification project at its Leverkusen, Germany facility in 1996.

The Quebec provincial government has environmental regulatory authority over Kronos' Canadian chloride and sulfate-process TiO_2 production facility. The provincial government regulates discharges into the St. Lawrence River. In May 1992, the Quebec provincial government extended Kronos' right to discharge effluents from its sulfate process TiO_2 plant into the St. Lawrence River until June 1994. Kronos completed a waste acid neutralization facility and discontinued discharging untreated effluents into the St. Lawrence River in June 1994. Notwithstanding the foregoing, in March 1993 Kronos' Canadian subsidiary and two of its directors were charged by the Canadian federal government with five violations of the Canadian Fisheries Act relating to discharges into the St. Lawrence River from the Varennes sulfate TiO_2 plant. The penalty for these violations, if proven, could be up to Canadian $15 million. Additional charges, if brought, could involve additional penalties. NL believes that this charge is inconsistent with the extension granted by provincial authorities, referred to above, and is vigorously contesting the charge. A trial date has been set for May 1997.

NL's capital expenditures related to its ongoing environmental protection and compliance programs, including those described above, are currently expected to approximate $3 million in 1997 and $5 million in 1998.

NL has been named as a defendant, potentially responsible party ("PRP") or both, pursuant to CERCLA and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, many of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. See Item 3 - "Legal Proceedings."

COMPONENT PRODUCTS - COMPX INTERNATIONAL INC.

Products, operations and properties. CompX International Inc. (formerly National Cabinet Lock, Inc.) manufactures ergonomic office workstation components, precision ball bearing drawer slides and low and medium-security mechanical locks for furniture and a variety of other applications. In 1996, ergonomic workstation products accounted for 34% of the Company's total component products sales, with drawer slides at 38% and locks at 28%. Drawer slides and office workstation components are produced in two separate facilities in Kitchener, Ontario under the Waterloo Furniture Components, Limited name. Locks are produced in Mauldin, South Carolina under the National Cabinet Lock name. The Company believes its component products compete in relatively well-defined niche markets and believes that it is (i) the largest supplier of ergonomic office workstation components to the North American office furniture manufacturing market, (ii) the largest Canadian producer of drawer slides and (iii) the largest U.S. cabinet lock producer.

Strip steel is the major raw material used in the manufacture of drawer slides and office workstation products. Purchased components, including zinc castings, are the principal raw materials used in the manufacture of latching and security products. These raw materials, purchased from several suppliers and readily available, are machined, electroplated, assembled and packaged for shipment to customers. One of the Kitchener facilities and the Mauldin facility are ISO 9001-registered.

Strategy. CompX's strategy is to continue to improve manufacturing efficiency and cost control, to develop specialty, patented products focused on niche markets and to capitalize on future opportunities which may emerge with targeted original equipment manufacturers. The Company will also search for synergistic acquisitions or product licensing to expand its product base and seek to expand its established market positions by emphasizing customer service, promoting its distribution programs and seeking greater penetration of current markets.

Competition and customer base. CompX competes primarily on the basis of product features, customer service, quality, distribution channels, consumer brand preferences and price. The primary market for drawer slides and workstation products is office furniture manufacturers in the United States and Canada. Approximately 30% of lock sales are made through the Company's STOCK LOCKS distribution program, a program believed to offer a competitive advantage because delivery generally is made within 48 hours. Most remaining lock sales are to original equipment manufacturers' specifications. Component products are marketed primarily through the Company's own sales organization as well as select manufacturers' representatives.

Major competitors include Weber Knapp (workstations), Accuride and Knape & Vogt (drawer slides) and Chicago Lock, Hudson Lock and Fort Lock (locks). CompX also competes with a large number of other manufacturers, and the variety of relatively small competitors generally makes significant price increases difficult. The Company does not believe it is dependent upon one or a few customers, the loss of which would have a material adverse effect on its component products operations. The ten largest customers accounted for about one-third of component products sales in each of the past three years, with the largest customer less than 10% in each year. In 1996, six of the ten largest customers were located in the U.S. with four located in Canada. Of such customers, all were primarily purchasers of Waterloo Furniture Components' products.

Patents and trademarks. CompX holds a number of patents relating to its component products operations, none of which by itself is considered significant, and owns a number of trademarks, including National Cabinet Lock, STOCK LOCKS and Waterloo Furniture Components, Limited, which the Company believes are well recognized in the component products industry.

Employees. As of December 31, 1996, CompX employed approximately 820

persons, of which 260 were in the United States and 560 were in Canada. Approximately two-thirds of Canadian employees are covered by a new three-year collective bargaining agreement expiring February 2000. CompX believes that its labor relations are satisfactory.

Regulatory and environmental matters. CompX's operations are subject to various federal, state, provincial and local provisions regulating, among other things, worker and product safety and protection, the discharge of materials into the environment and other environmental protection matters. CompX believes it is in substantial compliance with existing permits and regulations and does not believe future expenditures to comply with these regulations will be material.

FAST FOOD - SYBRA, INC.

Products and operations. Sybra (Arby's spelled backwards) operated 150 Arby's restaurants at December 31, 1996 clustered in four regions, principally in Michigan (46 stores), Texas (57), Pennsylvania (27) and Florida (20), pursuant to licenses with Arby's, Inc. According to information provided by Arby's, Sybra is the third-largest franchisee in the Arby's restaurant system based upon the number of restaurants operated and gross sales. Arby's is a well-established fast food restaurant chain and features a menu that highlights roast beef sandwiches along with a variety of chicken sandwiches and products, deli sandwiches, potato products and soft drinks. Sybra's menu selections have expanded over the past few years whereby roast beef accounts for approximately two-thirds of sandwich sales compared to 80% five years ago.

Sybra's 150 Arby's restaurants at the end of 1996 represent a net decrease of ten stores in the past three years (17 opened; 27 closed), during which period Sybra also remodeled several of its older stores. The stores closed in the past three years all represented underperforming leased units which generally were closed at the end of their respective lease terms. Sybra currently expects a net increase of about three stores in 1997, as it plans to open six new restaurants and close at least three more underperforming stores.

The Company has executed agreements involving the sale of Sybra's fast food operations. See "Business-General" and Note 18 to the Consolidated Financial Statements.

Strategy. Given the extremely competitive environment in which Sybra operates, Sybra will continue its strong emphasis on operational details and routinely review the profit contribution of each restaurant with a view toward closing those stores which do not meet expectations.

Properties. At the end of 1996, approximately 80% of Sybra's 150 Arby's restaurants were free-standing stores with the remainder located within shopping malls or strip shopping centers. Approximately 60% of total locations are leased, with most leases being on a long-term basis and providing for base monthly rents plus contingent rents based on sales. In most cases, Sybra expects that leases could be renewed or replaced by other leases, although rental rates may increase. Contingent rentals based upon various percentages of gross sales of individual restaurants were less than 10% of Sybra's total rent expense in each of the past three years. Sybra also leases corporate or regional office space in five states.

Under the terms of Sybra's current Development Agreement with Arby's, Sybra has been given the exclusive right to open new Arby's units within certain counties in Pennsylvania, in return for which Sybra has agreed to open a minimum of 25 new stores during 1997 through 2001 in its existing regions (four in 1997, six in 1998 and five each in 1999, 2000 and 2001), of which ten must be located in Pennsylvania. Sybra currently plans to open six new units in 1997, or two more than the minimum required. Sybra does not have any other exclusive territorial or development agreements which would prohibit others from operating an Arby's restaurant in the general geographic markets in which Sybra now operates, although each store is given certain narrow geographical protection (generally a one to four mile radius) from other Arby's units.

Food products and supplies. Sybra and other Arby's franchisees are members of ARCOP, Inc., a non-profit cooperative purchasing organization which facilitates negotiations of national contracts for food and distribution, taking advantage of the larger purchasing requirements of the member franchisees. Since Arby's franchisees are not required to purchase any food products or supplies from Arby's, Inc., ARCOP facilitates control over food supply costs and avoids franchisor conflicts of interest.

License terms and royalty fees. Generally, franchise agreements relating to each restaurant location require that Sybra comply with certain requirements as to business operations and facility maintenance. Currently, Sybra pays an

initial franchise fee of $25,000 and a royalty rate equal to 4% of sales for a standard 20-year license. Because some of Sybra's licenses were issued at times when license terms were perpetual and lower royalty rates were in effect, 43% of Sybra's franchise agreements have no fixed termination date and royalties for all locations aggregated 2.8% to 2.9% of sales in each of the past three years. Sybra's average royalty rate would be expected to increase over time if new stores are opened, older stores are closed and existing 20-year licenses are renewed at then-prevailing higher royalty rates. The first of Sybra's 20-year licenses expires in 2003.

Advertising and marketing. Sybra directs about 8% of sales towards marketing. All franchisees of Arby's, Inc. must belong to AFA Service Corporation ("AFA"), a non-profit association of Arby's restaurant operators, and must contribute a specified portion (currently .7%) of their gross revenues as dues to AFA. In return, AFA provides franchisees with creative materials such as television and radio commercials, ad mats for newspapers, point-of-purchase graphics and other advertising materials. Sybra also devotes approximately 3% of sales to coupon sales promotions, including the direct cost of discounted food, and newspaper and direct mail inserts, and approximately 4% of its restaurant sales to local advertising.

Competition and seasonality. The fast food industry is extremely competitive and subject to pressures from major business cycles and competition from many established and new restaurant concepts. According to industry data, there is a significant disparity in the revenues and number of restaurants operated by the largest restaurant systems and the Arby's system. As a result, some organizations and franchised restaurant systems have significantly greater resources for advertising and marketing than the Arby's restaurant system or Sybra, which is an important competitive factor. Sybra's response to these competitive factors has been to cluster its stores in certain geographic areas where it can achieve economies of scale in advertising and other activities.

Operating results of Sybra's restaurants have been affected by both retail shopping patterns and weather conditions. Accordingly, Sybra has experienced its most favorable results during the fourth calendar quarter (which includes the holiday shopping season) and its least favorable results during the first calendar quarter (which includes winter weather that can be adverse in certain markets).

Employees. As of December 31, 1996, Sybra had approximately 3,700 employees, of which 3,100 were part-time employees. Approximately 3,600 employees work in Sybra's restaurants with the remainder in its corporate or regional offices. Employees are not covered by collective bargaining agreements and Sybra believes that its employee relations are satisfactory.

Governmental regulation. A significant portion of Sybra's restaurant employees work on a part-time basis and are paid at rates related to the minimum wage rate. Restaurant labor costs currently approximate 29% of sales. The two-step, 90-cent increase in the minimum wage rate which became effective October 1, 1996 increased Sybra's labor costs. Sybra concurrently implemented certain price increases to offset the impact of the first step of the October 1, 1996 wage rate increase. Any further increase in the minimum wage rate or legislation requiring mandatory medical insurance benefits to part-time employees would further increase Sybra's labor costs. Although Sybra's competitors would likely experience similar increases, there can be no assurance that further increases in sales prices can be implemented to offset future increases in these costs.

Various federal, state and local laws affect Sybra's restaurant business, including laws and regulations relating to minimum wages, overtime and other working conditions, health, sanitation, employment and safety standards and local zoning ordinances. Sybra has not experienced and does not anticipate unusual difficulties in complying with such laws and regulations.

WASTE MANAGEMENT - WASTE CONTROL SPECIALISTS LLC

Waste Control Specialists LLC, formed in November 1995, recently completed construction of the initial phase of its facility in West Texas for the processing, treatment, storage and disposal of certain hazardous and toxic wastes, and the first wastes were received for disposal in February 1997. Valhi contributed $25 million to Waste Control Specialists through early 1997 for its 50% interest, which was used primarily to fund construction of the facility. The other 50%-owner (controlled by the Chief Executive Officer of Waste Control Specialists) contributed certain assets, primarily land and operating permits for the facility site, and Waste Control Specialists also assumed certain

indebtedness of the other owner.

Facility, operations, services and customers. Waste Control Specialists has been issued permits by the Texas Natural Resource Conservation Commission ("TNRCC") and the U.S. EPA to accept hazardous and toxic wastes governed by The Resource Conservation and Recovery Act ("RCRA") and the Toxic Substances Control Act ("TSCA"). The ten-year RCRA and TSCA permits initially expire in 2004, but are subject to renewal by the TNRCC assuming Waste Control Specialists remains in compliance with the provisions of the permits. While there can be no assurance, Waste Control Specialists believes it will be able to obtain extensions to continue operating the facility for the foreseeable future.

Waste Control Specialists is also seeking additional authorizations to accept wastes regulated under various other environmental laws and regulations, including low-level and mixed low-level radioactive wastes. Waste Control Specialists has an application pending with the Texas Department of Health for a permit authorizing the treatment and storage of low-level and mixed low-level radioactive wastes, and expects to receive such permit in 1997. Waste Control Specialists has also presented a proposal to the U.S. Department of Energy ("DOE") that seeks DOE authorization for the facility as a disposal site for much of the low-level and mixed low-level radioactive wastes generated from the DOE's weapons complex sites. Under the proposal, an independent private sector/academia body led by Texas Tech University would provide oversight and monitoring of the operations. The DOE is reviewing the proposal. There can be no assurance that any such additional permits or authorizations will be obtained.

The facility is located on a 1,338 acre site in West Texas owned by Waste Control Specialists. The 1,338 acres are permitted for 11.3 million cubic yards of airspace landfill capacity for RCRA and TSCA wastes. Following the initial phase of the construction, Waste Control Specialists has approximately 100,000 cubic yards of airspace landfill capacity in which customers' wastes can be disposed. As part of its current permits, Waste Control Specialists has the authorization to construct separate "condominium" landfills, in which individual customer's wastes can be segregated from wastes accepted from other customers. Waste Control Specialists owns approximately 15,000 additional acres of land surrounding the permitted site, a small portion of which is located in New Mexico. This presently undeveloped additional acreage is available for future expansion assuming appropriate permits could be obtained.

The 1,338 acre facility site has, in Waste Control Specialists' opinion, superior geological characteristics which make it an environmentally-desirable location. The site is located in a relatively remote and arid section of West Texas. The ground is composed of triassic red bed clay for which the possibility of leakage into any underground water table is considered remote.

While the West Texas facility will operate as a final repository for wastes that cannot be further reclaimed and recycled, it will also serve as a staging and processing location for material that requires other forms of treatment prior to final disposal as mandated by the U.S. EPA or other regulatory bodies. The facility, as constructed, provides for waste treatment/stabilization, warehouse storage, treatment facilities for hazardous, toxic and dioxin wastes, drum to bulk, and bulk to drum materials handling and repackaging capabilities. The Company intends to conduct these operations in compliance with the current RCRA and TSCA permits. Treatment operations will involve processing wastes through one or more thermal, chemical or other treatment methods, depending upon the particular waste being disposed and regulatory and customer requirements. Thermal treatment will use a thermal destruction technology as the primary mechanism for waste destruction. Physical treatment methods may include distillation, evaporation and separation, all of which result in the separation or removal of solid materials from liquids. Chemical treatment uses chemical oxidation and reduction, chemical precipitation of heavy metals, hydrolysis and neutralization of acid and alkaline wastes, and basically results in the transformation of wastes into inert materials through one or more chemical processes. Certain of such treatment operations will involve technology which Waste Control Specialists will acquire or license from third parties.

Once treated and stabilized, wastes will either be (i) placed in the landfill disposal site, (ii) stored onsite in drums or other specialized containers or (iii) shipped to third-party facilities for final disposition. Only wastes which meet certain specified regulatory requirements can be placed in the landfill, which landfill is fully-lined and includes a leachate collection system.

Waste Control Specialists will take delivery of wastes collected from

customers and transported on behalf of customers, via rail or highway, by independent contractors to the West Texas site. Such transportation is subject to regulations governing the transportation of hazardous wastes issued by the U.S. Department of Transportation.

In the U.S., the major federal statutes governing management, and responsibility for clean-up, of hazardous and toxic wastes include RCRA, TSCA and CERCLA. Waste Control Specialists' business is heavily dependent upon the extent to which regulations promulgated under these or other similar statutes and their enforcement require wastes to be managed and disposed of at facilities of the type constructed by Waste Control Specialists.

Waste Control Specialists' target customers are industrial companies, including chemical, aerospace and electronics businesses and governmental agencies, including the DOE, which generate hazardous and other wastes. A majority of the customers are expected to be located in the southwest United States, although customers outside a 500-mile radius can be handled via rail lines. Waste Control Specialists employs a salesforce to market its services to potential customers. The DOE could become a significant customer if Waste Control Specialists is successful in obtaining permits for low-level and mixed low-level radioactive waste.

Waste Control Specialists also intends to enter into partnership or other joint venture arrangements with other entities in the waste management industry to assist Waste Control Specialists in research and development and other aspects of customer service. In this regard, Waste Control Specialists has entered into a joint venture with Battelle Memorial Institute, a leader in the waste management technology industry, to identify and commercialize environmental technologies in the waste management industry. Along these lines, Waste Control Specialists has a permit application pending with the Texas Department of Health for a Research, Development and Demonstration facility. Third parties would be permitted to use the facility for the development and demonstration of new technologies in the waste management industry, including those involving low-level and mixed radioactive wastes. While there can be no assurance, Waste Control Specialists believes the permit will be issued by mid-1997.

Competition. The hazardous waste industry (other than low-level and mixed low-level radioactive waste) currently has excess industry capacity caused by a number of factors, including a relative decline in the number of environmental remediation projects generating hazardous wastes and efforts on the part of generators to reduce the volume of waste and/or manage it onsite at their facilities. These factors have led to reduced demand and increased price pressure for non-radioactive hazardous waste management services. Consequently, Waste Control Specialists believes its long-term future potential in the waste management industry is significantly dependent upon its ability to obtain permits for low-level and mixed low-level radioactive wastes.

Competition within the hazardous waste industry is diverse. Competition is based primarily on pricing and customer service. Price competition is expected to be intense with respect to RCRA and TSCA-related wastes. Principal competitors are Chemical Waste Management (a wholly-owned subsidiary of WMX Technologies, Inc.), Laidlaw, Inc., American Ecology Corporation, U.S. Pollution Control, Inc. and Envirosafe Services, Inc. These competitors are well-established and have significantly greater resources than Waste Control Specialists, which could be important competitive factors. However, Waste Control Specialists believes it may have certain competitive advantages, including its environmentally-desirable location, broad level of local community support, a public transportation network leading to the facility and capability for future site expansion.

Employees. At December 31, 1996, Waste Control Specialists employed 45 persons, and currently expects to have approximately 50 to 75 employees by the end of 1997.

Regulatory and environmental matters. While the waste management industry has benefitted from increased governmental regulation, the industry itself has become subject to extensive and evolving regulation by federal, state and local authorities. The regulatory process requires businesses in the waste management industry to obtain and retain numerous operating permits covering various aspects of their operations, any of which could be subject to revocation, modification or denial. Regulations also allow public participation in the permitting process. Individuals as well as companies may oppose the grant of permits. In addition, governmental policies are by their nature subject to change and the exercise of broad discretion by regulators, and it is possible

that Waste Control Specialists' ability to obtain any desired applicable permits on a timely basis, and to retain those permits, could in the future be impaired. The loss of any individual permit could have a significant impact on Waste Control Specialists' financial condition, results of operations and liquidity, especially because Waste Control Specialists owns only one disposal site. For example, adverse decisions by governmental authorities on permit applications submitted by Waste Control Specialists could result in the abandonment of projects, premature closing of a facility or operating restrictions. Waste Control Specialists' ten-year RCRA and TSCA permits expire in 2004, although such permits are subject to renewal if Waste Control Specialists is in compliance with the required operating provisions of the permits.

Federal, state and local authorities have, from time to time, proposed or adopted other types of laws and regulations with respect to the waste management industry, including laws and regulations restricting or banning the interstate or intrastate shipment of certain wastes, imposing higher taxes on out-of-state waste shipments compared to in-state shipments, reclassifying certain categories of hazardous wastes as non-hazardous and regulating disposal facilities as public utilities. Certain states have issued regulations which attempt to require that all waste generated within that particular state must be sent to disposal sites within that state. The U.S. Congress has also, from time to time, considered legislation which would enable or facilitate such bans, restrictions, taxes and regulations. Due to the complex nature of the waste management industry regulation, implementation of existing or future laws and regulations by different levels of government could be inconsistent and difficult to foresee. Waste Control Specialists will attempt to monitor and anticipate regulatory, political and legal developments which affect the waste management industry, but there can be no assurance that Waste Control Specialists will be able to do so. Nor can Waste Control Specialists predict the extent to which legislation or regulations that may be enacted, or any failure of legislation or regulations to be enacted, may affect its operations in the future.

The demand for certain hazardous waste services expected to be provided by Waste Control Specialists is dependent in large part upon the existence and enforcement of federal, state and local environmental laws and regulations governing the discharge of hazardous wastes into the environment. The waste management industry would be adversely affected to the extent such laws or regulations are amended or repealed or their enforcement is lessened.

Because of the high degree of public awareness of environmental issues, companies in the waste management business may be, in the normal course of their business, subject to judicial and administrative proceedings. Governmental agencies may seek to impose fines or revoke, deny renewal of, or modify any applicable operating permits or licenses. In addition, private parties and special interest groups could bring actions against Waste Control Specialists alleging, among other things, violation of operating permits.

DISCONTINUED OPERATIONS - MEDITE CORPORATION

In September 1996, Medite determined to dispose of substantially all of its assets in three separate transactions. Medite sold its U.S. timber and timberlands in October 1996, its Irish MDF subsidiary in November 1996 and its Oregon MDF facility in February 1997. Medite has also determined to permanently close its two small Oregon timber conversion facilities. The stud lumber facility, closed in December 1996, is being dismantled and Medite will sell the salvageable machinery and equipment. Medite continues to operate the veneer facility on a short-term basis and expects to either sell or close this facility in 1997. After the sale of the Oregon MDF facility and the sale or closure of the two Oregon timber conversion facilities, Medite will have no remaining operating assets. See Note 19 to the Consolidated Financial Statements.

At December 31, 1996, Medite employed approximately 270 persons in the U.S. Following the sale of the Oregon MDF facility and the sale or closure of the veneer facility, Medite will have a nominal number of employees remaining.

OTHER

Foreign operations. The Company has substantial operations and assets located outside the United States, principally chemicals operations in Germany, Belgium, Norway and the United Kingdom and chemicals and component products operations in Canada. See Note 2 to the Consolidated Financial Statements. Foreign operations are subject to, among other things, currency exchange rate fluctuations and the Company's results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. See Item 7 - "Management's Discussion and Analysis of Financial Condition and

Results of Operations."

CompX's Canadian component products subsidiary has, from time to time, entered into forward currency contracts to mitigate exchange rate fluctuation risk for a portion of its future sales denominated in various currencies, and the Company has in the past used currency forward contracts to fix the dollar equivalent of specific commitments. Otherwise, the Company does not generally engage in currency derivative transactions.

Political and economic uncertainties in certain of the countries in which the Company operates may expose the Company to risk of loss. The Company does not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar event. The Company cannot predict, however, whether events of this type in the future could have a material effect on its operations. The Company's manufacturing and mining operations are also subject to extensive and diverse environmental regulation in each of the foreign countries in which they operate, as discussed in the respective business sections elsewhere herein.

Regulatory and environmental matters. Regulatory and environmental matters are discussed in the respective business sections contained elsewhere herein and in Item 3 - "Legal Proceedings." In addition, the information included in Note 18 to the Consolidated Financial Statements under the captions "Legal proceedings -- Lead pigment litigation and -- Environmental matters and litigation" is incorporated herein by reference.

Acquisition and restructuring activities. 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 unconsolidated affiliates, and the estimated sales value of those units. As a result of this process, the Company has in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, repurchase indebtedness in the market or otherwise, modify its dividend policy, consider the sale of interests in subsidiaries, 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. From time to time, the Company also evaluates the restructuring of ownership interests among its subsidiaries and related companies and expects to continue this activity in the future.

The Company and other entities that may be deemed to be controlled by or affiliated with Mr. Harold C. Simmons 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. In a number of instances, the Company has actively managed the businesses acquired with a focus on maximizing return-on-investment through cost reductions, capital expenditures, improved operating efficiencies, selective marketing to address market niches, disposition of marginal operations, use of leverage, and redeployment of capital to more productive assets. In other instances, the Company has disposed of the acquired interest in a company prior to gaining control. The Company intends to consider such activities in the future and may, in connection with such activities, consider issuing additional equity securities and increasing the indebtedness of Valhi, its subsidiaries and related companies.

Other. Through June 1989, Valmont Insurance Company, a wholly-owned captive insurance subsidiary, reinsured workers' compensation and employers' liability, auto liability, and comprehensive general liability risks of Valhi and certain affiliates. Through April 1989, Valmont assumed certain third-party reinsurance business, primarily property, marine and casualty risks from insurance subsidiaries of other industrial firms, and a small amount of U.S. quota share property and casualty risks. Valmont currently writes certain direct coverages of Valhi and affiliates. All of Valmont's third-party reinsurance risks are on a runoff basis.

The Company, through a general partnership, has an interest in certain medical-related research and development activities pursuant to sponsored research agreements. See Note 17 to the Consolidated Financial Statements.

ITEM 2. PROPERTIES

Valhi leases approximately 34,000 square feet of office space for its principal executive offices in a building located at 5430 LBJ Freeway, Dallas, Texas, 75240-2697.

The principal properties used in the operations of the Company, including certain risks and uncertainties related thereto, are described in the applicable business sections of Item 1 - "Business." The Company believes that its facilities are generally adequate and suitable for their respective uses.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings. In addition to information that is included below, certain information called for by this Item is included in Note 18 to the Consolidated Financial Statements under the caption "Legal proceedings -- Other litigation," which information is incorporated herein by reference.

Lead pigment litigation. NL was formerly involved in the manufacture of lead pigments for use in paint and lead-based paint. NL has been named as a defendant or third party defendant in various legal proceedings alleging that NL and other manufacturers are responsible for personal injury and property damage allegedly associated with the use of lead pigments. NL is vigorously defending such litigation. Considering NL's previous involvement in the lead pigment and lead-based paint businesses, there can be no assurance that additional litigation, similar to that described below, will not be filed. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (a) 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 (b) 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. No legislation or regulations have been enacted to date which are expected to have a material adverse effect on NL's consolidated financial position, results of operations or liquidity. 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 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, if any, that may result is not reasonably capable of estimation.

In 1989 and 1990, the Housing Authority of New Orleans ("HANO") filed third-party complaints for indemnity and/or contribution against NL, other alleged manufacturers of lead pigment (together with NL, the "pigment manufacturers") and the Lead Industries Association (the "LIA") in 14 actions commenced by residents of HANO units seeking compensatory and punitive damages for injuries allegedly caused by lead pigment. The actions, which were in the Civil District Court for the Parish of Orleans, State of Louisiana, were dismissed by the district court in 1990. Subsequently, HANO agreed to consolidate all the cases and appealed. In March 1992, the Louisiana Court of Appeals, Fourth Circuit, dismissed HANO's appeal as untimely with respect to three of these cases. With respect to the other cases included in the appeal, the court of appeals reversed the lower court decision dismissing the cases. These cases were remanded to the District Court for further proceedings. In November 1994, the District Court granted defendants' motion for summary judgment in one of the remaining cases and in June 1995 the District Court granted defendants' motion for summary judgment in several of the remaining cases. After such grant, only two cases remained pending.

In June 1989, a complaint was filed in the Supreme Court of the State of New York, County of New York, against the pigment manufacturers and the LIA. Plaintiffs seek damages, contribution and/or indemnity in an amount in excess of $50 million for monitoring and abating alleged lead paint hazards in public and private residential buildings, diagnosing and treating children allegedly exposed to lead paint in city buildings, the costs of educating city residents to the hazards of lead paint, and liability in personal injury actions against the City and the Housing Authority based on alleged lead poisoning of city residents (The City of New York, the New York City Housing Authority and the New York City Health and Hospitals Corp. v. Lead Industries Association, Inc., et al., No. 89-4617). In December 1991, the court granted the defendants' motion to dismiss claims alleging negligence and strict liability and denied the remainder of the motion. In January 1992, defendants appealed the denial. NL has answered the remaining portions of the complaint denying all allegations of wrongdoing, and the case is in discovery. In May 1993, the Appellate Division of the Supreme Court affirmed the denial of the motion to dismiss plaintiffs' fraud, restitution and indemnification claims. In May 1994, the trial court

granted the defendants' motion to dismiss the plaintiffs' restitution and indemnification claims, the plaintiffs appealed, and in June 1996 the appeals court reversed the trial court's dismissal of the restitution and indemnification claims, reinstating those claims. Defendants' motion for summary judgment on the remaining fraud claim was denied in August 1995; defendants have appealed. In February 1996, the court denied the defendants motion for summary judgment on the basis that the fraud claim was time-barred, and defendants have appealed. Discovery is proceeding.

In March 1992, NL was served with a complaint in Skipworth v. Sherwin-Williams Co., et al. (No. 92-3069), Court of Common Pleas, Philadelphia County. Plaintiffs are a minor and her legal guardians seeking damages from lead paint and pigment producers, the LIA, the Philadelphia Housing Authority and the owners of the plaintiffs' premises for bodily injuries allegedly suffered by the minor from lead-based paint. Plaintiffs' counsel has asserted that approximately 200 similar complaints would be served shortly, but no such complaints have yet been served. In April 1994, the court granted defendants' motion for summary judgment and the dismissal was affirmed by the Superior Court in October 1995. In February 1997, the Pennsylvania Supreme Court unanimously affirmed the Superior Court's decision.

In August 1992, NL was served with an amended complaint in Jackson, et al. v. The Glidden Co., et al., Court of Common Pleas, Cuyahoga County, Cleveland, Ohio (Case No. 236835). Plaintiffs seek compensatory and punitive damages for personal injury caused by the ingestion of lead, and an order directing defendants to abate lead-based paint in buildings. Plaintiffs purport to represent a class of similarly situated persons throughout the State of Ohio. The amended complaint identifies 18 other defendants who allegedly manufactured lead products or lead-based paint, and asserts causes of action under theories of strict liability, negligence per se, negligence, breach of express and implied warranty, fraud, nuisance, restitution, and negligent infliction of emotional distress. The complaint asserts several theories of liability including joint and several, market share, enterprise and alternative liability. In October 1992, NL and the other defendants moved to dismiss the complaint with prejudice. In July 1993, the court dismissed the complaint. In December 1994, the Ohio Court of Appeals reversed the trial court dismissal and remanded the case to the trial court. In July 1996, the trial court granted defendants' motion to dismiss the property damage and enterprise liability claims, but denied the remainder of the motion. Discovery is proceeding with respect to class certification.

In November 1993, NL was served with a complaint in Brenner, et al. v. American Cyanamid, et al. (No. 12596-93), Supreme Court, State of New York, Erie County alleging injuries to two children purportedly caused by lead pigment. The complaint seeks $24 million in compensatory and $10 million in punitive damages for alleged negligent failure to warn, strict liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, and alternative liability. In January 1994, NL answered the complaint, denying liability. Discovery is proceeding.

In January 1995, NL was served with complaints in Wright (Alvin) and Wright (Allen) v. Lead Industries, et. al., (Nos. 94-363042 and 363043), Circuit Court, Baltimore City, Maryland. Plaintiffs are two brothers (one deceased) who allege injuries due to exposure to lead pigment. The complaints, as amended in April 1995, seek more than $100 million in compensatory and punitive damages for alleged strict liability, negligence, conspiracy, fraud and unfair and deceptive trade practices claims. In July 1995, the trial court granted, in part, the defendants' motion to dismiss, and dismissed the plaintiffs' fraud and unfair and deceptive trade practices claims. In June 1996 the trial court granted defendants' motion for summary judgment on plaintiffs' conspiracy claim, and dismissed NL and certain other defendants from the cases. The court granted summary judgment in favor of the remaining defendants in September 1996, and plaintiffs have appealed as to all defendants.

In November 1995, NL was served with a complaint in Jefferson v. Lead Industry Association, et al. (No. 95-2835) filed in the U.S. District Court for the Eastern District of Louisiana. The complaint asserts claims against the LIA and the lead pigment defendants on behalf of a putative class of allegedly injured children in Louisiana. The complaint purports to allege claims for strict liability, negligence, failure to warn, breach of alleged warranties, fraud and misrepresentation and conspiracy, and seeks actual and punitive damages. The complaint asserts several theories of liability, including joint and several and market share liability. In June 1996, the trial court granted defendants' motions to dismiss the complaint and entered judgment in favor of all defendants. Plaintiffs appealed to the Fifth Circuit Court of Appeals,

which affirmed the judgment in favor of all the defendants in March 1997.

In January 1996, NL was served with a complaint on behalf of individual intervenors in German, et.al. v. Federal Home Loan Mortgage Corp., et. al. (U.S. District Court, Southern District of New York, Civil Action No. 93 Civ. 6941 (RWS)). This class action lawsuit had originally been brought against the City of New York and other landlord defendants. The intervenors' complaint alleges claims against NL and other former manufacturers of lead pigment for medical monitoring, property abatement and other injunctive relief, based on various causes of action, including negligent product design, negligent failure to warn, strict liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, breach of express and implied warranties, and nuisance. The intervenors purport to represent a class of children and pregnant women who reside in New York City. In May 1996 NL and the other defendants filed motions to dismiss the intervenors complaint. Class discovery is proceeding.

In April 1996, NL was served with a complaint filed in New York state court which seeks compensatory and punitive damages for personal injury purportedly caused by lead paint and alleges causes of action against NL and other former lead pigment manufacturers and the LIA for negligence, strict products liability, fraud, concert of action, civil conspiracy, enterprise liability, market share liability and alternative liability (Gates v. American Cyanamid Co., et al. - I1996-2114). The complaint also asserts causes of action against the landlords of the apartments in which plaintiff has lived since 1977. In July 1996, NL filed an answer denying plaintiff's allegations. Discovery is proceeding.

In September 1996, NL was served with a complaint filed in Circuit Court of Marshall County, West Virginia, that seeks compensatory and punitive damages for alleged personal injury caused by lead paint and asserts causes of action against NL and five other former manufacturers of lead pigment for negligence, strict liability, breach of warranty, fraud, conspiracy, market share liability and alternative liability (Ritchie v. NL Industries, et al. - No. 96-C-179M). In October 1996, defendants removed the case to federal court and filed motions to dismiss. Plaintiff has filed a motion to remand to state court. The motions are pending.

NL believes that the foregoing lead pigment actions are without merit and intends to continue to deny all allegations of wrongdoing and liability and to defend such actions vigorously.

NL has filed actions seeking declaratory judgment and other relief against various insurance carriers with respect to costs of defense and indemnity coverage for certain of its environmental and lead pigment litigation. NL Industries, Inc. v. Commercial Union Insurance Cos., et al., Nos. 90-2124, -2125 (HLS) (District Court of New Jersey). The action relating to lead pigment litigation defense costs, filed in May 1990 against Commercial Union Insurance Company ("Commercial Union") seeks to recover defense costs incurred in the City of New York lead pigment case and two other cases which have since been resolved in NL's favor. In July 1991, the court granted NL's motion for summary judgment and ordered Commercial Union to pay NL's reasonable defense costs for such cases. In June 1992, NL filed an amended complaint in the United States District Court for the District of New Jersey against Commercial Union seeking to recover costs incurred in defending four additional lead pigment cases which have since been resolved in NL's favor. In August 1993, the court granted NL's motion for summary judgment and ordered Commercial Union to pay the reasonable costs of defending those cases. In July 1994, the court entered judgment on the order requiring Commercial Union to pay previously-incurred NL costs in defending those cases. In September 1995, the U.S. Court of Appeals for the Third Circuit reversed and remanded for further consideration the decision by the trial court that Commercial Union was obligated to pay the Company's reasonable defense costs in certain of the lead pigment cases. The trial court made its decision applying New Jersey law; the Court of Appeals concluded that New York law, and not New Jersey law, applied and remanded the case to the trial court for a determination under New York law. On remand from the Court of Appeals, the trial court in April 1996 granted NL's motion for summary judgment, finding that Commercial Union had a duty to defend NL in the four lead paint cases which are the subject of NL's second amended complaint. The court also issued a partial ruling on Commercial Union's motion for summary judgment in which it sought allocation of defense costs and contribution from NL and two other insurance carriers in connection with three lead paint actions on which the court had granted NL summary judgment in 1991. The court ruled that Commercial Union is entitled to receive contribution from NL and the two carriers, but reserved ruling with respect to the relative contributions to be

made by each of the parties, including contributions by NL that may be required with respect to periods in which NL was self-insured and contributions from one carrier which were reinsured by a former subsidiary of NL, the reinsurance costs of which NL may ultimately be required to bear. Other than granting motions for summary judgment brought by two excess liability insurance carriers, which contended their policies contained unique pollution exclusion language, and certain summary judgment motions regarding policy periods, the court has not made any final rulings on defense costs or indemnity coverage with respect to NL's pending environmental litigation. The Court has not made any final ruling on indemnity coverage in the lead pigment litigation. No trial dates have been set. Other than ruling to date, the issue of whether insurance coverage for defense costs or indemnity or both will be found to exist depends upon a variety of factors, and there can be no assurance that such insurance coverage will exist in other cases. NL has not considered any potential insurance recoveries for lead pigment or environmental litigation in determining related accruals.

Environmental matters and litigation. NL has been named as a defendant, PRP, or both, pursuant to CERCLA and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, or its subsidiaries, or their predecessors, many of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, or both. Certain of these proceedings involve claims for substantial amounts. Although NL may be jointly and severally liable for such costs, in most cases, it is only one of a number of PRPs who are also jointly and severally liable.

The extent of CERCLA liability cannot be determined until the Remedial Investigation and Feasibility Study ("RIFS") is complete, the U.S. EPA issues a record of decision and costs are allocated among PRPs. The extent of liability under analogous state cleanup statutes and for common law equivalents are subject to similar uncertainties. NL believes it has provided adequate accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 1996, NL had accrued $113 million with respect to those environmental matters which are reasonably estimable. NL determines the amount of accrual on a quarterly basis by analyzing and estimating the range of possible costs to NL. Such costs include, among other things, remedial investigations, monitoring, studies, clean-up, removal and remediation. In the first quarter of 1997, NL's accrual will be increased to include legal fees and other costs of managing and monitoring certain environmental remediation sites as required by the adoption of the AICPA's Statement of Position 96-1. See Note 18 to the Consolidated Financial Statements. It is not possible to estimate the range of costs for certain sites. NL has estimated that the upper end of the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately $160 million. 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. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, or a determination that NL is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by NL to be required for such matters. Further, there can be no assurance that additional environmental matters will not arise in the future. More detailed descriptions of certain legal proceedings relating to environmental matters are set forth below.

At Pedricktown, the U.S. EPA divided the site into two operable units. Operable unit one covers contaminated ground water, surface water, soils and stream sediments. In July 1994, the U.S. EPA issued the Record of Decision for operable unit one. The U.S. EPA estimates the cost to complete operable unit one is $18.7 million. In May 1996, certain PRPs, but not NL, entered into an administrative consent order with the U.S. EPA to perform the remedial phase of operable unit one. In addition, the U.S. EPA incurred past costs in the estimated amount of $5 million. The U.S. EPA issued an order with respect to operable unit two in March 1992 to NL and 30 other PRPs directing immediate removal activities including the cleanup of waste, surface water and building surfaces. NL has complied with the order, and the work with respect to operable unit two is completed. NL has paid approximately 50% of operable unit two costs, or $2.5 million.

At Granite City, the RIFS is complete, and in 1990 the U.S. EPA selected a remedy estimated to cost approximately $28 million. In July 1991, the United

States filed an action in the U.S. District Court for the Southern District of Illinois against NL and others (United States of America v. NL Industries, Inc., et al., Civ. No. 91-CV 00578) with respect to the Granite City smelter. The complaint seeks injunctive relief to compel the defendants to comply with an administrative order issued pursuant to CERCLA, and fines and treble damages for the alleged failure to comply with the order. NL and the other parties did not comply with the order believing that the remedy selected by the U.S. EPA was invalid, arbitrary, capricious and not in accordance with law. The complaint also seeks recovery of past costs and a declaration that the defendants are liable for future costs. Although the action was filed against NL and ten other defendants, there are 330 other PRPs who have been notified by the U.S. EPA. Some of those notified were also respondents to the administrative order. In February 1992, the court entered a case management order directing that the remedy issues be tried before the liability aspects are presented. In September 1995, the U.S. EPA released its decision selecting cleanup remedies for the Granite City site. At that time, the cost of the remedies selected by the U.S. EPA aggregated, in its estimation, $40.8 million to $67.8 million, although its decision stated that the higher amount was not considered to be representative of expected costs. NL is presently challenging portions of the U.S. EPA's selection of the remedy. The U.S. EPA's current estimate for the completion of the cleanup is $24.3 million, and in January 1997, NL was informed that the U.S. EPA incurred past costs approximating $30 million. There is currently no allocation among the PRPs for these costs.

Having completed the RIFS at Portland, NL conducted predesign studies to explore the viability of the U.S. EPA's selected remedy pursuant to a June 1989 consent decree captioned U.S. v. NL Industries, Inc., Civ. No. 89-408, United States District Court for the District of Oregon. Subsequent to the completion of the predesign studies, the U.S. EPA issued notices of potential liability to approximately 20 PRPs, including NL, directing them to perform the remedy, which was initially estimated to cost approximately $17 million, exclusive of administrative and overhead costs and any additional costs, for the disposition of recycled materials from the site. In January 1992, the U.S. EPA issued unilateral administrative orders to NL and six other PRPs directing the performance of the remedy. NL and the other PRPs commenced performance of the remedy. In August 1994, the U.S. EPA authorized NL and other PRPs to cease performing most aspects of the selected remedy. The U.S. EPA has issued a Record of Decision Amendment changing portions of the remedy. The U.S. EPA currently estimates the cost of the proposed remedy to be from $10 million to $13 million. Pursuant to an interim allocation, NL's share of remedial costs is approximately 50%. In November 1991, Gould, Inc., the current owner of the site, filed an action, Gould Inc. v. NL Industries, Inc., No. 91-1091, United States District Court for the District of Oregon, against NL for damages for alleged fraud in the sale of the smelter, rescission of the sale, past CERCLA response costs and a declaratory judgment allocating future response costs and punitive damages. The court granted Gould's motion to amend the complaint to add additional defendants (adjoining current and former landowners and generators). The amended complaint deletes the fraud and punitive damages claims asserted against NL; thus, the pending action is essentially one for reallocation of past and future cleanup costs. Discovery is proceeding. A trial date has been set for September 1997. NL and the other PRPs performing the cleanup have reached a settlement in principle with many of the generators and adjoining landowner defendants.

NL and other PRPs entered into an administrative consent order with the U.S. EPA requiring the performance of a RIFS at two sites in Cherokee County, Kansas, where NL and others formerly mined lead and zinc. A former NL subsidiary mined at the Baxter Springs subsite, where it is the largest viable PRP. The final RIFS was submitted to the U.S. EPA in May 1993. In August 1994, the U.S. EPA issued its proposed plan for the cleanup of the Baxter Springs and Treece sites in Cherokee County. The proposed remedy is estimated by the U.S. EPA to cost $6 million.

In January 1989, the State of Illinois brought an action against NL and several other subsequent owners and operators of a former NL facility in Chicago, Illinois (People of the State of Illinois v. NL Industries, et al., No. 88-CH-11618, Circuit Court, Cook County). The complaint seeks recovery of $2.3 million of cleanup costs expended by the Illinois Environmental Protection Agency, plus penalties and treble damages. In October 1992, the Supreme Court of Illinois reversed the Appellate Division, which had affirmed the trial court's earlier dismissal of the complaint, and remanded the case for further proceedings. In December 1993, the trial court denied the State's petition to reinstate the complaint, and dismissed the case with prejudice. In November 1996, the appeals court reversed the dismissal. The U.S. EPA has issued an order to NL to perform a removal action at the site, and NL has notified the

U.S. EPA that it intends to comply with the order.

In 1980, the State of New York commenced litigation against NL in connection with the operation of a plant in Colonie, New York formerly owned by NL. Flacke v. NL Industries, Inc., No. 1842-80 ("Flacke I") and Flacke v. Federal Insurance Company and NL Industries, Inc., No. 3131-92 ("Flacke II"), New York Supreme Court, Albany County. The plant manufactured military and civilian products from depleted uranium and was acquired from NL by the U.S. Department of Energy ("DOE") in 1984. Flacke I seeks penalties for alleged violations of New York's Environmental Conservation Law, and of a consent order entered into to resolve these alleged violations. Flacke II seeks forfeiture of a $200,000 surety bond posted in connection with the consent order, plus interest from February 1980. NL denied liability in both actions. The litigation had been inactive from 1984 until July 1993 when the State moved for partial summary judgment for approximately $1.5 million on certain of its claims in Flacke I and for summary judgment in Flacke II. In January 1994, NL cross-moved for summary judgment in Flacke I and Flacke II. All summary judgment motions have been denied. NL has reached a settlement in principle with the State.

Residents in the vicinity of NL's former Philadelphia lead chemicals plant commenced a class action allegedly comprised of over 7,500 individuals seeking medical monitoring and damages allegedly caused by emissions from the plant. Wagner, et al v. Anzon and NL Industries, Inc., No. 87-4420, Court of Common Pleas, Philadelphia County. The complaint sought compensatory and punitive damages from NL and the current owner of the plant, and alleged causes of action for, among other things, negligence, strict liability, and nuisance. A class was certified to include persons who resided, owned or rented property, or who work or have worked within up to approximately three-quarters of a mile from the plant from 1960 through the present. NL answered the complaint, denying liability. In December 1994, the jury returned a verdict in favor of NL. Plaintiffs appealed, and in September 1996 the Superior Court of Pennsylvania affirmed the jury verdict in favor of NL. In December 1996, plaintiffs filed a petition for allowance of appeal to the Pennsylvania Supreme Court. Plaintiff's petition is pending. Residents also filed consolidated actions in the United States District Court for the Eastern District of Pennsylvania, Shinozaki v. Anzon, Inc. and Wagner and Antczak v. Anzon and NL Industries, Inc., Nos. 87-3441, 87-3502, 87-4137 and 87-5150. The consolidated action is a putative class action seeking CERCLA response costs, including cleanup and medical monitoring, declaratory and injunctive relief and civil penalties for alleged violations of the Resource Conservation and Recovery Act ("RCRA"), and also asserting pendent common law claims for strict liability, trespass, nuisance and punitive damages. The court dismissed the common law claims without prejudice, dismissed two of the three RCRA claims as against NL with prejudice, and stayed the case pending the outcome of the state court litigation.

In July 1991, a complaint was filed in the United States District Court for the Central District of California, United States of America v. Peter Gull and NL Industries, Inc., Civ. No. 91-4098, seeking recovery of $2 million in costs incurred by the United States in response to the alleged release of hazardous substances into the environment from a facility located in Norco, California, treble damages and $1.75 million in penalties for NL's alleged failure to comply with the U.S. EPA's administrative order No. 88-13. The order, which alleged that NL arranged for the treatment or disposal of materials at the Norco site, directed the immediate removal of hazardous substances from the site. NL carried out a portion of the remedy at the Norco site, but did not complete the ordered activities because it believed they were in conflict with California law. The court ruled that NL was liable for approximately $2.7 million in response costs plus approximately $3.6 million in penalties for failure to comply with the administrative order. In April 1994, the court entered final judgment in this matter directing NL to pay $6.3 million plus interest. Both NL and the government have appealed. In August 1994, this matter was referred to mediation, which is pending.

At a municipal and industrial waste disposal site in Batavia, New York, NL and six others have been identified as PRPs. The U.S. EPA has divided the site into two operable units. Pursuant to an administrative consent order entered into with the U.S. EPA, NL conducted a RIFS for operable unit one, the closure of the industrial waste disposal section of the landfill. NL's RIFS costs to date are approximately $2 million. In June, 1995, the U.S. EPA issued the record of decision for operable unit one, which is estimated by the U.S. EPA to cost approximately $12.3 million. In September 1995, the U.S. EPA and certain PRPs (including NL), entered into an administrative order on consent for the remedial design phase of the remedy for operable unit one and the design phase is proceeding. NL and other PRPs entered into an interim cost sharing

arrangement for this phase of the work. With respect to the second operable unit, the extension of the municipal water supply, the U.S. EPA estimated the costs at $1.2 million plus annual operation and maintenance costs. NL and the other PRPs are performing the work comprising operable unit two. The U.S. EPA has also demanded approximately $.9 million in past costs from the PRPs.

See also Item 1 - "Business - Chemicals - Regulatory and environmental matters."

At December 31, 1996, Medite has accrued approximately $4.6 million for the estimated cost to complete environmental remediation efforts at certain of its current and former facilities, including amounts included in accrued plant closure costs. Costs for future environmental remediation efforts are not discounted to their present value, and no recoveries for remediation costs from third parties have been recognized. Such accruals will be adjusted, if necessary, as further information becomes available or as circumstances change. No assurance can be given that the actual costs will not exceed accrued amounts. None of these facilities are the subject of any litigation, administrative proceeding or investigation.

The Company has also been named as a PRP pursuant to CERCLA at one Superfund site in Indiana and has also undertaken a voluntary cleanup program approved by state authorities at another Indiana site, both of which involve operations no longer conducted by the Company. The total estimated cost for cleanup and remediation at the Indiana Superfund site is $40 million, of which the Company's share is currently estimated to be approximately $2 million. The Company's estimated cost to complete the voluntary cleanup program at the other Indiana site, which involves both surface and groundwater remediation, is relatively nominal. The Company believes it has adequately provided accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 1996, the Company had accrued $2 million in respect of such matters, which accrual is near the Company's estimate of the upper end of range of possible costs. No recoveries for remediation costs have been recognized. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. Furthermore, there can be no assurance that additional environmental matters related to current or former operations will not arise in the future.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 1996.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Valhi's common stock is listed and traded on the New York and Pacific Stock Exchanges (symbol: VHI). As of March 15, 1997, there were approximately 5,000 holders of record of Valhi common stock. The following table sets forth the high and low sales prices for Valhi common stock for the years indicated, according to the New York Stock Exchange Composite Tape, and dividends paid during such periods. On March 14, 1997 the closing price of Valhi common stock according to the NYSE Composite Tape was $8.

	HIGH	LOW	DIVIDENDS PAID
Year ended December 31, 1995			
First Quarter	$8 3/8	$6 5/8	$.03
Second Quarter	8 5/8	6 3/4	.03
Third Quarter	8 1/8	6 3/4	.03
Fourth Quarter	7 1/2	5 3/4	.03
Year ended December 31, 1996			
First Quarter	$7 3/4	$6 1/8	$.05
Second Quarter	7 3/8	5 7/8	.05
Third Quarter	7	6	.05

Fourth Quarter	6 5/8	5 7/8	.05

Valhi's regular quarterly dividend is currently $.05 per share. Declaration and payment of future dividends and the amount thereof will be dependent upon the Company's results of operations, financial condition, cash requirements for its businesses, contractual requirements and restrictions and other factors deemed relevant by the Board of Directors. There are currently no contractual restrictions on the ability of Valhi to declare or pay dividends.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEARS ENDED DECEMBER 31,				
	1992	1993	1994	1995	1996
	(IN MILLIONS, EXCEPT PER SHARE DATA)				
STATEMENTS OF OPERATIONS DATA:					
Net sales:					
Chemicals	$ -	$ -	$ -	$1,023.9	$ 986.1
Component products	54.0	64.4	70.0	80.2	88.7
Fast food	103.8	111.6	115.5	115.4	116.0
	$ 157.8	$ 176.0	$ 185.5	$1,219.5	$1,190.8
Operating income:					
Chemicals	$ -	$ -	$ -	$ 178.5	$ 92.0
Component products	10.7	17.5	20.9	19.9	22.1
Fast food	8.5	9.7	9.0	7.5	8.9
	$ 19.2	$ 27.2	$ 29.9	$ 205.9	$ 123.0
Equity in Amalgamated Sugar Company	$ 20.5	$ 19.6	$ 13.9	$ 8.9	$ 10.0
Equity in Waste Control Specialists				$ (.5)	$ (6.4)
Equity in NL prior to consolidation:					
Operations	$ (37.4)	$ (52.4)	$ (25.1)		
Provision for market value impairment	-	(84.0)	-		
	$ (37.4)	$(136.4)	$ (25.1)		
Income (loss) from continuing operations	$ (15.4)	$ (74.2)	$ 1.3	$ 57.9	$ 4.2
Discontinued operations	(6.8)	10.1	10.3	10.6	37.8
Extraordinary items	(6.3)	(15.4)	-	-	-
Cumulative effect of changes in accounting principles (1)	(69.8)	.4	-	-	-
Net income (loss)	$ (98.3)	$ (79.1)	$ 11.6	$ 68.5	$ 42.0
PER SHARE DATA:					
Income (loss) from continuing operations	$ (.14)	$ (.65)	$ .01	$ .51	$ .04
Net income (loss)	$ (.86)	$ (.69)	$ .10	$ .60	$ .37
Cash dividends	$ .20	$ .05	$ .08	$ .12	$ .20
Weighted average common shares outstanding	113.9	114.1	114.3	114.4	114.6
BALANCE SHEET DATA (at year end):					
Total assets	$1,077.0	$ 903.9	$2,480.7	$2,572.2	$2,145.0
Long-term debt	288.7	302.5	1,086.7	1,084.3	844.5
Stockholders' equity	259.1	207.5	198.4	274.3	303.9

(1) Relates to OPEB and income tax accounting in 1992 and marketable securities in 1993.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

CONTINUING OPERATIONS

The Company reported income from continuing operations of $4.2 million, or $.04 per share, in 1996 compared to income from continuing operations of $58 million, or $.51 per share, in 1995. A major factor in the decline in earnings was due to lower average selling prices for TiO2 at NL Industries.

Discontinued operations represent the results of operations of Medite Corporation, and in 1996 includes (i) an aggregate fourth quarter $48 million after-tax gain on disposition ($75 million pre-tax) related principally to its U.S. timber and timberland assets and its Irish MDF subsidiary and (ii) a $15 million first quarter after-tax charge ($24 million pre-tax) related to closure of its New Mexico MDF operations. See Note 19 to the Consolidated Financial Statements.

The Company currently expects to report a loss from continuing operations in 1997 due to (i) the Company's $30 million pre-tax charge associated with the first quarter 1997 adoption of AICPA Statement of Position No. 96-1, "Accounting for Environmental Liabilities," for NL's remediation sites (see Note 18 to the Consolidated Financial Statements) and (ii) expected lower average selling prices for TiO2 in 1997 compared with 1996. TiO2 prices declined throughout 1996, and while NL currently expects TiO2 prices will begin to increase during 1997, the average price for 1997 is expected to be lower than the average price in 1996.

The statements in this Annual Report on Form 10-K relating to matters that are not historical facts, including, but not limited to, statements found in Item 1 - "Business" and Item 3 - "Legal Proceedings" as well as in this Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations", are forward-looking statements that involve a number of risks and uncertainties. Factors that could cause actual future results to differ materially from those expressed in such forward-looking statements include, but are not limited to, future supply and demand for the Company's products (including cyclicality thereof), general economic conditions, competitive products, customer and competitor strategies, the impact of pricing and production decisions, environmental matters, government regulations and possible changes therein, the ultimate resolution of pending litigation and possible future litigation, completion of pending asset/business unit dispositions and other risks and uncertainties discussed elsewhere herein including, without limitation, the sections referenced above.

CHEMICALS

Selling prices for TiO2, NL's principal product, declined during 1996. NL's TiO2 operations are conducted through Kronos while its specialty chemicals operations are conducted through Rheox.

	YEARS ENDED DECEMBER 31,				% CHANGE (B)	
	1994					
	NL HISTORICAL	PRO FORMA(A)	1995(A)	1996(A)	1994-1995	1995-1996
	(IN MILLIONS)					
Net sales:						
Kronos	$770.1	$770.1	$ 894.1	$ 851.2	+ 16%	- 5%
Rheox	117.9	117.9	129.8	134.9	+ 10%	+ 4%
	$888.0	$888.0	$1,023.9	$ 986.1	+ 15%	- 4%
Operating income:						
Kronos	$ 80.5	$ 62.6	$ 141.6	$ 51.9	+126%	-63%
Rheox	30.9	29.3	36.9	40.1	+ 26%	+ 9%
	$111.4	$ 91.9	$ 178.5	$ 92.0	+ 94%	-48%

Operating income margins:						
Kronos	10%	8%	16%	6%		
Rheox	26%	25%	28%	30%		
TiO2 data:						
Sales volume (thousands of metric tons)	376	376	366	388	- 3%	+ 6%
Average price index (1983=100)	132	132	152	139	+ 15%	- 9%

(A) Operating income in 1996, 1995 and 1994 pro forma is stated net of amortization of Valhi's purchase accounting adjustments made in conjunction with the acquisitions of its interest in NL, which adjustments result in additional depreciation, depletion and amortization expense beyond amounts separately reported by NL. Such additional non-cash expenses reduce chemicals operating income, as reported by Valhi, by approximately $20 million annually as compared to amounts separately reported by NL.

(B)% change 1994 pro forma to 1995 amounts.

Kronos' TiO2 operating income declined in 1996 primarily due to lower average selling prices, partially offset by higher sales volume. In billing currency terms, average TiO2 selling prices in 1996 were 9% lower than 1995. TiO2 selling prices began declining in the last half of 1995, and selling prices at the end of 1996 were 17% lower than at the end of 1995 and 8% below the average for 1996. While TiO2 prices declined in 1996, industry wide demand for TiO2 has grown, as Kronos' TiO2 sales volume increased 6% in 1996 to a record 388,000 metric tons, with improved sales volumes worldwide. Sales volumes in the second half of 1996 were 16% higher than the same period in 1995. In response to softening demand in the first half of 1996 and its high inventory levels at the end of 1995, Kronos curtailed production rates in early 1996. As demand increased during the last half of 1996 and inventories returned to more-normal levels, Kronos' production rates were increased to near full capacity in late 1996 and the average capacity utilization was 95% for the year. Kronos' production rates were 94% of its capacity in 1994 and at full capacity in 1995. Approximately one-half of Kronos' 1996 TiO2 sales, by volume, were attributable to markets in Europe, with 37% attributable to North America and the balance to export markets.

The improvement in Kronos' 1995 TiO2 results was primarily due to higher average selling prices and production volume, partially offset by lower sales volume. In billing currency terms, average TiO2 selling prices in 1995 were approximately 15% higher than 1994. TiO2 sales volume in 1995 was 3% lower than the record levels of 1994, with declines in both Europe and North America, due to softening demand in the second half of 1995 and customers building inventories during 1994 and early 1995.

Demand, supply and pricing within the TiO2 industry is cyclical, and changes in industry economic conditions can significantly impact NL's earnings and operating cash flows. The average TiO2 selling price index (using 1983 = 100) of 139 in 1996 was 9% lower than the 1995 index of 152 (1995 was 15% above the 1994 level). In comparison, the 1996 index was 21% below the 1990 price index of 175 and 9% higher than the 1993 price index of 127. Many factors influence TiO2 pricing levels, including industry capacity, worldwide demand growth and customer inventory levels and purchasing decisions. NL believes that the TiO2 industry has long-term growth potential, as a result of certain barriers to entry which inhibit industry capacity growth. The decline in TiO2 prices in 1996, NL believes, was due in part to the impact of recent debottlenecking projects increasing capacity, TiO2 customers de-stocking inventories in a period of declining prices, and greater competition for sales volume with more industry capacity available.

NL expects its TiO2 operating margins will begin to improve during the second quarter of 1997 as the impact of recently-announced price increases takes effect. However, NL expects its 1997 TiO2 operating income to be below that of 1996, primarily because of anticipated lower average selling prices for TiO2 and lower technology fee income. While NL expects TiO2 prices will begin to increase during 1997, the average for 1997 is expected to be lower than the 1996 average price. NL expects demand for TiO2 to remain strong in 1997, and the continued growth in demand should result in significant improvement in average selling prices for TiO2 over the longer run.

Rheox's 1996 operating results include a $2.7 million gain related to the reduction of certain U.S. employee pension benefits. Rheox's operating results

improved in 1995 compared to 1994 primarily as a result of higher sales volume and higher average selling prices.

NL has substantial operations and assets located outside the United States (principally Germany, Belgium, Norway, the United Kingdom and Canada). The U.S. dollar value of NL's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and affect the comparability of period to period operating results. A significant amount of NL's sales are denominated in currencies other than the U.S. dollar (61% in 1996), principally major European currencies and the Canadian dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in the local currencies. Fluctuations in the value of the U.S. dollar relative to other currencies decreased 1996 sales by $14 million compared to 1995 and increased 1995 sales by $54 million compared to 1994.

COMPONENT PRODUCTS

	YEARS ENDED DECEMBER 31,			% CHANGE	
	1994	1995	1996	1994-95	1995-96
	(IN MILLIONS)				
Net sales	$70.0	$80.2	$88.7	+15%	+11%
Operating income	20.9	19.9	22.1	- 5%	+11%
Operating income margin	30%	25%	25%		

Sales increased in both 1995 and 1996 compared to the respective prior year due primarily to higher volumes in the office workstation component and drawer slide lines. Drawer slide sales increased 18% in 1996 compared to 1995 and workstation component products were up 14%. Both office workstation components and drawer slide lines reported new highs in sales in each of the past three years. Lock volumes from a government contract completed in early 1995 have only been partially replaced, and consequently lock sales declined about 5% in 1996 compared to 1995. The Company signed a new $650,000 contract with the same government agency in December 1996, with shipments scheduled to be delivered in the first nine months of 1997. Operating income margins in 1995 were impacted by higher raw material costs, as competitive pressures prevented full recovery through higher selling prices, as well as costs associated with integrating the operations of a Canadian competitor acquired in August 1995.

The new three-year collective bargaining agreement effective February 1997 covering CompX's Canadian employees provides for, among other things, wage rate increases of 2.5% to 3% per year.

About 60% of the Company's component products sales are generated by its Canadian operations. About two-thirds of these Canadian-produced sales are denominated in U.S. dollars while substantially all of the related costs are incurred in Canadian dollars. Consequently, relative changes in the U.S. dollar/Canadian dollar exchange rate impact operating results. Fluctuations in the value of the U.S. dollar relative to the Canadian dollar favorably impacted operating results in 1995 compared with 1994 and unfavorably impacted 1996 operating results compared with 1995.

FAST FOOD

	YEARS ENDED DECEMBER 31,			% CHANGE	
	1994	1995	1996	1994-95	1995-96
	(IN MILLIONS)				
Net sales	$115.5	$115.4	$116.0	- 0%	+ 1%
Operating income	9.0	7.5	8.9	-17%	+18%
Operating income margin	8%	7%	8%		
Arby's units operated:					
At end of year	162	158	150	- 2%	- 5%
Average during the year	159	158	152	- 1%	- 4%

Comparable store sales increased 2% in 1996 compared to 1995. Operating income and margins improved due to successful marketing promotions, reduced

training and recruiting costs associated with the slower rate of opening new stores in 1996 and closure of certain under-performing units. Excluding the effect of a 53rd week in 1994, comparable store sales were relatively flat in 1995 compared to 1994, and margins in 1995 were adversely impacted by higher labor costs and discounts associated with competitive promotions.

A significant portion of Sybra's restaurant employees work on a part-time basis and are paid at rates related to the minimum wage rate. Restaurant labor costs currently approximate 29% of sales. The two-step, 90-cent increase in the minimum wage rate which became effective October 1, 1996 increased Sybra's labor costs. Sybra concurrently implemented certain price increases to offset the impact of the first step of the October 1, 1996 wage rate increase. Any further increase in the minimum wage rate or legislation requiring mandatory medical insurance benefits to part-time employees would further increase Sybra's labor costs. Although Sybra's competitors would likely experience similar increases, there can be no assurance that further increases in sales prices can be implemented to offset future increases in these costs.

Sybra opened 17 new stores during the past three years (one in 1996). Sybra continually evaluates the profitability of its individual restaurants, closed 27 stores during the past three years (9 in 1996) and intends to continue to close unprofitable stores when appropriate. Costs associated with store closings were $1.4 million in 1994, $.9 million in 1995 and $1.2 million in 1996. Sybra currently expects a net increase of about three stores in 1997 as it plans to open six new stores and close at least three underperforming units. The first new unit for 1997 is currently under construction and is scheduled to open by the end of the first quarter.

The Company has executed agreements involving the sale of its fast food operations conducted by Sybra. See Note 18 to the Consolidated Financial Statements. If completed, the transactions are expected to close in the second quarter of 1997, at which time the Company estimates it would report a pre-tax gain on disposal in excess of $24 million. There can be no assurance that any such transactions will be completed.

WASTE MANAGEMENT

Waste Control Specialists LLC, formed in November 1995, was constructing its West Texas facility during 1995 and 1996. Waste Control Specialists reported a loss of $.5 million during the last two months of 1995 and a $6.4 million loss in 1996 during its development stage. The Company received its first wastes for disposal in February 1997.

Valhi is entitled to a 20% cumulative preferential return on its $25 million investment in Waste Control Specialists after which earnings are generally split 50/50. The liabilities assumed by Waste Control Specialists exceeded the carrying value of the assets contributed by the other 50%-owner by approximately $3 million. Accordingly, all of Waste Control Specialists' income or loss will accrue to Valhi until Waste Control Specialists reports positive equity attributable to the other 50%-owner.

GENERAL CORPORATE AND OTHER ITEMS

General corporate. Net general corporate expenses in 1996 were lower than in 1995 due primarily to lower provisions for environmental remediation costs as well as the effect of a $2.8 million litigation settlement gain and a $2.3 million gain on disposition of a surplus grain facility in 1996. Net general corporate expenses in 1995 declined compared to the 1994 pro forma amount as lower environmental remediation and litigation costs at NL in 1995 more than offset NL's 1994 $20 million litigation settlement gain. General corporate expenses in 1997 are expected to be significantly higher than in 1996 due principally to the $30 million pre-tax charge from adoption of the new standard regarding accounting for environmental remediation liabilities. See Note 18 to the Consolidated Financial Statements. Securities earnings in 1994 were reduced by a first quarter 1994 decline in the market value of certain fixed-income investments, while average balances available for investment were lower in 1996 compared with 1995. Securities earnings is expected to increase significantly in 1997 due principally to the impact of (i) distributions to be received from The Amalgamated Sugar Company LLC, which will be reported as dividend income, and (ii) interest earned on Valhi's loans to Snake River Sugar Company. See Note 20 to the Consolidated Financial Statements.

Interest expense. Interest expense declined in 1996 due primarily to lower average variable interest rates, principally NL's DM-denominated debt, partially offset by higher average levels of such debt. Interest expense in 1995 approximated the 1994 pro forma amount as lower borrowing levels associated with

NL's DM and other bank loans and lower average interest rates on NL's DM-denominated debt were offset by changes in currency exchange rates and higher average U.S. variable borrowing rates. Interest expense is expected to increase significantly in 1997 due to, among other things, Valhi's $250 million in loans from Snake River Sugar Company. See Note 20 to the Consolidated Financial Statements.

At December 31, 1996, approximately $650 million of consolidated indebtedness, principally publicly-traded debt, bears interest at fixed interest rates averaging 11.1%. The weighted average interest rate on $469 million of outstanding variable rate borrowings at December 31, 1996 was 5.3%, down from 6.4% on outstanding variable rate borrowings at December 31, 1995 and 7.4% at December 31, 1994. These declines in average interest rates are due in large part to lower rates on NL's DM-denominated borrowings.

NL has significant DM-denominated variable interest rate borrowings and, accordingly, NL's interest expense is also subject to currency fluctuations. Periodic cash interest payments are not required on Valhi's 9.25% deferred coupon LYONs, and NL's 13% Discount Notes do not require periodic interest payments until 1998. As a result, current cash interest expense payments are lower than accrual basis interest expense.

Minority interest. Minority interest in earnings in 1996 consists principally of NL dividends paid to stockholders other than Valhi. Based on the continuing decline in TiO2 selling prices and the current TiO2 industry pricing outlook, NL's Board of Directors suspended its quarterly dividend in the fourth quarter of 1996. Because NL did not pay any dividends in 1995, all of NL's net income in 1995 accrued to Valhi for financial reporting purposes. Minority interest in earnings in 1995 (and pro forma 1994) relates to certain partially-owned foreign subsidiaries of NL, certain of which minority interest was purchased by Rheox in early 1996. At December 31, 1996, NL separately reported a shareholders' deficit of approximately $203 million and, as a result, no minority interest in NL Industries is recorded in the Company's consolidated balance sheet. Until such time as NL reports positive shareholders' equity in its separate financial statements, all of NL's undistributed earnings will accrue to the Company for financial reporting purposes.

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 15 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 Company's consolidated effective income tax rate. As discussed in Note 20 to the Consolidated Financial Statements, The Amalgamated Sugar Company's results of operations are presented on the equity method during 1994, 1995 and 1996. Amalgamated is a member of the consolidated U.S. tax group of which Valhi and Contran are members, and consequently the Company did not provide any incremental income taxes related to such earnings. Certain subsidiaries, including NL, are not members of the consolidated U.S. tax group, and the Company does provide incremental income taxes on such earnings. Both of these factors impact the Company's overall effective tax rate.

The provision for income taxes in 1995 includes net deferred income tax benefits resulting from changes in the U.S./Canada income tax treaty and the reduction of NL's deferred income tax valuation allowance to recognize the future benefit of certain tax credits. In both 1994 and 1996, the geographic mix of pre-tax income included losses in certain of NL's tax jurisdictions for which no current refund was available and for which recognition of a deferred tax asset was not considered appropriate. All of these factors also impacted the Company's overall effective tax rate. See Note 15 to the Consolidated Financial Statements.

EQUITY IN EARNINGS OF AMALGAMATED

As discussed in Note 20 to the Consolidated Financial Statements, The Amalgamated Sugar Company's results of operations are presented on the equity method during 1994, 1995 and 1996. Amalgamated's sales, operating income and net earnings for each of the past three years are presented in Note 20 to the Consolidated Financial Statements. Beginning in 1997, the Company will report distributions received from The Amalgamated Sugar Company LLC as dividend income.

Average sugar selling prices in 1996 were 6% higher than in 1995. Reflecting a smaller crop size, refined sugar sales volume in 1996 (15.9 million

cwt) decreased 13% from the record levels of 1995. An increased extraction rate in 1996, in part due to the implementation of certain recently-completed productivity improvement capital projects, along with a higher sugar content of the beets have resulted in a lower beet cost per hundredweight ("cwt")of sugar produced, lower aggregate sugar processing costs and improved FIFO-based earnings in 1996 compared to 1995.

Refined sugar sales volume in 1995 (18.2 million cwt) was an all-time record. Due primarily to an abnormally high yield per acre, Amalgamated's sugar production from the crop harvested in the fall of 1994 was approximately 10% higher than its previous record crop. The record volume was aided by expiration of the U.S. government-imposed restrictive marketing allotments at the end of the third quarter of 1995, and fourth quarter 1995 volume was almost 50% higher than the same period in 1994 when marketing allotments were in effect.

Average refined sugar selling prices in 1995 increased slightly (1%) compared to 1994 and were aided in part by the effect of marketing allotments imposed on domestic producers during the crop year ended September 30, 1995. To help reduce the relatively high level of sugar inventories resulting from the record crop, Amalgamated made limited sales into foreign markets during the first nine months of 1995, which sales were excluded from the domestic allotments. Net returns from foreign sales are typically lower than from domestic sales. The large sugarbeet crop harvested in the fall of 1994 and adverse weather conditions resulted in a long and difficult processing campaign. These factors, along with a lower sugar content of the beets, contributed to a 10% increase in per hundredweight ("cwt") crop processing costs.

Sugarbeet purchase cost is the largest cost component of producing refined sugar and the price paid for sugarbeets is, under the terms of contracts with the sugarbeet growers, a function of the average selling price of Amalgamated's refined sugar. As a result, changes in sugar selling prices impact sugarbeet purchase costs as well as revenues and serve as a partial hedge against changing prices. However, the impact of related LIFO inventory adjustments can significantly affect operating income and margin comparisons relative to FIFO basis comparisons.

EQUITY IN EARNINGS OF NL PRIOR TO CONSOLIDATION

As discussed in Note 3 to the Consolidated Financial Statements, the Company's interest in NL was reported by the equity method during 1994. As discussed above and in Note 3, the Company consolidated NL's results of operations beginning in 1995. The Company's equity in NL's separately-reported results of operations for 1994, summarized below, differs from its effective percentage interest in NL's separate results. Amortization of basis differences arising from purchase accounting adjustments made by the Company in conjunction with the acquisition of its interests in NL generally reduces earnings, or increases losses, as reported by the Company compared to amounts separately reported by NL. NL's sales and operating income are discussed under "Chemicals" above.

	AMOUNT (IN MILLIONS)
Net sales	$888.0
Operating income	$111.3
Corporate, net	(40.8)
Interest expense	(83.9)
	(13.4)
Income tax expense	(9.8)
Minority interest	(.8)
Loss from continuing operations	$(24.0)
The Company's equity in NL's losses, including amortization of basis differences	$(25.1)

DISCONTINUED OPERATIONS

See Note 19 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES:

CONSOLIDATED CASH FLOWS

General. The consolidation of NL's cash flows beginning in 1995 significantly impacts cash flow comparisons with 1994.

Operating activities. Cash provided by operating activities before changes in assets and liabilities was $23 million in 1994, $126 million in 1995 and $88 million in 1996. Changes in assets and liabilities result primarily from the timing of production, sales and purchases. Under the terms of Internal Revenue Code and similar state regulations regarding the timing of estimated tax payments, the Company is not required to pay income taxes (approximately $39 million) related to Medite's 1996 asset sales of its timber and timberlands and Irish MDF subsidiary to such tax authorities until 1997. At that time, the payment of such cash income taxes will be shown as a reduction in cash flows from operating activities even though the pre-tax proceeds from disposition of such assets are shown as part of cash flow from investing activities. Cash flow from operating activities comparisons are also impacted by relatives changes in the Company's portfolio of marketable trading securities. Changes in such portfolio generated approximately $4 million of cash in 1994 and $51 million in 1995. Noncash interest expense consists of amortization of original issue discount on certain Valhi and NL indebtedness and amortization of deferred financing costs.

Investing activities. Capital expenditures are disclosed by business segment in Note 2 to the Consolidated Financial Statements.

At December 31, 1996, the estimated cost to complete capital projects in process approximated $10 million, most of which relates to environmental protection and compliance programs and productivity-enhancing equipment at NL. The Company's total capital expenditures for 1997 are estimated at approximately $51 million, down from $76 million in 1996 due principally to lower planned spending by NL. Capital expenditures in 1997 are expected to be financed primarily from operations or existing cash resources and credit facilities.

During 1996, Valhi purchased $15 million of NL common stock, Rheox acquired the minority interest of certain of its non-U.S. subsidiaries for $5 million and Valhi contributed $17 million to Waste Control Specialists. During 1995, CompX International purchased the assets of a Canadian workstation/drawer slide competitor for an aggregate of $6 million, Valhi purchased $13 million of NL common stock and Valhi invested $5 million in Waste Control Specialists. During 1994, Valhi purchased $15 million of NL common stock.

Financing activities. Net borrowings in 1996 include (i) DM 144 million ($96 million when borrowed) under NL's DM credit facility used primarily to both fund NL's operations and fund the German income tax settlement payments discussed below and (ii) $13 million under Valhi short-term credit facilities. Repayments of indebtedness include scheduled principal payments on NL term loans.

Net repayments of indebtedness in 1995 relate primarily to (i) $39 million of net short-term borrowings under NL DM-denominated short-term credit lines and (ii) principal repayments under NL term loans, including a $10 million prepayment under Rheox's term loan.

After giving effects to the amendments to the DM credit facility and the Rheox term loan discussed below, unused lines of credit available for borrowing under revolving credit facilities at December 31, 1996, including the DM facility, approximated $124 million.

CHEMICALS - NL INDUSTRIES

Demand, supply and pricing within the TiO_2 industry is cyclical, and changes in industry economic conditions can significantly impact NL's earnings and operating cash flows. During 1996, declining TiO_2 prices unfavorably impacted NL's operating income and cash flows from operations comparisons with 1995. NL generated $58 million in cash flows from operating activities before changes in assets and liabilities in 1996 compared to $105 million in 1995 and $39 million in 1994. Relative changes in NL's inventories, receivables and payables (excluding the effect of foreign currency translation), including relative changes in NL's portfolio of marketable trading securities, used $42

million of net cash in 1996, compared to a $33 million use of net cash in 1995.

Average TiO2 selling prices began a downward trend in the last half of 1995, which trend continued throughout 1996. NL expects TiO2 prices will begin to increase during 1997, although NL's average TiO2 selling price in 1997 is expected to be lower than the 1996 average. However, no assurance can be given that price trends will conform to NL's expectations and future cash flows will be adversely affected should price trends be lower than NL's expectations. In order to improve its near-term liquidity, NL refinanced Rheox's term loan in January 1997, generating approximately $125 million cash, and used the net cash proceeds, along with other available funds, to prepay a portion of the DM credit facility. See Note 9 to the Consolidated Financial Statements. In addition, NL and its lenders modified certain financial covenants of the DM credit facility, and NL has guaranteed the facility. As a result of the refinancing and prepayment, NL's aggregate scheduled debt payments for 1997 and 1998 decreased by $103 million ($64 million in 1997 and $39 million in 1998).

Based upon NL's expectations for the TiO2 industry and anticipated demands on NL's cash resources as discussed herein, NL expects to have sufficient liquidity to meet its near-term obligations including operations, capital expenditures and debt service. To the extent that actual developments differ from NL's expectations, NL's liquidity could be adversely affected.

NL's capital expenditures during the past three years aggregated $168 million, including $67 million ($26 million in 1996) for NL's ongoing environmental protection and compliance programs, including a Canadian waste acid neutralization facility, a Norwegian onshore tailings disposal system and various off-gas desulfurization systems. NL's estimated 1997 capital expenditures are $35 million and include $3 million in the area of environmental protection and compliance, primarily related to the off-gas desulfurization and water treatment chemical purification systems. NL spent $9 million in 1995 and $18 million in 1996, and plans to spend an additional $8 million in 1997, in capital expenditures related to a debottlenecking project at its Leverkusen, Germany chloride process TiO2 facility that is expected to increase NL's worldwide annual attainable TiO2 production capacity to about 410,000 metric tons in 1997. The capital expenditures of the TiO2 manufacturing joint venture are not included in NL's capital expenditures.

NL and its subsidiaries held $114 million of cash and cash equivalents (44% held by non-U.S. subsidiaries at December 31, 1996), of which $11 million is restricted. At December 31, 1996, after giving effect for the refinancing discussed above, NL had cash and cash equivalents of $87 million and had $9 million and $102 million available for borrowing under existing U.S. and non-U.S. credit facilities, respectively. The terms of intercompany notes from KII payable to NL mirror the terms of NL's publicly-traded debt and are designed to facilitate the flow of funds from NL's subsidiaries to service such indebtedness. At December 31, 1996, NL had complied with, or had obtained a waiver for, all financial covenants governing its debt agreements.

Certain of NL's U.S. and non-U.S. income tax returns, including Germany, are being examined and tax authorities have or may propose tax deficiencies. NL has reached an agreement with the German tax authorities regarding examinations which resolve certain significant tax contingencies for years through 1990. NL received certain final assessments and paid approximately DM 50 million ($32 million when paid), including interest, in 1996 in final settlement of the agreed issues. Certain other German tax contingencies remain outstanding and will continue to be litigated. Although NL believes that it will ultimately prevail in the litigation, NL has granted a DM 100 million ($64 million at December 31, 1996) lien on its Nordenham, Germany TiO2 plant in favor of the German tax authorities until the litigation is resolved. No assurance can be given that this litigation will be resolved in NL's favor in view of the inherent uncertainties involved in court rulings. NL believes that it has adequately provided accruals for additional income 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.

At December 31, 1996, NL had recorded net deferred tax liabilities of $152 million. NL, which is not a member of the Contran Tax Group, operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). NL has provided a deferred tax valuation allowance of $207 million at December 31, 1996, principally related to the U.S. and Germany, offsetting deferred tax assets which NL believes do not currently meet the "more-likely-than-not" recognition criteria.

In addition to the chemicals businesses conducted through Kronos and Rheox, NL also has certain interests and associated liabilities relating to certain discontinued or divested businesses.

NL has been named as a defendant, 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. NL believes it has provided adequate accruals ($113 million at December 31, 1996) 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. NL is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale of lead pigments and lead-based paints. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is no assurance that NL will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, NL believes that the pending lead pigment and lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated. 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. See Item 3 - "Legal Proceedings" and Note 18 to the Consolidated Financial Statements.

As discussed in "Results of Operations - Chemicals," NL has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amount of NL's assets and liabilities related to its non-U.S. operations, and therefore NL's consolidated net assets, will fluctuate based upon changes in currency exchange rates. The carrying value of NL's net investment in its German operations is a net liability due principally to its DM bank credit facility, while its net investment in its other non-U.S. operations are net assets.

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, modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, NL may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals industry. In the event of any future acquisition, NL may consider using its available cash, issuing its equity securities 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.

WASTE MANAGEMENT - WASTE CONTROL SPECIALISTS

Waste Control Specialists capital expenditures from its November 1995 formation through 1996 approximated $12 million. Estimated capital expenditures for projects in process, substantially all of which relate to the West Texas facility, are approximately $4 million and are expected to be incurred principally in 1997. Such capital expenditures, along with its development stage operating losses, will be funded primarily from Valhi's $25 million of capital contributions ($5 million in 1995, $17 million in 1996 and the remaining $3 million in 1997) as well as certain debt financing provided to Waste Control Specialists by Valhi. See Note 8 to the Consolidated Financial Statements.

OTHER

The Company continues to explore additional expansion and/or acquisition opportunities for its component products business. At December 31, 1996, CompX had $5 million of borrowing availability under existing Canadian credit agreements, and Sybra had $28 million of borrowing availability under its existing revolving credit agreements.

Condensed cash flow data for Medite and Amalgamated is presented in Notes 19 and 20, respectively, to the Consolidated Financial Statements.

Medite has made certain representations and warranties to the purchasers of its timber and timberlands, Irish MDF subsidiary and Oregon MDF facility concerning, among other things, the assets sold. Such representations are customary in transactions of these types. Medite has agreed to indemnify the three purchasers for up to an aggregate of $6.5 million for certain breaches of these representations and warranties. As part of the transactions, Valhi has agreed to guarantee Medite's indemnification obligations. The Company does not currently expect to be required to perform under any of these indemnification obligations.

GENERAL CORPORATE - VALHI AND VALCOR

Valhi's operations are conducted principally through subsidiaries and affiliates (NL Industries, Valcor and Waste Control Specialists). Valcor is an intermediate parent company with operations conducted through its subsidiaries (CompX International and Sybra). Accordingly, Valhi's and Valcor's long-term ability to meet their respective corporate obligations are dependent in large measure on the receipt of dividends or other distributions from their respective subsidiaries. NL, which paid dividends in the first three quarters of 1996, suspended its dividend in the fourth quarter. Suspension of NL's dividend is not currently expected to materially adversely impact Valhi's financial position or liquidity. Various credit agreements to which subsidiaries 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 the Company's ability to service parent company level obligations. Neither Valhi nor Valcor has guaranteed any indebtedness of their respective subsidiaries.

Valhi's LYONs do not require current cash debt service. Valhi owns 5.5 million shares of Dresser common stock, which shares are held in escrow for the benefit of holders of the LYONs. The LYONs are exchangeable at any time, at the option of the holder, for the Dresser shares owned by Valhi. Exchanges of LYONs for Dresser stock would result in the Company reporting income related to the disposition of the Dresser stock for both financial reporting and income tax purposes, although no cash proceeds would be generated by such exchanges. Cash income taxes that would have been triggered at December 31, 1996 by exchanges of all of the outstanding LYONs for Dresser stock at such date were approximately $33 million. Valhi continues to receive regular quarterly Dresser dividends (presently $.17 per quarter) on the escrowed shares. In addition, the Company is required, at the option of the holder, to purchase the LYONs in October 1997 at the accreted value of approximately $405 per $1,000 principal amount at maturity (approximately $153 million in October 1997). Such redemption price may be paid, at the option of Valhi, in cash, Dresser common stock, or a combination thereof. At December 31, 1996, the LYONs had an accreted value equivalent to approximately $26 per Dresser share, and the market price of the Dresser common stock was $31 per share. As long as the value of the underlying Dresser shares exceeds the accreted value of the LYONS, the Company does not expect a significant number of LYONs holder to seek redemption. Because the LYONS are redeemable at the option of the LYON holder in October 1997, the LYONS are classified as a current liability and the Dresser shares are classified as a current asset at December 31, 1996.

During 1995 and 1996, Valhi purchased an additional $13 million and $15 million, respectively, of NL common stock. In January 1997, Valhi made its final $3 million contribution to Waste Control Specialists, following $5 million contributed in 1995 and $17 million in 1996.

In February 1997, the Company entered into a $4 million revolving credit facility with Waste Control Specialists. Borrowings by Waste Control Specialists bear interest at prime plus 1% and are due no later than December 31, 1997.

The after-tax proceeds from the disposition of Medite, net of repayments of Medite's U.S. bank debt, is available for Valcor's general corporate purposes, subject to compliance with certain covenants contained in the Valcor Senior Note Indenture. At December 31, 1996, Valcor had cash, cash equivalents and demand loans to subsidiaries of approximately $140 million, a portion of which will be used to pay cash income taxes in 1997 related to Medite's 1996 asset disposals as discussed above. Also under the terms of the Indenture, Valcor is required to tender for a portion of the Valcor Notes, at par, to the extent that a specified amount of these proceeds is not used to either permanently paydown senior indebtedness of Valcor or its subsidiaries or invest in related

businesses, both as defined in the Indenture, within one year of disposition. While Valcor is not yet required to execute a tender offer related to Medite's asset dispositions, on March 20, 1997, Valcor announced it had initiated a tender offer whereby Valcor would purchase up to $86.7 million principal amount of Valcor Notes on a pro-rata basis, at par value, in satisfaction of the covenant contained in the Indenture. Pursuant to its terms, the tender offer will expire on April 24, 1997, unless extended by Valcor. The amount of Valcor Notes which will ultimately be purchased by Valcor pursuant to the tender offer is dependent upon the amount of Valcor Notes properly tendered. Consequently, there can be no assurance as to the amount of Valcor Notes which will ultimately be purchased by Valcor. The net proceeds from any disposition of the Company's fast food operations, net of repayments of Sybra's bank indebtedness, would similarly be available for Valcor's general corporate purposes. If the disposition of the Company's fast food operations is completed and none of those net proceeds are used as provided in the Indenture, a portion of the Notes would be subject to a subsequent tender offer.

Valhi received approximately $73 million cash in early 1997 at the transfer of control of its refined sugar business to Snake River Sugar Company, including a net $11.5 million received from Amalgamated as a pre-closing dividend. As part of the transaction, Snake River made certain loans to Valhi aggregating $250 million in January 1997. 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. See Note 20 to the Consolidated Financial Statements. Valhi currently expects that distributions received from the LLC, which are dependent in part upon the future operations of the LLC, will exceed its debt service requirements under its $250 million loans from Snake River. The cash proceeds to Valhi upon the transfer of control of Amalgamated's operations to Snake River, including amounts to be collected in the future from Valhi's $192 million loans to Snake River, will be available for Valhi's general corporate purposes. The Company understands that Snake River intends to refinance at least $100 million of such loans with a third party lender during 1997; however there can be no assurance that any such refinancing will occur.

As discussed in Note 20 to the Consolidated Financial Statements, the Company may, at its option, require the LLC to redeem the Company's interest in the LLC beginning in January 2002, and the LLC has the right to redeem the Company's interest in the LLC beginning in January 2027. In addition, beginning in January 2002 the Company has the right to require Snake River to purchase the Company's interest in the LLC. The redemption/purchase price is generally $250 million plus the amount of any deferrals of cash distributions from the LLC. In the event the Company either requires the LLC to redeem the Company's interest in the LLC or requires Snake River to purchase the Company's interest in the LLC, Snake River has the right to accelerate the maturity of and call the $250 million of Valhi loans. If the Company requires the LLC to redeem the Company's interest in the LLC, then Snake River is required, under the terms of the LLC Company Agreement, to contribute to the LLC the cash received from calling the Valhi loans. Redemption or purchase of the interest in the LLC as discussed above would result in the Company reporting income related to the disposition of its LLC interest for both financial reporting and income tax purposes, although the net cash proceeds that would be generated from such a disposition would likely be less than the specified redemption/purchase price due to Snake River's ability to call its $250 million loans to Valhi. In addition, such net cash proceeds 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 policy, consider the sale of interests in subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of such steps or other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

The Company routinely evaluates 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 and Valcor contain provisions which limit the ability of NL, Valcor and their respective subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this Item is contained in a separate section of this Annual Report. See "Index of Financial Statements and Schedules" (page F).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to Valhi's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report (the "Valhi Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Valhi Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Valhi Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Valhi Proxy Statement. See Note 17 to the Consolidated Financial Statements.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) and (d) Financial Statements and Schedules

The Registrant

The consolidated financial statements and schedules listed on the accompanying Index of Financial Statements and Schedules (see page F) are filed as part of this Annual Report.

50%-or-less owned persons or subsidiaries not consolidated.

Consolidated financial statements of Waste Control Specialists LLC and The Amalgamated Sugar Company are filed as part of this Annual Report pursuant to Rule 3.09 of Regulation S-X.

(b) Reports on Form 8-K

Reports on Form 8-K filed for the quarter ended December 31, 1996.

October 25, 1996 - Reported Items 5 and 7.
October 28, 1996 - Reported Items 5 and 7.
October 31, 1996 - Reported Items 5 and 7.
November 20, 1996 - Reported Items 5 and 7.
December 31, 1996 - Reported Items 2 and 7.

(c) Exhibits

Included as exhibits are the items listed in the Exhibit Index. Valhi will furnish a copy of any of the exhibits listed below upon payment of $4.00 per exhibit to cover the costs to Valhi of furnishing the exhibits. Instruments defining the rights of holders of long-term debt issues which do not exceed 10% of consolidated total assets will be furnished to the Commission upon request.

Item No.	Exhibit Index
3.1	Restated Articles of Incorporation of the Registrant - incorporated by reference to Appendix A to the definitive Prospectus/Joint Proxy Statement of The Amalgamated Sugar Company and LLC Corporation (File No. 1-5467) dated February 10, 1987.
3.2	By-Laws of the Registrant as amended - incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1992.
4.1	Form of Indenture between the Registrant and NationsBank of Georgia, N.A., as Trustee, governing Liquid Yield Option Notes due 2007 - incorporated by reference to Exhibit 4.1 to a Registration Statement on Form S-2 (No. 33-49866) filed by the Registrant.
4.2	Indenture dated November 1, 1993 governing Valcor's 9 5/8% Senior Notes due 2003, including form of note - incorporated by reference to Exhibit 4.1 of Valcor's Quarterly Report on Form 10-Q (File No. 33-63044) for the quarter ended September 30, 1993.
4.3	Indenture dated October 20, 1993 governing NL's 11 3/4% Senior Secured Notes due 2003, including form of note, - incorporated by reference to Exhibit 4.1 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
4.4	Indenture dated October 20, 1993 governing NL's 13% Senior Secured Discount Notes due 2005, including form of note - incorporated by reference to Exhibit 4.6 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
10.1	Form of Intercorporate Services Agreement between the Registrant and Contran Corporation - incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1992.
10.2	Intercorporate Services Agreement by and between Contran Corporation and NL effective as of January 1, 1996 - incorporated by reference to Exhibit 10.41 to NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1996.
10.3	Asset Purchase Agreement between Medite Corporation and Rogue Resources LLC dated October 7, 1996 - incorporated by reference to Exhibit 10.1 of Valcor's Quarterly Report on Form 10-Q (File No. 33-63044) for the quarter ended September 30, 1996.
10.4	Form of Guarantee between Valhi, Inc. and Rogue Resources LLC.
10.5	Share Subscription and Redemption Agreement among Medite Corporation, Willamette Industries, Inc. and Medford International Holdings dated November 4, 1996 -

incorporated by reference to Exhibit 10.1 of Valcor's Quarterly Report on Form 10-Q (File No. 33-63044) for the quarter ended September 30, 1996.

10.6	Form of Guarantee between Valhi, Inc. and Willamette Industries, Inc.
10.7	Asset Purchase Agreement between Medite Corporation and SierraPine, a California limited partnership, dated January 31, 1997 - incorporated by reference to Exhibit 10.6 of Valcor's Annual Report on Form 10-K (File No. 33-63044) for the year ended December 31, 1996.
10.8	Form of Guarantee between Valhi, Inc. and SierraPine.
10.9	Asset Purchase Agreement between Sybra, Inc., Valcor, Inc. and U.S. Restaurant Properties Master L.P. dated December 23, 1996 - incorporated by reference to Exhibit 10.7 of Valcor's Annual Report on Form 10-K (File No. 33-63044) for the year ended December 31, 1996.
10.10	Stock Purchase Agreement between Valcor, Inc. and I.C.H. Corporation dated February 7, 1997 - incorporated by reference to Exhibit 10.8 of Valcor's Annual Report on Form 10-K (File No. 33-63044) for the year ended December 31, 1996.
10.11*	Valhi, Inc. 1987 Incentive Stock Option - Stock Appreciation Rights Plan, as amended - incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
10.12*	Valhi, Inc. 1997 Stock Option Plan.
10.13*	Valhi, Inc. 1990 Non-Employee Director Stock Option Plan - incorporated by reference to Exhibit 4.1 of a Registration Statement on Form S-8 (No. 33-41508) filed by the Registrant.
10.14*	Executive Severance Agreement effective as of February 16, 1994 by and between Joseph S. Compofelice (Executive Vice President of the Registrant) and NL - incorporated by reference to Exhibit 10.2 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1996.
10.15*	1989 Long Term Performance Incentive Plan of NL Industries, Inc. - incorporated by reference to Exhibit B to NL's Proxy Statement on Schedule 14A (File No. 1-640) for the annual meeting held on May 8, 1996.
10.16*	Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. effective as of January 1, 1991 - incorporated by reference to Exhibit 10.26 to NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1992.
10.17*	NL Industries, Inc. Variable Compensation Plan - incorporated by reference to Exhibit A of NL's Proxy Statement on Schedule 14A (File No. 1-640) for the annual meeting held on May 8, 1996.
10.18	Second Amended and Restated Loan Agreement dated January 31, 1997 among Kronos International, Inc., the banks set forth therein and Hypobank International S.A., as Agent - incorporated by reference to Exhibit 10.2 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1996.
10.19	Formation Agreement dated January 3, 1997 (to be effective December 31, 1996) between Snake River Sugar Company and The Amalgamated Sugar Company of The Amalgamated Sugar Company LLC.

10.20	Company Agreement of The Amalgamated Sugar Company LLC dated January 3, 1997 (to be effective December 31, 1996).
10.21	Subordinated Promissory Note in the principal amount of $37.5 million between Valhi, Inc. and Snake River Sugar Company, and the related Pledge Agreement, both dated January 3, 1997.
10.22	Limited Recourse Promissory Note in the principal amount of $212.5 million between Valhi, Inc. and Snake River Sugar Company, and the related Limited Recourse Pledge Agreement, both dated January 3, 1997.
10.23	Loan and Security Agreement between Snake River Sugar Company, as Borrower, and Valhi, Inc., as Lender, dated January 3, 1997.
10.24	Formation Agreement dated as of October 18, 1993 among Tioxide Americas Inc., Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.2 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
10.25	Joint Venture Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.3 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
10.26	Amendment No. 1 to Joint Venture Agreement dated as of December 20, 1995 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.20 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31 1995.
10.27	Kronos Offtake Agreement dated as of October 18, 1993 by and between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.4 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
10.28	Amendment No. 1 to Kronos Offtake Agreement dated as of December 20, 1995 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.22 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31 1995.
10.29	Master Technology and Exchange Agreement dated as of October 18, 1993 among Kronos, Inc., Kronos Louisiana, Inc., Kronos International, Inc., Tioxide Group Limited and Tioxide Group Services Limited - incorporated by reference to Exhibit 10.8 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
10.30	Allocation Agreement dated as of October 18, 1993 between Tioxide Americas Inc., ICI American Holdings, Inc., Kronos, Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.10 to NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
10.31	Lease Contract dated June 21, 1952, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschrankter Haftung (German language version and English translation thereof) - incorporated by reference to Exhibit 10.14 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1985.
10.32	Agreement dated February 8, 1984 between Bayer AG and

Kronos Titan GmbH (German language version and English translation thereof) - incorporated by reference to Exhibit 10.16 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1985.

10.33	Contract on Supplies and Services among Bayer AG, Kronos Titan GmbH and Kronos International, Inc. dated June 30, 1995 (English translation from German language document) - incorporated by reference to Exhibit 10.1 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1995.
10.34	Richards Bay Slag Sales Agreement dated May 1, 1995 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.17 to NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1995.
10.35	Registration Rights Agreement dated October 30, 1991, by and between NL and Tremont - incorporated by reference to Exhibit 4.3 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1991.
10.36	Insurance Sharing Agreement, effective January 1, 1990, by and between NL, NL Insurance, Ltd. (an indirect subsidiary of Tremont Corporation) and Baroid Corporation - incorporated by reference to Exhibit 10.20 to NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1991.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Coopers & Lybrand L.L.P.
23.2	Consent of KPMG Peat Marwick LLP.
23.3	Consent of Arthur Andersen LLP.
27.1	Financial Data Schedule for the year ended December 31, 1996.
27.2	Reclassified Financial Data Schedule for the (i) three-month period ended March 31, 1996, (ii) six-month period ended June 30, 1996 and (iii) nine-month period ended September 30, 1996.
27.3	Reclassified Financial Data Schedule for the (i) three-month period ended March 31, 1995, (ii) six-month period ended June 30, 1995, (iii) nine-month period ended September 30, 1995 and (iv) year ended December 31, 1995.
27.4	Reclassified Financial Data Schedule for the year ended December 31, 1994.

* Management contract, compensatory plan or agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By: /s/ Harold C. Simmons

Harold C. Simmons, March 20, 1997
(President)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Norman S. Edelcup

Norman S. Edelcup, March 20, 1997
(Director)

/s/ Harold C. Simmons

Harold C. Simmons, March 20, 1997
(Chairman of the Board, President and Chief Executive Officer)

/s/ Kenneth R. Ferris

Kenneth R. Ferris, March 20, 1997
(Director)

/s/ Glenn R. Simmons

Glenn R. Simmons, March 20, 1997
(Vice Chairman of the Board)

/s/ J. Walter Tucker, Jr.

J. Walter Tucker, Jr., March 20, 1997
(Director)

/s/ Bobby D. O'Brien

Bobby D. O'Brien, March 20, 1997
(Vice President, Principal Financial Officer)

/s/ Gregory M. Swalwell

Gregory M. Swalwell, March 20, 1997
(Controller, Principal Accounting Officer)

ANNUAL REPORT ON FORM 10-K

ITEMS 8, 14(A) AND 14(D)

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Schedules III and IV are omitted because they are not applicable.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Valhi, Inc.:

We have audited the accompanying consolidated balance sheets of Valhi, Inc. and Subsidiaries as of December 31, 1995 and 1996, and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Amalgamated Sugar Company as of December 31, 1995 and 1996 and for each of the three years in the period ended December 31, 1996, which constituted approximately 15% and 2% of consolidated assets as of December 31, 1995 and 1996, respectively, and whose results of operations are presented on the equity method in the accompanying consolidated statements of income. We also did not audit the financial statements of Medite Corporation as of December 31, 1995 and for each of the two years in the period ended December 31, 1995, which constituted approximately 8% of consolidated assets as of December 31, 1995 and whose results of operations are reported as discontinued operations in the accompanying consolidated statements of income. These statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for such companies, is based solely upon their reports.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Valhi, Inc. and Subsidiaries as of December 31, 1995 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
March 7, 1997

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholder of The Amalgamated Sugar Company:

We have audited the balance sheets of The Amalgamated Sugar Company as of December 31, 1995 and 1996, and the related statements of income and shareholder's equity and cash flows for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Amalgamated Sugar Company at December 31, 1995 and 1996, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Salt Lake City, Utah
January 31, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholder of Medite Corporation:

We have audited the consolidated balance sheet of Medite Corporation as of December 31, 1995, and the related consolidated statements of income, redeemable preferred stock and common stockholder's equity and cash flows for each of the two years in the period ended December 31, 1995 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements (not presented separately herein) referred to above present fairly, in all material respects, the consolidated financial position of Medite Corporation as of December 31, 1995, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Portland, Oregon,
January 27, 1996

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1995 AND 1996

(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS	1995	1996
Current assets:		
Cash and cash equivalents	$ 170,908	$ 255,679
Marketable securities	-	142,478
Accounts and other receivables	228,940	164,844
Receivable from affiliates	3,529	13,931
Inventories	518,304	251,597
Prepaid expenses	7,249	7,537
Deferred income taxes	2,636	1,597
Total current assets	931,566	837,663
Other assets:		
Marketable securities	144,256	17,258
Investment in joint ventures	190,518	196,697
Investment in Amalgamated Sugar Company	-	34,070
Natural resource properties	95,774	36,441
Prepaid pension cost	24,767	25,313
Goodwill	252,773	258,359
Deferred income taxes	788	223
Other assets	57,084	48,719
Total other assets	765,960	617,080
Property and equipment:		
Land	43,313	37,538
Buildings	212,729	189,875
Equipment	913,763	610,545
Construction in progress	20,709	15,723

	1,190,514	853,681
Less accumulated depreciation	315,827	163,442
Net property and equipment	874,687	690,239
	$2,572,213	$2,144,982

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 1995 AND 1996

(IN THOUSANDS, EXCEPT PER SHARE DATA)

LIABILITIES AND STOCKHOLDERS' EQUITY	1995	1996
Current liabilities:		
Notes payable	$ 145,932	$ 38,732
Current maturities of long-term debt	63,752	235,648
Accounts payable and accrued liabilities	393,119	203,242
Payable to affiliates	10,188	47,387
Income taxes	44,849	8,148
Deferred income taxes	4,496	30,523
Total current liabilities	662,336	563,680
Noncurrent liabilities:		
Long-term debt	1,084,284	844,468
Accrued pension cost	70,040	59,215
Accrued OPEB cost	78,410	56,257
Accrued environmental costs	115,577	109,908
Deferred income taxes	239,444	178,049
Other	44,765	29,237
Total noncurrent liabilities	1,632,520	1,277,134
Minority interest in NL Industries	-	-
Minority interest in NL foreign subsidiaries	3,066	249
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000 shares authorized; none issued	-	-
Common stock, $.01 par value; 150,000 shares authorized; 124,633 and 124,768 shares issued	1,246	1,248
Additional paid-in capital	34,604	35,258
Retained earnings	263,777	282,766
Adjustments:		
Marketable securities	55,629	65,105
Currency translation	(7,430)	(6,210)
Pension liabilities	(2,881)	(3,160)
Treasury stock, at cost - 10,103 and 10,126 shares	(70,654)	(71,088)
Total stockholders' equity	274,291	303,919
	$2,572,213	$2,144,982

Commitments and contingencies (Notes 3, 15, 18, 19 and 20)

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS, EXCEPT PER SHARE DATA)

		PRO FORMA		
	1994*	1994*	1995*	1996
		(UNAUDITED)		

Revenues and other income:				
Net sales	$185,522	$1,073,476	$1,219,547	$1,190,791
Other, net	5,332	48,359	28,970	41,441
	190,854	1,121,835	1,248,517	1,232,232
Costs and expenses:				
Cost of sales	142,807	803,231	841,847	909,287
Selling, general and administrative	23,932	243,542	221,371	211,699
Interest	21,468	105,394	105,222	100,195
	188,207	1,152,167	1,168,440	1,221,181
	2,647	(30,332)	80,077	11,051
Equity in earnings (losses) of:				
Amalgamated Sugar Company	13,889	13,889	8,900	10,009
Waste Control Specialists	-	-	(554)	(6,407)
NL prior to consolidation	(25,078)	-	-	-
Income (loss) from continuing operations before taxes	(8,542)	(16,443)	88,423	14,653
Income taxes (benefit)	(9,864)	(9,590)	29,893	3,511
Minority interest	-	843	622	6,915
Income (loss) from continuing operations	1,322	$ (7,696)	57,908	4,227
Discontinued operations	10,278		10,607	37,819
Net income	$ 11,600		$ 68,515	$ 42,046

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS, EXCEPT PER SHARE DATA)

		PRO FORMA		
	1994*	1994*	1995*	1996
		(UNAUDITED)		
Earnings per common share:				
Continuing operations	$.01	$(.07)	$.51	$.04
Discontinued operations	.09		.09	.33
Net income	$.10		$.60	$.37
Cash dividends per share	$.08		$.12	$.20
Weighted average common shares outstanding	114,303	114,303	114,437	114,622

* Reclassified.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS)

	1994*	1995*	1996
Operating activities:			
Net income	$ 11,600	$ 68,515	$ 42,046
Depreciation, depletion and amortization	7,843	68,640	69,915
Noncash interest expense	10,780	31,186	33,790
Deferred income tax benefits	(9,785)	(11,976)	(9,581)
Minority interest	-	622	6,915
Other, net	2,110	(11,920)	(13,615)
Equity in:			
Medite Corporation	(18,347)	(10,607)	(37,819)
Amalgamated Sugar Company	(13,889)	(8,900)	(10,009)
Waste Control Specialists	-	554	6,407
NL prior to consolidation	25,078	-	-
Tremont Corporation, net	8,069	-	-
	23,459	126,114	88,049
Medite, net	33,096	18,464	24,882
Amalgamated Sugar Company, net	14,735	41,692	24,587
Change in assets and liabilities:			
Accounts and other receivables	(765)	(3,381)	1,617
Inventories	(2,244)	(57,503)	6,723
Accounts payable and accrued liabilities	3,972	(20,169)	(3,241)
Income taxes	(1,328)	14,987	(40,199)
Accounts with affiliates	(2,495)	(2,789)	(5,959)
Other, net	(972)	5,704	(15,244)
Trading securities:			
Sale proceeds	29,375	51,286	-
Purchases	(25,000)	(762)	-
Net cash provided by operating activities	71,833	173,643	81,215

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS)

	1994*	1995*	1996
Investing activities:			
Capital expenditures	$(14,420)	$ (78,267)	$ (75,896)
Purchases of minority interest:			
NL common stock	(15,060)	(13,250)	(14,627)
Subsidiaries of NL	-	-	(5,168)
Investment in Waste Control Specialists	-	(5,000)	(17,000)
Purchase of business unit	-	(5,982)	-
Loans to affiliates:			
Loans	(16,550)	(62,000)	(7,800)
Collections	16,550	59,000	10,800
Medite, net	(32,728)	(12,527)	165,935
Amalgamated Sugar Company, net	(26,633)	(24,013)	(13,460)
Other, net	4,645	1,108	7,117
Net cash provided (used) by investing activities	(84,196)	(140,931)	49,901
Financing activities:			
Indebtedness:			
Borrowings	37,203	161,233	253,261
Principal payments	(45,982)	(154,516)	(214,762)
Loans from affiliates:			
Loans	-	-	7,844
Repayments	-	-	(600)
Valhi dividends	(9,145)	(13,809)	(23,057)
Distributions to minority interest	-	(14)	(7,416)

Medite, net	29,772	(10,940)	(64,018)
Amalgamated Sugar Company, net	18,140	(20,208)	4,329
Other, net	229	1,153	916
Net cash provided (used) by financing activities	30,217	(37,101)	(43,503)
Net increase (decrease)	$ 17,854	$ (4,389)	$ 87,613

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS)

	1994*	1995*	1996
Cash and cash equivalents:			
Net increase (decrease) from:			
Operating, investing and financing activities	$ 17,854	$ (4,389)	$ 87,613
Currency translation	(420)	4,550	(2,842)
Consolidation of NL	131,124	-	-
	148,558	161	84,771
Balance at beginning of year	22,189	170,747	170,908
Balance at end of year	$170,747	$170,908	$255,679
Supplemental disclosures - cash paid for:			
Interest, net of amounts capitalized:			
Continuing operations - consolidated companies	$ 10,612	$ 73,881	$ 65,228
Amalgamated, net	6,971	13,073	9,205
Discontinued operations	5,824	8,010	8,014
Eliminations	(210)	(720)	(257)
	$ 23,197	$ 94,244	$ 82,190
Income taxes:			
Continuing operations - consolidated companies, net	$ 3,665	$ 29,588	$ 58,013
Amalgamated, net	10,507	2,623	6,631
Discontinued operations, net	9,135	6,461	(100)
	$ 23,307	$ 38,672	$ 64,544

* Reclassified.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
Balance at December 31, 1993	$1,244	$33,409	$222,810

Net income	-	-	11,600
Cash dividends	-	-	(9,145)
Dividend - Tremont common stock	-	-	(16,194)
Adjustments, net	-	-	-
Other, net	1	(68)	-
Balance at December 31, 1994	1,245	33,341	209,071
Net income	-	-	68,515
Cash dividends	-	-	(13,809)
Adjustments, net	-	-	-
Other, net	1	1,263	-
Balance at December 31, 1995	1,246	34,604	263,777
Net income	-	-	42,046
Cash dividends	-	-	(23,057)
Adjustments, net	-	-	-
Other, net	2	654	-
Balance at December 31, 1996	$1,248	$35,258	$282,766

	ADJUSTMENTS				TOTAL
	MARKETABLE SECURITIES	CURRENCY TRANSLATION	PENSION LIABILITIES	TREASURY STOCK	STOCKHOLDERS' EQUITY
Balance at December 31, 1993	$41,075	$(17,776)	$(1,619)	$(71,642)	$207,501
Net income	-	-	-	-	11,600
Cash dividends	-	-	-	-	(9,145)
Dividend - Tremont common stock	73	1,439	445	-	(14,237)
Adjustments, net	(3,479)	4,209	668	-	1,398
Other, net	-	-	-	1,374	1,307
Balance at December 31, 1994	37,669	(12,128)	(506)	(70,268)	198,424
Net income	-	-	-	-	68,515
Cash dividends	-	-	-	-	(13,809)
Adjustments, net	17,960	4,698	(2,375)	-	20,283
Other, net	-	-	-	(386)	878
Balance at December 31, 1995	55,629	(7,430)	(2,881)	(70,654)	274,291
Net income	-	-	-	-	42,046
Cash dividends	-	-	-	-	(23,057)
Adjustments, net	9,476	1,220	(279)	-	10,417
Other, net	-	-	-	(434)	222
Balance at December 31, 1996	$65,105	$ (6,210)	$(3,160)	$(71,088)	$303,919

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization. Valhi, Inc. (NYSE: VHI) is a subsidiary of Contran Corporation which holds, directly or through subsidiaries, approximately 91% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of Valhi and Contran, may be deemed to control such companies.

Management's estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management

to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Ultimate actual results may, in some instances, differ from previously estimated amounts.

Principles of consolidation. The consolidated financial statements include the accounts of Valhi and its majority-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. The Company has not consolidated the financial position of its refined sugar operations conducted by The Amalgamated Sugar Company at December 31, 1996 because control of such operations was temporary at that date. Certain prior year amounts have been reclassified to conform to the current year presentation. See Notes 19 and 20.

Pro forma information (unaudited). The accompanying consolidated financial statements include certain pro forma financial information as if the Company's December 31, 1994 consolidation of NL Industries, Inc. (see Note 3) had occurred as of January 1, 1994. All such pro forma information is unaudited.

Translation of foreign currencies. Assets and liabilities of subsidiaries whose functional currency is deemed to be other than the U.S. dollar are translated at year-end rates of exchange and revenues and expenses are translated at average exchange rates prevailing during the year. Resulting translation adjustments, net of related deferred income tax effects, are accumulated in the currency translation adjustments component of stockholders' equity. Currency transaction gains and losses are recognized in income currently.

Net sales. Sales are recorded when products are shipped (fast food sales at the time of retail sale).

Inventories and cost of sales. Inventories are stated at the lower of cost or market. The last-in, first-out method is used to determine the cost of approximately 3% of total inventories at December 31, 1996 (1995 - 43%). Other inventory costs are generally based on average cost or the first-in, first-out method.

Cash and cash equivalents. Cash equivalents, including restricted cash, include bank time deposits and government and commercial notes and bills with original maturities of three months or less. Restricted cash at December 31, 1995 and 1996 represents amounts restricted pursuant to outstanding letters of credit and certain indebtedness agreements ($10 million and $11 million, respectively).

Marketable securities and securities transactions. Marketable debt and equity securities are carried at market, based upon quoted market prices. Unrealized gains and losses on trading securities are recognized in income currently. Unrealized gains and losses on available-for-sale securities are accumulated in the marketable securities adjustment component of stockholders' equity, net of related deferred income taxes. Realized gains and losses are based upon the specific identification of the securities sold.

Investment in joint ventures. Investments in more than 20%-owned but less than majority-owned companies are accounted for by the equity method. Differences between the cost of each investment and the Company's pro rata share of the entity's separately-reported net assets, if any, are allocated among the assets and liabilities of the entity based upon estimated relative fair values. Such differences, which were not material at December 31, 1996, are charged or credited to income as the entities depreciate, amortize or dispose of the related net assets.

Natural resource properties and depletion. Timber and timberlands and mining properties are stated at cost less accumulated depletion. Depletion is computed primarily by the unit-of-production method.

Intangible assets and amortization. Goodwill, representing the excess of cost over fair value of individual net assets acquired in business combinations accounted for by the purchase method, is amortized by the straight-line method over not more than 40 years (weighted average remaining life of 29.5 years at December 31, 1996) and is stated net of accumulated amortization of $18.1 million at December 31, 1996 (1995 - $9.4 million). Substantially all goodwill relates to NL Industries. The Company's criteria for evaluating the recoverability of goodwill includes consideration of the

fair value of the applicable subsidiary. At December 31, 1996, the quoted market price of NL common stock ($10.88 per share) was in excess of the Company's net investment in NL at that date ($5.21 per NL share held).

Fast food restaurant franchise fees and other intangible assets are amortized by the straight-line method over the periods (10 to 20 years) expected to be benefited and are stated net of accumulated amortization of $15.2 million at December 31, 1996 (1995 - $11.5 million).

Property, equipment and depreciation. Property and equipment are stated at cost. Maintenance, repairs and minor renewals are expensed; major improvements are capitalized. Interest costs related to major long-term capital projects are capitalized as a component of construction costs. Interest costs capitalized related to the Company's consolidated business segments and comprising continuing operations were nil in 1994 (pro forma 1994 - $1 million), $1 million in 1995 and $2 million in 1996.

Depreciation is computed principally by the straight-line and unit-of-production methods over the estimated useful lives of ten to 40 years for buildings and three to 20 years for equipment.

Long-term debt. Long-term debt is stated net of unamortized original issue discount ("OID"). OID is amortized over the period during which interest is not paid and deferred financing costs are amortized over the term of the applicable issue, both by the interest method. Capital lease obligations are stated net of imputed interest.

Income taxes. Valhi and its qualifying subsidiaries are members of Contran's consolidated United States federal income tax group (the "Contran Tax Group"). The policy for intercompany allocation of federal income taxes provides that subsidiaries included in the Contran Tax Group compute the provision for income taxes on a separate company basis. Subsidiaries make payments to or receive payments from Contran in the amounts they would have paid to or received from the Internal Revenue Service had they not been members of the Contran Tax Group. The separate company provisions and payments are computed using the tax elections made by Contran. NL is a separate U.S. taxpayer and is not a member of the Contran Tax Group. Waste Control Specialists LLC is treated as a partnership for federal income tax purposes.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including investments in the Company's subsidiaries and affiliates not included in the Contran Tax Group. The Company periodically evaluates its deferred tax assets and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets which the Company believes does not meet the "more-likely-than-not" realization criteria.

Earnings per share. Earnings per share of common stock is based upon the weighted average number of common shares outstanding. Common stock equivalents are excluded from the computation because the dilutive effect is either not material or antidilutive.

Other. Advertising costs related to the Company's consolidated business segments and charged to continuing operations, expensed as incurred, aggregated $9 million in 1994 (pro forma 1994 - $11 million), and $12 million in each of 1995 and 1996.

Research and development costs related to the Company's consolidated business segments and charged to continuing operations, expensed as incurred, were $400,000 in 1994 (pro forma 1994 - $10 million) and $11 million in each of 1995 and 1996.

Deferred technology fee income was amortized by the straight-line method over three years through October 1996.

The Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. Compensation cost recognized by the Company in accordance with APBO No. 25 has not been significant in any of the past three years.

Accounting and funding policies for retirement and postretirement benefits other than pensions ("OPEB") plans are described in Note 16, and

accounting policies for environmental remediation costs are described in Note 18.

NOTE 2 - BUSINESS AND GEOGRAPHIC SEGMENTS:

BUSINESS SEGMENT	PRINCIPAL ENTITIES	% OWNED AT DECEMBER 31, 1996
Chemicals	NL Industries, Inc.	56%
Component products	CompX International Inc.	100%
Fast food	Sybra, Inc.	100%
Waste management*	Waste Control Specialists LLC	50%

* Unconsolidated equity affiliate

	YEARS ENDED DECEMBER 31,			
		PRO FORMA		
	1994	1994	1995	1996
		(UNAUDITED)		
	(IN MILLIONS)			
Net sales:				
Chemicals	$ -	$ 888.0	$1,023.9	$ 986.1
Component products	70.0	70.0	80.2	88.7
Fast food	115.5	115.5	115.4	116.0
	$185.5	$1,073.5	$1,219.5	$1,190.8
Operating income:				
Chemicals	$ -	$ 91.9	$ 178.5	$ 92.0
Component products	20.9	20.9	19.9	22.1
Fast food	9.0	9.0	7.5	8.9
	29.9	121.8	205.9	123.0
General corporate items:				
Securities earnings	4.1	8.0	13.6	10.2
General expenses and other, net	(9.9)	(54.7)	(34.3)	(22.0)
Interest expense	(21.5)	(105.4)	(105.2)	(100.2)
	2.6	(30.3)	80.0	11.0
Equity in:				
Amalgamated Sugar Company	13.9	13.9	8.9	10.0
Waste Control Specialists	-	-	(.5)	(6.4)
NL prior to consolidation	(25.1)	-	-	-
Income (loss) from continuing operations before taxes	$ (8.6)	$ (16.4)	$ 88.4	$ 14.6

	YEARS ENDED DECEMBER 31,			
		PRO FORMA		
	1994	1994	1995	1996
		(UNAUDITED)		
	(IN MILLIONS)			
Depreciation, depletion and amortization:				
Chemicals	$ -		$ 60.0	$ 60.9
Component products	1.8		2.2	2.5
Fast food	5.9		6.0	6.0
Corporate	.1		.4	.5
	$ 7.8		$ 68.6	$ 69.9
Capital expenditures:				
Chemicals	$ -		$ 64.2	$ 66.9
Component products	3.4		2.0	2.3
Fast food	10.8		12.0	6.1
Corporate	.2		.1	.6
	$ 14.4		$ 78.3	$ 75.9

Geographic segments

Net sales - point of origin:				
United States	$139.4	$ 442.9	$ 477.1	$ 487.0
Europe	-	587.3	703.2	653.8
Canada	46.1	169.1	197.4	205.1
Eliminations	-	(125.8)	(158.2)	(155.1)
	$185.5	$1,073.5	$1,219.5	$1,190.8
Net sales - point of destination:				
United States	$166.4	$ 404.9	$ 429.7	$ 447.2
Canada	17.2	81.5	83.3	84.2
Europe	.5	469.4	581.2	524.4
Other	1.4	117.7	125.3	135.0
	$185.5	$1,073.5	$1,219.5	$1,190.8
Operating income:				
United States	$ 16.8	$ 64.9	$ 88.4	$ 85.1
Europe	-	33.9	85.0	10.0
Canada	13.1	23.0	32.5	27.9
	$ 29.9	$ 121.8	$ 205.9	$ 123.0

Identifiable assets	DECEMBER 31,	
	1995	1996
	(IN MILLIONS)	
Business segments:		
Chemicals	$1,586.6	$1,576.5
Refined sugar	386.7	-
Building products	200.4	44.2
Component products	44.4	48.4
Fast food	74.4	75.6
Waste management	4.6	15.2
	2,297.1	1,759.9
Corporate and eliminations	275.1	385.1
	$2,572.2	$2,145.0
Geographic segments:		
United States	$ 971.6	$ 506.5
Europe	1,100.7	1,039.8
Canada	224.8	213.6
	2,297.1	1,759.9
Corporate and eliminations	275.1	385.1
	$2,572.2	$2,145.0

NL's chemicals operations are conducted through Kronos, Inc. (titanium dioxide pigments or "TiO2") and Rheox, Inc. (specialty chemicals). The Company's component products (CompX International) and fast food (Sybra) subsidiaries are owned by Valcor, Inc., a wholly-owned subsidiary of Valhi. Each of NL (NYSE: NL) and Valcor are subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended.

Capital expenditures exclude amounts attributable to business units acquired in business combinations accounted for by the purchase method.

Corporate assets consist principally of cash, cash equivalents and marketable securities. At December 31, 1996, approximately 11% of corporate assets were held by NL (1995 - 27%). Valhi has a wholly-owned captive insurance company ("Valmont") registered in Vermont. Valmont's operations, which are not significant, are included in general expenses and other, net.

At December 31, 1996, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $460 million.

NOTE 3 - BUSINESS COMBINATIONS:

NL Industries, Inc. (NYSE: NL). At the beginning of 1994, Valhi held 48% of NL's outstanding common stock and accounted for its interest in NL by the equity method during the year ended December 31, 1994. During 1994, Valhi purchased additional NL shares in market transactions for an aggregate of approximately $15 million, and thereby increased its direct ownership of NL to more than 50% in mid-December 1994. The Company accounted for such increase in its interest in NL by the purchase method (step purchase) and, accordingly, consolidated NL's financial position as of December 31, 1994 and consolidated NL's results of operations and cash flows beginning in 1995. During 1995 and 1996, the Company purchased additional NL shares in market transactions for an aggregate of approximately $28 million and increased its ownership of NL to 56% at December 31, 1996. NL's separate financial statements reflect a stockholders' deficit of approximately $203 million at December 31, 1996 and, accordingly, no minority interest in NL is reported in the Company's consolidated balance sheet. Until such time as NL reports positive stockholders' equity, all undistributed income or loss and other undistributed changes in NL's reported stockholders' equity will accrue to the Company for financial reporting purposes. Minority interest in earnings in 1996 consists principally of NL dividends paid to NL stockholders other than Valhi.

Waste Control Specialists LLC. In November 1995, Valhi acquired a 50% interest in newly-formed Waste Control Specialists LLC. See Note 8. Valhi committed to contribute $25 million to Waste Control Specialists for its 50% interest ($22 million contributed through December 31, 1996 and the remaining $3 million contributed in January 1997). The other 50%-owner contributed certain assets, primarily land and certain operating permits for the facility site, and Waste Control Specialists also assumed certain indebtedness of the other owner. Valhi accounts for its interest in Waste Control Specialists by the equity method.

Valhi is entitled to a 20% cumulative preferential return on its $25 million investment after which earnings are generally split 50/50. The liabilities of the other 50%-owner assumed by Waste Control Specialists exceeded the carrying value of the assets contributed. Accordingly, all of Waste Control Specialists' net income or loss will accrue to the Company for financial reporting purposes until Waste Control Specialists reports positive equity attributable to the other 50%-owner.

Other. In 1995, CompX's Canadian subsidiary purchased certain assets, principally property, equipment and inventory, of a Canadian competitor for approximately $6 million cash.

NOTE 4 - INVENTORIES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Raw materials:		
Chemicals	$ 35,075	$ 43,284
Sugarbeets	47,420	-
Building products	12,404	4,306
Component products	1,927	2,556
Fast food	1,379	1,406
	98,205	51,552
In process products:		
Chemicals	9,132	10,356
Refined sugar	57,967	-
Building products	2,187	83
Component products	4,320	4,974
	73,606	15,413
Finished products:		
Chemicals	173,195	142,956
Refined sugar and by-products	90,492	-
Building products	6,131	1,096
Component products	2,921	3,300
	272,739	147,352
Supplies	73,754	37,280
	$518,304	$251,597

The current cost of LIFO inventories (all of which relate to Medite and The Amalgamated Sugar Company) exceeded the net carrying value of such inventories by approximately $3 million at December 31, 1996 (1995 - $36 million).

NOTE 5 - ACCOUNTS AND OTHER RECEIVABLES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Accounts receivable	$225,385	$157,089
Notes receivable	3,400	1,500
Accrued interest	149	928
Refundable income taxes	4,978	9,414
Allowance for doubtful accounts	(4,972)	(4,087)
	$228,940	$164,844

NOTE 6 - MARKETABLE SECURITIES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Current asset (available-for-sale) -		
Dresser Industries common stock	$ -	$142,478
Noncurrent assets (available-for-sale):		
Dresser Industries common stock	$130,366	$ -
Other common stocks	13,890	17,258
	$144,256	$ 17,258

Valhi holds 5.5 million shares of Dresser common stock (cost - $44 million) with a quoted market price of $31 at December 31, 1996, or an aggregate market value of $169 million (1995 - $24.38 per share, or $133 million). The Company's Dresser stock is exchangeable for the Company's LYONs at the option of the LYONs holder, and the carrying value of the Dresser stock is limited to the accreted LYONs obligation. The Dresser common stock is classified as a current asset at December 31, 1996 because the LYONs, which are redeemable at the option of the holder in October 1997, are classified as a current liability as of such date. See Note 9. Dresser is a supplier of products, services and project management for hydrocarbon energy-related activities utilized primarily in the oil and gas industry. Dresser (NYSE: DI) files periodic reports with the Securities and Exchange Commission. The other available-for-sale common stocks have an aggregate cost of $15.8 million at December 31, 1995 and 1996.

NOTE 7 - NATURAL RESOURCE PROPERTIES AND OTHER NONCURRENT ASSETS:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Natural resource properties:		
Timber and timberlands	$53,099	$ -
Mining properties	42,675	36,441
	$95,774	$36,441
Other assets:		
Franchise fees and other intangible assets	$24,786	$19,215
Deferred financing costs	19,537	15,273
Other	12,761	14,231
	$57,084	$48,719

NOTE 8 - INVESTMENT IN JOINT VENTURES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Ti02 manufacturing joint venture	$183,129	$179,195
Waste Control Specialists LLC	4,625	15,218
Other	2,764	2,284
	$190,518	$196,697

TiO2 manufacturing joint venture. A Kronos TiO2 subsidiary (Kronos Louisiana, Inc., or "KLA") and Tioxide Group, Ltd., a wholly-owned subsidiary of Imperial Chemicals Industries PLC ("Tioxide"), are equal owners of a manufacturing joint venture (Louisiana Pigment Company, L.P., or "LPC") that owns and operates a TiO2 plant in Louisiana. LPC has long-term debt which is collateralized by the partnership interests of the partners and substantially all joint venture assets. The long-term debt consists of two tranches, one attributable to each partner, and each tranche is serviced through (i) the purchase of the plant's TiO2 output in equal quantities by the partners and (ii) cash capital contributions. KLA is required to purchase one-half of the TiO2 produced by LPC. Kronos' tranche of LPC's debt is reflected as outstanding indebtedness of the Company because Kronos has guaranteed the purchase obligation relative to the debt service of such tranche. See Note 9.

The manufacturing joint venture is intended to be operated on a break-even basis and, accordingly, Kronos' acquisition transfer price for its share of the TiO2 produced is equal to its share of the joint venture's production costs and interest expense. Kronos' share of the production costs is reported as TiO2 cost of sales while Kronos' share of joint venture interest expense is reported as a component of interest expense.

Summary income statements of the TiO2 joint venture are shown below.

	YEARS ENDED DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Revenues and other income:		
Kronos	$ 76,365	$ 74,916
Tioxide	75,241	73,774
Interest income	653	518
	152,259	149,208
Cost and expenses:		
Cost of sales	140,103	140,361
General and administrative	385	377
Interest	11,771	8,470
	152,259	149,208
Net income	$ -	$ -

Summary balance sheets of the TiO2 joint venture are shown below.

	DECEMBER 31,	
	1995	1996
ASSETS	(IN THOUSANDS)	
Current assets	$ 49,398	$ 47,861
Other assets	1,553	1,224
Property and equipment, net	335,254	325,617

	$386,205	$374,702
LIABILITIES AND PARTNERS' EQUITY		
Long-term debt, including current portion:		
Kronos tranche	$ 73,286	$ 57,858
Tioxide tranche	59,400	16,800
Note payable to Tioxide	-	21,000
Other liabilities, primarily current	17,719	14,084
	150,405	109,742
Partners' equity	235,800	264,960
	$386,205	$374,702

Waste Control Specialists LLC. Waste Control Specialists, formed in November 1995, recently completed construction of the initial phase of its facility in West Texas for the processing, treatment, storage and disposal of certain hazardous and toxic wastes. Waste Control Specialists has been issued permits by the Texas Natural Resource Conservation Commission covering acceptance of wastes governed by the Resource Conservation Recovery Act ("RCRA") and the Toxic Substances Control Act ("TSCA"), and received its first wastes for disposal in February 1997. Waste Control Specialists is also seeking permits for, among other things, the treatment and disposal of low-level and mixed radioactive wastes.

Waste Control Specialists is equally owned by Valhi and KNB Holdings, Ltd., a limited partnership controlled by the Chief Executive Officer of Waste Control Specialists.

Waste Control Specialists reported a net loss of $.5 million during the last two months of 1995 and $6.4 million for 1996, all of which accrued to Valhi for financial reporting purposes. See Note 3. At December 31, 1996, total assets were $19.1 million and total Members' equity was $12.0 million (1995 - $7.3 million and $1.4 million, respectively.) Waste Control Specialists' assets consist principally of property and equipment related to the West Texas facility, and its liabilities consist principally of bank indebtedness.

In February 1997, the Company entered into a $4 million revolving credit facility with Waste Control Specialists. Borrowings by Waste Control Specialists bear interest at prime plus 1% and are due no later than December 31, 1997.

NOTE 9 - NOTES PAYABLE AND LONG-TERM DEBT:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Notes payable:		
Amalgamated:		
United States Government loans	$ 64,685	$ -
Bank credit agreements	42,000	-
	106,685	-
Valhi - bank credit agreement	-	13,000
Kronos - bank credit agreements (DM 56,000 and DM 40,000)	39,247	25,732
	$ 145,932	$ 38,732
Long-term debt:		
Valhi - Liquid Yield Option NotesTM ("LYONsTM")	$ 130,366	$ 142,478
NL Industries:		
Senior Secured Notes	250,000	250,000
Senior Secured Discount Notes	132,034	149,756
Deutsche mark bank credit facility (DM 397,610 and DM 539,971)	276,895	347,362
Joint venture term loan	73,286	57,858

Rheox bank term loan	37,263	14,659
Other	14,225	9,411
	783,703	829,046
Amalgamated - bank term loan	24,000	-
Valcor:		
Valcor - Senior Notes*	99,000	98,910
Medite:		
U.S. and Irish bank term loans	73,770	-
U.S. and Irish bank working capital facilities	10,830	-
Other	4,117	3,895
	88,717	3,895
Other:		
Sybra bank credit agreements	16,770	1,081
Sybra capital lease obligations	5,382	4,540
Other	98	166
	22,250	5,787
	1,148,036	1,080,116
Less current maturities	63,752	235,648
	$1,084,284	$ 844,468

* Stated net of approximately $1 million principal amount of Senior Notes held by Valhi.

Valhi. The zero coupon Senior Secured LYONs, $379 million principal amount at maturity in October 2007, were issued with significant OID to represent a yield to maturity of 9.25%. No periodic interest payments are required. Each $1,000 in principal amount at maturity of the LYONs is exchangeable, at any time, for 14.4308 shares of Dresser common stock held by Valhi. The LYONs are redeemable, at the option of the holder, in October 1997 or October 2002 at $404.84 or $636.27, respectively, per $1,000 principal amount (the issue price plus accrued OID through such purchase dates) and, accordingly, the LYONs are classified as a current liability at December 31, 1996. Such redemptions may be paid, at Valhi's option, in cash, Dresser common stock, or a combination thereof. The LYONs are not redeemable at Valhi's option prior to October 1997 unless the market price of Dresser common stock exceeds $35.70 per share for specified time periods. At December 31, 1995 and 1996, the net carrying value of the LYONs per $1,000 principal amount at maturity was $344 and $376, respectively, and the quoted market price was $378 and $451, respectively.

The LYONs are secured by the 5.5 million shares of Dresser common stock held by Valhi, which shares are held in escrow for the benefit of holders of the LYONs. Valhi receives the regular quarterly dividend on the escrowed Dresser shares.

Valhi also has a $15 million revolving bank credit facility which matures in March 1998, generally bears interest at LIBOR plus 1.5% and is collateralized by 4.8 million shares of NL common stock held by Valhi. Borrowings under this facility can only be used to fund purchases of additional shares of NL common stock. The agreement limits additional indebtedness of Valhi and contains other provisions customary in lending transactions of this type.

NL Industries. NL's $250 million principal amount of 11.75% Senior Secured Notes due 2003 and $188 million principal amount at maturity ($100 million proceeds at issuance) of 13% Senior Secured Discount Notes due 2005 (collectively, the "NL Notes") are collateralized by a series of intercompany notes from Kronos International, Inc. ("KII"), a wholly-owned subsidiary of Kronos, to NL, the terms of which mirror those of the respective NL Notes (the "NL Mirror Notes"). The 11.75% Notes are also collateralized by a first priority lien on the stock of Kronos and a second priority lien on the stock of Rheox. In the event of foreclosure, the Note holders would have access to the consolidated assets, earnings and equity of NL and NL believes the collateralization of the NL Notes, as described above, is the functional economic equivalent to a full, unconditional and joint and several guarantee by Kronos and Rheox.

The 11.75% Notes and the 13% Discount Notes are redeemable, at NL's option, after October 2000 and October 1998, respectively, at redemption prices starting

at 101.5% and declining to 100% (after October 2001) of the principal amount for the 11.75% Notes and starting at 106% and declining to 100% (after October 2001) of the accreted value of the 13% Discount Notes. In the event of an NL change of control, as defined, NL would be required to make an offer to purchase the NL Notes at 101% of the principal amount of the 11.75% Notes and 101% of the accreted value of the 13% Discount Notes. The NL Notes are issued pursuant to indentures which contain a number of covenants and restrictions which, among other things, restrict the ability of NL and its subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. The 13% Discount Notes do not require cash interest payments until April 1999. At December 31, 1995 and 1996, the net carrying value of the 13% Discount Notes per $1,000 principal amount of maturity was $704 and $799, respectively, (quoted market price - $809 and $863, respectively) and the quoted market price of the 11.75% Notes was $1,071 and $1,061, respectively, per $1,000 principal amount.

At December 31, 1996, the DM credit facility consisted of a DM 396 million term loan and a DM 250 million revolving credit facility (DM 396 million and DM 144 million outstanding, respectively). Borrowings bear interest at DM LIBOR plus 1.625% (5.5% and 4.8% at December 31, 1995 and 1996, respectively), and are collateralized by the stock of certain KII subsidiaries. In January 1997, NL completed an amendment to the DM credit facility in which NL prepaid a net DM 207 million ($127 million) of the term loan and DM 43 million ($26 million) of the revolver, leaving DM 188 million and DM 100 million outstanding, respectively. In addition, the aggregate available for borrowing under the revolver was reduced to DM 230 million. The majority of the cash generated from a refinancing of the Rheox term loan, discussed below, was used for a portion of such prepayments. As amended, the term loan is due in 1998 and 1999 and the revolver is due in 2000, borrowings bear interest at DM LIBOR plus 2.75%, additional collateral in the form of pledges of certain Canadian and German assets was granted and NL guaranteed the facility.

Borrowings under KLA's tranche of the joint venture term loan bear interest at LIBOR plus 1.625% (7.3% and 7.2% at December 31, 1995 and 1996, respectively) and are repayable in quarterly installments through September 2000. See Note 8.

At December 31, 1996, Rheox's term loan is due in quarterly installments through December 1997, is collateralized principally by the stock of Rheox and its U.S. subsidiaries and bears interest, at Rheox's option, at the prime rate plus 1.5% or LIBOR plus 2.5% (1995 - 8.3% with LIBOR rate borrowings; 1996 - 9.8% with prime rate borrowings). In January 1997, NL completed a refinancing of this facility which increased the term loan to $125 million and provided for a $25 million revolving facility, generating a net $135 million in cash proceeds and credit availability. As amended, the term loan in due in quarterly installments commencing September 1997 through January 2004 and the revolver is due no later than January 2004, and the margin on LIBOR-based borrowings will now range from .75% to 1.75%, depending upon the level of a certain Rheox financial ratio.

Notes payable consists of short-term borrowings due within one year from non-U.S. banks with interest rates ranging from 3.2% to 3.7% (1995 - 4.3% to 4.9%).

After giving effect to the amendments to the DM credit facility and the Rheox term loan, unused lines of credit available for borrowing under the Rheox U.S. facility and under NL's non-U.S. credit facilities, including the DM facility, approximated $9 million and $102 million, respectively, at December 31, 1996.

Valcor. Valcor's unsecured 9 5/8% Senior Notes Due November 2003 are redeemable at the Company's option beginning November 1998, initially at 104.813% of principal amount declining to 100% after November 2000. In the event of a change of control of Valcor or certain asset dispositions, as defined, Valcor would be required to make an offer to purchase the Valcor Notes at 101% and 100%, respectively, of principal amount. At both December 31, 1995 and 1996, the quoted market price of the Valcor Notes was $990 per $1,000 principal amount. The indenture governing the Valcor Notes, among other things, limits dividends and additional indebtedness, and prohibits Valcor from co-investing with affiliates.

The after-tax proceeds from the disposition of Medite, net of repayments of Medite's U.S. bank debt, will be available for Valcor's general corporate purposes, subject to compliance with certain covenants contained in the Valcor Senior Note Indenture. Also under the terms of the Indenture, Valcor is required to tender for a portion of the Valcor Notes, at par, to the extent that

a specified amount of these proceeds are not used to either permanently paydown senior indebtedness of Valcor or its subsidiaries or invest in related businesses, both as defined in the Indenture, within one year of disposition. While Valcor is not yet required to execute a tender offer related to Medite's asset dispositions, on March 20, 1997, Valcor announced it had initiated a tender offer whereby Valcor would purchase up to $86.7 million principal amount of Valcor Notes on a pro-rata basis, at par value, in satisfaction of the covenant contained in the Indenture. Pursuant to its terms, the tender offer will expire on April 24, 1997, unless extended by Valcor. The amount of Valcor Notes which will ultimately be purchased by Valcor pursuant to the tender offer is dependent upon the amount of Valcor Notes properly tendered. Consequently, there can be no assurance as to the amount of Valcor Notes which will ultimately be purchased by Valcor. The net proceeds from any disposition of the Company's fast food operations, net of repayments of Sybra's bank indebtedness, would similarly be available for Valcor's general corporate purposes. If the disposition of the Company's fast food operations is completed and none of those net proceeds are used as provided in the Indenture, a portion of the Notes would be subject to a subsequent tender offer. See Notes 18 and 19.

Other. Medite's U.S. bank term and working capital facilities were repaid and terminated in October 1996 following the sale of its timber and timberlands, and the Irish bank term and working capital facilities were assumed by the purchaser upon the sale of Medite's Irish subsidiary in November 1996. See Note 19.

Other Medite indebtedness consists principally of a State of Oregon term loan that was assumed by the purchaser of Medite's Oregon MDF facility in February 1997. See Note 19.

Sybra's revolving bank credit agreements provide for unsecured credit facilities aggregating $29 million with interest generally at LIBOR plus 1.5%. Borrowings under these agreements mature through July 1998. At December 31, 1996, the weighted average interest rate on outstanding revolving borrowings was 6.9% (1995 - 7.5%), and $28 million was available for borrowing. Future minimum payments under Sybra's capital lease obligations at December 31, 1996, including amounts representing interest, are approximately $1.4 million in each of the next two years, $.6 million in each of the following three years and an aggregate of $2.6 million thereafter.

CompX has a Canadian bank credit agreement which currently provides for approximately $5 million of U.S. or the equivalent Canadian dollar borrowings, with interest generally at LIBOR plus .5% and collateralized by substantially all of CompX International's Canadian assets. At December 31, 1996, the full amount of these facilities was available for borrowing.

Aggregate maturities of long-term debt at December 31, 1996

Years ending December 31,	Amount
	(In thousands)
1997	$ 247,146
1998	106,673
1999	134,271
2000	12,721
2001	1,081
2002 and thereafter	629,591
	1,131,483
Less:	
Unamortized Valhi LYONs OID	(10,973)
Unamortized NL Senior Secured Discount Notes OID	(37,744)
Amounts representing interest on capital leases	(2,650)
	$1,080,116

The LYONs are reflected in the above table as due October 1997, the first of the two dates they are redeemable at the option of the holder, at the aggregate redemption price on such date of $153 million ($404.84 per $1,000 principal amount at maturity in October 2007).

Other. In addition to the NL Notes and the Valcor Notes discussed above, credit agreements of subsidiaries typically require the respective subsidiary to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. At December 31, 1996, the restricted net assets of consolidated subsidiaries approximated $243 million.

NOTE 10 - OTHER NONCURRENT LIABILITIES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Insurance claims and expenses	$15,354	$13,380
Employee benefits	16,626	12,050
Deferred technology fee income	8,456	-
Other	4,329	3,807
	$44,765	$29,237

NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Accounts payable:		
Sugarbeet purchases	$ 83,027	$ -
Other	153,946	75,307
	236,973	75,307
Accrued liabilities:		
Employee benefits	63,067	47,331
Sugar processing costs	21,569	-
Plant closure costs	-	7,669
Environmental costs	6,109	6,126
Interest	13,208	11,157
Miscellaneous taxes	4,275	5,262
Other	47,918	50,390
	156,146	127,935
	$393,119	$203,242

NOTE 12 - OTHER INCOME:

	YEARS ENDED DECEMBER 31,			
		PRO FORMA		
	1994	1994	1995	1996
		(UNAUDITED)		
	(IN THOUSANDS)			
Securities earnings:				
Dividends and interest	$ 6,128	$11,203	$12,172	$10,090
Securities transactions	(2,054)	(3,274)	1,225	138
	4,074	7,929	13,397	10,228
Litigation settlement gains, net	-	22,978	-	2,756
Technology fee income	-	10,344	10,660	8,743
Currency transactions, net	491	2,226	586	5,774
Pension and OPEB curtailment gains	-	-	-	5,900
Disposal of property and equipment	(6)	(1,987)	(2,695)	4
Other, net	773	6,869	7,022	8,036

	$ 5,332	$48,359	$28,970	$41,441

The litigation settlement gains relate to settlement of certain litigation in which NL was a plaintiff, and the pension and OPEB curtailment gains resulted from NL's 1996 reduction of certain U.S. and Canadian, respectively, employee benefits.

NOTE 13 - STOCKHOLDERS' EQUITY:

	SHARES OF COMMON STOCK		
	ISSUED	TREASURY	OUTSTANDING
	(IN THOUSANDS)		
Balance at December 31, 1993	124,435	(10,182)	114,253
Issued	40	32	72
Other	-	73	73
Balance at December 31, 1994	124,475	(10,077)	114,398
Issued	158	-	158
Other	-	(26)	(26)
Balance at December 31, 1995	124,633	(10,103)	114,530
Issued	135	-	135
Other	-	(23)	(23)
Balance at December 31, 1996	124,768	10,126	114,642

Treasury stock includes the Company's proportional interest in 1.2 million Valhi shares held by NL. Under Delaware Corporation Law, all shares held by a majority-owned company are considered to be treasury stock. As a result, shares outstanding for financial reporting purposes differ from those outstanding for legal purposes.

Options and restricted stock. Valhi has an incentive stock option plan that provides for the discretionary grant of qualified incentive stock options, nonqualified stock options, restricted stock and stock appreciation rights. Up to nine million shares of Valhi common stock may be issued pursuant to this plan. Options are granted at a price not less than 85% of fair market value on the date of grant, generally vest ratably over a five-year period beginning one year from the date of grant and expire 10 years from the date of grant. Authorized future grants under this plan expire in March 1997. Restricted stock, forfeitable unless certain periods of employment are completed, is held in escrow in the name of the grantee until the restriction period expires. No stock appreciation rights have been granted. In February 1997, the Company's Board of Directors adopted, subject to shareholder approval, a new stock option plan which provides for the discretionary grant of up to 5 million options to purchase Valhi common stock.

Pursuant to Valhi's Non-Employee Director Stock Option Plan, under which authorized future grants expired in 1995, options were automatically granted once a year to each non-employee director of Valhi at a price equal to the fair market value on the date of grant. Such options vested one year from the date of grant and expire five years from the date of grant.

	SHARES	EXERCISE PRICE PER SHARE	AMOUNT PAYABLE UPON EXERCISE
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Outstanding at December 31, 1993	4,524	$3.51-15.00	$34,040
Granted	2,308	5.21- 6.89	13,520
Exercised	(40)	3.51- 5.63	(172)
Cancelled	(1,456)	5.00-12.50	(7,724)

Outstanding at December 31, 1994	5,336	5.00-15.00	39,664
Adjustment for Tremont Distribution	-	-	(1,603)
Granted	103	7.75- 8.00	822
Exercised	(158)	4.76- 7.75	(873)
Cancelled	(69)	4.76-14.66	(745)
Outstanding at December 31, 1995	5,212	4.76-14.66	37,265
Granted	295	6.38	1,881
Exercised	(135)	4.76-5.72	(653)
Cancelled	(44)	5.48-14.66	(423)
Outstanding at December 31, 1996	5,328	$4.76-14.66	$38,070

Outstanding options at December 31, 1996 expire at various dates through 2006, with a weighted-average remaining life of 4 years. At December 31, 1996, options to purchase 4.4 million Valhi shares were exercisable at prices ranging from $4.76 to $14.66 per share, or an aggregate amount payable upon exercise of $32 million. Of such exercisable options, 2.1 million options are exercisable at various dates through 2004 at prices lower than the December 31, 1996 market price of $6.38 per share for an aggregate amount payable upon exercise of $10.8 million. At December 31, 1996, options to purchase 301,000 shares are scheduled to become exercisable in 1997, and an aggregate of 2.6 million shares were available for future grants. During 1994, options to purchase 1.4 million shares at fixed prices ranging from $5.21 to $6.89 per share were granted in exchange for cancellation of an equal number of variable price options previously granted at initial prices ranging from $5.00 to $5.50 per share. During 1995, under terms of the incentive stock option plan, the exercise price of all options outstanding at December 31, 1994 was reduced by amounts ranging from $.24 to $.34 per share as a result of the Tremont Distribution discussed in Note 19.

NL maintains incentive stock option plans that provide for the discretionary grant of NL restricted common stock, stock options and stock appreciation rights. At December 31, 1996, there were an aggregate of 2.6 million options outstanding to purchase NL common stock at prices ranging from $4.81 per share to $24.19 per share (aggregate amount payable to NL upon exercise - $30 million). At December 31, 1996, options to purchase 1.2 million NL shares were exercisable at prices lower than the December 31, 1996 quoted market price of $10.88 per NL share. The aggregate number of outstanding options to purchase NL common stock at December 31, 1996 represented approximately 5% of NL's outstanding common shares at that date.

Had the Company and NL each elected to account for stock-based employee compensation for all awards granted after 1994 in accordance with the fair value based accounting method of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the impact on the Company's reported income from continuing operations and related per share amounts for 1995 and 1996 would not be material.

NOTE 14 - FINANCIAL INSTRUMENTS:

	DECEMBER 31,			
	1995		1996	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN MILLIONS)			
Cash and cash equivalents	$170.9	$170.9	$255.7	$255.7
Marketable securities (available-for-sale)	144.3	147.2	159.7	186.6
Notes payable and long-term debt (excluding capitalized leases):				
Publicly-traded fixed rate debt:				
Valhi LYONs	$130.4	$143.1	$142.5	$170.8
NL Senior Secured Notes	250.0	267.7	250.0	265.2
NL Senior Secured Discount Notes	132.0	151.8	149.8	161.9
Valcor Senior Notes	99.0	98.0	98.9	97.9

Medite debt with rates fixed via interest rate swaps	26.0	26.0	-	-
Other fixed-rate debt	18.9	19.2	3.9	4.0
Variable rate debt	632.3	632.3	469.2	469.2
Minority interest in NL common stock	$ -	$289.6	$ -	$246.9
Valhi common stockholders' equity	$274.3	$730.1	$303.9	$730.8

Fair values of marketable securities and publicly-traded debt are based upon quoted market prices. See Notes 6 and 9. The fair value of the 44% minority interest in NL Industries and of Valhi's common stockholders' equity are based upon quoted market prices for NL common stock (1995 - $12.13 per share; 1996 - $10.88 per share) and Valhi common stock (1995 and 1996 - $6.38 per share). Medite had entered into interest rate swaps to mitigate the impact of changes in interest rates for $26 million of its U.S. bank term loan. The interest rate swaps were terminated in October 1996 when the related loans were repaid. See Note 19. The fair value of Medite debt on which interest rates had been effectively fixed through the use of interest rate swaps was deemed to approximate the book value of the debt plus or minus the fair value of the related swaps. See Note 9. The fair value of Medite's interest rate swaps was estimated to approximate the contract amount at December 31, 1995. Such fair values represented the estimated amount Medite would have received if it terminated the swap agreements at that date, and were based upon quotes obtained from the counter party financial institution. Fair values of other fixed rate debt have been estimated based upon relative changes in the Company's variable borrowing rates since the dates the interest rates were fixed. Fair values of variable interest rate debt are deemed to approximate book value.

NOTE 15 - INCOME TAXES:

	YEARS ENDED DECEMBER 31,			
		PRO FORMA		
	1994	1994	1995	1996
		(UNAUDITED)		
	(IN MILLIONS)			
Components of pre-tax income:				
United States:				
Contran Tax Group	$(10.5)	$(10.4)	$(11.6)	$(16.0)
NL Tax Group	-	(7.5)	41.8	49.0
Equity in:				
Amalgamated	13.9	13.9	8.9	10.0
NL prior to consolidation	(25.1)	-	-	-
	(21.7)	(4.0)	39.1	43.0
Non-U.S. subsidiaries	13.1	(12.4)	49.3	(28.4)
	$ (8.6)	$(16.4)	$ 88.4	$ 14.6
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35%	$ (3.0)	$ (5.8)	$ 30.9	$ 5.1
Non-U.S. tax rates	-	(7.5)	(7.5)	(.6)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	(5.6)	(18.4)	19.7	(5.3)
U.S. state income taxes, net	(.6)	-	1.4	(.2)
Change in NL's deferred income tax valuation allowance	-	24.3	(9.6)	3.0
No tax benefit for goodwill amortization	.1	2.7	2.9	3.1
Settlement of U.S. tax audits	-	(5.4)	-	-
Rate change adjustment of deferred taxes	-	-	(7.6)	-
Other, net	(.8)	.5	(.3)	(1.6)
	$ (9.9)	$ (9.6)	$ 29.9	$ 3.5
Components of income tax expense:				
Currently payable:				
U.S. federal and state	$ (4.8)	$ (9.6)	$ (3.6)	$ (.6)
Non-U.S.	4.7	7.3	45.5	13.7
	(.1)	(2.3)	41.9	13.1
Deferred income taxes:				
U.S. federal and state	(9.7)	(10.4)	12.3	(13.2)
Non-U.S.	(.1)	3.1	(24.3)	3.6

	(9.8)	(7.3)	(12.0)	(9.6)
	$ (9.9)	$ (9.6)	$ 29.9	$ 3.5
Comprehensive provision for income taxes allocable to:				
Continuing operations	$ (9.9)	$ (9.6)	$ 29.9	$ 3.5
Discontinued operations	6.8		6.4	22.7
Stockholders' equity, principally deferred taxes allocable to adjustments components	.5		10.7	6.6
	$ (2.6)		$ 47.0	$ 32.8

The components of the net deferred tax liability are summarized in the following table. At December 31, 1995 and 1996, all of the deferred tax valuation allowance relates to NL tax jurisdictions, principally the U.S. and Germany. During 1995, NL's gross deferred tax assets and the offsetting valuation allowance were both increased by $34 million as a result of recharacterization of certain tax attributes due primarily to changes in certain tax return elections. In addition, the valuation allowance increased during 1995 by $6 million due to foreign currency translation and was reduced by $10 million due to a change in estimate of the future tax benefit of certain tax credits which NL believe satisfied the "more-likely-than-not" recognition criteria. During 1996, NL's gross deferred tax assets and the offsetting valuation allowance were both increased by $14 million as a result of certain non-U.S. tax losses of its dual resident subsidiary. In addition, the valuation allowance decreased during 1996 by $6 million due to foreign currency translation and was increased by $3 million as a result of certain deductible temporary differences generated during the year which NL believes do not currently satisfy the "more-likely-than-not" recognition criteria.

	DECEMBER 31			
	1995		1996	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	(IN MILLIONS)			
Tax effect of temporary differences relating to:				
Inventories	$ 5.3	$ (14.0)	$ 4.1	$ (6.1)
Marketable securities	-	(28.7)	-	(34.1)
Natural resource properties	-	(17.8)	-	(6.6)
Property and equipment	.6	(195.6)	.5	(172.6)
Accrued OPEB cost	30.7	-	21.5	-
Accrued environmental liabilities and other deductible differences	89.7	-	97.3	-
Other taxable differences	-	(137.1)	-	(144.1)
Investments in subsidiaries and affiliates not members of the consolidated tax group	54.9	(22.2)	53.1	(18.1)
Tax loss and tax credit carryforwards	189.3	-	205.5	-
Valuation allowance	(195.6)	-	(207.1)	-
Adjusted gross deferred tax assets (liabilities)	174.9	(415.4)	174.9	(381.6)
Netting of items by tax jurisdiction	(171.5)	171.5	(173.1)	173.1
	3.4	(243.9)	1.8	(208.5)
Less net current deferred tax asset (liability)	2.6	(4.5)	1.6	(30.5)
Net noncurrent deferred tax asset (liability)	$ .8	$(239.4)	$ .2	$(178.0)

Certain U.S. and non-U.S. income tax returns of the Contran Tax Group (including non-U.S. subsidiaries thereof) are being examined and tax authorities have or may propose tax deficiencies. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from such examinations and believes that the ultimate disposition of all such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

Certain of NL's U.S. and non-U.S. income tax returns, including Germany, are being examined and tax authorities have or may propose tax deficiencies. NL received certain final assessments and paid tax deficiencies during 1996 of

approximately DM 50 million ($32 million when paid), including interest, in final settlement of the agreed issues. The DM 50 million paid to settle these issues was within previously-accrued amounts. Certain other German tax contingencies of NL remain outstanding and will continue to be litigated. No assurance can be given that this litigation will be resolved in NL's favor in view of the inherent uncertainties involved in court rulings. Although NL believes that it will ultimately prevail in the litigation, NL has granted a DM 100 million ($64 million at December 31, 1996) lien on its Nordenham, Germany TiO_2 plant until the litigation is resolved. The Company believes that NL has adequately provided accruals for additional income 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.

During 1995, NL utilized $14 million of foreign tax credit carryforwards and U.S. net operating loss carryforwards to reduce its current year U.S. federal income tax expense. At December 31, 1996, for U.S. federal income tax purposes, NL had approximately $27 million of foreign tax credit carryforwards expiring during 1997 through 2001 and approximately $10 million of alternative minimum tax credit carryforwards with no expiration date. NL also had approximately $400 million of income tax loss carryforwards in Germany with no expiration date.

NOTE 16 - EMPLOYEE BENEFIT PLANS:

Defined contribution plans. A majority of the Company's full-time U.S. employees are eligible to participate in various defined contribution pension plans with Company contributions based on matching or other formulas. Defined contribution plan expense related to the Company's consolidated business segments and charged to continuing operations approximated $1.5 million in 1994 (pro forma 1994 - $2.3 million) and $2.5 million in 1995 and $2.6 million in 1996.

Defined benefit plans. The Company maintains various defined benefit pension plans covering substantially all full-time employees. Defined pension benefits are generally based on years of service and compensation under fixed dollar, final pay or career average formulas and the related expenses are based on independent actuarial valuations. The funding policies for U.S. defined benefit plans are to contribute amounts satisfying funding requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Non-U.S. defined benefit plans are funded in accordance with applicable statutory requirements. Medite maintained a defined benefit pension plan covering substantially all of its full-time Irish employees, which plan was assumed by the purchaser upon sale of Medite's Irish subsidiary in November 1996. Medite maintains a plan covering its U.S. employees, and substantially all remaining employees will cease to accrue benefits in 1997 upon the sale of Medite's Oregon MDF and timber conversion facilities. See Note 19. Variances from actuarially assumed rates will result in increases or decreases in accumulated pension obligations, pension expense and funding requirements in future periods. A one percentage point decrease in the discount rate would increase the aggregate actuarial present value of accumulated benefit obligations at December 31, 1996 by approximately $39 million.

The rates used in determining the actuarial present value of benefit obligations are presented in the table below.

	DECEMBER 31,		
	1994	1995	1996
Discount rate	8.5%	7.5%-8.5%	6.5%-8.5%
Rate of increase in future compensation levels	4%-6%	3.5%-6%	3.5%-6%
Long-term rate of return on assets	7.5%-10%	7.5%-10%	7%-10%

Plan assets are primarily investments in U.S. and non-U.S. corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts. A nominal amount of the aggregate plan assets at December 31, 1996 (1995 - 13%) consists of units in a combined investment fund for employee benefit plans sponsored by Valhi and its affiliates, including Contran and certain Contran affiliates. Assets of the combined investment fund are primarily investments in corporate equity and debt securities, short-term cash investments and notes collateralized by residential and commercial real estate.

The funded status of the Company's defined benefit pension plans and the components of net periodic defined benefit pension cost are set forth below. Approximately 76% of the unfunded amounts of plans for which plan assets are less than the accumulated benefit obligation at December 31, 1996 relate to certain of NL's non-U.S. plans, and substantially all of the remainder relates to certain of NL's U.S. plans. Net periodic pension cost related to the Company's consolidated business segments and charged to continuing operations is presented in the table below. Net periodic pension cost related to Amalgamated's plans approximated $2 million in each of the past three years, and net periodic pension cost related to Medite's plans, included in discontinued operations, was not material in any of the past three years.

	PLAN ASSETS EXCEED ACCUMULATED BENEFITS		ACCUMULATED BENEFITS EXCEED PLAN ASSETS	
	December 31,		December 31,	
	1995	1996	1995	1996
	(IN THOUSANDS)			
Actuarial present value of benefit obligations:				
Vested benefits	$ 73,309	$ 48,953	$176,659	$191,939
Nonvested benefits	8,579	4,075	3,032	9,966
Accumulated benefit obligations	81,888	53,028	179,691	201,905
Effect of projected salary increases	18,183	7,598	22,758	26,311
Projected benefit obligations ("PBO")	100,071	60,626	202,449	228,216
Plan assets at fair value	108,559	78,511	144,408	149,660
Plan assets over (under) PBO	8,488	17,885	(58,041)	(78,556)
Unrecognized net loss (gain) from experience different from actuarial assumptions	14,769	3,567	(16,313)	16,696
Unrecognized prior service cost (credit), net	3,751	3,838	(2,308)	791
Unrecognized net obligations (assets) being amortized over periods of 9 to 18 years	263	(469)	2,175	1,966
Adjustment to recognize minimum liability	-	-	(5,914)	(6,167)
Total prepaid (accrued) pension cost	27,271	24,821	(80,401)	(65,270)
Current portion and reclassification, net	(2,504)	492	10,361	6,055
Noncurrent prepaid (accrued) pension cost	$ 24,767	$ 25,313	$(70,040)	$(59,215)

	YEARS ENDED DECEMBER 31,			
		PRO FORMA		
	1994	1994	1995	1996
		(UNAUDITED)		
	(IN THOUSANDS)			
Net periodic pension cost:				
Service cost benefits	$ 136	$ 5,041	$ 4,457	$ 3,642
Interest cost on PBO	156	15,527	18,008	16,795
Actual return on plan assets	44	(7,995)	(16,943)	(16,700)
Net amortization and deferral	(192)	(6,132)	(2,208)	219
	$ 144	$ 6,441	$ 3,314	$ 3,956

Postretirement benefits other than pensions. Certain subsidiaries currently provide certain health care and life insurance benefits for eligible retired employees. Medical claims are funded as incurred, net of any contributions by the retirees. Under plans currently in effect, some currently active employees of NL may become eligible for postretirement health care benefits if they reach retirement age while working for the applicable subsidiary. At December 31, 1996, substantially all of the Company's aggregate accrued OPEB cost relates to NL (1995 - about three-fourths related to NL and substantially all of the remainder related to Amalgamated). In 1989, NL began

phasing out OPEB benefits for currently active U.S. employees over a ten-year period. The majority of NL retirees are required to contribute a portion of the cost of their benefits. Health care benefits for certain current and future NL retirees are reduced at age 65.

The rates used in determining the actuarial present value of benefit obligations are presented in the table below. At December 31, 1996, the expected rate of increase in future health care costs is 8% in 1997, gradually declining to 5% in 2000 and thereafter.

	DECEMBER 31,		
	1994	1995	1996
Discount rate	8.5%	7.5%	7.5%
Rate of increase in future compensation levels	4%-6%	4%-4.5%	6%
Long-term rate of return on assets	9%	9%	9%

The components of the periodic OPEB cost and accumulated OPEB obligation are set forth below. Variances from actuarially-assumed rates will result in additional increases or decreases in accumulated OPEB obligations, net periodic OPEB cost and funding requirements in future periods. If the health care cost trend rate was increased by one percentage point for each year, OPEB expense would have increased $200,000 in 1996, and the actuarial present value of accumulated OPEB obligations at December 31, 1996 would have increased $2.2 million. A one percentage point decrease in the discount rate would increase the aggregate actuarial present value of accumulated benefit obligations at December 31, 1996 by approximately $3 million. Net periodic OPEB cost related to the Company's consolidated business segments and charged to continuing operations is presented in the table below. Net periodic OPEB cost related to Amalgamated approximated $1.5 million in each of the past three years.

	YEARS ENDED DECEMBER 31,			
		PRO FORMA		
	1994	1994	1995	1996
		(UNAUDITED)		
	(IN MILLIONS)			
Service cost benefits earned during the year	$ -	$ 99	$ 101	$ 112
Interest cost on accumulated OPEB obligation	-	4,338	4,415	3,995
Return on plan assets	-	(688)	(637)	(596)
Net amortization and deferral	-	(1,495)	(1,870)	(1,473)
	$ -	$ 2,254	$ 2,009	$ 2,038

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Actuarial present value of accumulated OPEB obligations:		
Retiree benefits	$60,373	$41,826
Other fully eligible active plan participants	4,906	865
Other active plan participants	8,329	2,394
	73,608	45,085
Plan assets at fair value	7,103	6,689
	66,505	38,396
Unrecognized net gain from experience different from actuarial assumptions	6,957	7,096
Unrecognized prior service credit	12,199	16,259
Total accrued OPEB cost	85,661	61,751
Less current portion	7,251	5,494
Noncurrent accrued OPEB cost	$78,410	$56,257

NOTE 17 - RELATED PARTY TRANSACTIONS:

The Company may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties, and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. The Company continuously considers, reviews and evaluates, and understands that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that the Company might be a party to one or more such transactions in the future.

It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

Receivables from and payables to affiliates are summarized in the table below.

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Receivables from affiliates:		
Demand loan to Contran	$ 3,000	$ -
Net dividend receivable from Amalgamated	-	11,518
Income taxes receivable from Contran	506	-
Other	23	2,413
	$ 3,529	$13,931
Payables to affiliates:		
Demand loan from Contran	$ -	$ 7,244
Income taxes payable to Contran	-	29,633
Tremont Corporation	3,525	3,529
Louisiana Pigment Company	6,677	6,677
Other, net	(14)	304
	$10,188	$47,387

Amounts receivable from Amalgamated were collected in January 1997. See Note 20. Payables to Louisiana Pigment Company are primarily for the purchase of TiO_2 (see Note 8), and amounts payable to Tremont Corporation relate to NL's Insurance Sharing Agreement discussed below.

Loans are made between the Company and related parties, including Contran, pursuant to term and demand notes, principally for cash management purposes. Related party loans generally bear interest at rates related to credit agreements with unrelated parties. Interest income on loans to related parties was $398,000 in 1994, $1.1 million in 1995 and $101,000 in 1996; related party interest expense was nominal in 1996.

Contran has a bank credit agreement which includes a letter of credit facility. Pursuant to such agreement, Contran may authorize the banks to issue letters of credit on behalf of the Company ($731,000 outstanding at December 31, 1996). Obligations under this Contran credit agreement are collateralized by certain securities held by Contran.

Under the terms of Intercorporate Services Agreements ("ISAs") with

Contran, Contran provides certain management, administrative and aircraft maintenance services to the Company, and the Company provides various administrative and other services to Contran, on a fee basis. The net ISA fees charged by Contran to the Company (including amounts charged to Tremont prior to 1995 and to NL) were approximately $480,000 in 1994, $560,000 in 1995 and $500,000 in 1996. Purchases in the ordinary course of business from unconsolidated joint ventures, principally the TiO_2 manufacturing joint venture, were $79 million in 1995 and $81 million in 1996. Other charges from corporate related parties for services provided in the ordinary course of business were less than $250,000 in each of the past three years. Such charges are principally pass-through in nature and, in the Company's opinion, are not materially different from those that would have been incurred on a stand-alone basis. The Company has established a policy whereby the Board of Directors will consider the payment of additional management fees to Contran for certain financial advisory and other services provided by Contran beyond the scope of the ISAs. No such payments were made in the past three years.

NL and a wholly-owned insurance subsidiary of Tremont that was a subsidiary of NL prior to 1988 ("NLI Insurance"), are parties to an Insurance Sharing Agreement with respect to certain loss payments and reserves established by NLI Insurance that (i) arise out of claims against other entities for which NL is responsible and (ii) are subject to payment by NLI Insurance under certain reinsurance contracts. Also, NLI Insurance will credit NL with respect to certain underwriting profits or credit recoveries that NLI Insurance receives from independent reinsurers that relate to retained liabilities.

COAM Company is a partnership, formed prior to 1993, which has sponsored research agreements with the University of Texas Southwestern Medical Center at Dallas (the "University") to develop and commercially market a safe and effective treatment for arthritis (the "Arthritis Research Agreement") and to develop and commercially market patents and technology resulting from a cancer research program (the "Cancer Research Agreement"). At December 31, 1996, COAM partners are Contran, Valhi and another Contran subsidiary. Harold C. Simmons is the manager of COAM. The Arthritis Research Agreement, as amended, provides for payments by COAM of up to $6 million over the next eight years and the Cancer Research Agreement, as amended, provides for funds of up to $16.2 million over the next 14 years. Funding requirements pursuant to the Arthritis and Cancer Research Agreements are without recourse to the COAM partners and the partnership agreement provides that no partner shall be required to make capital contributions. The Company's contributions to COAM were approximately $2 million in 1994 and nil in each of 1995 and 1996.

NOTE 18 - COMMITMENTS AND CONTINGENCIES:

Legal proceedings

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

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

NL believes these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend all actions vigorously. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. Considering NL's previous involvement in the lead and lead pigment businesses, there can be no assurance that additional litigation similar to that currently pending will not be filed.

Environmental matters and litigation. The Company's operations are governed by various federal, state, local and foreign environmental laws and regulations. The Company's policy is to comply with environmental laws and regulations at all of its plants and to continually strive to improve

environmental performance in association with applicable industry initiatives. The Company believes that its operations are in substantial compliance with applicable requirements of environmental laws. From time to time, the Company may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs.

The Company records liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future expenditures are not discounted to their present value. Recoveries of remediation costs from other parties, if any, are recognized as assets when their receipt is deemed probable. At December 31, 1995 and 1996, no assets for recoveries have been recognized.

The Company will adopt the recognition and disclosure requirements of Statement of Position No. 96-1, "Environmental Remediation Liabilities" in the first quarter of 1997. The new rule, among other things, expands the types of costs that must be considered in determining environmental remediation accruals. As a result of adopting the new Statement of Position, the Company expects to recognize a non-cash pre-tax charge of $30 million in the first quarter of 1997 related to NL's environmental matters. Such charge is comprised primarily of estimated future undiscounted expenditures associated with managing and monitoring existing environmental remediation sites. The expenditures consist principally of legal and professional fees associated with such sites, but exclude litigation defense costs with respect to situations in which the Company asserts that no liability exists. Currently, such expenditures are expensed as incurred.

Some of NL's current and former facilities, including several divested secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or of investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, NL has been named a potentially responsible party ("PRP") pursuant to CERCLA in approximately 75 governmental and private actions associated with hazardous waste sites and former mining locations, some of which are on the U.S. EPA's Superfund National Priorities List. These actions seek cleanup costs and/or damages for personal injury or property damage. While NL may be jointly and severally liable for such costs, in most cases, it is only one of a number of PRPs who are also jointly and severally liable. In addition, NL is a party to a number of lawsuits filed in various jurisdictions alleging CERCLA or other environmental claims. At December 31, 1996, NL had accrued $113 million with respect to those environmental matters which are reasonably estimable. It is not possible to estimate the range of costs for certain sites. The upper end of range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately $160 million. 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. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, or a determination that NL is potentially responsible for the release of hazardous substances at other sites, could result in expenditures in excess of amounts currently estimated by NL to be required for such matters. Further, there can be no assurance that additional environmental matters will not arise in the future.

Certain other information relating to regulatory and environmental matters pertaining to NL is included in Item 1 - "Business - Chemicals" of this Annual Report on Form 10-K.

At December 31, 1996, Medite has accrued approximately $4.6 million for the estimated cost to complete environmental remediation efforts at certain of its current and former facilities, including amounts included in accrued plant closure costs. Costs for future environmental remediation efforts are not discounted to their present value, and no recoveries for remediation costs from third parties have been recognized. Such accruals will be adjusted, if necessary, as further information becomes available or as circumstances change. No assurance can be given that the actual costs will not exceed accrued amounts. None of these facilities are the subject of any litigation, administrative proceeding or investigation.

The Company has also accrued approximately $2 million at December 31, 1996 in respect of other environmental cleanup matters, principally related to one Superfund site in Indiana where the Company, as a result of former operations, has been named as a PRP. Such accrual does not reflect any amounts which the

Company could potentially recover from insurers or other third parties and is near the upper end of the range of the Company's estimate of reasonably possible costs for such matters. The imposition of more strict standards or requirements under environmental laws or regulations, new developments or changes in site cleanup costs or allocations of such costs could result in expenditures in excess of amounts currently estimated to be required for such matters.

Other litigation. In November 1992, a complaint was filed in the U.S. District Court for the District of Utah against Valhi, Amalgamated and the Amalgamated Retirement Plan Committee (American Federation of Grain Millers International, et al. v. Valhi, Inc. et al., No. 29-NC-129J). The complaint, a purported class action on behalf of certain current and retired hourly employees of Amalgamated, alleges, among other things, that the defendants breached their fiduciary duties under ERISA by amending certain provisions of a retirement plan for hourly employees maintained by Amalgamated to permit the reversion of excess plan assets to Amalgamated in 1986. The complaint seeks a variety of remedies, including, among other things, orders requiring a return of all reverted funds (alleged to be in excess of $8 million) and any profits earned thereon, a distribution of such funds to the plan participants, retirees and their beneficiaries and enhancement of the benefits under the plan, and an award of costs and expenses, including attorney fees. In January 1996, the Court granted the Company's motion for summary judgment with respect to certain counts and denied the Company's motion for summary judgment with respect to other counts. The court also granted plaintiffs' permission to amend their complaint to include new allegations. Plaintiffs subsequently amended their complaint, and a hearing was held in September 1996 on defendants motion for partial summary judgment to dismiss the new counts. The Company believes it has adequately accrued for the estimated effect of the ultimate resolution of this matter.

In November 1991, a purported derivative complaint was filed in the Court of Chancery of the State of Delaware, New Castle County (Alan Russell Kahn v. Tremont Corporation, et al., No. 12339), in connection with Tremont's agreement to purchase 7.8 million NL common shares from Valhi. In addition to Tremont, the complaint names as defendants the members of Tremont's board of directors and Valhi. The complaint alleges, among other things, that Tremont's purchase of the NL shares constitutes a waste of Tremont's assets and that Tremont's board of directors breached their fiduciary duties to Tremont's public stockholders and seeks, among other things, to rescind Tremont's consummation of the purchase of the NL shares and award damages to Tremont for injuries allegedly suffered as a result of the defendants' wrongful conduct. In March 1996, the court ruled in favor of the defendants, including Valhi, and concluded that Tremont's purchase did not constitute an overreaching of Tremont by the controlling shareholder (Valhi), that Tremont's purchase price for the NL shares was fair and that in all other respects the transaction was fair to Tremont. In June 1996, the plaintiffs filed an appeal, with the Delaware Supreme Court. A hearing before a three-judge panel of the Supreme Court was held in December 1996, and an en banc hearing before the full Supreme Court was held in February 1997. Valhi believes, and understands that Tremont and the other defendants believe, that the action is without merit.

In July 1996, Medite filed a complaint in U.S. District Court in New Mexico (Medite Corporation v. Public Service Company of New Mexico, CIV 96-0929LH) regarding termination of the electricity supply contract for its New Mexico MDF facility permanently closed in May 1996. The complaint seeks, among other things, to declare the contract terminated under New Mexico common law and/or the force majeure provisions of the agreement. Defendant filed a motion to dismiss, and also filed a counterclaim demanding that Medite pay an approximately $5 million termination penalty contained in the contract. Medite does not believe the termination penalty clause applies due to, among other things, the force majeure provisions of the contract. Discovery is proceeding. The Company does not expect the resolution of this matter to have a material adverse impact on its consolidated results of operations, financial position or liquidity.

In November 1995, a complaint was filed against Medite in the U.S. District Court for the Western District of Oklahoma (Midgard Corporation v. Medite of New Mexico, Inc., et al., CIV 95-1807-A) alleging, among other things, that Medite breached Midgard's purportedly exclusive territorial supply contract by purchasing certain raw materials from a third party located in Oklahoma City. The complaint seeks, among other things, $4 million in compensatory damages and $100 million in punitive damages. Medite has answered the complaint denying liability. Discovery is proceeding. The Company believes the complaint is without merit, intends to defend the action vigorously and does not expect the resolution of this matter to have a material adverse impact on its consolidated results of operations, financial position or liquidity.

In September 1996, a complaint was filed in the Superior Court of New York, Bergen County, Chancery Division (Frank D. Seinfeld v. Harold C. Simmons, et al., No. C-336-96) against Valhi, NL and certain current and former members of NL's board of directors. The complaint, a derivative action on behalf of NL, alleges, among other things, that NL's August 1991 "Dutch auction" tender offer was an unfair and wasteful expenditure of NL's funds. The complaint seeks, among other things, to rescind NL's purchase of approximately 10.9 million shares of its common stock from Valhi pursuant to the Dutch auction, and the plaintiff has stated that damages sought are $149 million. The Company and the other defendants have answered the complaint and have denied all allegations of wrongdoing. The Company believes, and understands each of the other defendants believe, the complaint is without merit and that each intends to defend the action vigorously. Trial is scheduled to begin in November 1997.

NL has been named as a defendant in various lawsuits alleging personal injuries as a result of exposure to asbestos in connection with formerly-owned operations. Various of these actions remain pending. Discovery is proceeding in one such case, In re: Monongalia Mass II, (Circuit Court of Monongalia County, West Virginia Nos. 93-C-362, et al.), involving approximately 3,100 plaintiffs. NL intends to defend these matters vigorously.

In July 1995, twelve plaintiffs brought an action against NL and various other defendants, Rhodes, et al. v. ACF Industries, Inc., et al. (Circuit Court of Putnam County, West Virginia, No. 95-C-261). Plaintiffs allege that they were employed by demolition and disposal contractors, and claim that as a result of the defendants' negligence they were exposed to asbestos during demolition and disposal of materials from the defendants' premises in West Virginia. Plaintiffs allege personal injuries and seek compensatory damages totaling $18.5 million and punitive damages totaling $55.5 million. NL has filed an answer denying plaintiffs' allegations. Discovery is proceeding.

In addition to the litigation described above, the Company is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its present and former businesses. The Company currently believes that 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.

Concentrations of credit risk. Sales of TiO2 accounted for approximately 90% of NL's sales in each of the past three years. TiO2 is sold to the paint, paper and plastics industries, which are generally considered "quality-of-life" markets whose demand for TiO2 is influenced by the relative economic well-being of the various geographic regions. TiO2 is sold to over 4,000 customers, none of which represents a significant portion of NL's sales. In each of the past three years, approximately one-half of NL's TiO2 sales volume were to Europe with approximately one-third attributable to North America.

Component products are sold primarily to original equipment manufacturers in the U.S. and Canada. In each of the past three years, the ten largest customers accounted for approximately one-third of component products sales with at least five of such customers in each year located in the U.S.

Sybra's restaurants are clustered in four regions, principally Texas, Michigan, Pennsylvania and Florida. All fast food sales are for cash.

At December 31, 1996, consolidated cash and cash equivalents includes $53 million invested in U.S. Treasury securities purchased under short-term agreements to resell (1995 - $103 million), of which $41 million are held in trust for the Company by a single U.S. bank (1995 - $88 million). In addition, at December 31, 1996, consolidated cash and cash equivalents included approximately $120 million invested in A1 or P1-grade commercial paper issued by various third parties having a maturity of three months or less.

Operating leases. Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO2 production capacity, is located within the lessor's extensive manufacturing complex, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and the supplies and services agreements restrict NL's ability to transfer ownership or use of the Leverkusen facility.

The Company also leases various fast food retail and other manufacturing facilities and equipment. Most of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases the Company expects that, in the normal course of business, such leases will be renewed or replaced by other leases.

Net rent expense related to the Company's consolidated business segments charged to continuing operations approximated $6 million in 1994 (pro forma 1994 - - $14 million), $15 million in 1995 and $17 million in 1996. Contingent rentals based upon gross sales of individual fast food restaurants were less than $.5 million in each of the past three years. At December 31, 1996, future minimum payments under noncancellable operating leases having an initial or remaining term of more than one year were as follows:

Years ending December 31,	AMOUNT (IN THOUSANDS)
1997	$ 9,834
1998	8,380
1999	6,537
2000	4,560
2001	3,671
2002 and thereafter	32,122
	65,104
Less minimum rentals due under noncancellable subleases	891
Net minimum commitments	$64,213

Capital expenditures. At December 31, 1996, the estimated cost to complete capital projects in process approximated $16 million, most of which relates to environmental protection and compliance programs and productivity-enhancing equipment at certain of NL's TiO_2 facilities.

TiO_2 raw material supply contract. NL has long-term supply contracts that provide for NL's chloride-process TiO_2 feedstock requirements through 2000. The agreements require NL to purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately $115 million.

Royalties. Royalty expense, which relates principally to fast food operations, approximated $4 million in each of the past three years. Fast food royalties are paid to the franchisor based upon a percentage of gross sales, as specified in the franchise agreement related to each individual restaurant.

Development agreement. Under the terms of Sybra's Market Development Agreement with Arby's, Sybra has the exclusive right to open new Arby's units within certain counties in Pennsylvania. The Agreement requires Sybra to open an aggregate of 25 new stores in its existing regions during 1997 through 2001 (four in 1997, six in 1998 and five each in 1999, 2000 and 2001), with at least ten of the stores in the Pennsylvania region.

Disposal of fast food operations. The Company has executed agreements involving the sale of its fast food operations conducted by Sybra. The proposed sale would be accomplished in simultaneous transactions that would include the sale of certain restaurant real estate owned by Sybra to one party for $45 million cash consideration, and Valcor's sale of 100% of the stock of Sybra to another party for approximately $39.7 million cash consideration, of which approximately $23.7 million would be used to repay Sybra bank indebtedness. These transactions are subject to, among other things, completion of customary due diligence procedures, the purchaser of Sybra's stock obtaining necessary financing for the transaction and certain consents from third parties. If completed, the transactions are expected to close in the second quarter of 1997, at which time the Company estimates it would report a pre-tax gain on disposal in excess of $24 million. There can be no assurance that any such transactions will be completed.

NOTE 19 - DISCONTINUED OPERATIONS:

Discontinued operations are comprised of the following:

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
	(IN THOUSANDS)		
Medite Corporation	$18,347	$10,607	$37,819
Tremont Corporation, net	(8,069)	-	-
	$10,278	$10,607	$37,819

Medite. In September 1996, Medite Corporation signed three separate letters of intent involving the sale of substantially all of its assets. The first transaction, involving the sale of Medite's timber and timberlands, closed in October 1996 for approximately $118 million cash consideration, of which approximately $53 million of the cash proceeds were used to pay off and terminate Medite's U.S. bank credit facilities. The second transaction, involving the sale of Medite's Irish MDF subsidiary, closed in November 1996 for approximately $61.5 million cash consideration plus the assumption of approximately $21 million of Irish bank debt. The third transaction, involving the sale of Medite's Oregon MDF facility, closed in February 1997 for approximately $36 million cash consideration plus the assumption of approximately $3.7 million of Medite indebtedness. The letter of intent with the purchaser of the Oregon MDF facility originally contemplated the purchase of Medite's two small Oregon timber conversion facilities, but in December 1996 negotiations regarding a definitive agreement for the timber conversion facilities were terminated, and Medite determined to permanently close these facilities. The stud lumber facility, closed in December 1996, is being dismantled and Medite will sell the salvageable machinery and equipment. Medite continues to operate the veneer facility on a short-term basis and expects to either sell or close this facility in 1997. Accordingly, the accompanying financial statements present the results of operations of Medite's building products business segment as discontinued operations for all periods presented.

As is customary in transactions of these types, Medite has made certain representations and warranties to the respective purchasers concerning, among other things, the assets sold. Medite has agreed to indemnify the three purchasers for up to an aggregate of $6.5 million for certain breaches of these representations and warranties. As part of the transactions, Valhi has agreed to guarantee Medite's indemnification obligations. The Company does not currently expect to be required to perform under any of these indemnification obligations.

Medite's 1996 results include a first quarter pre-tax charge of $24 million for the estimated costs of permanently closing its New Mexico MDF plant, and a $13 million fourth-quarter pre-tax charge for the estimated costs of permanently closing its two Oregon timber conversion facilities. Approximately $26 million of such charges represented non-cash costs, most of which related to the net carrying value of property and equipment in excess of estimated net realizable value. These non-cash costs were deemed utilized upon adoption of the respective closure plans. Approximately $11 million of the charge represents workforce, environmental and other estimated cash costs associated with the closure of the facilities, of which approximately $3 million had been paid at December 31, 1996. In August 1996, Medite completed the sale of substantially all of the building and equipment of the New Mexico facility for $5.5 million cash consideration, which approximated the previously-estimated net realizable value.

Condensed income statement data for Medite is presented below. The $24 million pre-tax New Mexico MDF plant charge is included in Medite's operating income for 1996 because the decision to close the New Mexico MDF facility occurred prior to the decision to permanently dispose of the entire business segment. The aggregate net gain on disposal in 1996 includes the $13 million charge associated with the closure of the two Oregon timber conversion facilities, and a nominal charge associated with a curtailment of its U.S. defined benefit plan. Medite expects to report a pre-tax gain on disposal of approximately $20 million in the first quarter of 1997 relating to the sale of its Oregon MDF facility. Interest expense included in discontinued operations represents interest on indebtedness of Medite and its subsidiaries.

YEARS ENDED DECEMBER 31,		
1994	1995	1996

		(IN MILLIONS)	
Operations of Medite:			
Net sales	$189.9	$200.0	$171.1
Operating income	$ 36.4	$ 25.2	$ (7.9)
Interest expense and other, net	(6.9)	(8.2)	(6.7)
Pre-tax income (loss)	29.5	17.0	(14.6)
Income tax expense (benefit)	11.2	6.4	(4.1)
	18.3	10.6	(10.5)
Net gain on disposal:			
Pre-tax gain	-	-	75.1
Income tax expense	-	-	26.8
	-	-	48.3
	$ 18.3	$ 10.6	$ 37.8

Condensed balance sheets for Medite, included in the Company's consolidated balance sheets, are presented below.

	DECEMBER 31,	
	1995	1996
	(IN MILLIONS)	
Current assets	$ 56.1	$21.2
Timber and timberlands	53.1	-
Property and equipment, net	84.8	18.2
Other assets	6.4	4.8
	$200.4	$44.2
Current liabilities	$ 33.9	$17.6
Long-term debt	77.2	3.7
Deferred income taxes	22.1	1.6
Loan from Valcor (*)	5.0	-
Other liabilities	2.9	3.0
Stockholder's equity (*)	59.3	18.3
	$200.4	$44.2

(*) Eliminated in consolidation.

Condensed cash flow data for Medite (excluding dividends paid to and intercompany loans with Valcor) is presented below.

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
		(IN MILLIONS)	
Cash flows from operating activities	$ 33.1	$ 18.5	$ 24.9
Cash flows from investing activities:			
Capital expenditures	(32.0)	(12.3)	(13.3)
Proceeds from disposal of business units	-	-	179.1
Other, net	(.7)	(.2)	.1

	(32.7)	(12.5)	165.9
Cash flows from financing activities:			
Indebtedness, net	28.6	(13.8)	(64.0)
Other, net	1.2	2.9	-
	29.8	(10.9)	(64.0)
	$ 30.2	$ (4.9)	$126.8

Tremont Corporation. At the beginning of 1994, Valhi held 48% of Tremont's outstanding common stock and accounted for its interest in Tremont by the equity method. In December 1994, Valhi's Board of Directors declared a special dividend on its common stock of all of its 48% interest in Tremont (3.5 million Tremont shares) (the "Distribution"). Valhi stockholders received approximately .03 (three one-hundreds) of a share of Tremont for each Valhi share held. The Distribution of Tremont common stock was accounted for as a spin-off (recorded at book value, net of tax). The Distribution was currently taxable for federal income tax purposes to both Valhi and Valhi stockholders based upon the aggregate fair market value ($11.19 per Tremont share) of the Tremont common stock distributed. The Company's equity in losses of Tremont's titanium metals operations during 1994, net of allocable deferred income tax benefits of $4.3 million, is reported as discontinued operations.

Contran and certain of its subsidiaries, which held approximately 90% of Valhi's outstanding common stock at the time of the Distribution, received approximately 3.2 million Tremont shares in the Distribution (44% of Tremont's outstanding common stock), and may be deemed to control Tremont. Tremont holds 18% of NL's outstanding common stock and accounts for its interest in NL by the equity method due to the common control of Contran and certain of its subsidiaries. As discussed above, Valhi continues to own an interest in NL, and, accordingly, the Company's pro rata portion of Tremont's equity in NL is included, for all periods presented prior to the Distribution, in continuing operations as a component of the Company's equity in losses of NL prior to consolidation.

NOTE 20 - TRANSFER OF CONTROL OF THE AMALGAMATED SUGAR COMPANY:

On January 3, 1997, the Company completed the transfer of control of the refined sugar operations previously conducted by the Company's wholly-owned subsidiary, The Amalgamated Sugar Company, to Snake River Sugar Company, an Oregon agricultural cooperative formed by certain sugarbeet growers in Amalgamated's areas of operations. Pursuant to the transaction, which by its terms was to be effective December 31, 1996 for both financial reporting and income tax purposes, 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. The Company received approximately $11.5 million net of pre-closing cash dividends from Amalgamated in 1997.

Also as part of the transaction, Snake River made certain loans to Valhi aggregating $250 million in January 1997. These loans bear interest at a weighted average fixed interest rate of 9.4%, are collateralized by the Company's interest in the LLC and are due in January 2027. Currently, these loans are nonrecourse to Valhi.

Snake River's sources of funds for its loans to Valhi, as well as for the $14 million it contributed to the LLC for its voting ownership 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. Valhi's debt financing included $180 million of loans to Snake River, of which (i) $100 million bears interest at a fixed rate of 9.99% with monthly payments of principal and interest through December 2003 and (ii) $80 million bears interest at a fixed rate of 10.99% in 1997 and 1998 and 12.99% for 1999 through December 2003, with all principal due in December 2003 ($40 million pays interest monthly, while interest on the other $40 million compounds annually with payment deferred until maturity). All $180 million of such loans are collateralized by substantially all of Snake River's assets, including its $250 million loan to Valhi and Snake River's interest in the LLC. The loans may be prepaid, at Snake River's option, and the Company understands that Snake River intends to refinance at least $100 million of such loans with a third-party lender during 1997, but there is no assurance that any such refinancing will occur. When Valhi's loans to Snake river have been reduced to less than $37.5 million, then

up to 15% of Valhi's $250 million loans from Snake River will become recourse to Valhi. Valhi's debt financing also included a $12 million loan to a member of Snake River. This loan bears interest at a fixed rate of 10%, is due in December 1998, is guaranteed by Snake River and is collateralized by the member's interest in Snake River.

The Company may, at its option, require the LLC to redeem the Company's interest in the LLC beginning in January 2002, and the LLC has the right to redeem the Company's interest in the LLC beginning in January 2027. In addition, beginning in January 2002 the Company has the right to require Snake River to purchase the Company's interest in the LLC. The redemption/purchase price is generally $250 million plus the amount of any deferrals of cash distributions from the LLC discussed below. In the event the Company either requires the LLC to redeem the Company's interest in the LLC or requires Snake River to purchase the Company's interest in the LLC, Snake River has the right to accelerate the maturity of and call the $250 million of Valhi loans. If the Company requires the LLC to redeem the Company's interest in the LLC, then Snake River is required, under the terms of the LLC Company Agreement, to contribute to the LLC the cash received from calling such loans.

The LLC Company Agreement provides that, among other things, the Company is entitled to receive certain distributions of Distributable Cash, as defined, from the LLC. The Company and Snake River share in any Distributable Cash up to an aggregate of $26.7 million per year, with a preferential 95% of such aggregate amount going to the Company and the remaining 5% going to Snake River. This $26.7 million annual distribution is referred to as the LLC's "base distribution." The Company generally is entitled to receive 5% (10% after 2002) of any Distributable Cash in excess of this base distribution amount, with additional Distributable Cash potentially being received through 2002 if certain levels of Distributable Cash are reached. However, (i) a portion of the Company's base distribution each year will be deferred and instead paid to Snake River to the extent Snake River pays interest currently on $40 million of its $180 million in loans from Valhi discussed above and (ii) the Company's share of any Distributable Cash above the base distribution amount is also deferred and instead paid to Snake River. Both of these deferrals will continue until the $180 million of Snake River's loans from Valhi are completely repaid, at which time any distributions of Distributable Cash which Snake River would otherwise be entitled to receive in excess of its base distribution amount will instead be paid to the Company until the Company has recouped these deferrals, including interest.

The LLC's Management Committee is comprised of seven persons, all of which are appointed by Snake River. Generally, the Company has no representation on the Management Committee and has no ability to influence the operations or management of the LLC. There are some restrictive covenants in the LLC Company Agreement intended to protect the Company's interest in the LLC, such as limits on capital expenditures and additional indebtedness of the LLC. In addition, the Company has the ability to temporarily take control of the LLC, via election of a majority of the members of the Management Committee, if its cumulative "base distributions" become $10 million in arrears (excluding any of the deferrals discussed above). Once any such arrearages have been paid, the Company ceases to have any representation on the Management Committee.

Neither the Company nor Snake River can sell or otherwise dispose of their LLC interest without the consent of the other party. Admission of new members to the LLC requires the consent of both the Company and Snake River.

As part of the formation of the LLC, Amalgamated's existing $85 million revolving bank credit facility was terminated and replaced with a new $100 million facility. The new facility is collateralized by the LLC's working capital assets and one of the LLC's four processing facilities. This agreement contains provisions and restrictive covenants customary in lending transactions of this type. In addition, the agreement contains cross-default provisions with both Valhi's loans from and to Snake River.

Because the Company no longer controls the operations contributed to the LLC, the Company ceased consolidating the net assets, results of operations and cash flows of such business effective December 31, 1996. At December 31, 1996, the Company has reported the net assets contributed to the LLC at cost. Because the Company receives preferential distributions from the LLC and has the right to require the LLC to redeem its interest in the LLC for a fixed and determinable amount, the Company's interest in the LLC is deemed equivalent to a mandatory redeemable preferred stock which, under generally accepted accounting principles, is carried at estimated fair value. Accordingly, beginning in 1997, the Company will classify its investment in the LLC as an available-for-sale

marketable security carried at estimated fair value. In determining estimated fair value of the Company's interest in the LLC, the Company will consider, among other things, the outstanding balance of the Company's loans to Snake River and the outstanding balance of the Company's loans from Snake River. Also beginning in 1997, the Company will commence reporting the cash distributions received from the LLC as dividend income. The amount of such future distributions is dependent upon, among other things, the future performance of the LLC's operations. For comparative purposes, Amalgamated's results of operations and cash flows are reported by the equity method for all periods presented.

Condensed income statement data for Amalgamated is presented below.

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
	(IN MILLIONS)		
Net sales:			
Refined sugar	$422.0	$492.6	$455.7
By-products and other	35.3	48.7	38.3
	$457.3	$541.3	$494.0
Operating income:			
FIFO basis	$ 29.3	$ 26.0	$ 39.3
LIFO adjustment	2.3	.8	(15.5)
	31.6	26.8	23.8
General corporate items, net	(2.2)	.3	-
Interest expense	(7.3)	(13.4)	(8.6)
	22.1	13.7	15.2
Income tax expense	8.2	4.8	5.2
Net income	$ 13.9	$ 8.9	$ 10.0

Condensed cash flow data for Amalgamated (excluding dividends paid to and intercompany loans with Valhi) is presented below.

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
	(IN MILLIONS)		
Cash flows from operating activities	$ 14.7	$ 41.7	$ 24.6
Cash flows from investing activities:			
Capital expenditures	(26.8)	(24.0)	(13.7)
Other, net	.2	-	.2
	(26.6)	(24.0)	(13.5)
Cash flows from financing activities - Indebtedness, net	18.1	(20.2)	4.3
	$ 6.2	$ (2.5)	$ 15.4

NOTE 21 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
YEAR ENDED DECEMBER 31, 1995				
Net sales	$297.8	$331.5	$304.3	$285.9

Operating income	43.5	59.0	51.7	51.7
Income from continuing operations	$ 7.5	$ 13.1	$ 12.2	$ 25.1
Discontinued operations	4.9	4.3	1.5	(.1)
Net income	$ 12.4	$ 17.4	$ 13.7	$ 25.0
Per common share:				
Continuing operations	$ .07	$.11	$.11	$.22
Discontinued operations	.04	.04	.01	-
Net income	$ .11	$.15	$.12	$.22
YEAR ENDED DECEMBER 31, 1996				
Net sales	$289.2	$314.2	$299.3	$288.1
Operating income	42.6	38.2	21.5	20.7
Income (loss) from continuing operations	$ 9.2	$ 6.6	$ (6.9)	$ (4.7)
Discontinued operations	(14.9)	2.2	2.0	48.5
Net income (loss)	$ (5.7)	$ 8.8	$ (4.9)	$ 43.8
Per common share:				
Continuing operations	$ .08	$.06	$(.06)	$(.04)
Discontinued operations	(.13)	.02	.02	.42
Net income (loss)	$(.05)	$.08	$(.04)	$ .38

Net income in the fourth quarter of 1995 includes an aggregate of $13 million ($.11 per share) of net deferred income tax benefits resulting from changes in the U.S./Canada income tax treaty and a reduction of NL's deferred income tax valuation allowance to recognize the future benefit of certain tax credits.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Stockholders and Board of Directors of Valhi, Inc.:

Our report on the consolidated financial statements of Valhi, Inc. and Subsidiaries as of December 31, 1995 and 1996 and for each of the three years in the period ended December 31, 1996, which report is based in part upon the reports of other auditors, is herein included on this Annual Report on Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index on page F-1 of this Annual Report on Form 10-K. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statement schedules based on our audits.

In our opinion, based upon our audits and the reports of other auditors, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
March 7, 1997

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED BALANCE SHEETS

DECEMBER 31, 1995 AND 1996

(IN THOUSANDS)

	1995	1996
Current assets:		
Cash and cash equivalents	$ 8,411	$ 5,510
Marketable securities	-	142,478
Net dividend receivable from Amalgamated	-	11,518
Accounts and notes receivable	1,398	1,522
Demand loans to affiliates	3,000	-
Other receivables from subsidiaries and affiliates	751	3,414
Deferred income taxes	1,101	-
Other	534	1,377
Total current assets	15,195	165,819
Other assets:		
Marketable securities	130,873	1,101
Investment in subsidiaries and affiliates	244,832	258,660
Investment in Amalgamated	-	34,070
Deferred income taxes	20,807	48,595
Other assets	4,373	3,971
Property and equipment, net	3,110	3,064
Total other assets	403,995	349,461
	$419,190	$515,280
Current liabilities:		
Current debt - LYONs	$ -	$142,478
Note payable to bank	-	13,000
Accounts payable and accrued liabilities	5,400	10,268
Demand loan from affiliates	-	7,244
Other payables to subsidiaries and affiliates	3,169	151
Income taxes	1,466	1,414
Deferred income taxes	-	32,461
Total current liabilities	10,035	207,016
Noncurrent liabilities:		
Long-term debt - LYONs	130,366	-
Other	4,498	4,345
Total noncurrent liabilities	134,864	4,345
Stockholders' equity	274,291	303,919
	$419,190	$515,280

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

CONDENSED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS)

	1994	1995	1996
Revenues and other income:			
Securities earnings, net	$ 3,348	$ 4,034	$ 4,075
Other, net	1,317	1,991	4,844
	4,665	6,025	8,919
Costs and expenses:			
General and administrative	9,449	6,845	9,012

Interest	10,437	11,892	13,579
Other, net	843	231	(59)
	20,729	18,968	22,532
	(16,064)	(12,943)	(13,613)
Equity in subsidiaries and affiliates	1,562	86,824	3,025
Income (loss) before income taxes	(14,502)	73,881	(10,588)
Income taxes (benefit)	(15,824)	15,973	(14,815)
Income from continuing operations	1,322	57,908	4,227
Discontinued operations	10,278	10,607	37,819
Net income	$ 11,600	$ 68,515	$ 42,046

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS)

	1994	1995	1996
Cash flows from operating activities:			
Net income	$ 11,600	$ 68,515	$ 42,046
Noncash interest expense	10,437	11,421	12,492
Deferred income taxes	(13,531)	23,153	(6,163)
Equity in subsidiaries & affiliates:			
Continuing operations	(1,562)	(86,824)	(3,025)
Discontinued operations	(5,933)	(10,607)	(37,819)
Dividends from subsidiaries and affiliates	25,707	8,298	25,764
Other, net	1,045	2,371	(1,911)
	27,763	16,327	31,384
Net change in assets and liabilities	2,368	(7,044)	(7,374)
Net sales of trading securities	4,375	24,184	-
Net cash provided by operating activities	34,506	33,467	24,010
Cash flows from investing activities:			
Purchases of NL common stock	(15,060)	(13,250)	(14,627)
Capital contribution to subsidiaries and affiliates	(10,000)	(10,000)	(17,000)
Loans to subsidiaries and affiliates:			
Loans	(34,550)	(132,000)	(10,800)
Collections	34,550	129,000	13,800
Other, net	3,906	(1,164)	3,875
Net cash used by investing activities	(21,154)	(27,414)	(24,752)

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(IN THOUSANDS)

	1994	1995	1996
Cash flows from financing activities:			
Indebtedness:			
Borrowings	$ -	$ 60,000	$ 127,000
Principal payments	-	(60,000)	(114,000)

Loans from affiliates:			
Loans	-	-	7,844
Repayments	-	-	(600)
Dividends	(9,145)	(13,809)	(23,057)
Other, net	229	875	654
Net cash used by financing activities	(8,916)	(12,934)	(2,159)
Cash and cash equivalents:			
Net increase (decrease)	4,436	(6,881)	(2,901)
Balance at beginning of year	10,856	15,292	8,411
Balance at end of year	$15,292	$ 8,411	$ 5,510
Supplemental disclosures-cash paid for:			
Interest	$ -	$ 470	$ 2,270
Income taxes (received)	(6,171)	(4,154)	(3,121)

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

NOTES TO CONDENSED FINANCIAL INFORMATION

NOTE 1 - BASIS OF PRESENTATION:

The Consolidated Financial Statements of Valhi, Inc. and Subsidiaries are incorporated herein by reference.

NOTE 2 - MARKETABLE SECURITIES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Current asset (available-for-sale):		
Dresser Industries common stock	$ -	$142,478
Noncurrent assets (available-for-sale):		
Dresser Industries common stock	$103,366	$ -
Other	507	1,101
	$103,873	$ 1,101

NOTE 3 - INVESTMENT IN SUBSIDIARIES AND AFFILIATES:

	DECEMBER 31,	
	1995	1996
	(IN THOUSANDS)	
Subsidiaries:		
NL Industries	$150,743	$147,962
Amalgamated	44,240	-
Valcor	45,224	95,480
Waste Control Specialists	4,625	15,218
	$244,832	$258,660

NOTE 4 - LONG-TERM DEBT:

Long-term debt consists of Valhi's zero coupon LYONs, $379 million principal amount at maturity in October 2007. The LYONs were issued with significant original issue discount ("OID") to represent a yield to maturity of 9.25%. No periodic interest payments are required. The LYONs are secured by the 5.5 million shares of Dresser common stock held by Valhi, which shares are held in escrow for the benefit of holders of the LYONs. Each $1,000 in principal amount at maturity of the LYONs is exchangeable, at any time, for 14.4308 shares of Dresser common stock held by the Company. The LYONs are redeemable, at the option of the holder, in October 1997 or October 2002 at the issue price plus accrued OID through such purchase date and, accordingly, the LYONs are classified as a current liability at December 31, 1996. The aggregate redemption price in October 1997 approximates $153 million. Such redemptions may be paid, at Valhi's option, in cash, Dresser common stock, or a combination thereof. The LYONs are not redeemable at Valhi's option prior to October 1997 unless the market price of Dresser common stock exceeds $35.70 per share for specified time periods.

Valhi also has a $15 million revolving bank credit facility which matures in March 1998, generally bears interest at LIBOR plus 1.5% and is collateralized by 4.8 million shares of NL common stock held by Valhi. Borrowings under this facility can only be used to fund Valhi's purchases of additional shares of NL common stock. The agreement limits additional indebtedness of Valhi and contains other provisions customary in lending transactions of this type.

NOTE 5 - DIVIDENDS FROM SUBSIDIARIES AND AFFILIATES:

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
	(IN THOUSANDS)		
Amalgamated	$16,137	$ -	$17,000
Valcor	9,570	8,298	383
NL Industries	-	-	8,381
Waste Control Specialists	-	-	-
	$25,707	$8,398	$25,764

NOTE 6 - INCOME TAXES:

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
	(IN THOUSANDS)		
Income tax benefit attributable to continuing operations:			
Currently refundable	$ (6,638)	$(7,180)	$ (8,652)
Deferred income taxes	(9,186)	23,153	(6,163)
	$(15,824)	$15,973	$(14,815)
Cash received for income taxes, net:			
Received from subsidiaries	$ 20,479	$ 8,828	7,119
Paid to Contran	(14,425)	(4,623)	(3,445)
Paid to tax authorities, net	117	(51)	(553)
	$ 6,171	$ 4,154	$ 3,121

Waste Control Specialists LLC is treated as a partnership for federal income tax purposes. NL is a separate U.S. taxpayer and is not a member of the Contran Tax Group.

DEFERRED TAX
ASSET (LIABILITY)

DECEMBER 31,

	1995	1996
	(IN THOUSANDS)	
Components of the net deferred tax asset:		
Tax effect of temporary differences related to:		
Marketable securities	$(31,190)	$(35,659)
Investment in subsidiaries and affiliates not members of the Contran Tax Group	55,983	52,962
Accrued liabilities and other deductible differences	5,514	7,282
Other taxable differences	(8,399)	(8,451)
	$ 21,908	$ 16,134
Current deferred tax asset (liability)	$ 1,101	$(32,461)
Noncurrent deferred tax asset	20,807	48,595
	$ 21,908	$ 16,134

NOTE 7 - EQUITY IN EARNINGS OF SUBSIDIARIES AND AFFILIATES:

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
	(IN THOUSANDS)		
Continuing operations:			
NL Industries	$(25,078)	$69,539	$(12,592)
Valcor	12,751	8,939	12,015
Amalgamated	13,889	8,900	10,009
Waste Control Specialists	-	(554)	(6,407)
	$ 1,562	$86,824	$ 3,025
Discontinued operations:			
Valcor	$ 18,347	$10,607	$ 37,819
Tremont	(12,414)	-	-
	$ 5,933	$10,607	$ 37,819

NOTE 8 - DISCONTINUED OPERATIONS:

The components of discontinued operations are presented below.

	YEARS ENDED DECEMBER 31,		
	1994	1995	1996
	(IN THOUSANDS)		
Equity in Valcor	$ 18,347	$10,607	$37,819
Tremont:			
Equity in losses	(12,414)	-	-
Allocable deferred income tax benefit	4,345	-	-
	(8,069)	-	-
	$ 10,278	$10,607	$37,819

VALHI, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS
Year ended December 31, 1994:			
Allowance for doubtful accounts	$ 974	$ 213	$(502)
Amortization of intangibles:			
Goodwill	$ 1,008	$ 172	$ -
Franchise fees and other	6,848	1,423	(900)
	$ 7,856	$ 1,595	$(900)
Deferred income tax valuation allowance	$ -	$ -	$ -
Year ended December 31, 1995:			
Allowance for doubtful accounts	$ 4,434	$ 665	$(294)
Amortization of intangibles:			
Goodwill	$ 1,180	$ 8,172	$ -
Franchise fees and other	7,371	4,549	(453)
	$ 8,551	$12,721	$(453)
Deferred income tax valuation allowance	$164,500	$(9,588)	$ -

DESCRIPTION	CURRENCY TRANSLATION	OTHER(A)	BALANCE AT END OF YEAR
Year ended December 31, 1994:			
Allowance for doubtful accounts	$ -	$ 3,749	$ 4,434
Amortization of intangibles:			

Goodwill	$ -	$ -	$ 1,180
Franchise fees and other	-	-	7,371
	$ -	$ -	$ 8,551
Deferred income tax valuation allowance	$ -	$164,500	$164,500
Year ended December 31, 1995:			
Allowance for doubtful accounts	$ 167	$ -	$ 4,972
Amortization of intangibles:			
Goodwill	$ -	$ -	$ 9,352
Franchise fees and other	(8)	-	11,459
	$ (8)	$ -	$ 20,811
Deferred income tax valuation allowance	$ 6,451	$ 34,206	$195,569

VALHI, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS (CONTINUED)

(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS
Year ended December 31, 1996:			
Allowance for doubtful accounts	$ 4,972	$ 1,860	$(1,987)
Amortization of intangibles:			
Goodwill	$ 9,352	$ 8,779	$ -
Franchise fees and other	11,459	4,447	(372)
	$ 20,811	$13,226	$ (372)

Deferred income tax valuation allowance	$195,569	$ 3,013	$ -

DESCRIPTION	CURRENCY TRANSLATION	OTHER(A)	BALANCE AT END OF YEAR
Year ended December 31, 1996:			
Allowance for doubtful accounts	$ (169)	$ (589)	$ 4,087
Amortization of intangibles:			
Goodwill	$ -	$ -	$ 18,131
Franchise fees and other	(332)	-	15,202
	$ (332)	$ -	$ 33,333
Deferred income tax valuation allowance	$(5,937)	$14,472	$207,117

(a) 1994 - Consolidation of NL Industries, Inc. effective December 31, 1994.
1995 - Direct offset to the increase in gross deferred tax assets resulting from rechartization of certain tax attributes primarily due to changes in certain tax return elections of NL.
1996 - Elimination of amounts attributable to (i) the Amalgamated Sugar Company, which is no longer consolidated, and (ii) Medite's Irish subsidiary, which was sold, and direct offset to the increase in gross deferred tax assets resulting from the dual residency status of certain NL subsidiaries.

Waste Control Specialists LLC
(A DEVELOPMENT STAGE ENTERPRISE)

Financial Statements

December 31, 1996

REPORT OF INDEPENDENT ACCOUNTANTS

To the Members and Management Committee of Waste Control Specialists LLC:

We have audited the accompanying balance sheets of Waste Control Specialists LLC as of December 31, 1995 and 1996, and the related statements of operations, members equity and cash flows for the year ended December 31, 1996 and for the period from inception to December 31, 1995. These financial statements are the responsibility of the Companys management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waste Control Specialists LLC as of December 31, 1995 and 1996, and the results of its operations and cash flows for the year ended December 31, 1996 and for the period from inception to December 31, 1995 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
February 12, 1997

Waste Control Specialists LLC
(A Development Stage Enterprise)
BALANCE SHEETS

(In thousands)

	December 31, 1995	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$3,349	$545
Prepaid insurance	6	104
Receivable from officer	-	250
Other current assets	22	111
Total current assets	3,377	1,010
Property and equipment:		
Land	2,134	2,134
Building	247	255
Furniture and equipment	80	288
Construction in progress	75	12,912
	2,536	15,589
Less accumulated depreciation	2	41
Net property and equipment	2,534	15,548

Other assets:		
Organization costs, net	194	153
Landfill and other operating permits	1,145	1,841
Restricted deposits and other	-	556
Total other assets	1,339	2,550
	$7,250	$19,108
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$274	$300
Accounts payable and accrued liabili	105	1,360
Accrued payroll and payroll taxes	31	408
Payable to member	100	-
Total current liabilities	510	2,068
Long-term debt	5,308	5,015
Members' equity, including deficit accumulated during the development stage of $554	1,432	12,025
	$7,250	$19,108

Commitments and contingencies (Note 2)

Waste Control Specialists LLC
(A Development Stage Enterprise)
STATEMENTS OF OPERATIONS

(In thousands)

	Period from November 8, 1995 (inception) to December 31, 1995	Year ended December 31, 1996	Period from November 8, 1995 (inception) to December 31, 1996
Interest income	$17	$277	$294
Costs and expenses:			
Operating and startup	465	6,090	6,555
Interest	106	594	700
	571	6,684	7,255
Net loss	($554)	($6,407)	($6,961)

Waste Control Specialists LLC
(A Development Stage Enterprise)
STATEMENTS OF MEMBERS' EQUITY

(In thousands)

Period from November 8, 1995 (inception) to December 31, 1995
and year ended December 31, 1996

	ACH	KNB	Total
Contributions	$5,000	($3,014)	$1,986
Net loss	(554)	-	(554)

Members' equity at December 31, 1995	4,446	(3,014)	1,432
Contributions	17,000	-	17,000
Net loss	(6,407)	-	(6,407)
Members' equity at December 31, 1996	$15,039	($3,014)	$12,025

Waste Control Specialists LLC
(A Development Stage Enterprise)
STATEMENTS OF CASH FLOWS

(In thousands)

	Period from November 8, 1995 (inception) to December 31, 1995	Year ended December 31, 1996	Period from November 8, 1995 (inception) to December 31, 1996
Cash flows from operating activities:			
Net loss	($554)	($6,407)	($6,961)
Depreciation and amortization	9	80	89
Changes in assets and liablities:			
Other current assets	(28)	(187)	(215)
Accounts payable and accrued expen	(358)	800	442
Net cash used by operating	(931)	(5,714)	(6,645)
Cash flows used by investing activities :			
Capital expenditures	(153)	(12,238)	(12,391)
Permitting and other	-	(1,485)	(1,485)
Net cash used by investing	(153)	(13,723)	(13,876)
Cash flows from financing activities:			
Capital contribution received	5,000	17,000	22,000
Principal repayments of:			
Payable to members	(100)	(100)	(200)
'Long-term debt	(467)	(267)	(734)
Net cash provided by financi	4,433	16,633	21,066
Net increase (decrease) in cash	3,349	(2,804)	545
Cash at beginning of period	-	3,349	-
Cash at end of period	$3,349	$545	$545
Supplemental disclosures - cash paid fo	$106	$594	$700

Waste Control Specialists LLC
(A DEVELOPMENT STAGE ENTERPRISE)

Notes To Financial Statements

Note 1 - Organization and basis of presentation:

Waste Control Specialists LLC (the "Company"), a Delaware limited liability company formed in November 1995, is a development stage enterprise. The Company is currently completing construction of the initial phase of a waste disposal facility in West Texas for the processing, treatment, storage and disposal of certain hazardous and toxic wastes. The Company has been issued permits by

the Texas Natural Resource Conservation Commission ("TNRCC") and the U.S. Environmental Protection Agency ("U.S. EPA"), pending facility construction and certification, to accept wastes governed by the Resource Conservation and Recovery Act ("RCRA") and the Toxic Substances Control Act ("TSCA"). The facility is expected to receive its first wastes for processing in the first quarter of 1997. The Company is also seeking permits for the processing, treatment and disposal of low-level and mixed-level radioactive wastes.

The Company is equally owned by Andrews County Holdings, Inc. ("ACH") and KNB Holdings, Ltd. ("KNB"). ACH, a Delaware corporation, is a wholly-owned subsidiary of Valhi, Inc. (NYSE: VHI). KNB, a Texas limited partnership, is controlled by Kenneth N. Bigham, Chief Executive Officer of the Company, as general partner of KNB. Collectively, ACH and KNB are referred to as "Members" of the Company. See Notes 3 and 6.

Contran Corporation owns, directly or indirectly, approximately 91% of Valhis outstanding common stock. Substantially all of Contrans outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of each of Valhi and Contran, may be deemed to control each of Contran and Valhi.

Note 2 - Summary of significant accounting policies:

Management estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Ultimate actual results may, in some instances, differ from previously estimated amounts.

Cash and cash equivalents. Cash equivalents include bank time deposits with maturities of three months or less.

Organizational costs. Capitalized organizational costs are amortized by the straight-line method over five years and are stated net of accumulated amortization of $6,000 and $47,000 at December 31, 1995 and 1996, respectively.

Operating permits. Costs related to the acquisition of operating permits are capitalized. Such costs will be amortized by the straight-line method, beginning when operations commence, through the initial expiration date of the permits. The permits currently held by the Company expire in 2004 and are subject to renewal at the option of the issuing governmental agency.

Property and equipment. Property and equipment are stated at cost. Maintenance, repairs and minor renewals are expensed; major improvements are capitalized.

Depreciation is computed principally by the straight-line method over the estimated useful lives of ten to 40 years for buildings and three to 20 years for machinery and equipment.

Income taxes. The Company, a limited liability company, is not a federal tax paying entity. Income and losses of the Company are included in the federal income tax returns of the Members and any resulting income taxes are the responsibility of the Members.

Note 3 - Summary of significant Member agreements:

Significant agreements entered into by the Company and its Members in conjunction with formation of the Company are summarized below. See Note 5 for other related party agreements transactions.

Formation Agreement. ACH agreed to contribute $25 million in cash (the "ACH Initial Capital Contribution") to the Company at various

dates through 1997 in return for its 50% Membership Interest in the Company. ACH contributed $5 million in 1995, $17 million in 1996 and the remaining $3 million in January 1997

KNB contributed certain assets, principally all of the outstanding common stock of Waste Control Specialists, Inc. ("WCSI") and approximately 16,073 acres of land including the 1,338 acre facility site, for its 50% Membership Interest. In addition, the Company assumed certain liabilities of Mr. Bigham, principally bank indebtedness aggregating $6.1 million. The net assets of WCSI consisted primarily of the land for the facility site and operating permits issued by the TNRCC and U.S. EPA covering acceptance of wastes governed by RCRA and TSCA. WCSI was subsequently merged into the Company.

The assets contributed by KNB were recorded by the Company at predecessor carryover basis of $3.1 million (net liability of $3 million including the carryover basis of $6.1 million of debt of Mr. Bigham assumed).

Company Agreement. The Companys business shall be to conduct a broad array of waste management services at the West Texas facility, including the treatment, storage and/or disposal of wastes and other materials regulated under RCRA and TSCA.

The business and affairs of the Company are directed by the Members through a five-member Management Committee, of which ACH appoints three members and KNB appoints two members. The Chief Executive Officer is given the authority to manage the Companys affairs in accordance with the Annual Operating Plan approved by the Management Committee. Among other things, most capital expenditures, contracts which obligate the Company to pay for or provide services valued at more than $1 million, transactions outside the ordinary course of business and distributions to Members (except for required distributions) must be approved by the Management Committee.

The Members themselves, by majority vote (one vote per Member), must approve certain transactions including (i) the sale or disposition of all or substantially all of the Companys assets pursuant to a sale or merger, (ii) engaging the Company in any business other than the environmental waste business, (iii) borrowing more than $10 million prior to the time ACH has completed its ACH Initial Capital Contribution and (iv) most related party transactions. Other than ACHs completion of funding of the ACH Initial Capital Contribution, no Member is obligated to loan, invest or otherwise provide any funds or property to the Company unless a majority of the Members agree.

ACH is generally entitled to a preferential distribution (the "ACH Preferential Distribution") equal to 20% per annum of the invested ACH Initial Capital Contribution. Distributions to Members of Distributable Cash, as defined, shall generally (i) first be paid to ACH up to the ACH Preferential Distribution and (ii) second split ratably among the Members based upon their Membership Interest. ACH is also generally entitled to a preferential return of the ACH Initial Capital Contribution in the event of the liquidation and winding up of the Company.

For federal income tax purposes, the net profits and losses of the Company are generally allocated (i) first in an amount up to the Distributable Cash paid to Members, as discussed above, and (ii) second ratably among the Members based on their respective Membership Interest. Generally, to the extent a Member has a negative capital account for federal income tax purposes, such Member shall not be allocated any net losses.

Members are generally given a right of first refusal or participation rights in the event a Member wishes to sell all or a portion of his Membership Interest. Following any initial public offering of ownership interests in the Company, each Member may exercise up to two additional demand registrations, subject to certain conditions.

Consulting Agreement. The Company agreed to assume the obligations of WCSI under a consulting agreement entered into in October 1995. See Note 6.

Note 4 - Long-term debt:

Approximately $450,000 of bank indebtedness assumed by the Company at formation was repaid in November 1995. The remaining bank indebtedness consists of a term loan repayable through December 1999, with interest at the greater of (i) prime plus 3.75% or (ii) 12% (12% at December 31, 1995 and 1996) and collateralized by substantially all of the Companys assets. The term loan agreement contains provisions and restrictive covenants customary in lending transactions of this type. The fair value of the bank debt at December 31, 1995 and 1996 is assumed to approximate its book value.

The maturities of the bank term loan at December 31, 1996 are shown in the table below.

Years ending December 31,	Amount (In thousands)
1997	$300
1998	338
1999	4,677
	$5,315

Note 5 - Related party transactions:

It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

Certain significant agreements were entered into in conjunction with formation of the Company. See Note 3.

Mr. Bigham, a member of the Management Committee and the general partner of KNB, was appointed Chief Executive Officer of the Company pursuant to a five-year employment agreement through 2000. In addition to terms customary for such agreements, the agreement specifies certain special bonuses aggregating up to $1 million payable if, and only if, the Company is issued various new operating permits within specified time periods no later than August 1997.

The Company agreed to reimburse ACH and KNB an aggregate of $100,000 each for costs incurred by the respective Member in connection with formation of the Company. Such costs have been capitalized as organizational costs. See Note 2. Payable to member at December 31, 1995 consists of $100,000 owed to ACH in connection with this agreement.

The Company has entered into a five-year lease for its corporate office facility with an entity controlled by Mr. Bigham at a rate of $42,000 per year. Rent expense related to this lease was $6,000 in 1995 and $42,000 in 1996.

Loans to officers at December 31, 1996 consists of a 6.02% demand note receivable from Mr. Bigham. Interest income on such loan was nominal in 1996. This loan was repaid in February 1997 using a portion of the proceeds of a $1.5 million loan made by Valhi to Mr. Bigham, which loan is collateralized by Mr. Bighams interest in the Company.

In February 1997, the Company entered into a $4.0 million revolving credit facility with ACH. Borrowings bear interest at prime plus

1% and are due December 31, 1997.

Note 6 - Commitments and contingencies:

Environmental. The Companys waste management operations currently involve wastes and other materials regulated under RCRA and TSCA. The Company intends to seek other operating permits to accept wastes, including low-level radioactive or mixed wastes, regulated under other environmental laws and regulations. The Company expects, in the normal course of its business, to expend funds for environmental protection and remediation; however its business is based upon compliance with environmental laws and regulations, and its services are expected to be priced accordingly.

Concentrations of credit risk. At December 31, 1995 and 1996, substantially all of the Companys cash and cash equivalents were held by a single U.S. bank.

Cost to complete capital projects in process. At December 31, 1996, the estimated cost to complete the initial phase of the facility so that it will be ready to accept RCRA and TSCA-regulated wastes approximated $3.9 million. Such capital expenditures, including approximately $1.2 million included in accrued liabilities at December 31, 1996, are expected to be financed by funds on hand and the $3.0 million contributed to the Company by ACH in January 1997.

Consulting agreement. Under the terms of an agreement entered into in October 1995 by WCSI and assumed by the Company at formation, the Company has agreed to pay an independent consultant up to an aggregate of $18.4 million for performing services as a governmental relations representative and consultant. Such fees are based on variable rates of not more than 2% of the revenue generated and will be payable only when the Company receives revenues pursuant to contracts for the disposal of low-level radioactive or mixed wastes generated by, or under the supervision or control of, the U.S. federal government. The agreement currently provides for a security interest in the facility under construction in West Texas to collateralize the Companys obligation under the agreement when the obligation becomes payable.

Bonus program. The Company has adopted a bonus program whereby up to $6.3 million may be paid to certain employees of the Company, excluding Mr. Bigham, if certain operating and permitting targets are met within specified time periods. A payment of $700,000 is payable if the initial phase of the facility is completed at a total cost of less than $15.8 million, $1.4 million is payable if operating permits for the treatment and storage of low-level radioactive wastes are received before January 2000, $1.4 million is payable if operating permits for the disposal of low-level radioactive wastes are received before January 2000, and $2.8 million is payable if the Company achieves specified sales and operating profit targets by the end of 1999. If paid, bonuses with respect to the facility costs will be capitalized as part of the cost of the facility and bonuses with respect to the receipt of permits for low-level radioactive waste treatment and storage or disposal will be capitalized as part of the cost of the permit. Bonuses with respect to the sales and operating profit targets will be accrued through 1999 beginning when it becomes probable that such bonuses will be paid.

THE AMALGAMATED SUGAR COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 1996

WITH

INDEPENDENT AUDITORS' REPORT THEREON

INDEPENDENT AUDITORS' REPORT

To the Shareholder of The Amalgamated Sugar Company:

We have audited the accompanying balance sheets of The Amalgamated Sugar Company as of December 31, 1995 and 1996, and the related statements of income and shareholder's equity and cash flows for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Amalgamated Sugar Company at December 31, 1995 and 1996, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Salt Lake City, Utah
January 31, 1997

THE AMALGAMATED SUGAR COMPANY

BALANCE SHEETS

December 31, 1995 and 1996
(In thousands, except share data)

ASSETS

	1995	1996
Current assets:		
Cash and cash equivalents	$ 3,546	$ 2,002
Accounts and notes receivable	44,861	38,626
Inventories	229,424	233,713
Prepaid expenses	916	1,079
Total current assets	278,747	275,420

Other assets	26	27
Property and equipment:		
Land	2,628	2,628
Buildings	11,704	11,732
Equipment	248,627	262,720
Construction in progress	1,129	256
	264,088	277,336
Less accumulated depreciation	156,139	170,922
Net property and equipment	107,949	106,414
	$386,722	$381,861

THE AMALGAMATED SUGAR COMPANY

BALANCE SHEETS (CONTINUED)

December 31, 1995 and 1996
(In thousands, except share data)

LIABILITIES AND SHAREHOLDER'S EQUITY

	1995	1996
Current liabilities:		
Notes payable	$106,685	$119,014
Current maturities of long-term debt	8,000	8,000
Dividends payable	-	13,000
Accounts payable and accrued liabilities	182,072	183,551
Income taxes	1,020	493
Deferred income taxes	4,010	2,212
Total current liabilities	301,787	326,270
Noncurrent liabilities:		
Long-term debt	16,000	8,000
Accrued OPEB cost	17,853	18,319
Deferred income taxes	2,635	3,855
Other	4,207	1,168
Total noncurrent liabilities	40,695	31,342
Shareholder's equity:		

Common stock, $1 par value; 100,000 shares authorized; 1,000 shares issued and outstanding	1	1
Additional paid-in capital	35,000	22,000
Retained earnings	9,239	2,248
Total shareholder's equity	44,240	24,249
	$386,722	$381,861

Commitments and contingencies (Note 11).

THE AMALGAMATED SUGAR COMPANY

STATEMENTS OF INCOME AND SHAREHOLDER'S EQUITY

Years ended December 31, 1994, 1995 and 1996
(In thousands)

	1994	1995	1996
Revenues and other income:			
Net sales	$457,278	$541,303	$493,996
Interest and other	3,115	3,316	1,857
	460,393	544,619	495,853
Costs and expenses:			
Cost of sales	345,841	420,260	378,643
Selling, general and administrative	85,165	97,272	93,359
Interest	7,339	13,371	8,611
	438,345	530,903	480,613
Income before income taxes	22,048	13,716	15,240
Provision for income taxes	8,159	4,816	5,231
Net income	13,889	8,900	10,009
Shareholder's equity at beginning of year	25,245	32,997	44,240
Capital contribution	10,000	5,000	-
Dividends paid in:			
Cash	(16,137)	-	(17,000)
Stock of subsidiary	-	(2,657)	-
Dividends accrued	-	-	(13,000)

Shareholder's equity at end of year	$ 32,997	$ 44,240	$ 24,249

THE AMALGAMATED SUGAR COMPANY

STATEMENTS OF CASH FLOWS

Years ended December 31, 1994, 1995 and 1996
(In thousands)

	1994	1995	1996
Cash flows from operating activities:			
Net income	$ 13,889	$ 8,900	$ 10,009
Depreciation	12,167	13,828	14,995
Deferred income taxes	(1,417)	426	(578)
Other, net	(524)	(937)	1,227
	24,115	22,217	25,653
Change in assets and liabilities:			
Accounts and notes receivable	(1,492)	(9,347)	6,101
Inventories	(33,518)	51,619	(4,289)
Accounts payable and accrued liabilities	25,088	(25,114)	1,274
Other, net	542	2,317	(4,152)
Net cash provided by operating activities	14,735	41,692	24,587
Cash flows from investing activities:			
Capital expenditures	(26,768)	(24,036)	(13,679)
Other, net	135	23	219
Net cash used by investing activities	(26,633)	(24,013)	(13,460)
Cash flows from financing activities:			
Notes payable, long-term debt and loans from Valhi:			
Additions	421,847	651,928	648,911
Principal payments	(403,707)	(672,136)	(644,582)
Capital transactions	10,000	5,000	-
Cash dividends	(16,137)	-	(17,000)
Net cash provided (used) by financing activities	12,003	(15,208)	(12,671)
Net increase (decrease) in cash	$ 105	$ 2,471	$ (1,544)

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

THE AMALGAMATED SUGAR COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1994, 1995 and 1996
(In thousands)

	1994	1995	1996
Cash and cash equivalents:			
Net increase (decrease)	$ 105	$ 2,471	$ (1,544)
Balance at beginning of year	970	1,075	3,546
Balance at end of year	$ 1,075	$ 3,546	$ 2,002
Supplemental disclosures - cash paid for:			
Interest, net of amounts capitalized	$ 6,971	$ 13,073	$ 9,205
Income taxes	10,507	2,623	6,631

THE AMALGAMATED SUGAR COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1 -Organization:

The Amalgamated Sugar Company (the `Company''), a Utah corporation and an indirect wholly-owned subsidiary of Valhi, Inc. (NYSE: VHI), is engaged in the production and sale of refined sugar and by-products from sugarbeets. Contran Corporation holds, directly or through subsidiaries, approximately 91% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of the children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, the Chairman of the Board of each of Amalgamated, Valhi and Contran, may be deemed to control each of such companies.

Effective December 1, 1995, Amalgamated contributed certain assets that were primarily used in research and development activities to a newly formed, wholly-owned subsidiary, Amalgamated Research Inc. and distributed all of the outstanding stock of Amalgamated Research to its parent. Such dividend was recorded at net carrying value.

Subsequent to December 31, 1996, the Company contributed substantially all of its net assets to The Amalgamated Sugar Company LLC. See Note 13.

Note 2 -Summary of significant accounting policies:

Management's estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Ultimate actual results may, in some instances, differ from previously estimated amounts.

Cash and cash equivalents. Cash equivalents include temporary cash

investments with original maturities of three months or less.

Inventories and cost of sales. Inventories are stated at the lower of cost or market. The last-in, first-out method is used to determine the cost of refined sugar, sugarbeets and by-products, and the average-cost method is used to determine the cost of supplies.

Under the terms of its contracts with sugarbeet growers, the Company's cost of sugarbeets is based on average sugar sales prices during the beet crop purchase contract year, which begins in October and ends the following September. Any differences between the sugarbeet cost estimated at the end of the fiscal year and the amount ultimately paid is an element of cost of sales in the succeeding year.

Property, equipment and depreciation. Property and equipment are stated at cost. Maintenance, repairs and minor renewals are expensed; major improvements capitalized. Interest costs related to major, long-term capital projects capitalized as a component of construction costs were $167,000 in 1994, $360,000 in 1995 and nil in 1996.

Depreciation is computed primarily on the straight-line method over the estimated useful lives of 20 to 40 years for buildings and five to 20 years for equipment.

Income taxes. Valhi and Amalgamated are members of Contran's consolidated United States federal income tax group (the "Contran Tax Group"). The policy for intercompany allocation of federal income taxes provides that subsidiaries included in the Contran Tax Group compute the provision for federal income taxes on a separate company basis. Subsidiaries of Valhi make payments to, or receive payments from, Valhi in the amount they would have paid to or received from the Internal Revenue Service had they not been members of the Contran Tax Group. The separate company provisions and payments are computed using the tax elections made by Contran.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities.

Other. Sales are recorded when products are shipped.

Accounting and funding policies for retirement plans and for postretirement benefits other than pensions ("OPEB") are described in Note 9.

Note 3 -Operations:

The Company's operations consist of one business and geographic segment, the production of refined sugar from sugarbeets in the United States.

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Net sales:			
Refined sugar	$421,953	$492,564	$455,717
By-products and other	35,325	48,739	38,279
	$457,278	$541,303	$493,996
Operating income:			
FIFO basis	$ 29,299	$ 26,057	$ 39,285
LIFO adjustment	2,330	772	(15,437)

Operating income	31,629	26,829	23,848
General corporate items, net	(2,242)	258	3
Interest expense	(7,339)	(13,371)	(8,611)
Income before income taxes	$ 22,048	$ 13,716	$ 15,240

Export sales were $8,765,000 in 1994, $21,067,000 in 1995 and $14,885,000 in 1996. General corporate items in 1994 consist principally of legal and related expenses.

Note 4 -Notes payable and long-term debt:

	December 31,	
	1995	1996
	(In thousands)	
Notes payable:		
United States Government loans	$ 64,685	$ 69,014
Bank credit agreements	42,000	50,000
	$106,685	$119,014
Long-term debt:		
Bank term loan	$ 24,000	$ 16,000
Less current maturities	8,000	8,000
	$ 16,000	$ 8,000

The Government loans are made under the sugar price support loan program, which program currently extends through the 2002 crop year ending September 30, 2003. These short-term loans have historically been nonrecourse and will continue to be nonrecourse if foreign sugar import quotas exceed a specific level. At December 31, 1996, all outstanding Government loans are nonrecourse, and such Government loans will continue to be nonrecourse throughout the remainder of the current crop year which ends September 30, 1997. These loans are collateralized by refined sugar inventories and payable at the earlier of the date the refined sugar is sold or upon maturity. At December 31, 1996, the weighted average interest rate on Government loans was 6.5% (1995 - 5.6%).

The Company's principal bank credit agreement (the "Sugar Credit Agreement") provides for a revolving credit facility in varying amounts up to $80 million, with advances limited to formula-determined amounts of accounts receivable and inventories, and a term loan. Borrowings under the revolving credit facility bear interest, at the Company's option, at the prime rate or LIBOR plus 1.25% and mature not later than September 30, 1998. The term loan bears interest, at the Company's option, at the prime rate plus .25% or LIBOR plus 1.5%, and matures in annual installments of $8 million through July 1998. The Sugar Credit Agreement may be terminated by the lenders in the event the sugar price support loan program is abolished or is materially and adversely modified. The Company also has a $5 million unsecured line of credit with the agent bank for the Sugar Credit Agreement (nil outstanding at December 31, 1996). At December 31, 1996, the weighted average interest rate on outstanding bank borrowings was 8.3% (1995 - 7.2%). See Note 13.

At December 31, 1996, unused credit available to the Company under its bank credit agreements and the sugar price support loan program aggregated approximately $20 million.

The Sugar Credit Agreement (i) requires the Company to maintain minimum levels of tangible net worth, earnings and net cash flow, as defined, (ii) limits dividend payments and additional indebtedness, (iii) is collateralized by substantially all of the Company's assets and (iv) contains other provisions and restrictive covenants customary in lending transactions of this type. At December 31, 1996, there was no dividend availability under the existing Sugar Credit Agreement. See Note 13.

Note 5 -Inventories:

	December 31,	
	1995	1996
	(In thousands)	
Sugarbeets	$ 47,420	$ 46,864
In process sugar	57,967	66,375
Refined sugar and by-products	90,492	89,636
Supplies	33,545	30,838
	$229,424	$233,713

Had the Company used the first-in, first-out method of accounting for the cost of sugar, sugarbeets and by-products, the net carrying value of inventories would have increased by approximately $31.8 million and $47.2 million at December 31, 1995 and 1996, respectively.

Note 6 -Accounts payable and accrued liabilities:

	December 31,	
	1995	1996
	(In thousands)	
Accounts payable:		
Sugarbeets	$ 83,027	$ 83,391
Other	64,526	58,588
	147,553	141,979
Payable to affiliates	1,202	937
Accrued liabilities:		
Sugar processing costs	21,569	25,538
Employee benefits	5,428	9,710
Interest	1,658	1,064
Other	4,662	4,323

	33,317	40,635
	$182,072	$183,551

Note 7 -Income taxes:

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Expected tax expense, at federal statutory income tax rate of 35%	$ 7,717	$ 4,801	$ 5,334
State income taxes, net	726	170	247
Other, net	(284)	(155)	(350)
	$ 8,159	$ 4,816	$ 5,231
Provision for income taxes:			
Currently payable:			
Federal	$ 8,236	$ 3,928	$ 5,107
State	1,340	462	702
	9,576	4,390	5,809
Deferred income taxes (benefit)	(1,417)	426	(578)
	$ 8,159	$ 4,816	$ 5,231

	December 31,	
	1995	1996
	(In thousands)	
Components of the net deferred tax benefit (liability):		
Tax effect of temporary differences relating to:		
Inventories	$ (7,219)	$ (7,163)
Property and equipment	(10,302)	(10,594)
Accrued OPEB cost	7,328	7,514
Accrued liabilities and other	3,548	4,176
Net liability	$ (6,645)	$ (6,067)
Net balance comprised of:		
Gross deferred tax assets	$ 10,876	$ 11,690
Gross deferred tax liabilities	(17,521)	(17,757)

Net liability	$ (6,645)	$ (6,067)
Current liability	$ (4,010)	$ (2,212)
Noncurrent liability	(2,635)	(3,855)
	$ (6,645)	$ (6,067)

Note 8 -Accounts and notes receivable:

	December 31,	
	1995	1996
	(In thousands)	
Accounts receivable	$43,212	$37,286
Notes receivable from sugarbeet growers	1,161	651
Allowance for doubtful accounts	(133)	(89)
	44,240	37,848
Receivable from affiliates	621	778
	$44,861	$38,626

Note 9 -Employee benefit plans:

Defined contribution plan. Substantially all of the Company's full time employees are eligible to participate in a contributory savings plan with partial matching Company contributions. Defined contribution plan expense was $625,000 in 1994, $583,000 in 1995 and $588,000 in 1996.

Company-sponsored defined benefit pension plans. The Company maintains defined benefit pension plans covering substantially all full-time employees. Benefits are based on years of service and average compensation and the related expenses are based on independent actuarial valuations. The Company's funding policy is to contribute amounts equal to or exceeding the amounts required by the funding requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The plans' assets at December 31, 1995 and 1996 consist principally of units in a combined investment fund for employee benefit plans sponsored by Valhi and its affiliates.

The rates used in determining the actuarial present value of the projected benefit obligations were (i) discount rate - 7.5%, (ii) expected long-term rate of return on assets - 10% and (iii) increase in future compensation levels - 4% to 4.5%. Variances from actuarially assumed rates will result in increases or decreases in pension liabilities, pension expense and funding requirements in future periods. A one percentage point decrease in the discount rate would increase the actuarial present value of the accumulated benefit obligations at December 31, 1996 by approximately $4.0 million.

December 31,

	1995	1996
	(In thousands)	
Actuarial present value of benefit obligations:		
Vested benefits obligations	$22,079	$25,559
Nonvested benefits	3,667	3,879
Accumulated benefit obligations	25,746	29,438
Effect of projected future salary increases	8,805	10,352
Projected benefit obligations ("PBO")	34,551	39,790
Plan assets at fair value	30,686	38,187
Plan assets less than PBO	(3,865)	(1,603)
Unrecognized net loss from experience different from actuarial assumptions	5,565	3,180
Unrecognized prior service cost	269	223
Unrecognized net obligations being amortized over 15 years	535	428
Net pension asset	$ 2,504	$ 2,228

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Net periodic pension cost:			
Service cost benefits earned	$ 1,862	$ 1,612	$ 2,149
Interest cost on PBO	1,996	2,249	2,663
Actual loss (return) on plan assets	615	(4,734)	(6,407)
Net amortization and deferral	(2,625)	2,467	3,728
	$ 1,848	$ 1,594	$ 2,133

Postretirement benefits other than pensions. The Company currently provides certain life insurance and health care benefits to eligible retirees. Substantially all retirees contribute to the cost of their benefits. Certain current and all future retirees either cease to be eligible for health care benefits at age 65 or are thereafter eligible only for limited benefits.

The rates used in determining the actuarial present value of the accumulated OPEB obligations were (i) discount rate - 7.5%, (ii) rate of annual increases in future compensation levels - 4% to 5% in 1996 (4% to 4.5% in 1995) and (iii) rate of increase in future health care costs - 10.8% for 1997, gradually declining to approximately 5.8% in 2017 and thereafter. If the health care cost trend rate was increased by one percentage point for each year, OPEB expense would have increased approximately $187,000 in 1996, and the actuarial present value of accumulated OPEB obligations at December 31, 1996 would have increased approximately $1.6 million. In addition, a one percentage point

decrease in the discount rate would increase the actuarial present value of the accumulated OPEB obligations at December 31, 1996 by approximately $1.6 million.

	December 31,	
	1995	1996
	(In thousands)	
Actuarial present value of accumulated OPEB obligations:		
Retiree benefits	$ 7,104	$ 6,625
Other fully eligible active plan participants	3,653	3,744
Other active plan participants	5,765	6,025
	16,522	16,394
Unrecognized net gain from experience different from actuarial assumptions	2,268	2,874
Total accrued OPEB cost	18,790	19,268
Less current portion	937	949
Noncurrent accrued OPEB cost	$17,853	$18,319

	Years ended December 31,		
	1994	1995	1996
	(In thousands)		
Net periodic OPEB cost:			
Service cost	$ 475	$ 447	$ 539
Interest cost	1,097	1,171	1,137
Net amortization and deferral	(110)	(181)	(121)
	$1,462	$1,437	$1,555

Multiemployer pension plans. A small minority of employees are covered by union-sponsored, collectively-bargained multiemployer defined benefit pension plans. Contributions to multiemployer plans are based upon collective bargaining agreements and were $47,000 in 1994, $55,000 in 1995 and $56,000 in 1996. The multiemployer plans' administrators have estimated that the Company's share of the unfunded benefit obligation of such plans was insignificant at December 31, 1995 (the most recent information available to the Company).

Note 10 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. See Note 1. It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

Loans are made between the Company and Valhi with interest at rates related to the Company's other credit arrangements. Such loans reprice with changes in market interest rates and book value is deemed to approximate fair value.

Interest expense on loans from Valhi was $93,000 in 1994, $417,000 in 1995 and $17,000 in 1996.

Under the terms of an Intercorporate Service Agreement with Valhi, Valhi performs certain management, financial and administrative services for the Company on a fee basis. Fees pursuant to this agreement were $284,000 in 1994, $260,000 in 1995 and $220,000 in 1996.

Certain employees of the Company have been awarded shares of restricted Valhi common stock and/or granted options to purchase Valhi common stock under the terms of Valhi's stock option plans. The Company will pay Valhi the aggregate difference between the option price and the market value of Valhi's common stock on the exercise date of such options. For financial reporting purposes, the Company accounts for the related expense (credit) of $269,000 in 1994, $(68,000) in 1995 and $5,000 in 1996 in a manner similar to accounting for stock appreciation rights. At December 31, 1996, employees of the Company held options to purchase 272,000 Valhi shares at prices ranging from $4.76 to $14.66 per share (149,000 shares at prices less than the December 31, 1996 quoted market price of $6.375 per share).

Restricted stock is forfeitable unless certain periods of employment are completed. The Company pays Valhi the market value of the restricted shares on the dates the restrictions expire, and accrues the related expense over the restriction period. Expense related to restricted stock was $191,000 in 1994, $58,000 in 1995 and $19,000 in 1996. At December 31, 1996, there was no restricted stock held for employees of the Company.

Effective December 1, 1995, Amalgamated entered into a renewable, one-year agreement to provide administrative services to Amalgamated Research for an annual fee of $288,000 and a ten-year Service and Sharing Agreement whereby Amalgamated Research will provide certain research, laboratory and quality control services to Amalgamated for a fee of $1,659,000 per year to be adjusted annually based on a composite index. The Sharing Agreement also (i) grants Amalgamated a non-exclusive, perpetual royalty-free license to use currently existing or hereafter developed technology applicable to sugar operations and (ii) provides for certain royalties to Amalgamated from future sales or licenses of Amalgamated Research's technology. Aggregate net expense under these agreements was $215,000 in 1995 and $1,532,000 in 1996. See Note 13.

Amalgamated also leases its corporate office facility from Amalgamated Research for annual rentals of $256,000 through the year 2000. The office lease can be extended for up to ten additional years at the then prevailing market rental rates.

Charges (revenues) from other related parties for services provided in the ordinary course of business aggregated $73,000 in 1994, ($48,000) in 1995 and $101,000 in 1996.

Note 11 - Commitments and contingencies:

Legal proceedings. In November 1992, a complaint was filed in the United States District Court for the District of Utah against Valhi, Amalgamated and the Amalgamated Retirement Plan Committee (American Federation of Grain Millers International, et al. v. Valhi, Inc. et al., No. 29-NC-129J). The complaint, a purported class action on behalf of certain current and retired hourly employees of Amalgamated, alleges, among other things, that the defendants breached their fiduciary duties under ERISA by amending certain provisions of a retirement plan for hourly employees maintained by Amalgamated to permit the reversion of excess plan assets to Amalgamated in 1986. The complaint seeks a variety of remedies, including, among other things, orders requiring a return of all reverted funds (alleged to be in excess of $8 million) and any profits earned thereon, a distribution of such funds to the plan participants, retirees and their beneficiaries and enhancement of the benefits under the plan, and an award of costs and expenses, including attorney fees. In January 1996, the court granted the Company's motion for summary judgment with respect to certain counts and denied the Company's motion for summary judgment with respect to other counts. The court also granted plaintiffs permission to amend their complaint to include new allegations. The plaintiffs subsequently amended their complaint and, in June 1996, the Company made a motion for summary judgment on the new allegations. In September 1996, the court heard the defendants' motion. The parties are awaiting a decision on the motion. See Note 13.

The Company is also involved in routine legal proceedings incidental to its normal business activities and environmental related matters. The Company believes the disposition of all such proceedings, individually or in the

aggregate, including Grain Millers, should not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

Concentration of credit risks. The Company sells sugar primarily in the North Central and Intermountain Northwest regions of the United States. The Company does not believe it is dependent upon one or a few customers; however, major food processors are substantial customers and represent an important portion of sales. The Company's ten largest customers account for approximately one-third of sales with the largest single customer accounting for approximately 4% to 5% of sales in each of the past three years. The ten major customers accounted for 41% of accounts receivable at December 31, 1996 (1995 - 29%).

At December 31, 1995 and 1996, substantially all of the Company's cash and cash equivalents was on deposit with three U.S. banks.

Capital expenditures. At December 31, 1996, the estimated cost to complete approved capital projects in process was approximately $650,000.

Note 12 - Other items:

The fair value of all financial instruments is deemed to approximate carrying value as they reprice with changes in market interest rates and/or have short terms to maturity.

Research and development costs, expensed as incurred, were $487,000 in 1994, $823,000 in 1995 and $1,517,000 in 1996. Advertising costs, expensed as incurred, were $306,000 in 1994, $365,000 in 1995 and $125,000 in 1996.

Rent expense under operating leases, principally for facilities, was $269,000 in 1994, $350,000 in 1995 and $603,000 in 1996. At December 31, 1996, commitments for future minimum rentals under noncancellable operating leases consist principally of the office lease with Amalgamated Research. See Note 10.

Note 13 - Subsequent events:

On January 3, 1997, Amalgamated completed the transfer of control of substantially all of its operations to Snake River Sugar Company, an Oregon agricultural cooperative formed by the farmers in Amalgamated's areas of operations. Pursuant to the transaction, Amalgamated contributed substantially all of its net assets to the Amalgamated Sugar Company LLC (the `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. Also, as part of the transaction, Snake River loaned Valhi $250 million and Valhi provided certain debt financing for the transaction both to Snake River and a related entity. Valhi's loans from Snake River are collateralized by Amalgamated's interest in the LLC.

Amalgamated may, at its option, require the LLC to redeem its interest in the LLC beginning in January 2002, and the LLC has the right to redeem Amalgamated's interest beginning in January 2027. In addition, beginning in January 2002 Amalgamated has the right to require Snake River to purchase its interest in the LLC. The redemption/purchase price is generally $250 million plus the amount of any deferrals of cash distributions from the LLC discussed below. In the event Amalgamated either requires the LLC to redeem its LLC interest or requires Snake River to purchase its LLC interest, Snake River has the right to accelerate the maturity and call the loans made to Valhi in connection with the transaction. If Amalgamated requires the LLC to redeem its LLC interest, then Snake River is required, under the terms of the LLC Company Agreement, to contribute to the LLC the cash received from calling the Valhi loans.

The LLC Company Agreement provides that, among other things, Amalgamated is entitled to receive certain distributions of Distributable Cash, as defined, from the LLC. Amalgamated and Snake River share in any Distributable Cash up to an aggregate of $26.7 million per year, with 95% going to Amalgamated and 5% going to Snake River. This $26.7 million distribution is referred to as the LLC's `base distribution.'' Amalgamated generally is entitled to receive 5% (10% after 2002) of any Distributable Cash above this base distribution amount, with additional Distributable Cash potentially being received through 2002 if certain Distributable Cash levels are reached. The Company's share of any Distributable Cash above the base distribution will be deferred and instead paid to Snake River until Snake River's loans from Valhi are completely repaid.

As part of the formation of the LLC, the LLC terminated the existing $80

million Sugar Credit Agreement and replaced it with a new $100 million facility collateralized by the LLC's working capital assets and one of the LLC's four processing facilities. In addition, the LLC prepaid the remaining $16 million outstanding balance of the bank term loan, primarily with the $14 million cash contribution to the LLC by Snake River for its voting interest in the LLC.

The Company's net assets contributed to the LLC include the rights and obligations associated with the agreements between the Company and Amalgamated Research discussed in Note 10. However, the LLC did not assume any obligation arising out of the American Federation of Grain Millers International case discussed in Note 11.

In December 1996, Amalgamated declared, and in January 1997 paid, $13 million in pre-closing cash dividends to Valhi.

FORM OF VALHI, INC. GUARANTY

Valhi, Inc., a Delaware corporation ("Guarantor"), in order to induce ROGUE RESOURCES LLC, an Oregon limited liability company (the "Buyer") to enter into an Asset Purchase Agreement dated as of October __, 1996 (the "Agreement") by and among Buyer and Medite Corporation, a Delaware corporation and a subsidiary of Guarantor (the "Seller"), hereby unconditionally and irrevocably guarantees to Buyer the full and timely performance by Seller of all of the obligations set forth in Section 8 of the Agreement on Seller's part to be performed, provided however, that Guarantor shall have no obligation to perform any of Seller's obligations unless and until (i) Seller shall have defaulted in the performance of such obligations and such default is continuing without cure on the part of Seller; and (ii) Buyer shall have given Guarantor thirty (30) day's notice of such default on the part of Seller.

Guarantor hereby expressly waives (1) notice of acceptance of this guaranty and (2) any other notice given to Seller in accordance with the provisions of the Agreement on any default under the Agreement or otherwise, except as provided in the first paragraph of this Guaranty. Guarantor hereby authorizes Buyer to forbear with respect to, amend, modify, enlarge, extend, compromise and discharge any or all of the obligations of Seller under the Agreement without notice to or consent by Guarantor. Guarantor acknowledges and agrees that its liability under this guaranty is joint and several with Seller and, upon any continuing default by Seller, Buyer shall not be obligated to first attempt enforcement against Seller but shall only be obligated to give the notice provided in the first paragraph of this Guaranty. Guarantor hereby waives any and all defenses to enforcement of this guaranty, now existing or hereafter arising, which may be available to guarantors, sureties and other secondary parties at law or in equity.

Guarantor represents and warrants to Buyer that (a) all necessary corporate action has been duly taken by it to authorize the execution, delivery and performance by it of this guaranty, (b) this guaranty is being executed on Guarantor's behalf by a duly authorized representative, and (c) this guaranty is the legally valid and binding obligation of Guarantor enforceable in accordance with its terms.

Guarantor agrees to pay all reasonable costs and expenses, including reasonable attorney fees and related costs, incurred by Buyer in enforcing Guarantor s liability to Buyer under this guaranty whether or not a civil action or similar proceeding (including claims and proceedings in and before the bankruptcy court or arbitrators) is filed, prosecuted or appealed. If an action or proceeding is filed, prosecuted or appealed, the reasonableness of such attorney fees shall be determined by the trial judge and if, appealed, by the appellate court.

This guaranty shall be binding upon Guarantor and its successors and assigns, and shall inure to the benefit of and be enforceable by Buyer and its successors and assigns.

Dated as of October ___, 1996.

VALHI, INC., a Delaware corporation

By: ______________________________

Name: ___________________________

FORM OF VALHI, INC. GUARANTY

Valhi, Inc., a Delaware corporation ("Guarantor"), in order to induce Willamette Industries, Inc. (`Willamette'') to subscribe for shares of Medford International Holdings pursuant to a Share Subscription and Redemption Agreement dated as of November ___, 1996 (the `Agreement'') by and among Willammette and Medite Corporation, a Delaware corporation and an indirect subsidiary of Guarantor (`Medite''), hereby unconditionally and irrevocably guarantees to Willamette the full and timely performance by Medite of all of the obligations set forth in Section 8 of the Agreement on Medite's part to be performed, provided however, that Guarantor shall have no obligation to perform any of Medite's obligations unless and until (i) Medite shall have defaulted in the performance of such obligations and such default is continuing without cure on the part of Medite; and (ii) Willamette shall have given Guarantor five (5) day's notice of such default on the part of Medite.

Guarantor hereby expressly waives (1) notice of acceptance of this guaranty and (2) any other notice given to Medite in accordance with the provisions of the Agreement on any default under the Agreement or otherwise, except as provided in the first paragraph of this Guaranty. Guarantor hereby authorizes Willamette to forbear with respect to, amend, modify, enlarge, extend, compromise and discharge any or all of the obligations of Medite under the Agreement without notice to or consent by Guarantor. Guarantor acknowledges and agrees that its liability under this guaranty is joint and several with Medite and, upon any continuing default by Medite, Willamette shall not be obligated to first attempt enforcement against Medite but shall only be obligated to give the notice provided in the first paragraph of this Guaranty. Guarantor hereby waives any and all defenses to enforcement of this guaranty, now existing or hereafter arising, which may be available to guarantors, sureties and other secondary parties at law or in equity.

Guarantor represents and warrants to Willamette that (a) all necessary corporate action has been duly taken by it to authorize the execution, delivery and performance by it of this guaranty, (b) this guaranty is being executed on Guarantor's behalf by a duly authorized representative and (c) this guaranty is the legally valid and binding obligation of Guarantor enforceable in accordance with its terms.

Guarantor agrees to pay all reasonable costs and expenses, including reasonable attorney fees and related costs, incurred by Willamette in enforcing Guarantor s liability to Willamette under this guaranty whether or not a civil action or similar proceeding (including claims and proceedings in and before the bankruptcy court or arbitrators) is filed, prosecuted or appealed. If an action or proceeding is filed, prosecuted or appealed, the reasonableness of such attorney fees shall be determined by the trial judge and if, appealed, by the appellate court.

This guaranty shall be binding upon Guarantor and its successors and assigns, and shall inure to the benefit of and be enforceable by Willamette and its successors and assigns.

Dated as of November ___, 1996

VALHI, INC., a Delaware corporation

By: ______________________________

Name: ___________________________

FORM OF VALHI, INC. GUARANTY

Valhi, Inc., a Delaware corporation ("Guarantor"), in order to induce SIERRA PINE, a California limited partnership (the "Buyer") to enter into an Asset Purchase Agreement dated as of January __, 1997 (the "Agreement") by and among Buyer and Medite Corporation, a Delaware corporation and a subsidiary of Guarantor (the "Seller"), hereby unconditionally and irrevocably guarantees to Buyer the full and timely performance by Seller of all of the obligations set forth in Section 9, 10, 12 and 13 of the Agreement on Seller s part to be performed, provided however, that Guarantor shall have no obligation to perform any of Seller's obligations unless and until (i) Seller shall have defaulted in the performance of such obligations and such default is continuing without cure on the part of Seller; and (ii) Buyer shall have given Guarantor thirty (30) day's notice of such default on the part of Seller.

Guarantor hereby expressly waives (1) notice of acceptance of this guaranty and (2) any other notice given to Seller in accordance with the provisions of the Agreement on any default under the Agreement or otherwise, except as provided in the first paragraph of this Guaranty. Guarantor hereby authorizes Buyer to forbear with respect to, amend, modify, enlarge, extend, compromise and discharge any or all of the obligations of Seller under the Agreement without notice to or consent by Guarantor. Guarantor acknowledges and agrees that its liability under this guaranty is joint and several with Seller and, upon any continuing default by Seller, Buyer shall not be obligated to first attempt enforcement against Seller but shall only be obligated to give the notice provided in the first paragraph of this Guaranty. Guarantor hereby waives any and all defenses to enforcement of this guaranty, now existing or hereafter arising, which may be available to guarantors, sureties and other secondary parties at law or in equity.

Guarantor represents and warrants to Buyer that (a) Guarantor is a corporation validly existing and in good standing under the laws of the State of Delaware; (b) all necessary corporate action has been duly taken by it to authorize the execution, delivery and performance by it of this guaranty, (c) this guaranty is being executed on Guarantor s behalf by a duly authorized representative, (d) this guaranty is the legally valid and binding obligation of Guarantor enforceable in accordance with its terms, and (e) the execution and the delivery of this Guaranty will not (i) violate any valid constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Guarantor is subject or any provision of the charter or bylaws of the Guarantor, or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice or consent under any agreement, contract, lease, license, instrument, or other arrangement to which the Guarantor is a party or by which it is bound or to which any of its assets is subject except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice or obtain consent, would not have a material adverse effect on the financial condition of the Guarantor taken as a whole

Guarantor agrees to pay all reasonable costs and expenses, including reasonable attorney fees and related costs, incurred by Buyer in enforcing Guarantor s liability to Buyer under this guaranty whether or not a civil action or similar proceeding (including claims and proceedings in and before the bankruptcy court or arbitrators) is filed, prosecuted or appealed. If an action or proceeding is filed, prosecuted or appealed, the reasonableness of such attorney fees shall be determined by the trial judge and if, appealed, by the appellate court.

This Guaranty contains the sole and entire understanding and agreement of the undersigned and the Buyer with respect to the guarantee by the Guarantor hereunder, and all prior negotiations, discussions, commitments, representations, agreements and understandings heretofore had with respect thereto are merged herein. This Guaranty cannot be changed or terminated orally.

This Guaranty shall be governed by, and construed in accordance with, the domestic laws of the State of Delaware, without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be given in the manner set forth in Section17(g) of the Agreement, with all notices hereunder to Guarantor being delivered to the address to which notices are to be given to Seller under Section17(g) of the Agreement.

This guaranty shall be binding upon Guarantor and its successors and assigns, and shall inure to the benefit of and be enforceable by Buyer and its successors and assigns.

Dated as of January ___, 1997.

VALHI, INC., a Delaware corporation

By: ------------------------------

Name: ---------------------------

VALHI, INC.

1997 LONG-TERM INCENTIVE PLAN

SECTION 1. PURPOSE. The purpose of this Plan is to advance the interests of Valhi and its stockholders by providing incentives to certain Eligible Persons who contribute significantly to the strategic and long-term performance objectives and growth of the Company.

SECTION 2. DEFINITIONS. The following terms shall have the meaning indicated:

(a) `ACTUAL VALUE'' has the meaning set forth in SECTION 9.

(b) `ASSOCIATED AWARD'' shall mean an Award granted concurrently or subsequently in conjunction with another Award.

(c) `AWARD'' shall mean an award of rights to an Eligible Person under this Plan.

(d) `AWARD PERIOD'' has the meaning set forth in SUBSECTION 9(B).

(e) `BENEFICIARY'' has the meaning set forth in SECTION 16.

(f) `BOARD'' shall mean the board of directors of Valhi.

(g) `CODE'' shall mean the Internal Revenue Code of 1986, as it now exists or may be amended from time to time, and the rules promulgated thereunder, as they may exist or may be amended from time to time.

(h) `COMMITTEE'' shall mean a committee of the Board, if any, designated by the Board to administer this Plan that is comprised of not fewer than two directors and shall initially mean the Management, Development & Compensation Committee of the Board. The membership of the Committee or any successor committee (i) shall consist of `nonemployee directors''(as defined in Rule 16b-3) and meet any other applicable requirements so as to comply at all times with the applicable requirements of Rule 16b-3, (ii) shall consist of `outside directors'' (as defined in Treasury Regulation Section1.162-27(e)(3)(i) or any successor regulation) and meet any other applicable requirements so as to comply at all times with the applicable requirements of Section 162(m) and (iii) shall meet any applicable requirements of any stock exchange or other market quotation system on which Common Shares are listed. References to the Committee hereunder shall include the Board or the Designated Administrator where appropriate.

(i) `COMPANY'' shall mean Valhi and any parent or subsidiary of Valhi.

(j) `COMMON SHARES'' shall mean shares of common stock, par value $0.01 per share, of Valhi and stock of any other class into which such shares may thereafter be changed.

(k) `DESIGNATED ADMINISTRATOR'' has the meaning set forth in SECTION 3.

(l) `EFFECTIVE DATE'' shall mean the date the Board adopts this Plan (which adoption date may be a date subsequent to the date of the actual action taken by the Board if the Board action sets forth such subsequent adoption date).

(m) `ELIGIBLE PERSON(S)'' shall mean those persons who are key employees of the Company or other key individuals who perform services for the Company, including, without limitation, directors who are not employees of the Company.

(n) `EXCHANGE ACT'' shall mean the Securities Exchange Act of 1934, as it now exists or may be amended from time to time, and the rules promulgated thereunder, as they may exist or may be amended from time to time.

(o) `FAIR MARKET VALUE'' shall mean such value as determined by the

Committee in accordance with applicable law.

(p) `INCENTIVE STOCK OPTION'' shall mean a Stock Option that is an incentive stock option as defined in Section 422 of the Code. Incentive Stock Options are subject, in part, to the terms, conditions and restrictions described in SECTION 6.

(q) `MAXIMUM VALUE'' has the meaning set forth in SUBSECTION 9(A).

(r) `NONQUALIFIED STOCK OPTION'' shall mean a Stock Option that is not an incentive stock option as defined in Section 422 of the Code. Nonqualified Stock Options are subject, in part, to the terms, conditions and restrictions described in SECTION 6.

(s) `OTHER VALHI SECURITIES'' shall mean Valhi securities (which may include, but need not be limited to, unbundled stock units or components thereof, debentures, preferred stock, warrants, securities convertible into Common Shares or other property) other than Common Shares.

(t) `PARTICIPANT'' shall mean an Eligible Person to whom an Award has been granted under this Plan.

(u) `PERFORMANCE GRANT'' shall mean an Award subject, in part, to the terms, conditions and restrictions described in SECTION 9, pursuant to which the recipient may become entitled to receive cash, Common Shares, Other Valhi Securities or property, or other forms of payment, or any combination thereof, as determined by the Committee.

(v) `PLAN'' shall mean this Valhi, Inc. 1997 Long-Term Incentive Plan.

(w) `PURCHASED OPTION'' shall mean a Stock Option that is sold to an Eligible Person at a price determined by the Committee.

(x) `RESTRICTED PERIOD'' has the meaning set forth in SUBSECTION 8(B).

(y) `RESTRICTED STOCK'' shall mean an Award of Common Shares that are issued subject, in part, to the terms, conditions and restrictions described in SECTION 8.

(z) `RULE 16B-3'' shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act and any successor rule.

(aa) `SECTION 162(M)'' shall mean Section162(m) of the Code, any rules or regulations promulgated thereunder, as they may exist or may be amended from time to time, or any successor to such section.

(bb) `STOCK APPRECIATION RIGHT'' shall mean an Award of a right to receive (without payment to Valhi) cash, Common Shares, Other Valhi Securities or property, or other forms of payment, or any combination thereof, as determined by the Committee, based on the increase in the value of the number of Common Shares specified in the Stock Appreciation Right. Stock Appreciation Rights are subject, in part, to the terms, conditions and restrictions described in SECTION 7.

(cc) `STOCK OPTION'' shall mean an Award of a right to purchase Common Shares. The term Stock Option shall include Nonqualified Stock Options, Incentive Stock Options and Purchased Options.

(dd) `TEN PERCENT EMPLOYEE'' shall mean an employee of the Company who owns stock representing more than ten percent of the voting power of all classes of stock of Valhi or any parent or subsidiary of Valhi.

(ee) `TREASURY REGULATION'' shall mean a permanent, proposed or temporary regulation of the Department of Treasury under the Code and any successor regulation.

(ff) `VALHI'' shall mean Valhi, Inc., a Delaware corporation.

SECTION 3. ADMINISTRATION. Unless the Board shall designate itself or a Designated Administrator to administer this Plan, this Plan shall be administered by the Committee. If at any time Rule 16b-3 so permits without adversely affecting the ability of Awards to executive officers of Valhi to comply with the conditions for Rule 16b-3 or Section 162(m), the Committee may

delegate the administration of this Plan and any of its power and authority in whole or in part, on such terms and conditions, and to such person or persons as it may determine in its discretion (a `DESIGNATED ADMINISTRATOR'').

The Committee has all the powers vested in it by the terms of this Plan, such powers to include exclusive authority to select the Eligible Persons to be granted Awards under this Plan, to determine the type, size and terms of the Award to be made to each Eligible Person selected, to modify the terms of any Award that has been granted, to determine the time when Awards will be granted, to establish performance objectives, to make any adjustments necessary or desirable as a result of the granting of Awards to Eligible Persons located outside the United States and to prescribe the form of the agreements embodying Awards made under this Plan. The Committee is authorized to interpret this Plan and the Awards granted under this Plan, to establish, amend and rescind any rules and regulations relating to this Plan, and to make any other determinations that it deems necessary or desirable for the administration of this Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of this Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Committee may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their members or any officer of the Company to execute and deliver documents or to take any other ministerial action on behalf of the Committee with respect to Awards made or to be made to Participants.

No member the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under this Plan, except for his own willful misconduct or as expressly provided by statute. In addition to all other rights of indemnification and reimbursement to which a member of the Committee and an officer of the Company may be entitled, the Company shall indemnify and hold harmless each such member or officer who was or is a party or is threatened to be made a party to any threatened, pending or completed proceeding or suit in connection with the performance of duties under this Plan against expenses (including reasonable attorneys' fees), judgments, fines, liabilities, losses and amounts paid in settlement actually and reasonably incurred by him in connection with such proceeding or suit, except for his own willful misconduct or as expressly provided otherwise by statute. Expenses (including reasonable attorneys' fees) incurred by a such a member or officer in defending any such proceeding or suit shall be paid by the Company in advance of the final disposition of such proceeding or suit upon receipt of a written affirmation by such member or officer of his good faith belief that he has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of such member or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company as authorized in this Section.

SECTION 4. PARTICIPATION. Consistent with the purposes of this Plan, the Committee shall have exclusive power to select the Eligible Persons who may participate in this Plan and be granted Awards under this Plan. Eligible Persons may be selected individually or by groups or categories, as determined by the Committee in its discretion.

SECTION 5. AWARDS UNDER THIS PLAN.

(a) Types of Awards. Awards under this Plan may include, but need not be limited to, one or more of the following types, either alone or in any combination thereof: (i) Stock Options, (ii) Stock Appreciation Rights, (iii) Restricted Stock, (iv) Performance Grants and (v) any other type of Award deemed by the Committee in its discretion to be consistent with the purposes of this Plan (including, but not limited to, Awards of or options or similar rights granted with respect to unbundled stock units or components thereof, and Awards to be made to Participants who are foreign nationals or are employed or performing services outside the United States).

(b) Maximum Number of Shares that May be Issued. There may be issued under this Plan (as Restricted Stock, in payment of Performance Grants, pursuant to the exercise of Stock Options or Stock Appreciation Rights or in payment of or pursuant to the exercise of such other Awards as the Committee, in its discretion, may determine) an aggregate of not more than

5,000,000 Common Shares, subject to adjustment as provided in SECTION 15. No Eligible Person may receive Awards under this Plan for more than 1,000,000 Common Shares in any one fiscal year of Valhi, subject to adjustment as provided in SECTION 15. Common Shares issued pursuant to this Plan may be either authorized but unissued shares, treasury shares, reacquired shares or any combination thereof. If any Common Shares issued as Restricted Stock or otherwise subject to repurchase or forfeiture rights are reacquired by the Company pursuant to such rights or, if any Award is canceled, terminates or expires unexercised, any Common Shares that would otherwise have been issuable pursuant thereto will be available for issuance under new Awards.

(c) Rights with Respect to Common Shares and Other Securities. Except as provided in SUBSECTION 8(C) with respect to Awards of Restricted Stock and unless otherwise determined by the Committee in its discretion, a Participant to whom an Award is made (and any person succeeding to such a Participant's rights pursuant to this Plan) shall have no rights as a stockholder with respect to any Common Shares or as a holder with respect to other securities, if any, issuable pursuant to any such Award until the date of the issuance of a stock certificate to him for such Common Shares or other instrument of ownership, if any. Except as provided in SECTION 15, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities, other property or other forms of consideration, or any combination thereof) for which the record date is prior to the date such stock certificate or other instrument of ownership, if any, is issued. In all events, a Participant with whom an Award agreement is made to issue Common Shares in the future, shall have no rights as a stockholder with respect to Common Shares related to such agreement until issuance to him of a stock certificate representing such shares.

SECTION 6. STOCK OPTIONS. The Committee may sell Purchased Options or grant other Stock Options either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter; provided that an Incentive Stock Option may be granted only to Eligible Persons who are employees of the Company. Each Stock Option granted or sold under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions, including, but not limited to, restrictions upon the Stock Option or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish.

(a) The exercise price of a Stock Option may be less than, equal to, or greater than, the Fair Market Value of the Common Shares subject to such Stock Option at the time the Stock Option is granted, as determined by the Committee; provided, however, that in the case of an Incentive Stock Option granted to an employee of the Company, the exercise price shall not be less than the Fair Market Value of the Common Shares subject to such Stock Option at the time the Stock Option is granted, or if granted to a Ten Percent Employee, such exercise price shall not be less than 110% of such Fair Market Value at the time the Stock Option is granted; but in no event will such exercise price be less than the par value of such Common Shares.

(b) The Committee shall determine the number of Common Shares to be subject to each Stock Option. In the case of a Stock Option awarded in conjunction with an Associated Award, the number of Common Shares subject to an outstanding Stock Option may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(c) The Stock Option shall not be exercisable:

(i) in the case of any Incentive Stock Option granted to a Ten Percent Employee, after the expiration of five years from the date it is granted, and, in the case of any other Stock Option, after the expiration of ten years from the date it is granted. Any Stock Option may be exercised during such period only at such time or times and in such installments as the Committee may establish; and

(ii) unless payment in full is made for the shares being acquired thereunder at the time of exercise as provided in SUBSECTION 6(H); and

(d) The Committee shall determine in its discretion and specify in each agreement embodying a Stock Option the effect, if any, the termination of the Participant's employment with or performance of services for the

Company shall have on the exercisability of the Stock Option; provided, however, that an Incentive Stock Option shall not be exercisable at a time that is beyond the time an Incentive Stock Option may be exercised in order to receive favorable treatment under the Code.

(e) In the case of an Incentive Stock Option, the amount of the aggregate Fair Market Value of Common Shares (determined at the time of grant of the Stock Option) with respect to which incentive stock options are exercisable for the first time by an employee of the Company during any calendar year (under all such plans of his employer corporation and its parent and subsidiary corporations) shall not exceed $100,000.

(f) It is the intent of Valhi that Nonqualified Stock Options granted under this Plan not be classified as Incentive Stock Options, that the Incentive Stock Options granted under this Plan be consistent with and contain or be deemed to contain all provisions required under Section 422 and the other appropriate provisions of the Code and any implementing regulations (and any successor provisions thereof), and that any ambiguities in construction shall be interpreted in order to effectuate such intent.

(g) A Purchased Option may contain such additional terms not inconsistent with this Plan, including but not limited to the circumstances under which the purchase price of such Purchased Option may be returned to the holder of the Purchased Option, as the Committee may determine in its sole discretion.

(h) For purposes of payments made to exercise Stock Options, such payment shall be made in such form (including, but not limited to, cash, Common Shares, the surrender of another outstanding Award under this Plan or any combination thereof) as the Committee may determine in its discretion; provided, however, that for purposes of making such payment in Common Shares, such shares shall be valued at their Fair Market Value on the day of exercise and shall have been held by the Participant for a period of at least six (6) months.

SECTION 7. STOCK APPRECIATION RIGHTS. The Committee may grant Stock Appreciation Rights either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. Each Award of Stock Appreciation Rights granted under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions, including, but no limited to, restrictions upon the Award of Stock Appreciation Rights or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish.

(a) The Committee shall determine the number of Common Shares to be subject to each Award of Stock Appreciation Rights. In the case of an Award of Stock Appreciation Rights awarded in conjunction with an Associated Award, the number of Common Shares subject to an outstanding Award of Stock Appreciation Rights may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(b) The Award of Stock Appreciation Rights shall not be exercisable:

(i) unless the Associated Award, if any, is at the time exercisable; and

(ii) if the Associated Award is a Stock Option and the Fair Market Value per share of the Common Shares on the exercise date does not exceed the exercise price per share of such Stock Option.

(c) The Committee shall determine in its discretion and specify in each agreement embodying an Award of Stock Appreciation Rights the effect, if any, the termination of the Participant's employment with or performance of services for the Company shall have on the exercisability of the Award of Stock Appreciation Rights.

(d) An Award of Stock Appreciation Rights shall entitle the holder to exercise such Award or to surrender unexercised an Associated Award (or any portion of such Stock Option or Associated Award) to Valhi and to receive from Valhi in exchange thereof, without payment to Valhi, that number of Common Shares having an aggregate value equal to (or, in the discretion of the Committee, less than) the excess of the Fair Market Value of one share, at the time of such exercise, over the exercise price, times the number of

shares subject to the Award or the Associated Award, or portion thereof, that is so exercised or surrendered, as the case may be. The Committee shall be entitled in its discretion to elect to settle the obligation arising out of the exercise of a Stock Appreciation Right by the payment of cash or Other Valhi Securities or property, or other forms of payment or any combination thereof, as determined by the Committee, equal to the aggregate value of the Common Shares it would otherwise be obligated to deliver. Any such election by the Committee shall be made as soon as practicable after the receipt by the Committee of written notice of the exercise of the Stock Appreciation Right.

(e) A Stock Appreciation Right may provide that it shall be deemed to have been exercised at the close of business on the business day preceding the expiration date of the Stock Appreciation Right or of the related Stock Option (or other Award), or such other date as specified by the Committee, if at such time such Stock Appreciation Right has a positive value. Such deemed exercise shall be settled or paid in the same manner as a regular exercise thereof as provided in SUBSECTION 7(D) hereof.

SECTION 8. RESTRICTED STOCK. The Committee may grant Awards of Restricted Stock either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. Each Award of Restricted Stock under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions as the Committee, in its discretion, shall establish.

(a) The Committee shall determine the number of Common Shares to be issued to a Participant pursuant to the Award of Restricted Stock, and the extent, if any, to which they shall be issued in exchange for cash, other consideration, or both.

(b) Until the expiration of such period as the Committee shall determine from the date on which the Award is granted and subject to such other terms and conditions as the Committee in its discretion shall establish (the `RESTRICTED PERIOD''), a Participant to whom an Award of Restricted Stock is made shall be issued, but shall not be entitled to the delivery of, a stock certificate representing the Common Shares subject to such Award.

(c) Unless otherwise determined by the Committee in its discretion, a Participant to whom an Award of Restricted Stock has been made (and any person succeeding to such a participant's rights pursuant to this Plan) shall have, after issuance of a certificate for the number of Common Shares awarded and prior to the expiration of the Restricted Period, ownership of such Common Shares, including the right to vote such Common Shares and to receive dividends or other distributions made or paid with respect to such Common Shares (provided that such Common Shares, and any new, additional or different shares, or Other Valhi Securities or property, or other forms of consideration that the Participant may be entitled to receive with respect to such Common Shares as a result of a stock split, stock dividend or any other change in the corporation or capital structure of Valhi, shall be subject to the restrictions hereinafter described as determined by the Committee in its discretion), subject, however, to the options, restrictions and limitations imposed thereon pursuant to this Plan.

(d) The Committee shall determine in its discretion and specify in each agreement embodying an Award of Restricted Stock the effect, if any, the termination of the Participant's employment with or performance of services for the Company during the Restricted Period shall have on such Award of Restricted Stock.

SECTION 9. PERFORMANCE GRANTS. The Committee may grant Awards of Performance Grants either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. The Award of a Performance Grant to a Participant will entitle him to receive a specified amount determined by the Committee (the `ACTUAL VALUE''), if the terms and conditions specified in this Plan and in the Award are satisfied. Each Award of a Performance Grant shall be subject to the applicable terms and conditions of this Section and this Plan, and to such other terms and conditions, including but not limited to, restrictions upon any cash, Common Shares, Other Valhi Securities or property, or other forms of payment, or any combination thereof, issued with respect to the Performance Grant, as the Committee, in its discretion, shall establish, and shall be embodied in an agreement in such form and substance as is determined by the Committee.

(a) The Committee shall determine the value or range of values of a Performance Grant to be awarded to each Participant selected for an Award and whether or not such a Performance Grant is granted in conjunction with an Associated Award. As determined by the Committee, the maximum value of each Performance Grant (the `MAXIMUM VALUE'') shall be: (i) an amount fixed by the Committee at the time the Award is made or amended thereafter, (ii) an amount that varies from time to time based in whole or in part on the then current value of the Common Shares, Other Valhi Securities or property, or other securities or property, or any combination thereof or (iii) an amount that is determinable from criteria specified by the Committee. Performance Grants may be issued in different classes or series having different names, terms and conditions. In the case of a Performance Grant awarded in conjunction with an Associated Award, the Performance Grant may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(b) The award period (`AWARD PERIOD'') related to any Performance Grant shall be a period determined by the Committee. At the time each Award is made, the Committee shall establish performance objectives to be attained within the Award Period as the means of determining the Actual Value of such a Performance Grant. The performance objectives shall be based on such measure or measures of performance, which may include, but need not be limited to, the performance of the Participant, the Company or one or more of its divisions or units, or any combination of the foregoing, as the Committee shall determine, and may be applied on an absolute basis or be relative to industry or other indices or any combination thereof. The Actual Value of a Performance Grant shall be equal to its Maximum Value only if the performance objectives are attained in full, but the Committee shall specify the manner in which the Actual Value of Performance Grants shall be determined if the performance objectives are met in part. Such performance measures, the Actual Value or the Maximum Value, or any combination thereof, may be adjusted in any manner by the Committee in its discretion at any time and from time to time during or as soon as practicable after the Award Period, if it determines that such performance measures, the Actual Value or the Maximum Value, or any combination thereof, are not appropriate under the circumstances.

(c) The Committee shall determine in its discretion and specify in each agreement embodying a Performance Grant the effect, if any, the termination of the Participant's employment with or performance of services for the Company during the Award Period shall have on such Performance Grant.

(d) The Committee shall determine whether the conditions of a Performance Grant have been met and, if so, shall ascertain the Actual Value of the Performance Grant. If the Performance Grant has no Actual Value, the Award and such Performance Grant shall be deemed to have been canceled and the Associated Award, if any, may be canceled or permitted to continue in effect in accordance with its terms. If the Performance Grant has any Actual Value and:

(i) was not awarded in conjunction with an Associated Award, the Committee shall cause an amount equal to the Actual Value of the Performance Grant earned by the Participant to be paid to him or his Beneficiary; or

(ii) was awarded in conjunction with an Associated Award, the Committee shall determine, in accordance with criteria specified by the Committee (A) to cancel the Performance Grant, in which event no amount with respect thereto shall be paid to the Participant or his Beneficiary, and the Associated Award may be permitted to continue in effect in accordance with its terms, (B) to pay the Actual Value of the Performance Grant to the Participant or his Beneficiary as provided below, in which event the Associated Award may be canceled or (C) to pay to the Participant or his Beneficiary, the Actual Value of only a portion of the Performance Grants, in which event all or a portion of the Associated Award may be permitted to continue in effect in accordance with its terms or be canceled, as determined by the Committee.

Such determination by the Committee shall be made as promptly as practicable following the end of the Award Period or upon the earlier termination of employment or performance of services, or at such other time or times as the Committee shall determine, and shall be made pursuant to criteria specified by the Committee.

(e) Payment of any amount with respect to the Performance Grants that the Committee determines to pay as provided above shall be made by Valhi as promptly as practicable after the end of the Award Period or at such other time or times as the Committee shall determine, and may be made in cash, Common Shares, Other Valhi Securities or property, or other forms of payment, or any combination thereof or in such other manner, as determined by the Committee in its discretion. Notwithstanding anything in this Section to the contrary, the Committee may, in its discretion, determine and pay out the Actual Value of the Performance Grants at any time during the Award Period.

SECTION 10. DEFERRAL OF COMPENSATION. The Committee shall determine whether or not an Award shall be made in conjunction with the deferral of the Participant's salary, bonus or other compensation, or any combination thereof, and whether or not such deferred amounts may be:

(a) forfeited to the Company or to other Participants or any combination thereof, under certain circumstances (which may include, but need not be limited to, certain types of termination of employment or performance of services for the Company);

(b) subject to increase or decrease in value based upon the attainment of or failure to attain, respectively, certain performance measures; and/or

(c) credited with income equivalents (which may include, but need not be limited to, interest, dividends or other rates of return) until the date or dates of payment of the Award, if any.

SECTION 11. DEFERRED PAYMENT OF AWARDS. The Committee may specify that the payment of all or any portion of cash, Common Shares, Other Valhi Securities or property, or any other form of payment, or any combination thereof, under an Award shall be deferred until a later date. Deferrals shall be for such periods or until the occurrence of such events, and upon such terms, as the Committee shall determine in its discretion. Deferred payments of Awards may be made by undertaking to make payment in the future based upon the performance of certain investment equivalents (which may include, but need not be limited to, government securities, Common Shares, other securities, property or consideration, or any combination thereof), together with such additional amounts of income equivalents (which may be compounded and may include, but need not be limited to, interest, dividends or other rates of return or any combination thereof) as may accrue thereon until the date or dates of payment, such investment equivalents and such additional amounts of income equivalents to be determined by the Committee in its discretion.

SECTION 12. TRANSFERABILITY OF AWARDS. Except as may be approved by the Committee, a Participant's rights and interest under this Plan or any Award may not be assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation of law or otherwise (except in the event of a Participant's death), including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner; provided, however, that any Incentive Stock Option granted pursuant to this Plan shall not be transferable other than by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by him.

SECTION 13. AMENDMENT OR SUBSTITUTION OF AWARDS UNDER THIS PLAN. The terms of any outstanding Award under this Plan may be amended or modified from time to time by the Committee in its discretion in any manner that it deems appropriate and could have determined at the time of the original Award (including, but not limited to, acceleration of the date of exercise of any Award and/or payments thereunder); provided that no such amendment shall adversely affect in a material manner any right of a Participant under the Award without his written consent, unless the Committee determines in its discretion that there have occurred or are about to occur significant changes in the Participant's position, duties or responsibilities, or significant changes in economic, legislative, regulatory, tax, accounting or cost/benefit conditions that are determined by the Committee in its discretion to have or to be expected to have a substantial effect on the performance of the Company, or any affiliate, division or department thereof, on this Plan or on any Award under this Plan. The Committee may, in its discretion, permit holders of Awards under this Plan to surrender outstanding Awards in order to exercise or realize the rights under other Awards, or in exchange for the grant of new Awards, or require holders of Awards to surrender outstanding Awards as a condition precedent to the grant of new Awards under this Plan.

SECTION 14. TERMINATION OF A PARTICIPANT. For all purposes under this Plan, the Committee shall determine whether a Participant has terminated employment with, or the performance of services for, the Company; provided, however, an absence or leave approved by the Company shall not be considered an interruption of employment or performance of services for any purpose under this Plan.

SECTION 15. DILUTION AND OTHER ADJUSTMENTS. In the event of any change in the outstanding Common Shares by reason of any stock split, dividend, split-up, split-off, spin-off, recapitalization, merger, consolidation, rights offering, reorganization, combination or exchange of shares, a sale by Valhi of all or substantially all of its assets, any distribution to stockholders other than a normal cash dividend, or other extraordinary or unusual event, if the Committee shall determine, in its discretion, that such change equitably requires an adjustment in the terms of any Award or the number of Common Shares available for Awards, such adjustment may be made by the Committee and shall be final, conclusive and binding for all purposes of this Plan. Each adjustment made pursuant to this Section shall be made with a view toward preserving the value of the affected Award had prior to the event or transaction giving cause to such adjustment.

In the event of the proposed dissolution or liquidation of Valhi, all outstanding Awards shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. In the event of a proposed sale of all or substantially all of the assets of Valhi or the merger of Valhi with or into another corporation, all restrictions on any outstanding Awards shall lapse and Participants shall be entitled to the full benefit of all such Awards immediately prior to the closing date of such sale or merger, unless otherwise provided by the Committee.

SECTION 16. DESIGNATION OF BENEFICIARY BY PARTICIPANT. A Participant may name a beneficiary to receive any payment to which he may be entitled with respect to any Award under this Plan in the event of his death, on a written form to be provided by and filed with the Committee, and in a manner determined by the Committee in its discretion (a `BENEFICIARY''). The Committee reserves the right to review and approve Beneficiary designations. A Participant may change his Beneficiary from time to time in the same manner, unless such Participant has made an irrevocable designation. Any designation of a Beneficiary under this Plan (to the extent it is valid and enforceable under applicable law) shall be controlling over any other disposition, testamentary or otherwise, as determined by the Committee in its discretion. If no designated Beneficiary survives the Participant and is living on the date on which any amount becomes payable to such a Participant's Beneficiary, such payment will be made to the legal representatives of the Participant's estate, and the term `BENEFICIARY'' as used in this Plan shall be deemed to include such person or persons. If there are any questions as to the legal right of any Beneficiary to receive a distribution under this Plan, the Committee in its discretion may determine that the amount in question be paid to the legal representatives of the estate of the Participant, in which event the Company, the Board, the Committee, the Designated Administrator (if any), and the members thereof, will have no further liability to anyone with respect to such amount.

SECTION 17. FINANCIAL ASSISTANCE. If the Committee determines that such action is advisable, the Company may assist any Participant in obtaining financing from the Company (or under any program of the Company approved pursuant to applicable law), or from a bank or other third party, on such terms as are determined by the Committee, and in such amount as is required to accomplish the purposes of this Plan, including, but not limited to, to permit the exercise of an Award, the participation therein, and/or the payment of any taxes with respect thereto. Such assistance may take any form that the Committee deems appropriate, including, but not limited to, a direct loan from the Company, a guarantee of the obligation by the Company or the maintenance by the Company of deposits with such bank or third party.

SECTION 18. MISCELLANEOUS PROVISIONS.

(a) Any proceeds from Awards shall constitute general funds of Valhi.

(b) No fractional shares may be delivered under an Award, but in lieu thereof a cash or other adjustment shall be made as determined by the Committee in its discretion.

(c) No Eligible Person or other person shall have any claim or right to be granted an Award under this Plan. Determinations made by the Committee under this Plan need not be uniform and may be made selectively

among Eligible Persons under this Plan, whether or not such Eligible Persons are similarly situated. Neither this Plan nor any action taken hereunder shall be construed as giving any Eligible Person any right to continue to be employed by or perform services for the Company, and the right to terminate the employment of or performance of services by Eligible Persons at any time and for any reason is specifically reserved.

(d) No Participant or other person shall have any right with respect to this Plan, the Common Shares reserved for issuance under this Plan or in any Award, contingent or otherwise, until written evidence of the Award shall have been delivered to the recipient and all the terms, conditions and provisions of this Plan and the Award applicable to such recipient (and each person claiming under or through him) have been met.

(e) No Common Shares, Other Valhi Securities or property, other securities or property or other forms of payment shall be issued hereunder with respect to any Award unless counsel for Valhi shall be satisfied that such issuance will be in compliance with applicable law and any applicable rules of any stock exchange or other market quotation system on which Common Shares are listed.

(f) It is the intent of Valhi that this Plan comply in all respects with Rule 16b-3 and Section 162(m) with respect to Awards granted to executive officers of Valhi, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with Rule 16b-3 or Section 162(m), such provision shall be deemed null and void with respect to Awards granted to executive officers of Valhi to the extent required to permit such Awards to comply with Rule 16b-3 and Section 162(m). It is also the intent of Valhi that this Plan comply in all respects with the provisions of the Code providing favorable treatment to Incentive Stock Options, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with the Incentive Stock Option provisions of the Code, such provision shall be deemed null and void with respect to Incentive Stock Options granted to employees of the Company to the extent required to permit such Incentive Stock Options to receive favorable treatment under the Code.

(g) The Company shall have the right to deduct from any payment made under this Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of Valhi to issue Common Shares, Other Valhi Securities or property, other securities or property, or other forms of payment, or any combination thereof, upon exercise, settlement or payment of any Award under this Plan, that the Participant (or any Beneficiary or person entitled to act) pay to Valhi, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold federal, state, local or foreign income or other taxes. If the amount requested is not paid, Valhi may refuse to issue Common Shares, Other Valhi Securities or property, other securities or property, or other forms of payment, or any combination thereof. Notwithstanding anything in this Plan to the contrary, the Committee may, in its discretion, permit an Eligible Person (or any Beneficiary or person entitled to act) to elect to pay a portion or all of the amount requested by the Company for such taxes with respect to such Award, at such time and in such manner as the Committee shall deem to be appropriate (including, but not limited to, by authorizing Valhi to withhold, or agreeing to surrender to Valhi on or about the date such tax liability is determinable, Common Shares, Other Valhi Securities or property, other securities or property, or other forms of payment, or any combination thereof, owned by such person or a portion of such forms of payment that would otherwise be distributed, or have been distributed, as the case may be, pursuant to such Award to such person, having a Fair Market Value equal to the amount of such taxes).

(h) The expenses of this Plan shall be borne by the Company; provided, however, the Company may recover from a Participant or his Beneficiary, heirs or assigns any and all damages, fees, expenses and costs incurred by the Company arising out of any actions taken by a Participant in breach of this Plan or any agreement evidencing such Participant's Award.

(i) This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under this Plan, and rights to the payment of Awards shall be no greater than the rights of the Company's general creditors.

(j) By accepting any Award or other benefit under this Plan, each Participant and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board, the Committee or the Designated Administrator (if applicable).

(k) The appropriate officers of the Company shall cause to be filed any reports, returns or other information regarding Awards hereunder of any Common Shares issued pursuant hereto as may be required by applicable law and any applicable rules of any stock exchange or other market quotation system on which Common Shares are listed.

(l) The validity, construction, interpretation, administration and effect of this Plan, and of its rules and regulations, and rights relating to this Plan and to Awards granted under this Plan, shall be governed by the substantive laws, but not the choice of law rules, of the State of Delaware.

(m) Records of the Company shall be conclusive for all purposes under this Plan or any Award, unless determined by the Committee to be incorrect.

(n) If any provision of this Plan or any Award is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Plan or any Award, but such provision shall be fully severable, and this Plan or Award, as applicable, shall be construed and enforced as if the illegal or invalid provision had never been included in this Plan or Award, as applicable.

(o) The terms of this Plan shall govern all Awards under this Plan and in no event shall the Committee have the power to grant any Award under this Plan that is contrary to any of the provisions of this Plan.

(p) For purposes of interpretation of this Plan, the masculine pronoun includes the feminine and the singular includes the plural wherever appropriate.

SECTION 19. PLAN AMENDMENT OR SUSPENSION. This Plan may be amended or suspended in whole or in part at any time from time to time by the Board. No amendment of this Plan shall adversely affect in a material manner any right of any Participant with respect to any Award previously granted without such Participant's written consent, except as permitted under SECTION 13.

SECTION 20. PLAN TERMINATION. This Plan shall terminate upon the earlier of the following dates or events to occur:

(a) upon the adoption of a resolution of the Board terminating this Plan; or

(b) the tenth anniversary of the Effective Date; provided, however, that the Board may, prior to such date, extend the term of this Plan for an additional period of up to five years for the grant of Awards other than Incentive Stock Options. No termination of this Plan shall materially alter or impair any of the rights or obligations of any person, without his consent, under any Award previously granted under this Plan, except that subsequent to termination of this Plan, the Committee may make amendments or modifications permitted under SECTION 13.

SECTION 21. EFFECTIVE DATE. This Plan shall be effective, and Awards may be granted under this Plan, on or after the Effective Date; provided, however, if this Plan is not approved by at least a majority of the votes cast by the stockholders of Valhi at a meeting of stockholders at which a quorum is present within one year after the Effective Date then, in such event, this Plan and all Awards granted pursuant to this Plan shall be null and void.

ADOPTED BY THE BOARD: MAY __, 1997 (BY ACTION OF THE BOARD ON FEBRUARY 13, 1997)

APPROVED BY THE STOCKHOLDERS: MAY __, 1997

EFFECTIVE DATE: MAY __, 1997

EXECUTED to evidence this Valhi, Inc. 1997 Long-Term Incentive Plan adopted

by the Board on May __, 1997 (by action of the Board on February 13, 1997) and the stockholders of Valhi on May __, 1997.

VALHI, INC.

By: ____________________________

FORMATION AGREEMENT

BETWEEN

SNAKE RIVER SUGAR COMPANY

AND

THE AMALGAMATED SUGAR COMPANY

OF THE

THE AMALGAMATED SUGAR LLC

DATED AS OF

JANUARY --, 1996

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FORMATION AGREEMENT

THIS FORMATION AGREEMENT (this "Agreement" or this "Formation Agreement") is made as of January   , 1996, between SNAKE RIVER SUGAR COMPANY, an Oregon cooperative (`Snake River''), and THE AMALGAMATED SUGAR COMPANY, a Utah corporation (`Amalgamated''), and, upon its formation and the execution and delivery of a counterpart to this Agreement, THE AMALGAMATED SUGAR LLC, a Delaware limited liability company (the `Company''). Together, Snake River, Amalgamated and the Company shall be referred to in this Agreement as the `Parties.'' Capitalized terms not otherwise defined in this Agreement have the meaning ascribed to such terms in Article I.

RECITALS

WHEREAS, Snake River and Amalgamated desire to form a limited liability company, to be known as `The Amalgamated Sugar LLC,'' pursuant to the Company Agreement attached as EXHIBIT A (together with the exhibits thereto, the "Company Agreement") to conduct a sugarbeet processing business; and

WHEREAS, upon the terms and subject to the conditions set forth in this Agreement, Amalgamated desires to make a capital contribution to the Company of certain assets, subject to certain liabilities, in return for which Amalgamated shall receive a Membership Interest in the Company, as set forth in the Company Agreement; and

WHEREAS, upon the terms and subject to the conditions set forth in this Agreement, Snake River shall make a capital contribution to the Company of $[   ] million in cash, in return for which Snake River shall receive a Membership Interest in the Company, as set forth in the Company Agreement;

NOW, THEREFORE, the Parties agree as follows:

ARTICLE I
DEFINITIONS

The following terms used in this Formation Agreement shall have the following meanings (unless otherwise expressly provided in this Agreement);

(a) `Affiliate'' has the meaning, with respect to any Person, set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended as of the Closing Date.

(b) `Affiliated Group'' has the meaning set forth in Code Sec. 1504.

(c)`Amalgamated'' has the meaning set forth in the recitals above.

(d)`Amalgamated Assets'' means all the properties and assets currently owned by Amalgamated (other than Excluded Assets), whether or not located on its premises, or shown on the Most Recent Financial Statement, including, but not limited to, all right, title and interest in, to and under

(i) all real property, and all leaseholds and subleasheholds thereon, improvements, fixtures and fittings thereon (such as appurtenant rights in and to public streets), as listed on SCHEDULE 3.11(A) AND (B), (ii) all personal property and interests, including machinery, equipment, furniture, office equipment, communications equipment, vehicles, and other tangible property, as listed on SCHEDULE 1(D), (iii) all Related Contracts and Licenses, (iv) all of Amalgamated's books, records, ledgers, files, documents, correspondence, lists, plats, architectural plans, drawings, specifications, creative materials, advertising and promotional materials, studies, reports and other printed or written materials, whether in hard copy or computer format, including without limitation engineering information, manuals and data, fixed asset registers and engineering reports, lists of present and former suppliers, personnel and employment records, and any information relating to any Tax (other than income or franchise Taxes); and (v) all of Amalgamated's Intellectual Property.

(e)`Amalgamated Credit Agreements'' means the Credit Agreement dated July 1, 1993, as most recently modified on May 31, 1996, among Amalgamated, United States National Bank of Oregon and the banks named therein, plus the $5,000,000 promissory note dated as of August 23, 1996 and due September 30, 1997, issued by Amalgamated in favor of United States National Bank of Oregon.

(f)`Amcorp'' means Amcorp, Inc., a Delaware corporation.

(g)`Assumed Liabilities'' has the meaning set forth in Section 2.3.

(h)`Business Day'' means any day excluding a Saturday, Sunday and any day which is a legal holiday under the laws of the State of Utah or is a day on which banking institutions located in such state are closed.

(i) `Closing'' has the meaning set forth in Section 2.4.

(j) `Closing Date'' means the date of the Closing.

(k)`Code" means the Internal Revenue Code of 1986, as amended, and the temporary, proposed and final Treasury Regulations promulgated thereunder, and any reference to a section of the Code shall include any successor section or provision of the Code.

(l) `Company Agreement'' has the meaning set forth in the Recitals.

(m)`Confidential Information'' means any information concerning the businesses and affairs of Amalgamated that is not already generally available to the public.

(n) `Conveyance Documents'' has the meaning set forth in Section 2.4(d).

(o) `Drop Date'' has the meaning set forth in Section 7.1.

(p)"Employee Benefit Plan" means any (a) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension

Benefit Plan, (b) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any multiemployer plan as defined in Section 3(37) of ERISA), or (d)

Employee Welfare Benefit Plan.

(q)"Employee Pension Benefit Plan" has the meaning set forth in ERISA Sec. 3(2).

(r)"Employee Welfare Benefit Plan" has the meaning set forth in ERISA Sec. 3(1).

(s)"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(t)"Environmental, Health, and Safety Laws" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act of 1976, and the Occupational Safety and Health Act of 1970, each as amended as of the Closing Date, together with all other laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) in effect as of the Closing Date of federal, state, local, and foreign governments (and all agencies thereof) concerning pollution or protection of the environment, public health and safety, or employee health and safety, including laws in effect as of the Closing Date relating to emissions, discharges, releases, or threatened releases of pollutants, contaminants, or chemical, industrial, hazardous, or toxic

materials or wastes into ambient air, surface water, ground water, or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials or wastes.

(u)`Entity" means any general partnership, limited partnership, limited liability company, corporation, joint venture, trust, business trust, governmental authority, cooperative, association or any foreign trust or foreign business organization or any other entity of any kind whatsoever.

(v)`Excluded Assets" means the Amalgamated corporate charter, qualifications to conduct business as a foreign corporation, arrangements with registered agents relating to foreign qualifications, taxpayer and other identification numbers, seals, minute books, stock transfer books, blank stock certificates, and other documents relating to the organization, maintenance, and existence of Amalgamated as a corporation.
Confirm whether the beet contract is going to LLC or directly to SRSC (per Lemke memo of 10/1)

(w)`Excluded Liabilities" means (i) any Liability related to any exercise of compensatory options to purchase Valhi stock held by employees or former employees of Amalgamated as of the Effective Date or upon the lapse of restrictions on restricted shares of Valhi stock held by such employees or former employees, and (ii) and the specific Liabilities set forth on SCHEDULE 2.3 (collectively, the `Excluded Liabilities'').]

(x)"Financial Statement" has the meaning set forth in Section 3.7.

(y)"GAAP" means United States generally accepted accounting principles as in effect from time to time.

(z)"Intellectual Property" means (i) all trademarks, patents, service marks, trade dress, logos, trade names, and corporate names, together with all translations, adaptations, derivations and combinations thereof and including all goodwill associated therewith and (ii) all computer software (including data and related documentation).

(aa)"Knowledge" means, for any matter, actual knowledge without independent investigation of the officers of Amalgamated listed on EXHIBIT B, or actual knowledge of facts or circumstances such that the matter should reasonably have been actually known by such officers.

(bb)`Liability'' means any liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued

or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

(cc)`Material Adverse Change'' means a material adverse change in the financial condition of Amalgamated since the Most Recent Fiscal Quarter End. Notwithstanding the foregoing, no event occurring after the Most Recent Fiscal Quarter End generally applicable to all companies involved in the sugar processing industry, including without limitation changes in market conditions,

trends, government regulations, consumer preferences or competition, shall be deemed to constitute a Material Adverse Change.

(dd)`Member'' means each of the Persons with an ownership interest in the Company and which executes a counterpart of the Company Agreement as a Member and each of the Persons who may hereafter become Members.

(ee) `Membership Interest'' means the rights of a Member or, in the case of an Assignee, the rights of the assigning Member in distributions (liquidating or otherwise) and allocations of the profits, losses, gains, deductions and credits of the Company.

(ff) "Most Recent Financial Statements" has the meaning set forth in Section 3.7 below.

(gg) "Most Recent Fiscal Quarter End" has the meaning set forth in Section 3.7 below.

(hh) `Ordinary Course of Business'' means the ordinary course of Amalgamated's business consistent with Amalgamated's past custom and practice (including with respect to quantity and frequency).

(ee) `Parties'' has the meaning set forth in the preface of this Agreement.

(ff)`Person'' means any individual or Entity, as well as the heirs, executors, administrators, legal representatives, successors and assigns of such `Person'' where the context so requires.

(gg)"Related Contracts and Licenses" means all contracts and agreements, leases, licenses, commitments, requests for proposals, correspondence, purchase orders and other instruments, franchises, approvals, permits, licenses, orders, registrations, certificates, variances and similar rights obtained from governmental authorities used or held by Amalgamated.

(hh)`Required Consents'' means all franchises, licenses, authorizations, approvals and consents required under any agreement or otherwise for Amalgamated to transfer the Amalgamated Assets to the Company without breaching or otherwise defaulting any representation or warranty made by Amalgamated in this Agreement.

(mm) `Security Interest'' means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) mechanic's, materialmen's, and similar liens, (b) liens for Taxes not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, and (d) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

(ii)`Snake River'' has the meaning set forth in the recitals above.

(jj)`Snake River Capital Contribution'' has the meaning set forth in Section 2.1 below.

(kk)`Snake River Materials'' means the offering circular and other materials relating to Snake River's sale of debt and equity securities in connection with the organization and funding of Snake River and related transactions, including this Formation Agreement.

(qq) `Subsidiary'' means any corporation with respect to which a specified Person (or a Subsidiary thereof) has the power to vote or direct the voting of sufficient securities to elect a majority of the directors.

(ll)"Tax" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

(mm)`Transaction Agreements'' means this Agreement, the Company Agreement, the Office and Ground Lease, the form of which is attached as EXHIBIT D-1, the Indemnification and Post Closing Agreement, the form of which is attached as EXHIBIT D-2, the Limited Recourse Promissory Note, the form of which is attached hereto as EXHIBIT D-3, the Non-recourse Promissory Note, the form of which is attached hereto as EXHIBIT D-4, the Limited Recourse Pledge Agreement, the form of which is attached hereto as EXHIBIT D-5, the Pledge Agreement (Non-Recourse Note), the form of which is attached hereto as EXHIBIT D-6, the Indemnification Pledge Agreement, the form of which is attached hereto as EXHIBIT D-7, and the four Memoranda of Agreement between the Sugarbeet Growers and Amalgamated, the form of which is attached hereto as EXHIBIT D-8.

(nn)`Valhi'' means Valhi, Inc., a Delaware corporation and the parent of Amcorp.

(oo)`Valhi Credit Agreement'' means the Credit and Pledge Agreement among Valhi, Amcorp and The Chase Manhattan Bank, as Agent, dated August 25, 1995, as amended August 23, 1996.

ARTICLE II
FORMATION

2.1 Snake River Capital Contribution. Upon the terms and subject to the conditions of this Formation Agreement, Snake River shall on the Closing Date contribute to the Company cash in immediately available funds of $[ ] (the "Snake River Capital Contribution"), for which Snake River will receive a Membership Interest in the Company having the rights and obligations set forth in the Company Agreement. Upon the making of the Snake River Capital Contribution, Snake River will be admitted as a Member of the Company under the terms of the Company Agreement.

2.2 Amalgamated Contribution. Upon the terms and subject to the conditions of this Formation Agreement, including but not limited to the assumption of Liabilities set forth in Section 2.3, Amalgamated agrees to convey, transfer, assign and deliver to the Company on the date hereof, free and clear of any Security Interest, all of the Amalgamated Assets, for which

Amalgamated shall receive a Membership Interest in the Company as set forth in the Company Agreement. Upon the contribution of the Amalgamated Assets, Amalgamated will be admitted as a Member of the Company under the terms of the Company Agreement.

2.3 Assumed Liabilities. Upon the terms and subject to the conditions of this Agreement, the Company agrees, effective at the time of Closing, to assume all Liabilities of Amalgamated, whether presently in existence or arising after the date of this Agreement, whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due (the `Assumed Liabilities''), other than Excluded Liabilities.

2.4 Closing. Unless the Parties otherwise agree, the closing (the `Closing'') of the transactions contemplated by this Agreement shall take place at the offices of Amalgamated in Ogden, Utah, commencing at 9:00 a.m. local time on January __, 1996, or, if later, the second Business day following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated by this Agreement (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as the Parties may mutually determine (the `Closing Date''). At the Closing:

(a) Snake River and Amalgamated shall execute the Transaction Agreements to which each is a party.

(b) Snake River shall contribute the Snake River Capital Contribution to the Company;

(c) The Company shall execute and deliver the assumption and assignment agreements pursuant to which it shall assume the Assumed Liabilities;

(d) Amalgamated shall deliver or cause to be delivered to the Company such bill of sales, warranty deeds, Required Consents, and other good and sufficient instruments of conveyance and assignment (the `Conveyance Documents') as Snake River and its counsel shall deem reasonably necessary or appropriate to vest in the Company all right, title and interest in, to and under the Amalgamated Assets.

(e) Snake River shall deliver to Amalgamated a copy of its charter and bylaws, good standing certificates, resolutions of the board of directors, secretaries' certificates, officers' certificates, in each case, relating to the existence of Snake River and the authority of Snake River to execute the Transaction Agreements to which it is a party, all in form and substance reasonably satisfactory to Amalgamated and its counsel.

(f) Amalgamated shall deliver to Snake River a copy of its certificate of incorporation, good standing certificates, resolutions of the board of directors, secretaries' certificates, officer's certificates, in each case, relating to the existence of Amalgamated and the authority and capacity of Amalgamated to execute the Transaction Agreements to which it is a party, all in form and substance reasonably satisfactory to Snake River and its counsel.

(g) The Company shall execute this Agreement, as of the date hereof, and deliver to Snake River and Amalgamated resolutions of the Management Committee, secretaries' certificates, officer's certificates, in each case,

relating to the existence of the Company and the authority and capacity of the Company to execute this Agreement as of such date and the other Transaction Agreements to which it is a party, all in form and substance reasonably satisfactory to Snake River and Amalgamated and their respective counsel.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF AMALGAMATED

For the purpose of inducing Snake River and the Company to enter into and perform this Agreement, Amalgamated represents and warrants to Snake River and the Company that the statements contained in this Article III are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article III), except as set forth in SCHEDULE 3.

3.1 Organization, Qualification and Corporate Power. Amalgamated is a corporation duly organized, validly existing, and in good standing under the laws of Utah. Amalgamated is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required, except where the lack of such qualification would not have a material adverse effect on the financial condition of Amalgamated. Amalgamated has the corporate power and authority to carry on the businesses in which it is engaged and to own and use the properties owned and used by it.

3.2 Authorization of Transaction. Amalgamated has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Amalgamated, enforceable in accordance with its terms and conditions, as enforceability may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor rights generally and subject to general principles of equity and public policy considerations.

3.3 Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated by this Agreement, will (a) violate any valid constitutional provision, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Amalgamated is subject or any provision of its charter or bylaws; or (b) except for the terms of the Amalgamated Credit Agreements, and the Valhi Credit Agreement, conflict with, result in a material breach of, constitute a material default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any material agreement, contract, lease, license, instrument, or other arrangement to which Amalgamated is a party or by which it is bound or to which any of its material assets is subject (or result in the imposition of any Security Interest upon any of its assets); except for where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, or Security Interest would not have a material adverse effect on the financial condition of Amalgamated or on the ability of the Parties to consummate the transactions contemplated by this Agreement. Amalgamated does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement, except where the failure to give notice, to file, or to obtain any authorization, consent, or approval would not have a material adverse effect on the financial condition of Amalgamated or on the ability of the Parties to

consummate the transactions contemplated by this Agreement.

3.4 Brokers' Fees. Amalgamated has no Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Snake River or the Company could become liable or obligated.

3.5 Title to Tangible Assets. Amalgamated has insurable title to, or a valid leasehold interest in, the material tangible assets it use regularly in the conduct of its businesses.

3.6 Subsidiaries. Amalgamated has no controlling interest in any Entity.

3.7 Financial Statements. Attached hereto as EXHIBIT C are the following financial statements (collectively the "Financial Statements"): (i) audited balance sheets and statements of income, changes in shareholder's equity, and cash flows as of and for the fiscal years ended December 31, 1995, December 31, 1994, and December 31, 1993 for Amalgamated; and (ii) unaudited consolidated balance sheets and statements of income, changes in shareholder's equity, and cash flows (the "Most Recent Financial Statements") as of and for the nine months ended September 30, 1996 (the "Most Recent Fiscal Quarter End") for Amalgamated. The Financial Statements (including the notes thereto) have been prepared in accordance with GAAP applied on a consistent basis throughout the periods covered thereby and present fairly the financial position of Amalgamated as of such dates and the results of operations of Amalgamated for such periods; provided, however, that the Most Recent Financial Statements are subject to normal year-end adjustments and lack footnotes and other presentation items.

3.8 Undisclosed Liabilities. To the Knowledge of Amalgamated, Amalgamated has no any material debt or Liability (whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due, including any Liability for income Taxes), except for (i) such Liabilities included or disclosed in the Financial Statements (including the notes thereto), (ii) such Liabilities which have arisen after the Most Recent Fiscal Quarter End in the Ordinary Course of Business consistent with the provisions of Section 5.3, (iii) such Liabilities as are disclosed in SCHEDULE 3.8.

3.9 Legal Compliance. To the Knowledge of Amalgamated, Amalgamated has complied with all applicable valid laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of federal, state, local, and foreign governments (and all agencies thereof) having jurisdiction over Amalgamated, except where the failure to

comply would not have a material adverse effect upon the financial condition of Amalgamated.

3.10 Real Property and Leases.

(a) SCHEDULE 3.10(A) lists all owned real property that is included in the Amalgamated Assets. With respect to each such parcel, to the Knowledge of Amalgamated, except for matters which are set forth in SCHEDULE 3.10(A) or which would not have a material adverse effect on the financial condition of Amalgamated:

i. Amalgamated has insurable title to the parcel of real property, free and clear of any Security Interest (except Security Interests arising under the Amalgamated Credit Agreement), easement, covenant, or other restriction, except for installments of special assessments not yet delinquent, recorded restrictions, including easements, covenants, utility easements, building restrictions, zoning restrictions, and other easements and restrictions existing generally with respect to properties of a similar character;

ii. there are no leases, subleases, licenses, concessions, or other agreements granting to any party or parties the right of use or occupancy of any portion of the parcel of real property; and

iii. there are no outstanding options or rights of first refusal to purchase the parcel of real property, or any portion thereof or interest therein.

(b) SCHEDULE 3.10(B) lists all real property included in the Amalgamated Assets not owned by Amalgamated but leased or subleased by Amalgamated. Amalgamated has made available to Snake River correct and complete copies of the leases and subleases listed in SCHEDULE 3.10(B) (as amended to date). To the Knowledge of Amalgamated, each lease and sublease listed in SCHEDULE 3.10(B) is legal, valid, binding, enforceable, and in full force and effect, except (a) for those matters set forth in SCHEDULE 3.10(B), (b) as enforceability may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor rights generally and subject to general principles of equity and public policy considerations or

(c) where the illegality, invalidity, nonbinding nature, unenforceability, or ineffectiveness would not have a material adverse effect on the financial condition of Amalgamated.

3.11 Contracts. SCHEDULE 3.11 lists all written contracts and other written agreements included in the Amalgamated Assets which, to the Knowledge of Amalgamated, Amalgamated is a party, the performance of which will involve annual payments in excess of $100,000 or which have a remaining term greater than three years, other than leases listed on SCHEDULE 3.10(B). Amalgamated has made available to Snake River a correct and complete copy of each contract or other agreement listed in SCHEDULE 3.11 (as amended to date).

3.12 Powers of Attorney. To the Knowledge of Amalgamated, there are no outstanding powers of attorney executed on behalf of Amalgamated except as described in SCHEDULE 3.12.

3.13 Litigation. To the Knowledge of Amalgamated, SCHEDULE 3.13 sets forth each instance in which Amalgamated (a) is subject to or is threatened to be made subject to any outstanding injunction, judgment, order, decree or ruling, or (b) is a party to or is threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or

quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction, except where the injunction, judgment, order, decree, ruling, action, suit, proceeding, hearing, or investigation (A) seeks damages of less than $100,000, or (B) would not have a material adverse effect on the financial condition of Amalgamated.

3.14 Environment, Health, and Safety.

(a) Except as set forth in SCHEDULE 3.14, to the Knowledge of Amalgamated, Amalgamated, (i) is in substantial compliance with the Environmental, Health, and Safety Laws in all material respects (and, except as set forth in SCHEDULE 3.14, to the Knowledge of Amalgamated no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against any of them alleging any such failure to comply), (ii) is in substantial compliance with all of the terms and conditions of all material permits, licenses, and other authorizations which are required under the Environmental, Health, and Safety Laws, and (iii) is in substantial compliance with, in all material respects, all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules, and timetables which are contained in the Environmental, Health, and Safety Laws.

(b) Except as set forth in SCHEDULE 3.14, to the Knowledge of Amalgamated, Amalgamated has no material Liability (whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), and Amalgamated has not handled or disposed of any substance, arranged for the disposal of any substance, exposed any employee or other individual to any substance or condition, or owned or operated any property or facility in any manner that could give rise to any material Liability, for damage to any site, location, or body of water (surface or subsurface), for any illness of or personal injury to any employee or other individual under any Environmental, Health, and Safety Law.

3.15 Employee Benefits. SCHEDULE 3.15 lists each Employee Benefit Plan that Amalgamated maintains or to which Amalgamated contributes.

(a) To the Knowledge of Amalgamated, each such Employee Benefit Plan (and each related trust, insurance contract, or fund) complies in form and in operation in all respects with the applicable requirements of ERISA and the Code, except where the failure to comply would not have a material adverse effect on the financial condition of Amalgamated.

(b) Except as set forth in SCHEDULE 3.15, all contributions (including all employer contributions and employee salary reduction contributions) which are required to be paid to each such Employee Benefit Plan which is an Employee Pension Benefit Plan have been paid.

(c) Except as set forth in SCHEDULE 3.15, each such Employee Benefit Plan which is an Employee Pension Benefit Plan has received a determination letter from the Internal Revenue Service to the effect that at the time of its issuance such plan met the requirements of Code Sec. 401(a).

(d) Amalgamated has made available to Snake River correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service, the most recent Form 5500 Annual Report, and all related trust agreements, insurance contracts, and other funding agreements which implement each such Employee

Benefit Plan.

3.16 Events Subsequent to Most Recent Fiscal Quarter End. To the Knowledge of Amalgamated, since the Most Recent Fiscal Quarter end, there has not been any Material Adverse Change. Without limiting the generality of the foregoing, since the Most Recent Fiscal Quarter End, Amalgamated has not engaged in any practice, taken any action, or entered into any transaction outside the Ordinary Course of Business other than in connection with this Formation Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SNAKE RIVER

Snake River represents and warrants to each of Amalgamated and the Company that the statements contained in this Article IV are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article IV), except as set forth in SCHEDULE 4.

4.1 Organization. Snake River is a cooperative corporation duly organized, validly existing, and in good standing under the laws of Oregon. EXHIBIT E lists the directors of Snake River. Snake River is duly authorized to conduct business and is in good standing under the laws each other jurisdiction where such qualification is required, except where the lack of such qualification would not have a material adverse effect on the financial condition of Snake River. Snake River has the power and authority to carry on the businesses in which it is engaged and to own and use the properties owned and used by it.

4.2 Authorization of Transaction. Snake River has power and authority to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Snake River, enforceable in accordance with its terms and conditions.

4.3 Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated by this Agreement, will (a) violate any valid constitutional provision, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Snake River is subject or any provision of its charter or bylaws or (b) conflict with, result in a material breach of, constitute a material default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any material agreement, contract, lease, license, instrument, or other arrangement to which Snake River is a party or by which it is bound or to which any of its material assets is subject. Snake River does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement, except where the failure to give notice, to file, or to obtain any authorization, consent, or approval would not have a material adverse effect on the financial condition of Snake River taken as a whole or on the ability of the Parties to consummate the transactions contemplated by this Agreement.

4.4 Brokers' Fees. Snake River has no Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the

transactions contemplated by this Agreement for which Amalgamated or the Company could become liable or obligated.

4.5 Disclosure. The Snake River Materials do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein not misleading in the light of the circumstances under which they will be made.

ARTICLE V
PRE-CLOSING COVENANTS

The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing.

5.1 General. Each of the Parties will use its reasonable best efforts to take all actions and to do all things necessary or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the closing conditions set forth in Article VI below).

5.2 Notices and Consents. Each of the Parties will give any notices to, make any filings with, and use its reasonable best efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies in connection with the matters referred to in Sections 3.3 and 4.3 above.

5.3 Operation of Business. Amalgamated will not engage in any practice, take any action, or enter into any transaction outside the Ordinary Course of Business if such transaction could reasonably be expected to result in a Material Adverse Change.

5.4 Obtaining Financing. Snake River shall use its reasonable best efforts, including the payment of all commitment and other fees and expenses of prospective lenders, to obtain the necessary debt and equity financing to consummate the transactions contemplated by this Agreement and the loan by Snake River to Valhi.

5.5 Full Access. Amalgamated will permit representatives of Snake River to have full access at all reasonable times upon reasonable advance notice, and in a manner so as not to interfere with the normal business operations of Amalgamated, to all premises, properties, personnel, books, records (including income Tax records), contracts, and documents of or pertaining to Amalgamated. In addition, Amalgamated will use reasonable efforts to assist Snake River in obtaining access for representatives of Snake River to any properties sold or otherwise transferred by Amalgamated prior to the Closing. Snake River and its representatives will treat and hold as such any Confidential Information it receives from Amalgamated in the course of the reviews contemplated by this Section 5.5, will not use any of the Confidential Information except in connection with this Agreement, will not provide any trade secrets included in the Confidential Information to any person, including any competitor of Amalgamated, and, if this Agreement is terminated for any reason whatsoever, will promptly return to Amalgamated all tangible embodiments (and all copies) of the Confidential Information which it has received or created.

5.6 Notice of Developments.

(a) Amalgamated will give written notice to Snake River of any development causing a breach of any of the representations and warranties in Article III promptly upon Amalgamated becoming aware of such development. Unless Snake River has the right to terminate this Agreement pursuant to Section 7.1(b) below by reason of the development and exercises that right within the period of 10 Business days referred to in Section 7.1(b)(i) below, the written notice pursuant to this Section 5.6(a) will be deemed to have amended Schedule 3, to have qualified the representations and warranties contained in Article III, and to have cured any misrepresentation or breach of warranty that otherwise might have existed hereunder by reason of the development.

(b) Snake River will give written notice to Amalgamated of any development causing a breach of any of the representations and warranties in Article IV above promptly upon Snake River becoming aware of such development. No disclosure by Snake River pursuant to this Section 5.6(b), however, shall be deemed to prevent or cure any misrepresentation or breach of warranty.

5.7 Exclusivity. Amalgamated will not solicit, initiate, or encourage the submission of any proposal or offer from any Person relating to the acquisition of all or substantially all of the capital stock or assets of Amalgamated (including any acquisition structured as a merger, consolidation, or share exchange); provided, however, that Amalgamated and its directors and officers will remain free to participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any Person to do or seek any of the foregoing to the extent their fiduciary duties may require.

ARTICLE VI
CONDITIONS TO CLOSING

6.1 Conditions to Obligation of Snake River. The obligation of Snake River to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article III above shall be true and correct in all material respects at and as of the Closing Date;

(b) Amalgamated shall have performed and complied with all of its pre-closing covenants hereunder in all material respects through the Closing;

(c) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(d) Amalgamated shall have delivered to Snake River a certificate to the effect that each of the conditions specified above in Section 6.1(a), (b) and (c) is satisfied in all respects;

(e) the Parties shall have received all other authorizations, consents, and approvals of governments and governmental agencies referred to in Section 3.3 and Section 4.3 above;

(f) the Transaction Agreements in form and substance as set forth in EXHIBITS D-1 through D-8 attached hereto and the same shall be in full force and effect;

(g) each of the officers of Amalgamated identified in EXHIBIT B shall have entered into an employment agreement with the Company in a form substantially similar to the employment agreements attached hereto as EXHIBIT F; and

(h) all actions to be taken by Amalgamated in connection with consummation of the transactions contemplated hereby and all certificates, instruments, and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to Snake River.

Snake River may waive any condition specified in this Section 6.1 if it executes a writing so stating at or prior to the Closing.

6.2 Conditions to Obligation of Amalgamated. The obligation of Amalgamated to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article IV above shall be true and correct in all material respects at and as of the Closing Date;

(b) Snake River shall have performed and complied with all of its covenants hereunder in all material respects through the Closing;

(c) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(d) Valhi shall have borrowed $250 million from Snake River pursuant to the note and pledge agreements attached hereto as EXHIBITS D-3 through D-7, inclusive;

(e) Amalgamated shall be reasonably satisfied with the equity structure of Snake River and Snake River's financing;

(f) Snake River shall have delivered to Amalgamated a certificate to the effect that each of the conditions specified above in Section 6.2 (a), (b) and (c) is satisfied in all respects;

(g) the Parties shall have received all other authorizations, consents, and approvals of governments and governmental agencies referred to in Section 3.3 and Section 4.3;

(h) the Transaction Agreements in form and substance as set forth in EXHIBITS D-1 through D-8 attached hereto and the same shall be in full force and effect; and

(i) all actions to be taken by Snake River in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to Amalgamated.

Amalgamated may waive any condition specified in this Section 6.2 if it executes a writing so stating at or prior to the Closing.

ARTICLE VII
TERMINATION

7.1 Events of Termination. Either of the Parties may terminate this Agreement as provided below:

(a) Snake River and Amalgamated may terminate this Agreement by mutual written consent at any time prior to the Closing;

(b) Snake River may terminate this Agreement by giving written notice to Amalgamated at any time prior to the Closing in the event (i) Amalgamated has within the then previous 10 Business days given Snake River any notice pursuant to Section 5.6 above and (ii) the development that is the subject of the notice has resulted in a Material Adverse Change;

(c) Snake River may terminate this Agreement by giving written notice to Amalgamated at any time prior to the Closing (i) in the event Amalgamated has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Snake River has notified Amalgamated of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach or (ii) if the Closing shall not have occurred on or before the Drop Date (as defined below) by reason of the failure of any condition precedent under Section 6.1 hereof (unless the failure results primarily from Snake River itself breaching any representation, warranty, or covenant contained in this Agreement); and

(d) Amalgamated may terminate this Agreement by giving written notice to Snake River at any time prior to the Closing, (i) in the event Snake River has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Amalgamated has notified Snake River of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach or (ii) at any time prior to Closing, if the Closing shall not have occurred on or before the Drop Date by reason of the failure of any condition precedent under Section 6.2 hereof (unless the failure results primarily from Amalgamated breaching any representation, warranty, or covenant contained in this Agreement).

For purposes of this Agreement, the `Drop Date'' shall mean January __, 1997, provided, however, that if the parties have not received any consent required by federal or state law on or prior to _________ __, 199_, then the Drop Date shall be automatically extended to a date two business days after receipt of such consent, but in no event later than January __, 1997.

7.2 Effect of Termination. If any Party terminates this Agreement pursuant to Section 7.1 above, all rights and obligations of the Parties hereunder shall terminate without any Liability of any Party to any other Party (except for any Liability of any Party then in breach); provided, however, that the confidentiality provisions contained in Section 5.5 above shall survive any such termination.

ARTICLE VIII
MISCELLANEOUS

8.1 Parties Obligated and Benefited. Subject to the limitations set

forth below, this Agreement will be binding upon the Parties and their respective permitted assigns and successors in interest and will inure solely to the benefit of the Parties and their respective permitted assigns and successors in interest, and no other Person will be entitled to any of the benefits conferred by this Agreement. In connection with any such assignment or delegation, the transferring Party shall remain subject to all of its obligations hereunder, pursuant to this Agreement.

8.2 Notices. Any notice, request, demand, waiver or other communication required or permitted to be given under this Agreement will be in writing and will be deemed to have been duly given only if delivered in person or by first class, prepaid, registered or certified mail, or sent by courier or, if receipt is confirmed, by telecopier:

If to the Company:

Allan M. Lipman, Jr.
Amalgamated Sugar LLC
2427 Lincoln Avenue
PO Box 1520
Ogden, Utah 84402

If to Amalgamated:

The Amalgamated Sugar Company
Three Lincoln Centre, Suite 700
5430 LBJ Freeway
Dallas, Texas 75240-2697
Atten: General Counsel

With a copy to:

James L. Palenchar, Esq.
Bartlit Beck Herman Palenchar & Scott
511 Sixteenth Street, Suite 700
Denver, CO 80202

If to Snake River:

525 Good Avenue
Nyssa, Oregon 97913
Attention: Chief Executive Officer

With a copy to:

Randon W. Wilson, Esq.
Jones, Waldo, Holbrook & McDonough
1500 First Interstate Plaza
170 South Main Street

Salt Lake City, UT 84101-1644

Any Party may change the address to which notices are required to be sent by giving notice of such change in the manner provided in this Section 8.2. All notices will be deemed to have been received on the date of delivery or on the third Business Day after mailing in accordance with this Section 8.2, except that any notice of a change of address will be effective only upon actual receipt.

8.3 Attorneys' Fees. In the event of any action or suit based upon or arising out of any alleged breach by any party of any representation, warranty, covenant or agreement contained in this Agreement, the prevailing party will be entitled to recover reasonable attorneys' fees and other costs of such action or suit from the other party.

8.4 Amendment or Waiver. This Agreement or any of its provisions may not be amended, modified or waived except in a writing that refers to this Agreement. The failure of any Party to enforce any right arising under this Agreement on one or more occasions will not operate as a waiver of that or any other right on that or any other occasion.

8.5 Captions. The article and section captions of this Agreement are for convenience only and do not constitute a part of this Agreement.

8.6 Choice of Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF DELAWARE WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF DELAWARE OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF DELAWARE.

8.7 Terms. Terms used with initial capital letters will have the meanings specified, applicable to both singular and plural forms, for all purposes of this Agreement. The word `include'' and derivatives of that word are used in this Agreement in an illustrative sense rather than limiting sense.

8.8 Further Actions. The Parties will execute and deliver, from time to time at or after the Closing, for no additional consideration and at no additional cost to the requesting party, such further assignments, certificates, instruments, records, or other documents, assurances or things as may be reasonably necessary to give full effect to this Agreement and to allow each Party fully to enjoy and exercise the rights accorded and acquired by it under this Agreement.

8.9 Time. Time is of the essence under this Agreement. If the last day permitted for the giving of any notice or the performance of any act required or permitted under this Agreement falls on a day which is not a Business Day, the time for the giving of such notice or the performance of such act will be extended to the next succeeding Business Day.

8.10 Counterparts. This Agreement may be executed in one or more

counterparts, each of which will be deemed an original and all of which together shall constitute a single agreement.

8.11 Entire Agreement. This Agreement (including the Schedules and Exhibits referred to in this Agreement, which are incorporated in and constitute a part of this Agreement), contains the entire agreement of the Parties and supersedes all prior oral or written agreements and understandings with respect to the subject matter of this Agreement.

8.12 Severability. Any term or provision of this Agreement which is invalid or unenforceable will be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining rights of the Person intended to be benefitted by such provision or any other provisions of this Agreement.

8.13 Construction. This Agreement has been negotiated by Snake River, Amalgamated and their respective legal counsel, and legal or equitable principles that might require the construction of this Agreement or any provision of this Agreement against the Party drafting this Agreement will not apply in any construction or interpretation of this Agreement.

8.14 Expenses. Except as otherwise expressly provided in this Agreement, each Party will pay all of its expenses, including attorneys' and accountants' fees, in connection with the negotiation of this Agreement, the performance of its obligations and the consummation of the transactions contemplated by this Agreement.

8.15 Press Releases and Public Announcements. No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement prior to the Closing without the prior written approval of the other Party.

8.16 References. Numerical or alphabetic references to Recitals, Articles, sections, paragraphs, Schedules, exhibits and appendices in this Agreement are to Recitals, Articles, sections, paragraphs, Schedules and Exhibits of this Agreement unless otherwise stated.

*   *   *   *   *

The Parties have executed this Agreement as of the day and year first above written.

SNAKE RIVER SUGAR COMPANY

By: ________________________________

Title: ______________________________

THE AMALGAMATED SUGAR COMPANY

By:

Title:

THE AMALGAMATED SUGAR LLC

By:

Title:

COMPANY AGREEMENT

OF

THE AMALGAMATED SUGAR COMPANY LLC,
A DELAWARE LIMITED LIABILITY COMPANY

MEMBER MANAGED

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COMPANY AGREEMENT

This Company Agreement (this `Agreement'' or this ``Company Agreement') of The Amalgamated Sugar Company LLC, a limited liability company organized pursuant to the Act, is entered into and shall be effective as of the Effective Date, by and among the Company and the persons executing this Agreement as Members. Capitalized terms not otherwise defined in this Agreement have the meanings ascribed to such terms in Article II.

ARTICLE I

FORMATION

1.1 ORGANIZATION. The Members have organized the Company as a Delaware limited liability company pursuant to the provisions of the Act by filing that certain Certificate of Formation with the Secretary of State of Delaware on December 20, 1996, and by entering into that certain Formation Agreement by and among The Amalgamated Sugar Company, a Utah corporation (`AGM''), Snake River Sugar Company, an Oregon cooperative (`SRSC''), and the Company, dated as of January 3, 1997, to be effective for tax and accounting purposes as of December

31, 1996 (the "Formation Agreement").

1.2 NAME. The name of the Company is The Amalgamated Sugar Company LLC, and all business of the Company shall be conducted under that name except to the extent necessary for qualification purposes in those states where AGM's presence initially requires the Company to use a trade name or with the consent of all of the Members.

1.3 EFFECTIVE DATE. This Company Agreement shall become effective upon the closing under the Formation Agreement or such other date mutually agreeable to the Members (the `Effective Date'').

1.4 TERM. The term of the Company commenced on the Effective Date and will continue until the Company shall be dissolved and its affairs wound up in accordance with the Act or this Company Agreement.

1.5 REGISTERED AGENT AND OFFICE. The Company's initial registered office and the name of its initial registered agent at such address shall be as set forth in the Company's Certificate of Formation. The Management Committee may, from time to time, change the registered agent or office through appropriate filings with the Secretary of State. In the event the registered agent ceases to act as such for any reason or the registered office shall change, the Management Committee shall promptly designate a replacement registered agent or file a notice of change of address as the case may be. If the Management Committee shall fail to designate a replacement registered agent or change of address of the registered office, any Member may designate a replacement registered agent or file a notice of change of address upon notice to the other Members.

1.6 PRINCIPAL PLACE OF BUSINESS. The principal place of business of the Company shall be 2427 Lincoln Avenue, PO Box 1520, Ogden, Utah 84402. The Company may locate its place of business to any other place or places as the Management Committee may from time to time deem advisable.

ARTICLE II

DEFINITIONS

For purposes of this Company Agreement, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

1.ACCRUAL - shall mean 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 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.

2.ACCRUAL THRESHOLD - has the meaning set forth in Section 16.2.1.

3.ACT - means the Delaware Limited Liability Company Act, as amended from time to time.

4.ADDITIONAL MEMBER - means a Person other than an Initial Member or a Substitute Member who has acquired a Membership Interest from the Company.

5.AFFILIATE - has the meaning, with respect to any Person, set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended as of the Closing Date.

6. AGM - has the meaning set forth in Section 1.1.

7.AGM CAPITAL INTEREST - means the proportion that the positive Capital Account of a Member holding the AGM Interest bears to the aggregate positive Capital Accounts of all Members holding the AGM Interest whose Capital Accounts have positive balances as may be adjusted from time to time.

8.AGM INTEREST - means the Membership Interest received by AGM on the Effective Date.

9.ANNUAL OPERATING PLAN - has the meaning set forth in Section 7.2.1.

10.ARTICLES - means the Certificate of Formation of the Company as properly adopted and amended from time to time by the Members and filed with the Secretary of State of Delaware.

11.ASSIGNEE - means a Person to whom a Membership Interest has been transferred who has not been admitted as a Substitute Member.

12.ASSIGNING MEMBER - has the meaning set forth in Section 5.1.2.

13.BANK INDEBTEDNESS - means revolving Indebtedness in a principal amount not to exceed $100 million incurred by the Company in connection with providing working capital for the Company, and any refinancing of such Indebtedness with a bank or other financial institution, provided that, without the written consent

of the holders of a Majority of the AGM Interest, the maximum amount of Indebtedness permitted to be incurred in any such refinancing does not increase over the maximum amount of Indebtedness outstanding immediately prior to such refinancing, and the terms and conditions of such refinancing do not materially adversely affect the holders of the AGM Interest.

14.BANKRUPT MEMBER - means a Member which has commenced any proceeding under any bankruptcy, debt arrangement, or insolvency law of any jurisdiction, whether now or hereafter in effect, or a Member against which any such proceeding has been commenced and to which the Member by any act or omission has indicated approval thereof, consent thereto or acquiescence therein, or as to which an order shall be entered and remain in effect for more than 120 days approving the petition in any such proceeding.

15.BEET PAYMENT - means payments by the Company 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.

16.BUSINESS - has the meaning set forth in Article III.

17.BUSINESS DAY - means any day excluding a Saturday, Sunday and any day which is a legal holiday under the laws of the State of Utah or is a day on which banking institutions located in such state are closed.

18.CAPITAL ACCOUNT - means, as of any given date, the Capital Contributions to the Company by a Member or Assignee as adjusted up to the date in question pursuant to Article VIII.

19.CAPITAL CONTRIBUTION - means any contribution to the capital of the Company in cash or Property by a Member or Assignee pursuant to Article VIII.

20.CHANGE IN OWNERSHIP OR STRUCTURE - means (i) any issuance or Disposition, or any series of issuances or Dispositions of Membership Interest by the Company or the holders of Membership Interests which results in any Person or group of affiliated Persons (other than SRSC) owning Membership Interests possessing the voting power (under ordinary circumstances) to elect a majority of the Management Committee, or (ii) any action or failure to act that causes or results in the Company ceasing to be a duly organized and validly existing limited liability company under the Act. No Change in Ownership or Structure shall be deemed to have occurred solely as a result of (i) the exercise by the holders of AGM Interest of any remedy provided by Article XVI or (ii) the transfer of Membership Interest pursuant to the terms of Articles XI, XVII or XVIII.

21.CODE - mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, as amended, and any reference to a section of the Code shall include any successor section or provision of the Code.

22.COMPANY - means The Amalgamated Sugar Company LLC, a limited liability company formed under the Act, and any successor limited liability company.

23.COMPANY AGREEMENT - means this Company Agreement including all amendments adopted in accordance with this Company Agreement and the Act.

24.COMPANY MINIMUM GAIN - means the gain (regardless of character) which would be realized by the Company if the Property subject to a nonrecourse debt (other than a "partner nonrecourse debt" as such term is defined in Section

1.704-2(b)(4) of the Regulations) were disposed of in full satisfaction of such debt on the relevant date. Such amount shall be computed separately for each nonrecourse liability of the Company. For this purpose the adjusted basis of Property subject to two or more liabilities of equal priority shall be allocated among such liabilities in proportion to the outstanding balances of such liabilities and the adjusted basis of Property subject to two or more liabilities of unequal priority shall be allocated to the liability of inferior priority only to the extent of the excess, if any, of the adjusted basis of such Property over the aggregate outstanding balance of the liabilities of superior priority. If Property is reflected in the Capital Accounts of the Company at other than its basis, Company Minimum Gain shall be determined by using the amount recorded for such Property in determining Capital Accounts instead of the basis of such Property.

25.DEFERRAL - has the meaning set forth in the Section 9.3.1(d).

26.DEFICIT CAPITAL ACCOUNT - means the deficit balance, if any, in a Capital Account as of the end of the taxable year, after giving effect to the following adjustments:

(1) credit to such Capital Account any amount which such Member is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Regulations after taking into account thereunder any changes during such year in partnership minimum gain (as determined in accordance with Section 1.704-2(d) of the Regulations) and in the minimum gain attributable to any partner nonrecourse debt (as determined under Section 1.704-2(i)(3) of the Regulations); and

(2) debit to such Capital Account of the items described in Sections 1.704-l(b)(2)(ii)(d)(4), (5) and (6) of the Regulations.

This definition of Deficit Capital Account is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

27.DEPRECIATION - means, for each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Management Committee.

28.DISPOSITION (OR DISPOSE) - means any sale, assignment, transfer, exchange, mortgage, pledge, grant, hypothecation or other transfer, absolute or as security or encumbrance (including dispositions by operation of law).

29.DISTRIBUTABLE CASH - means, without duplication (A) the Company's net income for financial statement purposes for each Fiscal Year, calculated in accordance with GAAP, plus (i) actual book depreciation, depletion, amortization and interest expense included in the calculation of net income, less (ii) actual capital expenditures and actual interest paid (net of interest capitalized);

provided, however, that in calculating net income (x) the first-in, first-out method of accounting for inventories shall be used regardless of the method actually used by the Company to account for inventories, (y) expenses to reflect the cost to purchase sugarbeets shall not exceed the Beet Payment, regardless of the actual expense amounts recorded or payments made for sugarbeets by the Company and (z) net income shall exclude any income or expense realized upon a Major Capital Event, (B) any net cash proceeds to the Company generated from a Major Capital Event, and (C) any cash Capital Contribution by SRSC to the

Company pursuant to Section 8.2.3.

30.EFFECTIVE DATE - has the meaning set forth in Section 1.3.

31.EXCESS BEET PAYMENT - means the amounts, if any, by which the Company's expenses to purchase sugarbeets exceeded the Beet Payment during such Fiscal Year.

32.FISCAL YEAR - means the Company's fiscal year beginning January 1 and ending December 31 of each year.

33.FIXED CHARGES - means, for any period, the total of the following for the Company calculated in accordance with GAAP (without duplication): (i) interest expenses deducted in the determination of net income (including any amortization of deferred loan fees and costs); plus (ii) scheduled payments of principal with respect to all Indebtedness (other than Indebtedness referred to in clauses (i) and (iii) of the definition of Permitted Indebtedness); plus (iii) any provision (to the extent it is greater than zero) for income or franchise taxes included in the determination of net income (excluding any provision for deferred taxes); plus (iv) amounts payable with respect to capitalized leases and operating leases; plus (v) payment of deferred taxes accrued in any prior period.

34.FORMATION AGREEMENT - has the meaning set forth in Section 1.1.

35.GAAP - means United States generally accepted accounting principles applied on a basis consistent with the accounting practices used by AGM during its 1996 fiscal year.

36.GROSS ASSET VALUE - means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(1) The initial Gross Asset Value of any asset contributed by a Member or Assignee to the Company shall be the gross fair market value of such asset, as determined by the contributing Member or Assignee and the Management Committee, provided that the initial Gross Asset Values of the assets contributed to the Company pursuant to Section 8.1 shall be as set forth in APPENDIX A.

(2) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as determined by the unanimous vote of the Members as of the following times: (a) the acquisition of an additional interest by any new or existing Member or Assignee in exchange for more than a de minimis contribution of Property (including money); (b) the distribution by the Company to a Member or Assignee of more than a de minimis amount of Property (including money) as consideration for a Membership Interest; and (c) the liquidation of the Company within the meaning of Regulations Section 1.704-l(b)(2)(ii)(g): provided, however, that adjustments pursuant to clauses (a) and (b) above shall be made only if the Management Committee reasonably determines in good faith that such adjustments are necessary to reflect the relative economic interests of the Members in and the Assignees of the Company.

(3) The Gross Asset Value of any Company asset distributed to any Member or Assignee shall be adjusted to equal the gross fair market value of such asset on the date of distribution as determined by the unanimous vote of the Members.

(4) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 732(d), 734(b) or 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-l(b)(2)(iv)(m) and Section 8.3 and subsection (4) under the definition of Net Profits and Net Losses; provided, however, that

Gross Asset Values shall not be adjusted pursuant to this definition to the extent the Management Committee determines that an adjustment pursuant to subsection (2) of this definition is necessary in connection with a transaction that would otherwise result in an adjustment pursuant to this subsection (4).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subsection (1), (2) or (4) of this definition, then such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Net Profits and Net Losses.

37.INDEBTEDNESS - means all indebtedness for borrowed money, indebtedness evidenced by notes, debentures, bonds or similar instruments, capitalized lease obligations, and any guarantees of the obligations of another Person.

38.INVESTMENT - means (a) any direct or indirect purchase or other acquisition by the Company of any beneficial interest in, including stock, partnership interest, limited liability company interest or other securities of, any other Person or (b) any direct or indirect loan, advance or capital contribution by the Company to any other Person including all Indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business.

39. INFORMATION - has the meaning set forth in Section 15.4.

40.INITIAL CAPITAL CONTRIBUTION - means the Capital Contributions agreed to be made by the Initial Members as of the date of this Agreement as described in Section 8.1 and as specifically described on APPENDIX A.

41.INITIAL MEMBERS - means AGM and SRSC.

42.INSURANCE DEFERRAL - has the meaning set forth in Section 9.3.2.

43.INSURANCE EVENT - means any transaction or series of transactions involving payment in connection with any condemnations, easements, net recoveries of damage awards and insurance proceeds (other than incident to or resulting in the liquidation of the Company), which payment exceeds $50,000 and is not promptly reinvested in the Company's business.

44.MAJOR CAPITAL EVENT - means any transaction or series of transactions involving (i) any sale, transfer or other disposition of all or substantially all of the Company's assets (other than in the ordinary course of business), (ii) any Insurance Event, or (iii) any financing or refinancing the purpose of which financing or refinancing is to distribute all or part of the proceeds to the Members.

45.MAJORITY OF THE SR INTEREST - means holders of the SR Interest which taken together exceed 50% of the SR Capital Interests and, for purposes of Article XIII, 50% of the interest in Profits allocable to holders of the SR Capital Interest.

46.MAJORITY OF THE AGM INTEREST - means holders of the AGM Interest which taken together exceed 50% of the AGM Capital Interests and, for purposes of Article XIII, 50% of the interest in Profits allocable to holders of the AGM Capital Interest.

47.MANAGEMENT COMMITTEE - has the meaning set forth in Section 5.1.

48.MEMBER - means an Initial Member, Substituted Member or Additional Member, provided, that when used in connection with the distribution of cash and the allocation of profit, loss and other items under Article IX, Member shall include any Assignee.

49.MEMBERSHIP INTEREST - means the rights of a Member or, in the case of an Assignee, the rights of the assigning Member, in distributions (liquidating or otherwise) and allocations of the Net Profits, Net Losses and other federal income tax items of gains, deductions and credits of the Company.

50.MEMBER MINIMUM GAIN - means the gain (regardless of character) which would be realized by the Company if Property subject to a "partner nonrecourse debt" (as such term is defined in Section 1.704-2(b)(4) of the Regulations) were disposed of in full satisfaction of such debt on the relevant date. The

adjusted basis of Property subject to more than one partner nonrecourse debt shall be allocated in a manner consistent with the allocation of basis for purposes of determining Company Minimum Gain under this Company Agreement.

51.MONTHLY TRANCHE B INTEREST - has the meaning set forth in Section 9.3.1(d).

52.NET PROFITS or NET LOSSES - means, for each taxable year of the Company, an amount equal to the Company's net taxable income or loss for such year as determined for federal income tax purposes (including separately stated items) in accordance with (a) the accounting method and rules used by the Company and (b) Section 703 of the Code, with the following adjustments:

(1) Any items of income, gain, loss and deduction specifically or specially allocated to Members or Assignees pursuant to Section 9.2 shall not be taken into account in computing Net Profits or Net Losses;

(2) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Profits and Net Losses shall be added to such taxable income or loss;

(3) Any expenditure of the Company described or deemed described in Section 705(a)(2)(B) of the Code and not otherwise taken into account in computing Net Profits and Net Losses shall be subtracted from such taxable income or loss;

(4) In the event the Gross Asset Value of any Company asset is adjusted pursuant to clause (2) or (3) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from

the disposition of such asset for purposes of computing Net Profits and Net Losses;

(5) Gain or loss resulting from any disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed with reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(6) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year; and

(7) To the extent an adjustment to the adjusted tax basis of any Company Property pursuant to Section 732(d), 734(b) or 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m) of the Regulations to be taken into account in determining Capital Accounts, the amount of such adjustment shall be treated as an item of gain (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Net Profits or Net Losses.

53.OPERATING CASH FLOW - means, for any period, (i) net income determined in accordance with GAAP; plus, (ii) to the extent included in the calculation of net income, (a) income and franchise taxes paid or accrued, (b) interest expenses, paid or accrued, (c) interest paid in kind, (d) depreciation, depletion and amortization, and (e) other non-cash charges, including amortization of deferred loan fees and costs; less, (iii) to the extent included in the calculation of net income, (a) interest and dividend income, (b) the

income of any person (other than wholly-owned Persons of the Company) in which the Company has an ownership interest unless such income is received by the Company or such wholly-owned Persons in a cash distribution, (c) gains (but not losses) from sales or other dispositions of assets (other than inventory in the normal course of business), (d) extraordinary or non-recurring gains, but not net of extraordinary or non-recurring "cash" losses, and (e) capital expenditures.

54.PERMITTED INDEBTEDNESS - means (i) short term Commodity Credit Corporation price support Indebtedness in the ordinary course of business consistent with past practice, (ii) Indebtedness included in the Assumed Liabilities, as defined in the Formation Agreement, and any refinancing of such Indebtedness provided that the amount of Indebtedness incurred in any such refinancing does not increase over the amount of Indebtedness outstanding immediately prior to such refinancing, (iii) Bank Indebtedness, and (iv) additional Indebtedness (including Indebtedness assumed in connection with any merger, acquisition or other transaction), provided that the Company's fixed charge coverage ratio for the previous 12 months, on a pro forma basis giving full effect to any Indebtedness incurred since the beginning of such 12 month period (including any Indebtedness proposed to be incurred) is at least equal to 1.20 to 1.00. For purposes of this definition, `fixed charge coverage ratio'' means the Company's Operating Cash Flow divided by Fixed Charges.

55.PERMITTED INVESTMENTS - means (i) reasonable advances to employees in the ordinary course of business, (ii) Investments having a stated maturity no greater than one year from the date the Company makes such Investment in (a) obligations of the United States government or any agency thereof or obligations guaranteed by the United States government, including repurchase and reverse repurchase agreements relating to marketable direct obligations issued

or unconditionally guaranteed by the United States government, provided such agreements are entered into on terms and conditions set forth in the form of Master Repurchase Agreement promulgated by the Public Securities Association with a `Buyer's Margin Account'' (as defined therein) at least equal to 100%, (b) certificates of deposit of commercial banks having combined capital and surplus of at least $50 million, or (c) commercial paper with a rating of at least `Prime-1'' by Moody's Investors Services, Inc., (iii) money market mutual funds investing solely in instruments described in clause (ii) above, (iv) loans with a maturity date of less than one year to agricultural producers who grow domestic sugarbeets and sell such sugarbeets to the Company or SRSC under a written contract and who are `eligible producers'' as that term is defined by 7 C.F.R. Section 1435.3, provided that the amount of such loan does not exceed the estimated value of sugarbeets under such contract (at the then estimated sugar price) and that any such loan that exceeds $5000 is secured by a perfected first priority security interest in favor of the Company in such producer's crop, (v) Investments in wholly-owned Persons, (vi) Investments in less than wholly-owned Persons and joint ventures, provided that the no more than $1 million may be invested in such entities in any Fiscal Year, provided further that less than 5% of the Company's consolidated assets and earnings are held by less than wholly-owned Persons and joint ventures at any one time, and provided further that the Company does not incur any liabilities (including Indebtedness, contingent or otherwise) in connection with such Investment (by agreement, as a general partner or otherwise) beyond the amount of the Investment, (vii) obligations of the United States Farm Credit System, and (ix) Investments in any farmers cooperative bank to the extent required by the Bank Indebtedness.

56.PERMITTED MERGERS - means any merger, combination or consolidation between the Company and another Person if (i) the Company is the surviving entity and the terms relating to the AGM Interest set forth in this Company

Agreement are not materially changed, (ii) no membership interest (or equivalent interest, e.g., common or preferred stock in the case of a corporation) other than the AGM Interest and the SR Interest are outstanding following such transaction, (iii) no Triggering Event occurs after giving effect to such transaction and no transaction otherwise prohibited by this Company Agreement occurs in connection with such transaction, and (iv) the Company, on a pro forma basis giving effect to such transaction, has consolidated net worth at least equal to its consolidated net worth immediately prior to such transaction. For purposes of this definition, `consolidated net worth'' means the difference between the assets and liabilities of the Company, calculated in conformity with GAAP.

57.PERSON - means an individual, a partnership, a limited liability company, a cooperative, a corporation, an association, a joint stock company, a trust, an estate, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

58.PRINCIPAL REDUCTION - means, except as otherwise consented to by the lenders under the SR Term Indebtedness, the repayment of all principal, interest and other amounts owing on the SR Term Indebtedness.

59.PROPERTY - means any property real or personal, tangible or intangible, including money and any legal or equitable interest in such property, but excluding services and promises to perform services in the future.

60.PUT OPTION CONSIDERATION - means the sum of $250,000,000 (in the sale of all of the AGM Interest originally issued) or the applicable portion thereof (in the sale of a portion of the AGM Interest), plus 95% of any unpaid Accrual (or, in the case of the sale of a portion of the AGM Interest, 95% of any unpaid

Accrual relating to such portion), plus 100% of any Deferral (or, in the case of the redemption of a portion of the AGM Interest, 100% of any Deferral relating to such portion), plus 100% of any Insurance Deferral (or, in the case of the redemption of a portion of the AGM Interest, 100% of any Insurance Deferral relating to such portion).

61.PUT NOTICE - has the meaning set forth in Section 18.1.

62.PUT OPTION - has the meaning set forth in Section 18.1.

63.REDEMPTION PRICE - means the sum of $250,000,000 (in the redemption of all of the AGM Interest originally issued) or the applicable portion thereof (in the redemption of a portion of the AGM Interest), plus 95% of any unpaid Accrual (or, in the case of the redemption of a portion of the AGM Interest, 95% of any unpaid Accrual relating to such portion), plus 100% of any Deferral (or, in the case of the redemption of a portion of the AGM Interest, 100% of any Deferral relating to such portion), plus 100% of any Insurance Deferral (or, in the case of the redemption of a portion of the AGM Interest, 100% of any Insurance Deferral relating to such portion).

64.REGULATIONS - means, except where the context indicates otherwise, the permanent, proposed or temporary regulations of the Department of the Treasury under the Code as such regulations may be lawfully changed from time to time.

65.SHARING RATIO - means with respect to the holders of the SR Interest, 5.3% and with respect to the holders of the AGM Interest, 94.7%.

66.SR CAPITAL INTEREST - means the proportion that the positive Capital Account of a Member holding an SR Interest bears to the aggregate positive

Capital Accounts of all Members holding SR Interests whose Capital Accounts have positive balances as may be adjusted from time to time.

67.SR INTEREST - means the Membership Interest received by SRSC on the Effective Date.

68.SR TERM INDEBTEDNESS - means SR's term loans, as in effect on the Effective Date, including any amendments to such loans (provided such amendments do not increase the outstanding principal amount of such loans, extend the maturity date of such loans or otherwise materially adversely affect the rights of the holders of the AGM Interest pursuant to this Agreement). Except as otherwise consented by the holders of a Majority of the AGM Interest, SR Term Indebtedness shall not include any refinancings of such loans.

69. SRSC - has the meaning set forth in Section 1.1.

70.SUBSTITUTE MEMBER - means an Assignee who has been admitted to all of the rights of membership pursuant to this Company Agreement.

71.TRIGGERING EVENT - means any failure by the Management Committee or the Company to comply in all material respects with any of the provisions 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 Sections 6.3(i), 6.3(ii), 6.3(xiv) and 6.3(xv) 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.

72.VALHI LOANS - means the loan by SRSC to Valhi in the amount of $212,500,000, and the loan by SRSC to Valhi, in the amount of $37,500,000, each dated as of the date of this Agreement.

73.VALHI - means Valhi, Inc., a Delaware corporation.

74.WITHDRAWAL EVENT - has the meaning set forth in Section 13.1.1(b).

ARTICLE III
NATURE OF BUSINESS

The Company's business shall be the production and sale of refined sugar and by-products from sugarbeets (the `Business''). The Company shall have the authority to do all things necessary or convenient to operate its Business as described in this Article III including renewal, amending, modifying or altering any permit, consent or amortization. The Company exists only for the purposes specified in this Article III and may not conduct any other business without the consent of the affirmative vote of all of the Members as provided in this Agreement.

ARTICLE IV
NAMES AND ADDRESSES OF MEMBERS

The names and addresses of the Members are identified on APPENDIX A.

ARTICLE V
THE MANAGEMENT OF THE COMPANY

5.1 MANAGEMENT OF THE COMPANY BY THE MANAGEMENT COMMITTEE.

5.1.1 The business and affairs of the Company shall be managed by the Members. The Members shall exercise such management duties through a Management Committee of seven representatives (the `Management Committee''), all of whom initially shall be appointed by SRSC, and shall continue to be appointed by SRSC subject to Article XVI. Except when the representatives to the Management Committee are appointed by AGM pursuant to Article XVI, each representative to the Management Committee shall be an officer, director or employee of SRSC and a member of SRSC, actively engaged in the growing of sugarbeets. The initial representatives are George Grant and Rocky Trail, provided, however, that following the consummation of the formation of the Company and related transactions, the initial representatives shall be the individuals identified on APPENDIX A. Each representative to the Management Committee shall serve until such representative's resignation, death, disability or until removal by SRSC or, upon a Triggering Event, by AGM pursuant to Article XVI.

5.1.2 Any Member may at any time remove any of its Management Committee representatives appointed by such Member and appoint a substitute representative by delivering written notice of such substitution to the other Members. In the event any Member assigns all or any portion of its Membership Interest (an `Assigning Member'') to a Person that is admitted as a Member pursuant to the terms of this Agreement, the Assigning Member may, in its sole discretion, elect to allow such Substitute or Additional Members to designate any of the Assigning Member's representatives to the Management Committee by delivering written notice of such election to the other Members.

5.1.3 Each representative to the Management Committee shall have one vote in all actions required or permitted to be taken by the Management Committee. All actions taken by the Management Committee must be by: (i) a majority vote of the representatives then holding office and entitled to vote at a meeting of the Management Committee; or (ii) by the affirmative written consent of a majority of the representatives to the Management Committee which would be entitled to vote at a meeting of the Management Committee called for the purpose of taking such action, in which case prompt written notice of such action shall be given to any representative not executing such written consent.

5.1.4 No representative of the Management Committee shall be entitled to compensation from the Company solely for serving in such capacity.

5.1.5 The Management Committee shall review the operation of the business and the management of the Company and shall establish meeting times, dates and places and requisite notice requirements and adopt rules or procedures as it deems necessary. Any Member may call a special meeting of the Management Committee for any purpose by giving the other Members and their respective representatives to the Management Committee at least 24 hours' written or telephonic notice thereof, except in the case of an emergency, in which case,

such notice as is practicable shall be sufficient.

5.1.6 One or more representatives to the Management Committee may attend meetings of the Management Committee by means of conference telephone call.

5.1.7 The Management Committee shall appoint and terminate senior officers of the Company (including a Chief Executive Officer), define their duties and establish their compensation.

5.2 AUTHORITY TO BIND THE COMPANY. The Management Committee shall have full and complete authority, power and discretion to manage and control the business, affairs and properties of the Company, to make all determinations regarding those matters and to perform any and all other acts or activities customary or incident to the management of the Company's business except for matters expressly reserved to the determination of the Members elsewhere in this Company Agreement, including, but not limited to, the matters set forth in Section 6.3.

5.3 DUTIES OF THE MANAGEMENT COMMITTEE. The Management Committee shall cause the Company to take the following action:

(i) at all times cause to be done all things necessary to maintain, preserve and renew its existence and all material licenses, authorizations and permits necessary to the conduct of its businesses;

(ii) maintain and keep its properties in good repair, working order and condition, and from time to time make all necessary or desirable repairs, renewals and replacements, so that its businesses may be properly and advantageously conducted at all times;

(iii) pay and discharge when payable all taxes, assessments and governmental charges imposed upon its properties or upon the income or profits therefrom (in each case before the same becomes delinquent and before penalties accrue thereon) and all claims for labor, materials or supplies which if unpaid would by law become a lien upon any Company assets, unless and to the extent that the same are being contested in good faith and by appropriate proceedings

and adequate reserves (as determined in accordance with GAAP) have been established on its books with respect thereto;

(iv) comply with all other material obligations which the Company incurs pursuant to any contract or agreement, whether oral or written, express or implied, as such obligations become due to the extent to which the failure to so comply would reasonably be expected to have a material adverse effect upon the financial condition, operating results, assets, operations or business prospects of the Company, unless and to the extent that the same are being contested in good faith and by appropriate proceedings and adequate reserves (as determined in accordance with GAAP) have been established on its books with respect thereto;

(v) comply with all applicable laws, rules and regulations of all governmental authorities, the violation of which would reasonably be expected to have a material adverse effect upon the financial condition, operating results, assets, operations or business prospects of the Company;

(vi) apply for and continue in force with good and responsible insurance companies adequate insurance covering risks of such types and in such amounts as are consistent with past practice and are customary for well-insured corporations of similar size engaged in similar lines of business; and

(vii) maintain proper books of record and account which fairly present its financial condition and results of operations and make provisions on its financial statements for all such proper reserves as in each case are required in accordance with GAAP.

5.4 LIABILITY FOR CERTAIN ACTS. Each representative to the Management Committee shall have a fiduciary duty to the Members and shall perform his or her duties in good faith, in a manner he or she reasonably believes to be in the best interests of the Members, and with such care as an ordinarily prudent person in a like position would use under similar circumstances. A

representative who so performs his or her duties shall not have any liability to the Company or its Members by reason of being or having been a representative to the Management Committee. The representatives to the Management Committee shall not be liable to the Company or to any Member for any loss or damage sustained by the Company or any Member, unless the loss or damage shall have been the result of fraud, deceit, gross negligence or willful misconduct, or willful breach of this Company Agreement by such representative.

5.5 MANAGEMENT COMMITTEE REPRESENTATIVES HAVE NO EXCLUSIVE DUTY TO COMPANY. No representative to the Management Committee shall be required to manage the Company as his or her sole and exclusive activity, and representatives may have other business interests and may engage in other activities in addition to those relating to the Company. Neither the Company nor any Member shall have any right, by virtue of this Company Agreement, to share or participate in such other interests or activities of such representatives or to the income or proceeds derived therefrom. The representatives to the Management Committee shall not incur any liability to the Company or to any of the Members solely as a result of engaging in any other business or venture.

5.6 STANDARD OF CARE. The representatives to the Management Committee in the discharge of their duties to the Company shall manage and operate the business of the Company in a manner and for the purposes of maximizing its long-term value and return to the Members. In discharging their duties, the

representatives to the Management Committee shall be fully protected in relying in good faith upon the records required to be maintained under Article VII and upon such information, opinions, reports or statements by the chief executive officer of the Company, any of the Members or agents of the Company, or by any other Person, as to matters such representatives reasonably believe are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits or losses of the Company or any other facts pertinent to the existence and amount of assets from which distributions to Members might be paid.

ARTICLE VI
RIGHTS AND DUTIES OF MEMBERS

6.1 LIABILITY OF MEMBERS. The debts, obligations and liabilities (including, but not limited to, strict liability) of the Company, whether arising in contract, tort, under statute or otherwise, shall be solely the debts, obligations and liabilities of the Company. No Member of the Company shall be obligated for any such debt, obligation or liability solely by reason of being a Member. The failure of the Company to observe any formalities or requirements relating to the exercise of its powers or management of its business or affairs under this Company Agreement or the Act shall not be grounds for imposing personal liability on the Members for liabilities of the Company.

6.2 VOTING RIGHTS. All Members shall be entitled to vote on any matter submitted to a vote of the Members. Unless the vote of a lesser or greater proportion or number is otherwise required by the Act or this Company Agreement or unless the consent of Members holding the AGM Interest is otherwise required

by this Company Agreement, the affirmative vote of one or more Members holding a Majority of the SR Interest shall be the act of the Members. Unless required under applicable law, Members who have an interest (economic or otherwise) in the outcome of any particular matter upon which the Members vote or consent may vote or consent upon any such matter and their vote or consent, as the case may be, shall be counted in the determination of whether the requisite matter was approved by the Members.

6.3 AGM MEMBER CONSENT. Notwithstanding anything in this Company Agreement to the contrary, the Company shall not do any of the following acts, directly or indirectly, without the written consent of a Majority of the AGM Interest:

(i) make any distributions upon any Membership Interest other than distributions pursuant to the terms of Section 9.3;

(ii) purchase or otherwise acquire all or any portion of any Membership Interest (including, without limitation, rights to acquire all or any

portion of any Membership Interest) other than the purchase of the AGM Interest pursuant to Article XVII;

(iii) directly or indirectly authorize, issue or enter into any agreement providing for the issuance (contingent or otherwise) of any notes, debt securities or other Indebtedness, other than in connection with Permitted Indebtedness;

(iv) make any loans or advances to, guarantees for the benefit of, or Investments in, any Person, except for Permitted Investments;

(v) merge, combine or consolidate with any Person other than Permitted Mergers;

(vi) sell, lease or otherwise dispose of more than 5% of the assets of the Company (computed either on the basis of book value, determined in accordance with GAAP, or fair market value) in any transaction or series of related transactions, including without limitation, a merger or consolidation (other than sales in the ordinary course of business);

(vii) effect a recapitalization or reorganization in any form of transaction;

(viii) acquire any interest in any business (whether by a purchase of assets, merger or otherwise), or enter into any joint venture if the business or joint venture is engaged in a business other than the processing of sugarbeets and the sale of sugar and sugar byproducts from sugarbeets, and businesses substantially related to such businesses;

(ix) enter into the ownership, active management or operation of any business other than the processing of sugarbeets and the sale of sugar and sugar byproducts from sugarbeets, and businesses substantially related to such businesses;

(x) other than in connection with Bank Indebtedness, become subject to any agreement or instrument which by its terms would (under any circumstances) restrict the Company's ability to perform the provisions of this Company Agreement (including, without limitation, provisions relating to payment of distributions on and making acquisitions of the AGM Interest);

(xi) enter into any transaction with SRSC or any of the Company's or SRSC's officers, Management Committee representatives, employees, members or Affiliates or any individual related by blood or marriage to any such Person or any entity in which any such Person or individual owns a beneficial interest, except for (A) normal employment arrangements and benefit programs on reasonable terms; provided that the Company shall establish and maintain qualified retirement benefit plans for its employees which are substantially identical to the qualified retirement benefit plans of AGM and shall not reduce the benefits, rights and features under such qualified retirement benefit plans in a manner which would materially adversely impact the qualified retirement benefit plans of the entities which constitute the Majority of the AGM Interest and of their Affiliates, (B) normal expense reimbursement arrangements on reasonable terms with the Management Committee representatives, (C) normal commercial arrangements, for matters other than the purchase of sugarbeets, on arm's length terms and conditions, (D) the purchase of sugarbeets in the ordinary course of the Company's business, provided that any such purchases are at a price no greater than the applicable Beet Payment, and (E) loans described in clause (v) of the definition of Permitted Indebtedness;

(xii) establish or acquire less than an 100% controlling interest in any Person, other than pursuant to Investments permitted by clause (vi) of the definition of Permitted Investments;

(xiii) make any capital expenditures (including, without limitation, payments with respect to capitalized leases, as determined in accordance with GAAP) exceeding $35 million in the aggregate on a consolidated basis during any Fiscal Year plus the two previous Fiscal Years, provided, however, that (A) to the extent such limit has been reached during any Fiscal Year, the Company may make capital expenditures reasonably required to be made

in such Fiscal Year by legal or regulatory requirements, (B) commencing with the Company's first Fiscal Year commencing on or after January 1, 1998 and on each

January 1 thereafter, the $35 million aggregate threshold shall be adjusted by an amount equal to the change since January 1, 1997 in the U.S. producer price index for refined beet sugar for the most recent twelve months (or, if such index is no longer available, the closest comparable U.S. producer price index available, as reasonably determined by the Company), (C) the limitation set forth in this Section 6.3(xiii) shall not apply to any amounts contributed to the Company by holders of the SR Interest which are designated to be applied to capital expenditures, (D) the limitation set forth in this Section 6.3(xiii) shall not apply to capital expenditures which are financed with Indebtedness incurred by the Company specifically for the purpose of making such capital expenditures, so long as such Indebtedness is Permitted Indebtedness, and (E) for purposes of this Section 6.3(xiii), capital expenditures for each Fiscal Year prior to January 1, 1997 shall be deemed to be an amount equal to $10,000,000;

(xiv) allow (A) a court to enter a decree or order for relief with respect to the Company in an involuntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (B) the continuance of any of the following events for forty-five (45) days unless dismissed, bonded or discharged: (1) an involuntary case commenced against any the Company, under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (2) a decree or order of a court for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Company, or over all or a substantial part of the Company assets, is entered; or (3) an interim receiver, trustee or other custodian is

appointed without the consent of the Company, for all or a substantial part of the Company assets;

(xv) (A) seek the entry of an order for relief with respect to the Company in a voluntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (B) consent to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law, (C) consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of the Company assets; (D) make any assignment for the benefit of creditors; or (E) adopt a resolution or otherwise authorize any action to adopt a resolution or otherwise authorize any action, to approve any of the actions referred to in this (xv);

(xvi) permit any money judgment, writ or warrant of attachment, or similar process involving (A) an amount in any individual case in excess of $100,000 or (B) an amount in the aggregate at any time in excess of $1,000,000 (in either case not adequately covered by insurance as to which the insurance company has acknowledged coverage) to be entered or filed against the Company or any of the Company's respective assets which remains undischarged, unvacated, unbonded or unstayed for a period of thirty (30) days or in any event later than five (5) days prior to the date of any proposed sale thereunder;

(xvii) breach or default on any Indebtedness, contingent obligations or other agreement, if the effect of such breach or default is to cause or to permit any Person to cause such Indebtedness and/or other obligations having an individual principal amount in excess of $100,000 or having an aggregate principal amount in excess of $1,000,000 to become or be

declared due prior to their stated maturity, unless such failure to pay, default or breach is waived by such holder or holders; or

(xviii) permit any Change in Ownership or Structure.

6.4 REPRESENTATIONS AND WARRANTIES. - Each Member executing this Company Agreement hereby represents and warrants to the Company and each other Member that: (a) the Member, is an organization that it is duly organized, validly existing and in good standing under the law of its state of organization; (b) that it has full power and authority to execute and agree to this Company Agreement and to perform its obligations hereunder; and (c) that the Member is acquiring its interest in the Company for the Member's own account as an investment and without an intent to distribute the interest. Each Member acknowledges that its Membership Interest in the Company has not been registered under the Securities Act of 1933 or any state securities laws, and may not be resold or transferred by the Member without appropriate registration or the

availability of an exemption from such requirements.

6.5 INDEMNIFICATION. - The Company may, to the full extent permitted by law, indemnify, defend and hold harmless any Person (or the estate of any Person) who was or is a party to, or is threatened to be made a party to, a threatened, pending or completed action, suit or proceeding, whether or not by or in the right of the Company, whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is or was a Member, representative to the Management Committee, representative, officer, employee or agent of the Company, or was serving at the request of the Company as manager, director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise, from and against any and all claims, demands, liabilities (including, without limitation,

strict liability), losses, damages, costs or expenses (including attorneys' fees, judgments, fines and amounts paid in settlement) actually and reasonably incurred by such person in connection with such action, suit or proceeding. The Company may, to the full extent permitted by law, purchase and maintain insurance on behalf of any such person against any liability which may be asserted against him or her. Any expenses covered by the foregoing indemnification may be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the persons seeking indemnification to repay such amounts if it is ultimately determined that he or she is not entitled to be indemnified. The indemnification provided in this Section 6.5 shall not be deemed to limit the right of the Company to indemnify any other person for any such expenses to the full extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the Company may be entitled under any agreement, vote of disinterested representatives to the Management Committee or otherwise, both as to action in his, her or its official capacity and as to action in another capacity while service as a Member, representative, officer, employee or agent.

6.6 CONFLICTS OF INTEREST.

6.6.1 Members shall account to the Company and hold as trustee for it any Company assets, profit or benefit derived by the Member, without the consent of the Management Committee, in the conduct or winding up of the Company's business or from a use or appropriation by such Member of Company assets or opportunity including information developed exclusively for the Company and opportunities expressly presented to the Company.

6.6.2 A Member does not violate a duty or obligation to the Company merely because the Member's conduct furthers the Member's own interest. A Member may lend money to and transact other business with the Company to the extent permitted by this Company Agreement, but no Member is obligated to loan any money to, or incur any financial obligations for the benefit of, the Company except as provided by this Company Agreement. The rights and obligations of a Member who lends money to or transacts business with the Company are the same as those of a person who is not a Member, subject to other applicable law. No transaction with the Company shall be voidable solely because a Member has a direct or indirect interest in the transaction if the transaction is either (i) on terms no less favorable than would be available to the Company from an unrelated third party or (ii) the Management Committee (and, if applicable under Section 6.3, the consent of a Majority of the AGM Interest), knowing the material facts of the transaction and the Member's interest, authorize, approve or ratify the transaction.

6.6.3 Notwithstanding anything to the contrary in this Company Agreement, the Members recognize that AGM's Affiliates have and anticipate having substantial investments in a variety of industries that may compete with each other. By virtue of AGM's investment in the Company, AGM intends to use reasonable efforts to facilitate the Company's operations and other activities, although the Members recognize and agree that such effort will not be to the exclusion of effort by AGM's Affiliates to facilitate other similar and dissimilar businesses. Nothing in this Company Agreement or otherwise will restrict the ability of AGM's Affiliates to establish, acquire or retain an interest in any business that may be deemed to compete with the Company. AGM and its Affiliates shall not be obligated to present to the Company any particular investment or business opportunity, regardless of whether such opportunity is of

a character that the Company could take advantage of if it were presented to the

Company.

ARTICLE VII
ACCOUNTING AND RECORDS

7.1 RECORDS TO BE MAINTAINED. The Management Committee shall maintain the following records at the Principal Office:

7.1.1 A current list of the full name and last known business address of each Member, former Member's and other holders of a Membership Interest;

7.1.2 A copy of the Articles and all amendments thereto, together with executed copies of any powers of attorney pursuant to which Articles have been executed;

7.1.3 Copies of the Company's federal, foreign, state and local income tax returns and reports, if any;

7.1.4 Copies of this Company Agreement including all amendments thereto;

7.1.5 Any financial statements of the Company;

7.1.6 The general ledger and subsidiary ledgers of the Company; and

7.1.7 Employee benefit and benefit plan records.

7.2 REPORTS.

7.2.1 At least 30 days but not more than 90 days prior to the beginning of each Fiscal Year, the chief executive officer or other designated officer of the Company (acting under the supervision of the chief executive officer) shall prepare for the approval by the Management Committee and deliver to the Members an annual business plan (`Annual Operating Plan''). The initial Annual Operating Plan, for the Fiscal Year ending December 31, 1997, shall be prepared and delivered to the Members within 15 days after the Effective Date. Each Annual Operating Plan shall consist of a strategic plan setting forth the Company's goals and objectives regarding the operation and growth of the Company's business during the next Fiscal Year, a description of the methods for accomplishment of these goals and objectives, the Company's expense budget, market approach and plan for development and closure of opportunities; and projected financial statements of the Company for such period (such statements to include a projected balance sheet, income statement and cash flow statement). The Annual Operating Plan shall also include such other information or other matters requested by the Management Committee necessary in order to enable the Management Committee to make an informed decision with respect to its approval of such Annual Operating Plan.

7.2.2 In addition, the chief executive officer shall provide the Management Committee and deliver to the Members the following information:

(a) as soon as available but in any event within 30 days after the end of each monthly accounting period in each Fiscal Year (including the last month of the Fiscal Year), unaudited consolidated statements of income of the Company for such monthly period and for the period from the beginning of the Fiscal Year to the end of such month, and balance sheet of the Company as of the end of such monthly period, setting forth in each case comparisons to the corresponding period in the preceding Fiscal Year, and all such statements shall be prepared in accordance with GAAP, subject to the absence of footnote disclosures and to normal year-end adjustments;

(b) as soon as available but in any event within 45 days after the end of the first three quarterly accounting periods in each Fiscal Year, unaudited consolidating and consolidated statements of income and cash flows of the Company for such quarterly period and for the period from the beginning of the Fiscal Year to the end of such quarter, and consolidating and consolidated balance sheets of the Company as of the end of such quarterly period, setting forth in each case comparisons to the annual budget and to the corresponding period in the preceding Fiscal Year, and all such statements shall be prepared

in accordance with GAAP, subject to the absence of footnote disclosures and to normal year-end adjustments;

(c) within 90 days after the end of each Fiscal Year, consolidating and consolidated statements of income and cash flows of the Company for such Fiscal Year, and consolidating and consolidated balance sheets of the Company as of the end of such Fiscal Year, setting forth in each case comparisons to the annual budget and to the preceding Fiscal Year, all prepared in accordance with GAAP, and accompanied by an opinion with respect to the consolidated portions of such statements, containing no exceptions or qualifications (except for qualifications regarding specified contingent liabilities and exceptions relating to the adoption of new accounting standards with which the accounting firm concurs) of an independent accounting firm of recognized national standing;

(d) at least 30 days but not more than 90 days prior to the beginning of each Fiscal Year, an annual budget prepared on a quarterly basis for the Company for such Fiscal Year (displaying anticipated statements of income and cash flows and balance sheets), and promptly upon preparation thereof any other significant budgets prepared by the Company and any revisions of such annual or other budgets;

(e) promptly (but in any event within five business days) after the discovery, or receipt of notice, of (i) any Triggering Event, (ii) any default under any material agreement to which the Company is a party or (iii) any other material adverse event or circumstance affecting the Company (including the filing of any material litigation against the Company or the existence of any dispute with any Person which involves a reasonable likelihood of such litigation being commenced), an officer's certificate specifying the nature and period of existence thereof and what actions the Company has taken and propose to take with respect thereof;

(f) within ten days after transmission thereof, copies of all press releases and other statements made available generally by the Company to the public concerning material developments in the Company's businesses;

(g) as soon as available but in any event within 45 days after the end of each quarterly accounting period in each Fiscal Year, a calculation of the aggregate of all Beet Payments, the actual amounts paid by the Company for sugarbeets, and any Excess Beet Payments;

(h) the notices required by Section 9.3, at the times set forth in Section 9.3, and promptly, within five days of any payment, a calculation of any

amounts paid as cash distributions or advances to Members, in each case showing such amounts for the month then ended and for the Fiscal Year;

(i) in a timely manner, subject to Section 10.4, those information returns required by the Code and the laws of any state and with information concerning the Company's income, gain, loss, deduction or credit when relevant to reporting a Member's or Assignee's share of such items for Federal or state tax purposes; and

(j) with reasonable promptness, such other information and financial data concerning the Company as any holder of the AGM Interest may reasonably request (including without limitation information relating to the Company's employee benefits and benefit plans), which information shall not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such information not misleading.

Each of the financial statements referred to in Sections 7.2.2 (a), (b) and (c) above shall be true and correct in all material respects as of the dates and for the periods stated therein, subject in the case of the unaudited financial statements to changes resulting from normal year-end audit adjustments (none of which would, alone or in the aggregate, be materially adverse to the financial condition, operating results, assets, operations or business prospects of the Company taken as a whole).

7.2.3 The Company shall permit any representatives designated by any holder of the AGM Interest, for a purpose reasonably related to such holder's interest as a holder of the AGM Interest, upon reasonable notice and during normal business hours and such other times as any such holder may reasonably request, to (a) visit and inspect any of the properties of the

Company, (b) examine the financial and other records of the Company and make copies thereof or extracts therefrom and (c) discuss the affairs, finances and accounts of the Company with the Management Committee, representatives, officers, key employees and independent accountants of the Company. The presentation of a copy of this Company Agreement containing this Section 7.2.3, certified by the Chief Executive Officer or Secretary of the Company, by any such holder to the Company's independent accountants shall constitute the Company's written permission to its independent accountants to participate in discussions with such representatives.

7.3 INFORMATION FROM SRSC. Until the Principal Reduction, SRSC agrees to provide the Company and the holders of the AGM Interest written notice of the amount of SR Term Indebtedness and any other information relating to the SR Term Indebtedness reasonably requested by the Company or the holders of the AGM Interest.

ARTICLE VIII
CONTRIBUTIONS AND CAPITAL ACCOUNTS

8.1 MEMBERS' CAPITAL CONTRIBUTION. Each Member shall contribute such assets and amounts as is set forth in APPENDIX A as its Initial Capital Contributions. Upon Closing (as defined in the Formation Agreement), each Party shall receive its Membership Interest. The Initial Capital Contributions shall have the value set forth on APPENDIX A. No interest shall accrue on any Capital Contribution.

8.2 ADDITIONAL CAPITAL CONTRIBUTIONS.

8.2.1 Except as provided in Section 8.2.2, Section 8.2.3 or Section 9.3, no Member shall be required to make any Capital Contributions other than the Initial Capital Contributions, and no Member shall have the obligation to fund operating deficits nor have the obligation to loan, invest or otherwise provide any funds to the Company. Any amounts distributed to Members pursuant to Section 9.3 shall be promptly recontributed to the Company if it is determined subsequent to the distribution that the distribution was not in accordance with this Company Agreement.

8.2.2 If Valhi makes any principal payment to SRSC on the Valhi Loans, then each holder of the SR Interest shall contribute to the Company, simultaneously with such principal payment, a pro rata portion (such pro rata portion to be equal to the portion of the SR Interests held by each such holder) of the aggregate amount of such principal payment. The Company and SRSC hereby instruct Valhi to make any such principal payment directly to the Company. The provisions of this Section 8.2.2 shall not apply if the Company has previously redeemed in full all of the AGM Interest pursuant to Article XVII or if the holders of the AGM Interest have received full payment upon exercise of the Put Option granted pursuant to Article XVIII. If the provisions of the SR Term Indebtedness prohibit such contribution, then this obligation shall be suspended until such time as SRSC can make such contribution without violation of the terms of the SR Term Indebtedness.

8.2.3 If, during any Fiscal Year of the Company, SRSC contracts to deliver sugarbeets to the Company, pursuant to the Memorandum of Agreement between the Company and SRSC attached as Exhibit D-7 to the Formation Agreement or otherwise, from less than 220,000 acres, and if Distributable Cash (as defined in clause (A) of the definition of Distributable Cash) for such Fiscal Year is less than $26,697,368, then within 10 days following the completion of the Company's audit for such Fiscal Year, SRSC will contribute to the Company an additional amount in cash equal to the lesser of: (a) the amount by which Distributable Cash (as defined in clause (A) of the definition of Distributable Cash) for such Fiscal Year is less than $26,697,372 and (b) the product of (i) $183 per acre times (ii) 220,000 acres less the number of acres from which SRSC contracted sugarbeets to the Company during such Fiscal Year.

8.3 CAPITAL ACCOUNTS.

8.3.1 A separate Capital Account will be maintained for each Member and Assignee. The respective Capital Accounts of each Member and Assignee will be increased by (1) the amount of money contributed by such Member

to the Company; (2) the Gross Asset Value of Property contributed by such Member or Assignee to the Company (net of liabilities secured by such contributed Property that the Company is considered to assume or take subject to, as provided by Section 752 of the Code); (3) allocations to such Member or Assignee of Net Profits; and (4) any items in the nature of income and gain which are specially allocated to the Member or Assignee pursuant to Sections 9.2.1, 9.2.2, 9.2.3, 9.2.4, 9.2.5 or 9.2.9. The Capital Account of each Member or Assignee will be decreased by (1) the amount of money distributed to such Member or Assignee by the Company; (2) the Gross Asset Value of Property distributed to such Member or Assignee by the Company (net of liabilities secured by such distributed Property that such Member or Assignee is considered to assume or take subject to, as provided by Section 752 of the Code); (3) any items in the nature of deduction and loss which are specially allocated to the Member or Assignee pursuant to Sections 9.2.1, 9.2.2, 9.2.3, 9.2.4, 9.2.5 or 9.2.9; and (4), allocations of Net Losses.

8.3.2 In the event of a permitted sale or exchange of a Membership Interest in the Company, the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Membership Interest in accordance with Section 1.704-l(b)(2)(iv)(l) of the Regulations.

8.3.3 The manner in which Capital Accounts are to be maintained pursuant to this Section 8.3 is intended to comply with the requirements of Section 704(b) of the Code and the Regulations promulgated thereunder. If, in the opinion of the Company's accountants, the manner in which Capital Accounts are to be maintained pursuant to the preceding provisions of this Section 8.3 should be modified in order to comply with Section 704(b) of the Code and the Regulations thereunder, then notwithstanding anything to the contrary contained in the preceding provisions of this Section 8.3, the method in which Capital Accounts are maintained shall be so modified; provided, however, that any change in the manner of maintaining Capital Accounts shall not materially alter the economic agreement between or among the Members and Assignees.

8.3.4 Except as otherwise required in the Act, no Member or Assignee shall have any liability to restore all or any portion of a deficit balance in such Member's or Assignee's Capital Account.

8.4 WITHDRAWAL OR REDUCTION OF MEMBERS' CONTRIBUTIONS.

8.4.1 Without the consent of both a Majority of the SR Interest and a Majority of the AGM Interest, no Member or Assignee shall receive out of the Company assets any part of its Capital Contribution until all liabilities of the Company, except liabilities to Members on account of their Capital Contributions, have been paid or there remains Company assets sufficient to pay them.

8.4.2 A Member, irrespective of the nature of its Capital Contribution, has only the right to demand and receive cash in return for its Capital Contribution; _provided, however,_ no Member or Assignee shall be entitled to a repayment, return or withdrawal of any part of such Member's or Assignee's Capital Contribution, or similar distribution, except as provided in this Company Agreement.

ARTICLE IX
ALLOCATIONS AND DISTRIBUTIONS, ELECTIONS AND REPORTS

9.1 ALLOCATION OF PROFITS AND LOSSES. Except as otherwise set forth in Section 9.2:

9.1.1 Allocations of Profits from Operations. For any Fiscal Year or other taxable period, the Net Profits of the Company from sources other than a Major Capital Event shall be allocated as follows:

(a) First, in an amount up to the net cash distributed to the Members for the Fiscal Year as to which Net Profits are being allocated, among the Members in proportion to the net cash paid to each;

(b) Second, to those Members with a negative Capital Account balance at the beginning of the Fiscal Year as to which Net Profits are being allocated,

in proportion to such negative Capital Account balances until the Capital Account balances of all such Members would be equal to zero; and

(c) Third, to the Members in the proportions then in effect as set forth in Section 9.3.1(b)(iii).

9.1.2 Allocation of Income or Gain from a Major Capital Event. Any income or gain realized by the Company from a Major Capital Event shall be allocated as follows:

(a) First, subject to adjustment as hereafter provided, an amount equal to the cash to be distributed as a result of such transaction shall be allocated to those Members who will be distributed such cash pursuant to Section 9.3.2;

(b) Second, if the cash distributed exceeds the gain from the Major Capital Event, the amount tentatively allocated pursuant to Section 9.1.2(a) to Members with a positive Capital Account balance (determined after the tentative allocation provided for in Section 9.1.2(a) above) shall be reduced in proportion to the positive balances of the Capital Accounts of all Members having positive Capital Account balances immediately prior to the allocation provided from in Section 9.1.2(a) above until the total amount allocated equals the total gain from such Major Capital Event to be allocated; provided, that the amount of reduction for any Member shall not exceed the total amount allocated to all Members under Section 9.1.2(a) and, any excess reduction shall be allocated among the remaining Members in the same manner as otherwise provided in this Section 9.1.2(b);

(c) Third, to the Members with negative Capital Account balances (determined prior to the allocation set forth in Section 9.1.2(a)) in proportion to the negative balances of such Capital Accounts until the Capital Account balances of all such Members equal zero;

(d) Fourth, to the Members in the percentages then in effect as set forth in Section 9.3.1(b)(iii); and

(e) If some Members have negative Capital Accounts and some have positive Capital Accounts immediately prior to the allocation provided for in Section 9.1.2(a), the amount of gain allocable to the Members with positive Capital Accounts pursuant to this Section shall be reduced in proportion to their positive balances in an amount not to exceed the lesser of the aggregate positive Capital Account balances of such Members, or the aggregate negative Capital Account balances of other Members, and such amount of gain shall instead be allocated to the Members with negative Capital Account balances in proportion to their negative balances.

9.1.3 Allocation of Losses. Losses shall be allocated among all the Members in accordance with their respective Capital Interest.

9.1.4 Recapture. Any recapture of depreciation or investment tax credits shall be allocated to the Members who were previously allocated such depreciation or tax credits.

9.2 SPECIAL ALLOCATIONS TO CAPITAL ACCOUNTS AND CERTAIN OTHER INCOME TAX ALLOCATIONS.

9.2.1 In the event any Member or Assignee receives any adjustments, allocations, or distributions described in Sections 1.704-l(b)(2)(ii)(d)(4), (5), or (6) of the Regulations, which unexpectedly create or increase a Deficit Capital Account of such Member, then items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for such year and, if necessary, for subsequent years) shall be specially allocated to such Member or Assignee in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Deficit Capital Account so created as quickly as possible. It is the intent that this Section 9.2.1 be interpreted to comply with the alternate test for economic effect set forth in Section 1.704-l(b)(2)(ii)(d) of the Regulations.

9.2.2 In the event any Member or Assignee would have a Deficit

Capital Account at the end of any Company taxable year, the Capital Account of such Member shall be specially credited with items of income (including gross income) and gain in the amount of such excess as quickly as possible.

9.2.3 Notwithstanding any other provision of this Section 9.2, if there is a net decrease in the Company Minimum Gain as defined in either Regulation Section 1.704-2(d) or in the definition of Member Minimum Gain during a taxable year of the Company, then the Capital Accounts of each Member or Assignee shall be allocated items of income (including gross income) and gain for such year (and if necessary for subsequent years) equal to that Member's or Assignee's share of the net decrease in Company Minimum Gain or Member Minimum Gain, as applicable. This Section 9.2.3 is intended to comply with the minimum gain chargeback requirement of Section 1.704-2 of the Regulations and shall be interpreted consistently therewith. If in any taxable year that the Company has a net decrease in the Company Minimum Gain or there is a net decrease in Member Minimum Gain, if the minimum gain chargeback requirement would cause a distortion in the economic arrangement among the Members and Assignees and it is not expected that the Company will have sufficient other income to correct that distortion, the Management Committee may in its discretion (and shall, if requested to do so by a Member) seek to have the Internal Revenue Service waive the minimum gain chargeback requirement in accordance with Regulation Section 1.704-2(f)(4).

9.2.4 Items of Company loss, deduction and expenditures described in Section 705(a)(2)(B) which are attributable to any nonrecourse debt of the Company are characterized as partner (Member) nonrecourse deductions under Section 1.704-2(i) of the Regulations and shall be allocated to the Members' Capital Accounts in accordance with Section 1.704-2(i) of the Regulations.

9.2.5 Beginning in the first taxable year in which there are allocations of `nonrecourse deductions'' (as described in Section 1.704-2(b) of the Regulations) such deductions shall be allocated to the Members or Assignees in the same manner as Net Profits or Net Losses are allocated for such period.

9.2.6 In accordance with Section 704(c)(1)(A) of the Code and Section 1.704-l(b)(2)(I)(iv) of the Regulations, if a Member or Assignee contributes Property with a Gross Asset Value that differs from its adjusted basis at the time of contribution, income, gain, loss and deductions with respect to the Property shall, solely for federal income tax purposes (and not for Capital Account purposes), be allocated among the Members and Assignees so as to take account of any variation between the adjusted basis of such Property to the Company and its fair market value at the time of contribution in accordance with Section 1.704-3(b)(i) of the Regulations; provided, however, that the gain from the sale of contributed Property shall be allocated first to the contributing Member to the extent necessary to offset the effect of the ceiling rule limitation under Section 1.704-3(b)(1) of the Regulations.

9.2.7 In the case of any distribution of Property other than money by the Company to a Member or Assignee, such Member or Assignee shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain in an amount equal to the lesser of:

(a) the excess (if any) of (A) the fair market value of the Property received in the distribution over (B) the adjusted basis of such Member's or Assignee's Membership Interest immediately before the distribution reduced (but not below zero) by the amount of money received in the distribution; or

(b) the Net Precontribution Gain (as defined below in accordance with Section 737(b) of the Code) of the Member or Assignee. The Net Precontribution Gain means the net gain (if any) which would have been recognized by the distributee Member or Assignee under Section 704(c)(1)(B) of the Code of all Property which (1) had been contributed to the Company within five years of the distribution, and (2) is held by the Company immediately before the distribution, had been distributed by the Company to another Member or Assignee. If any portion of the Property distributed consists of Property which had been contributed by the distributee Member or Assignee to the Company, then such Property shall not be taken into account under this Section 9.2.7 and shall not be taken into account in determining the amount of the Net Precontribution Gain. If the Property distributed consists of an interest in an organization, the preceding sentence shall not apply to the extent that the value of such interest is attributable to the Property contributed to such organization after such interest had been contributed to the Company.

9.2.8 All recapture of income tax deductions resulting from sale or disposition of Company Property shall be allocated to the Member(s) or Assignee(s) to whom the deduction that gave rise to such recapture was allocated hereunder to the extent that such Member or Assignee is allocated any gain from the sale or other disposition of such Property.

9.2.9 Any credit or charge to the Capital Accounts of the Members or Assignees pursuant to Sections 9.2.1, 9.2.2, 9.2.3, 9.2.4 and/or 9.2.5 hereof shall be taken into account in computing subsequent allocations of Net Profits and Net Losses pursuant to Section 9.1, so that the net amount of any items charged or credited to Capital Accounts pursuant to Sections 9.1 and 9.2.1, 9.2.2, 9.2.3, 9.2.4 and/or 9.2.5 shall to the extent possible, be equal to the net amount that would have been allocated to the Capital Account of each Member

or Assignee pursuant to the provisions of this Article IX if the special allocations required by Sections 9.2.1, 9.2.2, 9.2.3, 9.2.4 and/or 9.2.5 hereof had not occurred.

9.3 DISTRIBUTIONS. Commencing with the Company's 1997 Fiscal Year, the Company shall make distributions of cash to its Members in accordance with the following:

9.3.1 On or before the first day of each calendar month, commencing with January 1, 1997, the Company shall make a good faith estimate of Distributable Cash for the then current Fiscal Year and provide written notice of such estimate to each Member.

(a) On or before the 15th day of each calendar month, commencing with January 1997, the Company shall distribute to its Members cash in an aggregate amount equal to the lesser of (i) the product of (A) the Company's estimated Distributable Cash for such Fiscal Year (based on the Company's estimate as of the first day of such month) times (B) a fraction, the numerator of which is the number of calendar months which have commenced in the current Fiscal Year (including the current month) and the denominator of which is 12, and (ii) the sum of (A) the product of $2,224,781 times the number of calendar months which have commenced in the current Fiscal Year (including the current month), plus (B) any unpaid Accrual as of the beginning of such Fiscal Year; and, in each case set forth in (i) or (ii) above, less the aggregate amount actually distributed to Members pursuant to this Section 9.3.1(a) for each prior month of the current Fiscal Year. Such distributions shall be in the following percentages: 95% to the holders of the AGM Interest and 5% to the holders of the SR Interest.

(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 $15,789,474 (on a cumulative basis for all Fiscal Years of the Company commencing with Fiscal Year 1997), 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 prior to the Company's 2002 Fiscal Year), and

(iii) 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. Any such amounts that are owed to the Company by the Members may be offset against any distributions owed to the Members pursuant to this Section 9.3.1.

(c) Notwithstanding the foregoing, any distribution to the holders of the SR Interest pursuant to this Section 9.3.1 will be reduced by any Excess Beet Payment made during such Fiscal Year (based upon final distribution of the Beet Payment), and any Excess Beet Payment made during such Fiscal Year will, for purposes of this Section 9.3.1, be treated as if distributed in cash to the holders of the SR Interest ratably at the times and in the manner set forth in Section 9.3.1(a).

(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 Principal Reduction, no amounts shall be distributed to the holders of the AGM Interest pursuant to the provisions of Sections 9.3.1(b)(ii) and (b)(iii) above, and

(iii) until the first distribution date following the date of the Principal Reduction, the amounts distributed to holders of the AGM Interest pursuant to the provisions of Section 9.3.1(a) shall be reduced (but not to an amount less than zero) by an amount equal to one half of any interest to become accrued or due on Tranche B of the SR Term Indebtedness (the `Monthly Tranche B Interest'), during the month in which any distribution is made pursuant to Section 9.3.1(a). Except as otherwise consented to by the holders of a Majority of the AGM Interest, the provisions of this Section 9.3.1(d)(iii) shall cease to apply (A) following any default under any of the terms of any of the SR Term Indebtedness, or (B) if the Company's estimate of Distributable Cash for any month indicates that the amount of any distribution pursuant to Section 9.3.1(a) to the holders of the AGM Interest during such month would, but for the provisions of this Section 9.3.1(d)(iii), be less than the Monthly Tranche B Interest.

The amounts that would otherwise have been distributed to the holders of the AGM Interest, but for the provisions of Sections 9.3.1(d)(i), (d)(ii) and (d)(iii) above, is referred to in this Agreement as the `Deferral.'' Instead of the Deferral being paid to the holders of the AGM Interest, an amount equal

to the Deferral shall instead 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. Following the date of the Principal Reduction, amounts which would otherwise be distributed to the holders of the SR Interest pursuant to Sections 9.3.1(b)(ii) and (b)(iii) shall be reduced (and such distribution shall instead be paid dollar for dollar to the holders of the AGM Interest) in an amount equal to the sum of the amount of the Deferral, plus interest on such Deferral, from the date any Deferral amount would otherwise have been paid to the holders of the AGM Interest until the date an amount equal to such Deferral and such interest is actually paid to the holders of the AGM Interest pursuant to this Section 9.3.1(d), at a rate equal to (i) 10.145% per annum, compounded annually, for all amounts other than Deferrals arising pursuant to Section 9.3.1(b)(ii), and (ii) 5.0725% per annum, compounded annually, for all amounts of the Deferral

arising pursuant to Section 9.3.1(b)(ii).

(e) Amounts distributed to the holders of the AGM Interest pursuant to the provisions of Sections 9.3.1(a) and 9.3.1(b)(i) shall be considered `preferred returns'' for purposes of Section 1.707-4(a)(3) of the Regulations.

9.3.2 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, until such holders have received an amount equal to any Deferral and any Insurance Deferral, (iii) third, 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 (iv) fourth, to the Members in the percentages then in effect under Section 9.3.1(b)(iii). Any amounts which would be distributed under this Section 9.3.2 to holders of the

AGM Interest during the 1997 or 1998 Fiscal Years of the Company, to the extent such distributions would cause distributions to the holders of the AGM Interest for either of the Company's 1997 or 1998 Fiscal Years to exceed an aggregate of $25,362,500, shall not be distributed in such Fiscal Years but shall instead be paid to the holders of the AGM Interest in the Company's 1999 Fiscal Year.

If the Major Capital Event is also an Insurance Event, then prior to any distribution pursuant to the first paragraph of this Section 9.3.2, an amount of Distributable Cash from the Insurance Event (up to an amount equal to any outstanding principal, interest and other amounts outstanding on the SR Term Indebtedness) shall be distributed to the holders of the SR Interest. The amounts that would otherwise have been distributed to the holders of the AGM Interest, but for the provisions of the immediately preceding sentence is referred to in this Agreement as the `Insurance Deferral.'' Following the date of the Principal Reduction, amounts which would otherwise be distributed to the holders of the SR Interest pursuant to Section 9.3.1(b)(ii) and (b)(iii) shall be reduced (and such distribution shall instead be paid dollar for dollar to the holders of the AGM Interest) in an amount equal to the sum of (i) the amount of the Insurance Deferral, plus (ii) interest on such Insurance Deferral at the rate of 10.145% per annum, compounded annually, from the date any Insurance Deferral amount would otherwise have been paid to the holders of the AGM Interest until the date an amount equal to such Insurance Deferral and such interest is actually paid to the holders of the AGM Interest pursuant to this Section 9.3.2. The provisions of this paragraph shall cease to apply following the Principal Reduction.

Notwithstanding anything to the contrary in this Section 9.3.2, if a Major Capital Event is incident to or results in the liquidation of the Company,

Distributable Cash therefrom shall be distributed in accordance with Section 13.3.

9.3.3 No distribution shall be declared and paid unless, after the distribution is made, the fair value of assets of the Company are in excess of all liabilities of the Company and the Company will be rendered insolvent within the meaning of UCC Section1-201(23).

9.4 ACCOUNTING PRINCIPLES. The profits and losses of the Company for Income Tax purposes shall be determined in accordance with accounting principles applied on a consistent basis using the accrual method of accounting. It is intended that the Company will elect those accounting methods for federal income tax purposes which provide the Members with the greatest income tax benefits.

ARTICLE X

TAXES

10.1 ELECTIONS. Except as otherwise provided in this Company Agreement, the Management Committee may make any tax elections for the Company allowed under the Code or the tax laws of any state or other jurisdiction having taxing jurisdiction over the Company, provided that the Management Committee shall first provide reasonable written notice of any proposed tax election to each Member and shall provide each Member with an opportunity to comment on such proposed election.

10.2 TAXES OF TAXING JURISDICTIONS. All amounts withheld pursuant to the

Code or any provisions of any state or local tax law with respect to any distribution to the Members shall be treated as amounts distributed in cash to

the Members pursuant to Section 9.3 for all purposes under this Agreement. The Management Committee may, where permitted by the rules of any taxing jurisdiction, file a composite, combined or aggregate tax return reflecting the income of the Company and pay the tax, interest and penalties of some or all of the Members on such income to the taxing jurisdiction, in which case the Company shall inform each Member of the amount of such tax interest and penalties so paid.

10.3 TAX MATTERS PARTNER. SRSC shall serve as the initial "tax matters partner" pursuant to Section 6231(a)(7) of the Code. The Management Committee may designate another Member as the "tax matters partner" of the Company. Any Member designated as tax matters partner shall take such action as may be necessary to cause each other Member to become a notice partner within the meaning of Section 6223 of the Code. Any Member who is designated tax matters partner may not take any action contemplated by Sections 6222 through 6232 of the Code without the consent of the other Members. SRSC shall have the authority to represent the Company in all audits or other administrative proceedings with state or local taxing authorities subject to the same limits, notice requirements and approval requirements imposed on SRSC in its capacity as `tax matters partner''under this Section 10.3.

10.4 TAX RETURNS. The `tax matters partner'' shall cause all necessary federal, state and local income tax returns to be timely prepared and filed and shall furnish to each Member and Assignee a copy of any proposed return not less than 30 days prior to filing for the purpose of providing each Member and Assignee an opportunity to review such return and to discuss with the `tax matters partner''the appropriate treatment of any items of issues relevant to such return.

ARTICLE XI
DISPOSITION OF MEMBERSHIP INTERESTS

11.1 GENERAL. Neither a Member nor an Assignee shall have the right to Dispose, except in the case of bankruptcy, all or any part of its Membership Interest to any Person, without the consent of the other Members which consent may be withheld in the absolute discretion of such non-transferring Members. Each Member and Assignee hereby acknowledges the reasonableness of the restrictions on sale and gift of the Membership Interests imposed by this Company Agreement in view of the Company's purposes and the relationship among the Members and Assignees. Accordingly, the restrictions on Disposition contained herein shall be specifically enforceable. For purposes of this Article XI, AGM hereby consents to SR's pledge of the SR Interest to the lenders under the SR Term Indebtedness, and SR hereby consents to AGM's pledge of the AGM Interest under the Valhi Loans.

11.2 REQUIREMENTS OF TRANSFER. No Disposition of a Membership Interest in the Company shall be effective unless and until written notice (including the name and address of the proposed transferee or donee and the date of such Disposition) has been provided to the Company and the non-transferring Members.

11.3 DISPOSITION. Any Member or Assignee may Dispose of all or a portion of the Member's or Assignee's Membership Interest upon compliance with this Article XI. In addition to the other requirements of this Article XI, no Membership Interest shall be Disposed of:

11.3.1 without an opinion of counsel satisfactory to the Management Committee that such assignment is subject to an effective registration under, or

exempt from the registration requirements of, the applicable state and federal securities laws;

11.3.2 unless and until the Company receives from the Assignee the information and agreements that the Management Committee may reasonably require, including but not limited to any taxpayer identification number and any agreement that may be required by any taxing jurisdiction;

11.3.3 without the consent of all Members if such Disposition when added to the total of all other Dispositions within the preceding twelve (12)

months would result in the Company being considered to have terminated within the meaning of Code section 708; and

11.3.4. unless and until the Company receives from the Assignee its written agreement to be bound by and subject to the terms hereof.

11.4 TRANSFEREE NOT MEMBER IN ABSENCE OF CONSENT. Notwithstanding anything contained in this Agreement to the contrary, if any proposed assignment of the transferring Member's Membership Interest to an Assignee which is not a Member is not unanimously approved by the Members (which approval may be withheld in the absolute discretion of the Members), then the Assignee shall have no right to participate in the management of the business and affairs of the Company or to become a Member. In the event that an Assignee does not become a Member of the Company, the Assigning Member shall retain all rights to participate in the management of the business and the affairs of the Company, including all Member voting rights and all other rights not transferred to Assignee, and the Assigning Member shall be entitled to exercise all such rights on its own behalf or on behalf of the Assignee to the same extent as prior to any such transfer.

11.5 DISPOSITIONS NOT IN COMPLIANCE WITH THIS ARTICLE VOID. Any attempted Disposition of a Membership Interest, or any part thereof, not in compliance with this Article XI shall be, and is declared to be, null and void ab initio.

ARTICLE XII
ADMISSION OF ASSIGNEES AND ADDITIONAL MEMBERS

Any Person may become a Member of this Company upon (i) the unanimous consent of the Members or (ii) pursuant to Article XI as an Assignee of a Member's Interest or any portion thereof, subject to the terms and conditions of this Company Agreement. No new Members shall be entitled to any retroactive allocation of losses, income, expenses or deductions incurred by the Company. The Management Committee may, in its reasonable discretion, at the time an Additional Member or Substituted Member is admitted, close the Company books (as though the Company's tax year had ended) or make pro rata allocations of loss, income, expenses and deductions to an Additional Member or Substituted Member for that portion of the Company's tax year in which a Member was admitted in accordance with the provisions of Section 706(d) of the Code and the Treasury Regulations promulgated thereunder.

ARTICLE XIII
DISSOLUTION AND WINDING UP

13.1 DISSOLUTION.

13.1.1 The Company shall be dissolved and its affairs wound up, upon the first to occur of the following events:

(a) the unanimous vote of all Members;

(b) upon the death, insanity, retirement, resignation, or dissolution of a Member or upon a Member becoming a Bankrupt Member or occurrence of any other event which terminates the continued membership of a Member in the company (a "Withdrawal Event"), unless the business of the Company is continued by the affirmative vote of the remaining Members holding a Majority of the SR Interest (if any) and the remaining Members holding a Majority of the AGM Interest (if any) within 90 days after the Withdrawal Event;

(c) the entry of a decree of dissolution pursuant to Section 18-802 of the Act; and

(d) upon the written request of AGM, provided that federal tax legislation has become effective prior to the fifth anniversary of the Effective Date, providing for the deferral of capital gains taxation on the disposition of capital stock to an agricultural cooperative.

13.1.2 Notwithstanding anything to the contrary in this Company Agreement, if the dissolution of the Company is approved by the affirmative vote of all Members pursuant to Section 13.1.1(a), then all of the Members shall

agree in writing to dissolve the Company as soon as possible (but in any event not more than ten (10) days) thereafter.

13.1.3 As soon as possible following the occurrence of any of the events specified in this Article XIII effecting the dissolution of the Company, an appropriate representative of the Company shall execute a statement of intent to dissolve in such form as shall be prescribed by the Delaware Secretary of State and file same with the Delaware Secretary of State's office.

13.1.4 If a Member who is an individual dies or a court of competent jurisdiction adjudges him to be incompetent to manage his person or his assets, the Member's executor, administrator, guardian, conservator, or other legal representative may exercise all of the Member's rights for the purpose of settling his estate or administering his assets.

13.1.5 Except as expressly permitted in this Company Agreement, a Member shall not voluntarily resign or take any other voluntary action which directly causes a Withdrawal Event. Damages for breach of this Section 13.1.5 shall be monetary damages only, and such damages may be offset against distributions by the Company to which such resigning Member would otherwise be entitled.

13.2 EFFECT OF DISSOLUTION. Upon the dissolution of the Company which is not followed by an election pursuant to Section 13.1.1(b) to continue the Company, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until a certificate of dissolution has been issued by the Secretary of State or until a decree dissolving the Company has been entered by a court of competent jurisdiction.

13.3 WINDING UP, LIQUIDATION AND DISTRIBUTION OF ASSETS.

13.3.1 Upon dissolution, an accounting shall be made by the Company's independent accountants of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of dissolution. The Management Committee shall immediately proceed to wind up the affairs of the Company.

13.3.2 If the Company is dissolved and its affairs are to be wound up, the Management Committee shall:

(a) Sell or otherwise liquidate all of the Company's assets as promptly as practicable (except to the extent the Management Committee may determine to distribute any assets to the Members in kind);

(b) Allocate any Net Profits or Net Losses resulting from such sales to the Members' and Assignee's Capital Accounts in accordance with Article IX hereof;

(c) Discharge all liabilities of the Company, including liabilities to Members and Assignees who are also creditors, to the extent otherwise permitted by law, other than liabilities to Members and Assignees for distributions and the return of capital, and establish such reserves as may be reasonably necessary to provide for contingent liabilities of the Company (for purposes of determining the Capital Accounts of the Members and Assignees, the amounts of such reserves shall be deemed to be an expense of the Company); and

(d) Distribute the Company assets as follows:

(i) First, to all Members and Assignees in an amount equal to their respective positive Capital Account balances taking into account all Capital Account adjustments for the Company's taxable year in which the liquidation occurs; provided, that to the extent the positive Capital Account balance of AGM exceeds the positive Capital Account balance of SRSC, such excess shall be paid to AGM first, prior to any distribution to SRSC; and

(ii) Then, to the Members in the percentages then in effect as set forth in Section 9.3.1(b)(iii);

provided, however, that if the dissolution of the Company occurs pursuant to Section 13.1.1(d), then the Members shall endeavor to terminate and dissolve the Company and distribute its assets, so that upon such distribution SRSC will receive a sum in cash equal to its Initial Capital Contribution and AGM will receive, in kind, all remaining assets of the Company.

13.3.3 Notwithstanding anything to the contrary in this Company Agreement, upon a liquidation within the meaning of Section 1.704-l(b)(2)(ii)(g) of the Regulations, if any Member has a Deficit Capital Account (after giving effect to all contributions, distributions, allocations and other Capital Account adjustments for all taxable years, including the year during which such liquidation occurs), such Member shall have no obligation to make any Capital Contribution, and the negative balance of such Member's Capital Account shall not be considered a debt owed by such Member to the Company or to any other Person for any purpose whatsoever.

13.3.4 Upon completion of the winding up, liquidation and distribution of the assets, the Company shall be deemed terminated.

13.3.5 The Management Committee shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final distribution of its assets.

13.4 CERTIFICATE OF DISSOLUTION. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining assets have been distributed to the Members, the certificate of dissolution shall be executed in duplicate and shall be delivered to the Delaware Secretary of State. Upon the issuance of the certificate of dissolution, the existence of the Company shall cease, except for the purpose of suits, other proceedings and appropriate action as provided in the Act. The Management Committee shall have authority to distribute any Company assets discovered after dissolution, convey real estate and take such other action as may be necessary on behalf of and in the name of the Company.

13.5 RETURN OF CONTRIBUTION NONRECOURSE TO OTHER MEMBERS. Except as provided by law or as expressly provided in this Company Agreement, upon dissolution, each Member shall look solely to the assets of the Company for the return of its Capital Contribution. If the Company assets remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash contribution of one or more Members, such Member or Members shall have no recourse against any other Member, except to the extent any Member knowingly received a distribution made in violation of this Company Agreement.

ARTICLE XIV
AMENDMENT

14.1 AMENDMENT OF COMPANY AGREEMENT. This Company Agreement may be amended from time to time only by a written instrument adopted and executed by the unanimous vote or written consent of all Members.

14.2 AMENDMENTS UPON A MAJOR CAPITAL EVENT. Upon the occurrence of a Major Capital Event, the Members agree to negotiate in good faith to amend this Company Agreement as necessary or desirable to reflect any economic or structural changes to the Company or among the Members which may have resulted from such Major Capital Event.

ARTICLE XV
MISCELLANEOUS PROVISIONS

15.1 ENTIRE AGREEMENT. This Company Agreement represents the entire agreement among all the Members and between the Members and the Company and supersedes all prior oral or written agreements and understandings with respect to the subject matter of this Company Agreement.

15.2 NO PARTNERSHIP INTENDED FOR NONTAX PURPOSES. The Members have formed the Company under the Act and expressly do not intend hereby to form a partnership under either the Delaware Uniform Partnership Act or the Delaware Uniform Limited Partnership Act. The Members do not intend to be partners one to another, or partners as to any third party. To the extent any Member, by word or action, represents to another person that any other Member is a partner or that the Company is a partnership, the Member making such wrongful representation shall be liable to any other Member who incurs personal liability by reason of such wrongful representation.

15.3 RIGHTS OF CREDITORS AND THIRD PARTIES UNDER COMPANY AGREEMENT. This Company Agreement is entered into among the Company and the Members for the exclusive benefit of the Company, its Members and their successors and assignees. This Company Agreement is expressly not intended for the benefit of any creditor of the Company or any other Person except to the extent specifically provided herein. Except and only to the extent expressly provided in this Company Agreement or by applicable statute, no such creditor or third party shall have any rights under this Company Agreement or any agreement between the Company and any Member with respect to any Capital Contribution or otherwise.

15.4 CONFIDENTIALITY. Each of the Members acknowledges that, in its capacity as such, it will have access to trade secrets and confidential information of the Company (collectively, the `Information''), and each agrees that such Information belongs exclusively to the Company. The Information shall include any information which is or has been disclosed to a Member, or of which such Member became aware as a consequence of or through its status as a Member of the Company, which has value to the Company, is not generally known by the public or the Company's competitors and which is treated by the Company as confidential, whether or not such material or information is marked `confidential.'' The obligation of confidentiality imposed by this Section 15.4 shall not apply to any information (and, as used in this Agreement, the term Information shall not include any information) that is: (i) ascertainable from public or published information or trade sources (provided such information has not been made public from any act or omission of the disclosing Member); or

(ii) required to be publicly disclosed by law, rule, regulation or court order. Each Member acknowledges and agrees that the Information is a unique asset of the Company which is of a confidential nature and has significant value and that the disclosure of all or any part of the Information to third Persons may be damaging to the Company. Each Member agrees that, during the term of the Company, it will keep confidential and not directly or indirectly divulge, furnish or make accessible to anyone any of the Information, unless (i) the Management Committee determines that such disclosure would be in the best interest of the Company; (ii) such disclosure is necessary in order for such Member to enforce its rights or perform its obligations under this Agreement, (iii) such disclosure is required by law, rule, regulation or court order or by rule of any stock exchange or similar entity listing the securities of the Member or an Affiliate of such Member, or (iv) such disclosure is to financial representatives, counsel, accountants or business advisors of such Member or to a prospective acquiror of such Member's or any of its parent's business or assets, provided that such Persons agree to be bound by a similar, appropriate confidentiality agreement.

15.5 AGREEMENT, EFFECT OF INCONSISTENCIES WITH ACT. For and in consideration of the mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and the Members hereby agree to the terms and conditions of this Company Agreement, as it may from time to time be amended according to its terms. It is the express intention of the Members that this Company Agreement shall be the sole source of agreement among the Members, and, except to the extent a provision of this Company Agreement expressly incorporates federal income tax rules by reference to Sections of the Code or Regulations or is expressly prohibited or ineffective under the Act, this Company Agreement shall govern, even when inconsistent with, or different than,

the provisions of the Act or any other law or rule. To the extent any provision of this Company Agreement is prohibited or ineffective under the Act, this Company Agreement shall be considered amended to the smallest degree possible in order to make the Agreement effective under the Act. In the event the Act is subsequently amended or interpreted in such a way to make any provision of this Company Agreement that was formerly invalid valid, such provision shall be considered to be valid from the effective date of such interpretation or amendment. The parties hereby agree that each party shall be entitled to rely on the provisions of this Company Agreement, and no party shall be liable to the Company or to any Member for any action or refusal to act taken in good faith reliance on the terms of this Company Agreement. The Members and the Company hereby agree that the duties and obligations imposed on the Company and the Members as such shall be those set forth in this Company Agreement, which is intended to govern the relationship among the Company and the Members, notwithstanding any provision of the Act or common law to the contrary.

15.6 NOTICE.

15.6.1 Any notice to any Member shall be at the address of such Member set forth in APPENDIX A hereto or such other mailing address of which such Member shall advise the Company in writing. Any notice to the Company shall be at the principal office of the Company as set forth in Section 1.6 hereof or such other address as amended by the Management Committee, upon due notice to each Member in accordance with this Section 15.6.

15.6.2 Any notice hereunder shall be in writing and shall be deemed to have been duly given if personally delivered, sent by overnight courier or sent by United States mail, or by facsimile transmission, and will be deemed received, (i) if sent by certified or registered mail, return receipt requested, when actually received, (ii) if sent by overnight courier, when actually received, (iii) if sent by facsimile transmission on the date sent, and (iv) if delivered by hand, on the date of receipt.

15.6.3. Numerical or alphabetic references to articles, sections, paragraphs, clauses, schedules, exhibits and appendices in this agreement are to articles, sections, paragraphs, clauses, schedules, exhibits and appendices of this Company Agreement unless otherwise stated.

ARTICLE XVI
REMEDY PROVISIONS

16.1 TRIGGERING EVENT. Upon the occurrence of a Triggering Event, the holders of the AGM Interest will be entitled to enforce the provisions of this Company Agreement specifically, to recover damages by reason of any breach of any provision of this Company Agreement and to exercise all other rights to which they may be entitled. The Company and its Members agree and acknowledge that money damages may not be an adequate remedy for breach of the provisions of this Company Agreement and that the holders of the AGM Interest may in their sole discretion apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief in order to enforce or prevent any violations of the provisions of this Company Agreement.

16.2 DISTRIBUTIONS.

16.2.1 In addition to any other remedies provided by this Company Agreement, if at any time the unpaid Accrual exceeds the sum of $10,526,316 (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, 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.

16.2.2 Immediately after the date on which the Accrual equals or exceeds the Accrual Threshold or such Triggering Event occurs, the number of representatives to the Management Committee shall be set at eleven, with five of such representatives being representatives then in office or otherwise selected by the holders of a Majority of the SR Interest, and six of such representatives being selected by the holders of a Majority of the AGM Interest. Any representative elected by the holders of the AGM Interest shall cease to serve as a representative whenever no unpaid Accrual exists and all Accrual amounts have been paid in full and any Triggering Event has been cured. If, prior to

the end of the term of any representative elected by the holders of the AGM Interest, a vacancy in the office of such representative shall occur by reason of death, resignation, removal or disability, or for any other cause, such vacancy shall be filled for the unexpired term by the remaining representative or representatives elected by the holders of the AGM Interest, or in the event there is no such remaining representative, by a vote of the holders of the AGM Interest as provided in this Section 16.2.2. Any representative elected by the holders of the AGM Interest may be removed with or without cause only by the vote of the holders of a Majority of the AGM Interest.

ARTICLE XVII
REDEMPTION OF THE AGM INTEREST

17.1 OPTIONAL REDEMPTION BY THE COMPANY. At any time and from time to time after the 30th anniversary of the Effective Date, the Company may redeem all but not less than all of the AGM Interest at a price equal to the Redemption Price. If the Company desires to redeem all of the AGM Interest as permitted by this Section 17.1, the Company shall mail holders of the AGM Interest written notice of such determination at least 60 days and not more than 90 days prior to the date specified in such notice for redemption of the AGM Interest.

17.2 MANDATORY REDEMPTION UPON REQUEST OF A HOLDER. At any time and from time to time on or after the earlier of (i) the fifth anniversary of the Effective Date and (ii) occurrence of a Triggering Event, any holder of the AGM Interest may provide the Company with written notice of the holder's intent to require the Company to redeem all or part of the AGM Interest held by such holder. The Company shall redeem all of the AGM Interest specified in such redemption notice, at a price equal to the Redemption Price, on a date set by the Company, which shall be within 15 days of the date of the holder's redemption notice. For purposes of this Article XVII, the `Redemption Date'' shall be the date specified by the Company for redemption of the AGM Interest pursuant to Sections 17.1 and 17.2.

17.3 REDEMPTION PRICE. The Company will be obligated on the Redemption Date to pay to the holders of the AGM Interest being redeemed (upon surrender by such holder at the Company's principal office of the certificate representing such AGM Interest) an amount in immediately available funds equal to the Redemption Price. If the funds of the Company legally available for redemption of the AGM Interest on the Redemption Date are insufficient to redeem the AGM Interest to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible amount of the AGM Interest ratably among the holders of the AGM Interest to be redeemed based upon the aggregate amounts to be paid to each such holder. At any time thereafter, when additional funds of the Company are legally available for the redemption of the AGM Interest, such funds will immediately be used to redeem the balance of the AGM Interest which the Company has become obligated to redeem on the Redemption Date but which it has not redeemed.

17.4 DISTRIBUTIONS AFTER REDEMPTION DATE. Following the establishment of a Redemption Date by the Company, the Company may set aside all funds necessary for such redemption or reserve such funds by means of an irrevocable letter of credit, separate and apart from the other funds of the Company, in trust for the benefit of the holders of the AGM Interest to be redeemed, pro rata, so as to be and continue to be available therefor, then from and after the Redemption Date, the AGM Interest shall no longer be deemed outstanding, the right to receive distributions thereon shall cease to accrue and all rights with respect to such AGM Interest subject to redemption shall forthwith at the close of business on such Redemption Date cease and terminate except only the right of the holders thereof to receive the Redemption Price of the AGM Interest so to be redeemed. Any moneys so set aside by the Company and unclaimed at the end of three years from the date fixed for redemption shall revert to the general funds of the Company and the right of holders of the AGM Interest to receive the Redemption Price will be unaffected thereby.

17.5 CERTIFICATES. In case fewer than the total amount of the AGM Interest represented by any certificate are redeemed, a new certificate representing the amount of the AGM Interest shall be issued to the holder thereof without cost to such holder as soon as practicable after surrender of the certificate representing the redeemed the AGM Interest.

17.6 OTHER REDEMPTIONS OR ACQUISITIONS. Without consent of the holders of a Majority of the AGM Interest, the Company shall not redeem or otherwise acquire any of the AGM Interest, except (i) as expressly authorized herein or (ii) pursuant to a purchase offer made pro-rata to all holders of the AGM Interest on the basis of the amount of the AGM Interest held by each such holder.

ARTICLE XVIII

GRANT OF PUT OPTION

18.1 GRANT OF PUT OPTION. SRSC hereby grants to AGM and its successors and assigns, an option (the "Put Option") giving AGM and its successors and assigns the right to sell to SRSC, and its successors or assigns (and requiring SRSC and its successors and assigns to purchase), all or any portion of the AGM Interest, in exchange for the Put Option Consideration. The Put Option is exercisable, from time to time and in amounts as set forth below, at any time and from time to time on or after the earlier of (i) the fifth anniversary of the Effective Date and (ii) occurrence of a Triggering Event, and concurrently with the time that Valhi makes any principal payment on the Valhi Loans, unless the Company has previously redeemed in full all of the AGM Interest pursuant to Article XVII. AGM may exercise the Put Option by giving written notice to SRSC of its intent to do so (the "Put Notice"). The Put Notice shall include a statement of AGM's determination of the Put Option Consideration and that proportion of the AGM Interest that shall be sold. The portion of the AGM Interest sold pursuant to any Put Notice (such portion to be determined as if all of the AGM Interest originally issued to AGM were then outstanding) shall not exceed the proportion that the principal payment giving rise to such Put Notice bears to the original principal balance of the Valhi Loans.

18.2 CLOSING OF PUT OPTION. The closing of the sale of the AGM Interest pursuant to the Put Option shall be held at the offices of the Company on the date set forth by AGM in the Put Notice (unless otherwise delayed in accordance with the provisions of Section 18.3 below) or at such other time and place as AGM and SRSC may agree. At the closing, SRSC shall pay to AGM the Put Option Consideration by wire transfer of funds, and AGM shall deliver an assignment of the AGM Interest in a form reasonably acceptable to SRSC, pursuant to which the

AGM Interest will be transferred to SRSC or its permitted designee free and clear of any liens or encumbrances (other than encumbrances that secure indebtedness of the Company).

18.3 REGULATORY APPROVAL. The consummation of the assignment of the AGM Interest pursuant to the exercise of the Put Option may be delayed until the expiration or earlier termination of any waiting period, and the receipt of any approval, imposed or required by any statute or any regulation promulgated by any governmental or regulatory authority. If it is determined that any such waiting period or prior approval is required to be complied with or obtained, then each of SRSC and AGM the shall use their diligent best efforts (a) in connection with the filing or providing of any information in connection therewith (including, without limitation, a notice and report under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and (b) to obtain the approval required.

*   *   *   *   *

CERTIFICATE

The undersigned hereby agree, acknowledge and certify that the foregoing Company Agreement, consisting of 48 pages (excluding the Table of Contents, this Certificate and attached Appendices) constitutes the Company Agreement of The Amalgamated Sugar Company LLC, adopted by the Company and its Members January 3, 1997, to be effective for tax and accounting purposes as of December 31, 1996.

COMPANY:

THE AMALGAMATED SUGAR COMPANY LLC

By: ________________________________

Name:

Its:

MEMBERS:

SNAKE RIVER SUGAR COMPANY

By: ---------------------------------
Name:
Its:

THE AMALGAMATED SUGAR COMPANY

By: ---------------------------------
Name:

Its:

Appendix A

Member	Initial Capital Contribution and Value	Initial Share of Total Capital	Initial Representative to Management. Committee
The Amalgamated Sugar Company Attn.: Allan M. Lipman, Jr. 2427 Lincoln Avenue P.O. Box 1520 Ogden, Utah 84402 with a copy to: - --------------- Three Lincoln Centre, Suite 1700 5430 LBJ Freeway Dallas, Texas 75240-2697 Attn.: General Counsel	$250,000,000	94.7%	None
Snake River Sugar Company Attn.: Rich Turner 525 Good Avenue	$14,000,000	5.3%	1. Thomas Church 2. George Grant 3. Ron Hepworth

P.O. Box 2723
Nyssa, Oregon 97913

4. Myron Huettig
5. Terry Ketterling
6. Scott Lybbert
7. Rocky Trail

SUBORDINATED PROMISSORY NOTE

$37,500,000.00 January, 3, 1997 Ogden, Utah

1. FOR VALUE RECEIVED, VALHI, INC., a Delaware corporation (`Borrower''), promises to pay to Snake River Sugar Company, an Oregon cooperative (`Lender'') at Lender's office at 525 Good Avenue, Nyssa, Oregon, 97913, or at such other place as Lender from time to time may designate, the principal sum of Thirty-seven Million Five Hundred Thousand Dollars ($37,500,000.00), plus interest as specified in this promissory note (the `Note'').

2. This Note is secured by a pledge of the collateral described in a Pledge Agreement dated as of the date of this Note (the `Pledge Agreement'').

3. The principal sum outstanding from time to time under this Note shall bear interest at a rate equal to 9% per annum. Accrued interest shall be payable in arrears on the last day of each calendar month commencing January 31, 1997. Notwithstanding the foregoing, if any interest is not paid in full when due, then interest shall be computed by compounding such unpaid interest monthly from the date such unpaid interest was due until such unpaid interest is paid in full.

4. All principal and all accrued and unpaid interest shall be due and payable on January 3, 2027. Notwithstanding the foregoing, if Borrower directly or indirectly (through its wholly owned subsidiary, Amcorp, Inc. (`Amcorp'') or through Amcorp's wholly owned subsidiary, The Amalgamated Sugar Company (`Amalgamated'')), receives the proceeds, as a result of redemption by The Amalgamated Sugar Company LLC, a Delaware limited liability company (the `Company''), of any of the AGM Interest of the Company which is pledged as collateral for this Note, then, at the option of Lender exercised by written notice to the Borrower, a portion of the outstanding principal amount of this Note may be accelerated and shall become immediately due and payable. Such accelerated portion of the principal, when added to any accrued and unpaid interest on this Note, may be up to the amount of any proceeds received by Borrower, directly or indirectly, in connection with such redemption to the extent such proceeds are not applied by Lender to reduce principal and interest on the Borrower's Limited Recourse Promissory Note in the initial principal amount of $212,500,000 dated as of the date of this Note in favor of Lender.

5. Borrower may, at any time and from time to time, prepay some or all of the principal and interest under this Note, without penalty or premium.

6. All indebtedness, obligations and liabilities evidenced by or arising from this Note or any instrument given or granted for the purpose of securing the payment of the Note other than the Pledge Agreement (such indebtedness, obligations and liabilities being referred to herein as the `Subordinated Debt') shall be subordinate and junior in right of payment and collection to the payment and collection in full of all `Senior Debt,'' as hereinafter defined. The term `Senior Debt'' shall mean all indebtedness, obligations and liabilities of any kind that are now owed or hereafter may be owed by the Borrower for borrowed money or evidenced by notes, guarantees or similar instruments, together with any and all interest and costs of collection in connection therewith, other than the indebtedness, obligations and liabilities evidenced by or arising from this Note. Nothing herein shall be construed as subordinating Lender's security interest granted under the Pledge Agreement to the Senior Debt or to any other creditors of Borrower. Lender agrees to execute all documents reasonably requested by Borrower from time to time to confirm or more specifically evidence such subordination.

7. If Borrower fails to make any payment within five (5) business days (as defined n section 9 below) after it becomes due and payable, at Lender's option upon written notice to Borrower, Lender may declare this Note in default and the entire unpaid principal of and accrued interest on this Note shall become immediately due and payable without presentment or demand for payment, protest or notice of nonpayment or dishonor, or other notices or demands of any kind or character. In addition, this Note shall be in default and all amounts

owing under this Note shall be automatically accelerated on the occurrence of any of the following events:

(i) (A) a court enters a decree or order for relief with respect to Borrower, Amcorp or Amalgamated in an involuntary case under the Bankruptcy Code (defined for this purpose as Title 11 of the United States Code entitled "Bankruptcy", as amended from time to time and all rules and regulations promulgated thereunder) or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (B) the continuance of any of the following events for forty-five (45) days unless dismissed, bonded or discharged: (1) an involuntary case commenced against Borrower, Amcorp or Amalgamated, under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (2) a decree or order of a court for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over Borrower, Amcorp or Amalgamated, or over all or a substantial part of its property, is entered; or (3) an interim receiver, trustee or other custodian is appointed without the consent of Borrower, Amcorp or Amalgamated, for all or a substantial part of the property of Borrower, Amcorp or Amalgamated; or

(ii) (A) the entry of an order for relief with respect to Borrower, Amcorp or Amalgamated in a voluntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (B) Borrower, Amcorp or Amalgamated consents to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law, (C) Borrower, Amcorp or Amalgamated consents to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; (D) Borrower, Amcorp or Amalgamated makes any assignment for the benefit of creditors; or (E) Borrower, Amcorp or Amalgamated adopts a resolution or otherwise authorizes any action to approve any of the actions referred to in this clause (ii); or

(iii) the liquidation or dissolution of Borrower.

8. In the event of any default by the Borrower hereunder, Lender may exercise the remedies provided in the Pledge Agreement. Borrower agrees to pay all costs of collection, legal expenses, and reasonable attorneys' fees incurred by Lender in connection with its collection or enforcement.

Notwithstanding anything herein to the contrary, if at any time prior to the payment in full of all amounts owed pursuant to this Note, (x) Lender owes Borrower any amounts (including principal, interest and any other amounts) pursuant to the Loan and Security Agreement between Lender and Borrower, dated as of the date of this Note, relating to the loan in the initial principal amount of $180 million by Borrower to Lender, and any refinancings of such loan (collectively the `Term Loan''), and (y) Borrower defaults on this Note; then, with respect to an outstanding amount of this Note (including principal, interest and any other amounts) equal to the maximum amount so outstanding or, if lesser, any amounts outstanding pursuant to the Term Loan (including principal, interest and any other amounts), Lender shall have only those rights reserved herein or in the Pledge Agreement, or in any other instrument given or granted for the purpose of securing the payment of this Note, and Lender shall have full recourse to the property pledged pursuant to the Pledge Agreement or such other instrument for the payment of the indebtedness evidenced by this Note, but Lender shall have no other recourse to any other property or assets of Borrower, Amcorp, Amalgamated or any affiliate of Borrower. To the extent provided in the foregoing sentence, notwithstanding anything to the contrary in

this Note, the Pledge Agreement or any other instrument given or granted for the purpose of securing the payment of the Note, Lender shall not seek or be allowed to obtain a personal judgment against the Borrower, Borrower's affiliates, officers, directors or stockholders or Borrower's successors and assigns, on the Note, the Pledge Agreement or any other instrument given or granted for the purpose of securing the payment of the Note, nor shall Lender seek or be allowed to obtain a personal judgment against the Borrower, Borrower's affiliates, officers, directors or stockholders or Borrower's successors and assigns for any deficiency remaining after realization by Lender against any property pledged as

security for the payment of the Note.

Notwithstanding anything herein to the contrary, if at any time prior to the payment in full of all amounts owed pursuant to this Note, (x) any amounts have been paid by Borrower and not reimbursed by Lender pursuant to any guaranty by Borrower in favor of any lenders to Lender (the `Guaranty''), and (y) Borrower defaults on this Note; then, with respect to an outstanding amount of this Note (including principal, interest and any other amounts) equal to the maximum amount so outstanding or, if lesser, any such unreimbursed amounts, Lender shall have only those rights reserved herein or in the Pledge Agreement, and in any other instrument given or granted for the purpose of securing the payment of the Note, and shall have full recourse to the property pledged pursuant to the Pledge Agreement or such other instrument for the payment of the indebtedness evidenced by this Note, but Lender shall have no other recourse to any other property of Borrower. To the extent provided in the foregoing sentence, notwithstanding anything to the contrary in this Note, the Pledge Agreement or any other instrument given or granted for the purpose of securing the payment of the Note, Lender shall not seek or be allowed to obtain a personal judgment against the Borrower, Borrower's affiliates, officers, directors or stockholders or Borrower's successors and assigns, on the Note, the Pledge Agreement or any other instrument given or granted for the purpose of securing the payment of the Note, nor shall Lender seek or be allowed to obtain a personal judgment against the Borrower, Borrower's affiliates, officers, directors or stockholders or Borrower's successors and assigns for any deficiency remaining after realization by Lender against any property pledged as security for the payment of the Note.

9. All amounts payable under this Note are payable in lawful money of the United States during normal business hours on a day other than a Saturday or Sunday, on which banks are open for business in Dallas, Texas (`business days').

10. This Note is governed by the laws of the State of Delaware, without regard to the choice of law rules of that State.

11. Borrower agrees that the holder of this Note may accept additional or substitute security for this Note, or release any security or any party liable for this Note, or extend or renew this Note, all without notice to Borrower and without affecting the liability of Borrower.

12. If Lender delays in exercising or fails to exercise any of its rights under this Note, that delay or failure shall not constitute a waiver of any of Lender's rights, or of any breach, default or failure of condition of or under this Note. No waiver by Lender of any of its rights, or of any such breach, default or failure of condition shall be effective, unless the waiver is expressly stated in a writing signed by Lender.

13. This Note inures to and binds the heirs, personal representatives, successors and assigns of Borrower and Lender. If Lender so requests, Borrower shall sign and deliver a new note to be issued in exchange for this Note.

BORROWER:

VALHI, INC.,	Mail Address:
a Delaware corporation	Three Lincoln Center
	Suite 1700, 5430 LBJ Freeway
	Dallas, Texas 75240

By:

Name:Steven L. Watson
Its: Vice President

Acknowledge and Agreed:

SNAKE RIVER SUGAR COMPANY

an Oregon cooperative

By:

Name:George Grant
Its: Chairman

19598

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT is entered into this 3rd day of January, to be effective for tax and accounting purposes as of December 31, 1996, between Snake River Sugar Company, an Oregon cooperative, as secured party (`SR''), and The Amalgamated Sugar Company, a Utah corporation (`AGM''), as debtor.

The parties agree:

1. Pledge. For value received, AGM grants to SR a security interest (`Security Interest'') in the limited liability company interest held by AGM in The Amalgamated Sugar Company LLC, a Delaware limited liability company (the `Collateral''). The Security Interest is created to secure all obligations and indebtedness arising pursuant to the Subordinated Promissory Note dated as of the date of this Agreement by Valhi, Inc., the indirect holder of 100% of AGM's outstanding stock, in favor of SR in the initial principal amount of

$37.5 million (the `Note''). Except as provided below, the Collateral includes all proceeds, rights to receive future distributions, increases, substitutions, accessions, attachments, securities, subscription rights or other property or benefits which AGM receives or is entitled to receive on account of the Collateral. SR shall not have a Security Interest in, and SR's Security Interest shall terminate and be automatically released with respect to (i) any cash distributions on account of the Collateral paid or distributed on the Collateral prior to the date of any foreclosure by SR on the Collateral pursuant to the provisions of this Agreement, and (ii) any Accrual, Deferral or Insurance Deferral (as such terms are defined in the Company Agreement of The Amalgamated Sugar Company LLC as in effect on the date of this Agreement (the `Company Agreement')) arising prior to the date of any foreclosure by SR on the Collateral pursuant to the provisions of this Agreement. The Collateral shall include any limited liability company interest held by AGM to the extent AGM notifies SR that AGM wishes to pledge such interest to SR pursuant to the terms and conditions of this Agreement. Except to the extent provided in the Other Pledge Agreements, all certificates and other instruments which may constitute the Collateral shall be endorsed in blank for transfer or be accompanied by proper instruments of assignment and transfer properly endorsed in blank, and delivered to SR. SR shall hold the Collateral as security for the repayment of the Note and shall not encumber or dispose of the Collateral except in accordance with the provisions of paragraph 8 of this Agreement.

2. Voting and Other Rights. During the term of this Agreement, and so long as the maturity date of the Note has not been accelerated as provided in the Note and except as otherwise provided in the Other Pledge Agreements (as

defined in paragraph 6 of this Agreement), AGM shall have the right to vote the Collateral on all questions. Following acceleration of the maturity date of the Note pursuant to Section 6 of the Note, AGM's right to vote the Collateral shall terminate (provided that in the case of a partial acceleration of the Note,

AGM's right to vote the Collateral shall terminate only with respect to a portion of the Collateral equal to the portion of the Note accelerated). Nothing in this Agreement is intended to restrict or limit in any way AGM's power to require that all or part of the Collateral be redeemed by the issuer of such Collateral or purchased by SR pursuant to the terms of the Company Agreement. Upon any such redemption or purchase, to the extent such proceeds are not applied to reduce principal and interest on Valhi Inc.'s Limited Recourse Subordinated Promissory Note dated as of the date of this Agreement in favor of SR in the initial principal amount of $212.5 million (or to the extent proceeds remain after all amounts due under such note have been paid in full), then AGM may direct that such proceeds (or remaining proceeds) be applied to reduce the outstanding principal and any interest due on the Note, and SR may exercise its option as provided in the Note to accelerate a portion of the Note and apply such proceeds (or remaining proceeds) to reduce such portion of the Note. To the extent such proceeds (or remaining proceeds) are not so applied, then (i) AGM may retain a portion of such proceeds (or remaining proceeds) equal to the amount of federal and state taxes payable as a result of such redemption and any proceeds so retained shall cease to be Collateral hereunder, and (ii) AGM shall direct that the such proceeds (or remaining proceeds) be placed in an escrow account, pursuant to an escrow agreement with an escrow agent reasonably acceptable to SR, and SR shall continue to have a security interest in such proceeds (or remaining proceeds). AGM may direct the investment of all funds held in such escrow account until all outstanding principal of the Note becomes due, in which case such funds shall be applied as provided in this Agreement.

3. Representations. AGM warrants and represents (i) that there are no restrictions on the transfer of any of the Collateral, other than as set forth in the Company Agreement and the Other Pledge Agreements (as defined below), and that AGM has the right to transfer the Collateral free of any encumbrances other than pursuant to the Company Agreement and pledges of the Collateral pursuant to the Other Pledge Agreements and (ii) this Agreement constitutes the valid and legally binding obligation of AGM, enforceable in accordance with its terms and conditions, as enforceabililty may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor rights generally and subject to general principles of equity and public policy considerations. AGM shall, at the request of SR, promptly deliver all reasonable further instruments and documents, and take all reasonable further actions, in order to perfect the Security Interest granted herein and to otherwise give effect to the provisions of this Agreement. AGM shall not grant any security interest in the Collateral, other than pursuant to (i) the Other Pledge Agreements; (ii) liens for taxes, assessments or other governmental charges not yet due and payable; (iii) statutory liens of landlords, carriers, warehousemen, mechanics, materialmen and other similar liens imposed by law, which are incurred in the ordinary course of business for sums not more than thirty (30) days delinquent; and (iv) liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money).

4. Adjustments. In the event that, during the term of this Agreement, any reclassification, readjustment or other change is declared or made in the capital structure of the issuer of the Collateral, all new, substituted and additional interests or securities issued in respect of the Collateral by reason of any such change shall be delivered to SR and held by it under the terms of this Agreement in the same manner as the Collateral originally pledged hereunder.

5. Warrants and Rights . In the event that, during the term of this

Agreement, subscription warrants or any other rights or options shall be issued in connection with the Collateral, such warrants, rights and options shall be immediately assigned by SR to AGM, and, if exercised by AGM, all new interests or securities so acquired by AGM shall be immediately assigned to SR to be held under the terms of this Agreement in the same manner as the Collateral originally pledged hereunder, except as otherwise provided by the terms of any Other Pledge Agreement.

6. Payment of Note. Upon payment of all principal of and other amounts due on the Note, the Security Interest shall be canceled and SR shall convey to AGM all certificates, documents and other instruments representing the Collateral, except to the extent the Collateral remains pledged to SR or any other person pursuant to either (i) the Limited Recourse Pledge Agreement between AGM and SR dated as of the date of this Agreement in connection with Valhi, Inc.'s Limited Recourse Promissory Note dated as of the date of this Agreement, or (ii) the Indemnification Pledge Agreement between AGM and The Amalgamated Sugar Company LLC dated as of the date of this Agreement in connection with the Indemnification and Post Closing Agreement dated as of the date of this Agreement among AGM, The Amalgamated Sugar Company LLC and certain other parties (collectively, the `Other Pledge Agreements'').

7. Rights of SR. AGM hereby appoints SR as AGM's attorney-in-fact to do any act which AGM is obligated by this Agreement to do and to do all things deemed necessary by SR to perfect the Security Interest and collect, preserve and enforce the Collateral, all at AGM's cost and without any obligation on SR so to act.

8. Default. If, pursuant to the terms and provisions of the Note, the maturity date of the Note has been accelerated pursuant to Section 6 of the Note, then, prior to exercising any remedy under the Note (other than acceleration) or making any attempt to collect on any amounts due under the Note, SR shall first proceed to exercise any and all rights and remedies in connection with the Collateral provided by the Uniform Commercial Code in force in the State of Delaware (the `Code''), as well as other rights and remedies in connection with the Collateral possessed by SR under this Agreement. For purposes of the notice requirements of the Code, SR and AGM agree that notice given at least five business days prior to the taking of any action with respect to which notice is required is reasonable. If the amount received by SR upon foreclosure on the Collateral is less than the amount of principal and interest owing on the Note, then SR may exercise any and all other rights and remedies possessed by SR at law or equity to enforce payment of the Note or any part thereof. Except as otherwise provided, all rights and remedies of SR hereunder are cumulative and may be exercised singly or concurrently, and the exercise of any right or remedy shall not be a waiver of any other.

9. Miscellaneous.

A. Parties Bound. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors, receivers, trustees and assigns where permitted by this Agreement.

B. Delaware Law to Apply. This Agreement shall be construed in accordance with the Code and other applicable laws of the State of Delaware.

C. Modification. This Agreement shall not be amended in any way except by a written agreement signed by the parties hereto.

D. Severability. The unenforceability of any provision of this Agreement shall not affect the enforceability or validity of any other provision hereof.

E. Notice. Any notice required to be given under this Agreement or under the Code shall be deemed delivered when deposited with the United States Postal Service, postage prepaid, certified with return receipt requested and addressed as follows:

If to SR:
525 Good Avenue
Nyssa, Oregon 97913

If to AGM:
The Amalgamated Sugar Company
Three Lincoln Centre
Suite 1700
5430 LBJ Freeway
Dallas, Texas 75240

Any party hereto may change the address to which notices to such party are required to be sent by giving notice of such change in the manner provided in this Section 9E. All notices will be deemed to have been received on the date of delivery or on the third business day after mailing in accordance with this Section 9E, except that any notice of a change of address will be effective only upon actual receipt.

F. Waiver of AGM. AGM hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other notices with respect to collection of the Collateral and Note.

IN WITNESS WHEREOF, the parties have executed this Agreement.

THE AMALGAMATED SUGAR COMPANY

By: _______________________________
Name: Allan M. Lipman, Jr.
Title: President

SNAKE RIVER SUGAR COMPANY

By: _______________________________
Name: George Grant
Title: Chairman

LIMITED RECOURSE PROMISSORY NOTE

$212,500,000.00 January 3, 1997 Ogden, Utah

1. FOR VALUE RECEIVED, VALHI, INC., a Delaware corporation (`Borrower''), promises to pay to Snake River Sugar Company, an Oregon cooperative (`Lender'') at Lender's office at 525 Good Avenue, Nyssa, Oregon, 97913, or at such other place as Lender from time to time may designate, the principal sum of Two Hundred Twelve Million Five Hundred Thousand Dollars ($215,500,000.00), plus interest as specified in this promissory note (the `Note'').

2. This Note is secured by a pledge of the collateral described in a Limited Recourse Pledge Agreement dated as of the date of this Note (the `Pledge Agreement'').

3. The principal sum outstanding from time to time under this Note shall bear interest at a rate equal to 91/2% per annum. Accrued interest shall be payable in arrears on the last day of each calendar month commencing January 31, 1997. If on any date for payment of interest, less than all interest then due is paid on this Note, then any interest paid on such date on the Borrower's Subordinated Promissory Note dated as of the date of this Note in the initial principal amount of $37,500,000 (the `Other Note'') shall be deemed to have been paid on, and shall be applied to, this Note rather than the Other Note. Notwithstanding the foregoing, if any interest is not paid in full when due, then interest shall be computed by compounding such unpaid interest quarterly from the date such unpaid interest was due until such unpaid interest is paid in full.

4. All principal and all accrued and unpaid interest shall be due and payable on January 3, 2027. Notwithstanding the foregoing, if Borrower directly or indirectly (through its wholly owned subsidiary, Amcorp, Inc. (`Amcorp'') or through Amcorp's wholly owned subsidiary, The Amalgamated Sugar Company (`Amalgamated'')), receives the proceeds, as a result of redemption by The Amalgamated Sugar Company LLC, a Delaware limited liability company (the `Company''), of any of the AGM Interest of the Company which is pledged as collateral for this Note, then, at the option of Lender exercised by written notice to the Borrower, a portion of the outstanding principal amount of this Note may be accelerated and shall become immediately due and payable. Such accelerated portion of the principal, when added to any accrued and unpaid interest on this Note, may be up to the amount of any proceeds received by Borrower, directly or indirectly, in connection with such redemption.

5. Borrower may, at any time and from time to time, prepay some or all of the principal and interest under this Note, without penalty or premium.

6. If Borrower fails to make any payment of within five (5) business days (as defined section 8 below) in after it becomes due and payable, at Lender's option upon written notice to Borrower, Lender may declare this Note in default and the entire unpaid principal of and accrued interest on this Note shall become immediately due and payable without presentment or demand for payment, protest or notice of nonpayment or dishonor, or other notices or demands of any kind or character. In addition, this Note shall be in default and all amounts owing under this Note shall be automatically accelerated on the occurrence of any of the following events:

(i) (A) a court enters a decree or order for relief with respect to Borrower, Amcorp or Amalgamated in an involuntary case under the Bankruptcy Code (defined for this purpose as Title 11 of the United States Code entitled "Bankruptcy", as amended from time to time and all rules and regulations promulgated thereunder) or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (B) the continuance of any of the following events for forty-five (45) days unless dismissed, bonded or discharged: (1) an involuntary case commenced against Borrower, Amcorp or Amalgamated under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (2) a decree or order of a court for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over Borrower, Amcorp

or Amalgamated, or over all or a substantial part of its property, is entered; or (3) an interim receiver, trustee or other custodian is appointed without the consent of Borrower, Amcorp or Amalgamated, for all or a substantial part of the property of Borrower, Amcorp or Amalgamated; or

(ii) (A) the entry of an order for relief with respect to Borrower, Amcorp or Amalgamated in a voluntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (B) Borrower, Amcorp or Amalgamated consents to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law, (C) Borrower, Amcorp or Amalgamated consents to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; (D) Borrower, Amcorp or Amalgamated makes any assignment for the benefit of creditors; or (E) Borrower, Amcorp or Amalgamated adopts a resolution or otherwise authorizes any action to approve any of the actions referred to in this clause (ii); or

(iii) the liquidation or dissolution of Borrower.

7. In the event of any default by the Borrower hereunder, Lender shall have only those rights reserved herein or in the Pledge Agreement, and in any other instrument given or granted for the purpose of securing the payment of the Note, and shall have full recourse to the property pledged pursuant to the Pledge Agreement or such other instrument for the payment of the indebtedness evidenced by this Note, but shall have no other recourse to any other property or assets of Borrower, Amcorp, Amalgamated or any affiliate of Borrower. Except as provided in the foregoing sentence and the instruments referred to therein, notwithstanding anything to the contrary in this Note, the Pledge Agreement or any other instrument given or granted for the purpose of securing the payment of the Note, Lender shall not seek or be allowed to obtain a personal judgment, against the Borrower, Borrower's affiliates, officers, directors or stockholders or Borrower's successors and assigns, on the Note, the Pledge Agreement or any other instrument given or granted for the purpose of securing the payment of the Note, nor shall Lender seek or be allowed to obtain a personal judgment against the Borrower, Borrower's affiliates, officers, directors or stockholders or Borrower's successors and assigns for any deficiency remaining after realization by Lender against any property pledged as security for the payment of the Note.

8. All amounts payable under this Note are payable in lawful money of the United States during normal business hours on a day other than a Saturday or Sunday, on which banks are open for business in Dallas, Texas (`business days').

9. This Note is governed by the laws of the State of Delaware, without regard to the choice of law rules of that State.

10. Borrower agrees that the holder of this Note may accept additional or substitute security for this Note, or release any security or any party liable for this Note, or extend or renew this Note, all without notice to Borrower and without affecting the liability of Borrower.

11. If Lender delays in exercising or fails to exercise any of its rights under this Note, that delay or failure shall not constitute a waiver of any of Lender's rights, or of any breach, default or failure of condition of or under this Note. No waiver by Lender of any of its rights, or of any such breach, default or failure of condition shall be effective, unless the waiver is expressly stated in a writing signed by Lender.

12. This Note inures to and binds the heirs, personal representatives, successors and assigns of Borrower and Lender. If Lender so requests, Borrower shall sign and deliver a new note to be issued in exchange for this Note.

BORROWER:

VALHI, INC.,
a Delaware corporation

Mail Address:
Three Lincoln Center
Suite 1700, 5430 LBJ Freeway
Dallas, Texas 75240

By:

Name:Steven L. Watson
Its: Vice President

Acknowledge and Agreed:

SNAKE RIVER SUGAR COMPANY

an Oregon cooperative

By:

Name:George Grant
Its: Chairman
19597

LIMITED RECOURSE PLEDGE AGREEMENT

THIS LIMITED RECOURSE PLEDGE AGREEMENT is entered into this 3rd day of January, to be effective for tax and accounting purposes as of December 31, 1996, between Snake River Sugar Company, an Oregon cooperative, as secured party (`SR''), and The Amalgamated Sugar Company, a Utah corporation (``AGM''), as debtor.

The parties agree:

1. Pledge. For value received, AGM grants to SR a security interest (`Security Interest'') in the limited liability company interest in The Amalgamated Sugar Company LLC, a Delaware limited liability company (the `Collateral''). The Security Interest is created to secure all obligations and indebtedness arising pursuant to the Limited Recourse Promissory Note dated as of the date of this Agreement by Valhi, Inc., the indirect holder of 100% of AGM's outstanding stock, in favor of SR in the initial principal amount of $212.5 million (the `Note''). Except as provided below, the Collateral includes all proceeds, rights to receive future distributions, increases, substitutions, accessions, attachments, securities, subscription rights or other property or benefits which AGM receives or is entitled to receive on account of the Collateral. SR shall not have a Security Interest in, and SR's Security Interest shall terminate and be automatically released with respect to (i) any cash distributions on account of the Collateral paid or distributed on the Collateral prior to the date of any foreclosure by SR on the Collateral pursuant to the provisions of this Agreement, and (ii) any Accrual, Deferral or Insurance Deferral (as such terms are defined in the company agreement of The Amalgamated Sugar Company LLC as in effect on the date of this Agreement (the `Company Agreement')) arising prior to the date of any foreclosure by SR on the Collateral pursuant to the provisions of this Agreement. Except to the extent provided in the Other Pledge Agreements (as defined in paragraph 6 of this Agreement), all certificates and other instruments which may constitute the Collateral shall be endorsed in blank for transfer or be accompanied by proper instruments of assignment and transfer properly endorsed in blank, and delivered to SR. SR shall hold the Collateral as security for the repayment of the Note and shall not encumber or dispose of the Collateral except in accordance with the provisions of paragraph 8 of this Agreement.

2. Voting and Other Rights. During the term of this Agreement, and so long as the maturity date of the Note has not been accelerated as provided in the Note and except as otherwise provided in the Other Pledge Agreements, AGM shall have the right to vote the Collateral on all questions. Following acceleration of the maturity date of the Note pursuant to Section 6 of the Note, AGM's right to vote the Collateral shall terminate (provided that in the case of a partial acceleration of the Note, AGM's right to vote the Collateral shall terminate only with respect to a portion of the Collateral equal to the portion of the Note accelerated). Nothing in this Agreement is intended to restrict or limit in any way AGM's power to require that all or part of the Collateral be redeemed by the issuer of the Collateral or purchased by SR pursuant to the terms of any Company Agreement. Upon any such redemption or purchase, AGM may direct that such proceeds be applied to reduce the outstanding principal and any interest due on the Note, and SR may exercise its option as provided in the Note to accelerate a portion of the Note and apply such proceeds to reduce such portion of the Note. To the extent such proceeds are not so applied, then (i) AGM may retain a portion of such proceeds equal to the amount of federal and state taxes payable as a result of such redemption and any proceeds so retained shall cease to be Collateral hereunder, and (ii) AGM shall direct that the remaining proceeds be placed in an escrow account, pursuant to an escrow

agreement with an escrow agent reasonably acceptable to SR, and SR shall continue to have a security interest in such remaining proceeds. AGM may direct the investment of all funds held in such escrow account until all outstanding principal of the Note becomes due, in which case such funds shall be applied as provided in this Agreement.

3. Representations. AGM warrants and represents (i) that there are no restrictions on the transfer of any of the Collateral, other than as set forth in the Company Agreement and the Other Pledge Agreements, and that AGM has the right to transfer the Collateral free of any encumbrances other than pursuant to the Company Agreement and pledges of the Collateral pursuant to the Other Pledge Agreements and (ii) this Agreement constitutes the valid and legally binding obligation of AGM, enforceable in accordance with its terms and conditions, as enforceabililty may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor rights generally and subject to general principles of equity and public policy considerations. AGM shall, at the request of SR, promptly deliver all reasonable further instruments and documents, and take all reasonable further actions, in order to perfect the Security Interest granted herein and to otherwise give effect to the provisions of this Agreement. AGM shall not grant any security interest in the Collateral, other than pursuant to (i) the Other Pledge Agreements; (ii) liens for taxes, assessments or other governmental charges not yet due and payable; (iii) statutory liens of landlords, carriers, warehousemen, mechanics, materialmen and other similar liens imposed by law, which are incurred in the ordinary course of business for sums not more than thirty (30) days delinquent; and (iv) liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money).

4. Adjustments. In the event that, during the term of this Agreement, any reclassification, readjustment or other change is declared or made in the capital structure of the issuer of the Collateral, all new, substituted and additional interests or securities issued in respect of the Collateral by reason of any such change shall be delivered to SR and held by it under the terms of this Agreement in the same manner as the Collateral originally pledged hereunder, except as otherwise provided by the terms of any Other Pledge Agreement.

5. Warrants and Rights. In the event that, during the term of this Agreement, subscription warrants or any other rights or options shall be issued in connection with the Collateral, such warrants, rights and options shall be immediately assigned by SR to AGM, and, if exercised by AGM, all new interests or securities so acquired by AGM shall be immediately assigned to SR to be held under the terms of this Agreement in the same manner as the Collateral originally pledged hereunder.

6. Payment of Note. Upon payment of all principal of and other amounts due on the Note, the Security Interest shall be canceled and SR shall convey to AGM all certificates, documents and other instruments representing the Collateral, except to the extent the Collateral remains pledged to SR pursuant to either (i) the Pledge Agreement between AGM and SR dated as of the date of this Agreement in connection with Valhi, Inc.'s Subordinated Promissory Note dated as of the date of this Agreement, or (ii) the Indemnification Pledge Agreement between AGM and The Amalgamated Sugar Company LLC dated as of the date of this Agreement in connection with the Indemnification and Post Closing Agreement dated as of the date of this Agreement among AGM, The Amalgamated Sugar Company LLC and certain other parties (collectively, the `Other Pledge Agreements').

7. Rights of SR. AGM hereby appoints SR as AGM's attorney-in-fact to do any act which AGM is obligated by this Agreement to do and to do all things deemed necessary by SR to perfect the Security Interest and collect,

preserve and enforce the Collateral, all at AGM's cost and without any obligation on SR so to act.

8. Default. If, pursuant to the terms and provisions of the Note, the maturity date of the Note has been accelerated pursuant to Section 6 of the Note, SR may proceed to enforce payment of the Note or any part thereof and to exercise any and all rights and remedies in connection with the Collateral provided by the Uniform Commercial Code in force in the State of Delaware (the `Code''), as well as other rights and remedies in connection with the Collateral possessed by SR under this Agreement or otherwise at law or equity. For purposes of the notice requirements of the Code, SR and AGM agree that notice given at least five business days prior to the taking of any action with respect to which notice is required is reasonable. All rights and remedies of SR in connection with the Collateral hereunder are cumulative and may be exercised singly or concurrently. The exercise of any right or remedy shall not be a waiver of any other. If the amount received by SR upon foreclosure on the Collateral is less than the amount of principal and interest owing on the Note, SR shall have no further recourse to any assets or property of AGM, Valhi, Inc. or any of their respective affiliates.

9. Miscellaneous.

A. Parties Bound. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors, receivers, trustees and assigns where permitted by this Agreement.

B. Delaware Law to Apply. This Agreement shall be construed in accordance with the Code and other applicable laws of the State of Delaware.

C. Modification. This Agreement shall not be amended in any way except by a written agreement signed by the parties hereto.

D. Severability. The unenforceability of any provision of this Agreement shall not affect the enforceability or validity of any other provision hereof.

E. Notice. Any notice required to be given under this Agreement or under the Code shall be deemed delivered when deposited with the United States Postal Service, postage prepaid, certified with return receipt requested and addressed as follows:

If to SR:
525 Good Avenue
Nyssa, Oregon 97913

If to AGM:
The Amalgamated Sugar Company
Three Lincoln Centre
Suite 1700
5430 LBJ Freeway
Dallas, Texas 75240

Any party hereto may change the address to which notices to such party are required to be sent by giving notice of such change in the manner provided in this Section 9E. All notices will be deemed to have been received on the date of delivery or on the third business day after mailing in accordance with this Section 9E, except that any notice of a change of address will be effective only upon actual receipt.

F. Waiver of AGM. AGM hereby waives presentment, demand,

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notice of dishonor, protest, notice of protest and all other notices with respect to collection of the Collateral and Note.

IN WITNESS WHEREOF, the parties have executed this Agreement.

THE AMALGAMATED SUGAR COMPANY

By: _______________________________

Name: Allan M. Lipman, Jr.
Title: President

SNAKE RIVER SUGAR COMPANY

By: _______________________________

Name: George Grant
Title: Chairman

LOAN AND SECURITY AGREEMENT

DATED JANUARY 3, 1997

BETWEEN

SNAKE RIVER SUGAR COMPANY,

AS BORROWER,

AND

VALHI, INC.,

AS LENDER

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LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is dated as of January 3, 1997 and entered into by and between SNAKE RIVER SUGAR COMPANY, an Oregon cooperative ("BORROWER"), with its principal place of business at 525 Good Avenue Nyssa, Oregon 97913, and VALHI, INC., a Delaware corporation (`LENDER'') with offices at Three Lincoln Centre, Suite 1700, 5430 LBJ Freeway, Dallas, Texas 75240. All capitalized terms used herein are defined in SECTION 1 of this Agreement.

WHEREAS, Borrower desires that Lender extend a credit facility to provide financing for Borrower's investment in The Amalgamated Sugar Company LLC (the `LLC'') and to provide funds for other general corporate purposes; and

WHEREAS, Borrower desires to secure its obligations under the Loan Documents by granting to Lender a security interest in and lien upon Borrower's property; and

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, Borrower and Lender agree as follows:

SECTION 1 DEFINITIONS

1.1 CERTAIN DEFINED TERMS. The following terms used in this Agreement shall have the following meanings:

"ACCOUNTS" means, all "accounts" (as defined in the UCC) now owned or hereafter created or acquired by Borrower, including all accounts receivable, contract rights and general intangibles relating thereto, notes, drafts and other forms of obligations owed to or owned by Borrower arising or resulting from the sale of goods or the rendering of services, all proceeds thereof, all guaranties and security therefor, and all goods and rights represented thereby or arising therefrom including the right of stoppage in transit, replevin and reclamation. Notwithstanding the foregoing, `Accounts'' shall not include amounts owed to Borrower by the LLC pursuant to the memorandum of agreement attached as Exhibit D-7 to the Formation Agreement if the Borrower has cured any payment Defaults through implementation of a unit retain or otherwise.

"AFFILIATE" means any Person (other than Lender): (A) directly or indirectly controlling, controlled by, or under common control with, Borrower; (B) directly or indirectly owning or holding five percent (5%) or more of any equity interest in Borrower; or (C) five percent (5%) or more of whose voting stock or other equity interest is directly or indirectly owned or held by Borrower. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with") 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 or by contract or otherwise.

"AGREEMENT" means this Loan and Security Agreement, as it may be amended, restated, supplemented or otherwise modified from time to time.

"ASSET DISPOSITION" means the disposition, whether by sale, lease, transfer, loss, damage, destruction, condemnation or otherwise, of any of the following: (A) any shares of the capital stock or other equity interest of Borrower or of any Person held by the Borrower, or (B) any or all of the assets of Borrower outside the ordinary course of business.

"BLOCKED ACCOUNTS" has the meaning assigned to that term in SUBSECTION 5.12.

"BORROWER" means Snake River Sugar Company, an Oregon cooperative.

"BUSINESS DAY" means any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the States of Utah or Texas or is a day on which banking institutions located in either of such states are closed.

"CAPITAL EXPENDITURES" means all expenditures (excluding trade-in allowances and reinvested proceeds of Asset Dispositions, but including deposits) for, or contracts for expenditures (excluding contracts for expenditures under or with respect to Capital Leases, but including cash down payments for assets acquired under Capital Leases) with respect to, any fixed

assets or improvements, or for replacements, substitutions or additions thereto, which have a useful life of more than one year, including the direct or indirect acquisition of such assets by way of increased product or service charges, offset items or otherwise.

"CAPITAL LEASE" means any lease of any property (whether real, personal or mixed) that, in conformity with GAAP, should be accounted for as a capital lease.

"CASH EQUIVALENTS" means: (A) marketable direct obligations issued or unconditionally guarantied by the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within six (6) months from the date of acquisition thereof; (B) commercial paper maturing no more than six (6) months from the date issued and, at the time of acquisition, having a rating of at least A-1 from Standard & Poor's Ratings Services, or at least P-1 from Moody's Investors Service, Inc.; and (C) certificates of deposit or bankers' acceptances maturing within six (6) months from the date of issuance thereof issued by, or overnight reverse repurchase agreements from, any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia having combined capital and surplus of not less than $250,000,000 and not subject to setoff rights in favor of such bank.

"CHANGE IN CONTROL" means any transaction or series of transactions in which any Person (other than Lenders) is deemed to have obtained control of the

Borrower, other than members of Borrower on the Closing Date who continue to grow sugarbeets for sale to the Borrower and the LLC.

"CLOSING CERTIFICATE" means a certificate duly executed by the chief executive officer or chief financial officer of Borrower appropriately completed and in form and substance acceptable to Lender.

"CLOSING DATE" means December 31, 1996.

"COLLATERAL" has the meaning assigned to that term in SUBSECTION 2.7.

"COLLECTING BANKS" has the meaning assigned to that term in SUBSECTION 5.12.

"COMPANY AGREEMENT" means the Company Agreement dated as of the date of this Agreement among the LLC, the Borrower and The Amalgamated Sugar Company, a Utah corporation.

"COMPLIANCE CERTIFICATE" means a certificate duly executed on behalf of

Borrower by the chief executive officer or chief financial officer of Borrower appropriately completed and in form and substance reasonably acceptable to Lender.

"DEFAULT" means a condition or event that, after notice or lapse of time or both, would constitute an Event of Default if that condition or event were not cured or removed within any applicable grace or cure period.

"DEFAULT RATE" has the meaning assigned to that term in SUBSECTION 2.2.

"EMPLOYEE BENEFIT PLAN" means any employee benefit plan within the meaning of Section 3(3) of ERISA which (A) is maintained for employees of Borrower or any ERISA Affiliate or (B) has at any time within the preceding six (6) years been maintained for the employees of Borrower or any current or former ERISA Affiliate.

"ENVIRONMENTAL CLAIMS" means claims, liabilities, investigations, litigation, administrative proceedings, judgments or orders relating to Hazardous Materials.

"ENVIRONMENTAL LAWS" means any present or future federal, state or local law, rule, regulation or order relating to pollution, waste, disposal or the protection of human health or safety, plant life or animal life, natural resources or the environment.

"EQUIPMENT" means all "equipment" (as defined in the UCC) now owned or hereafter acquired by Borrower including, without limitation, all machinery, motor vehicles, trucks, trailers, vessels, aircraft and rolling stock and all parts thereof and all additions and accessions thereto and replacements therefor.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute and all rules and regulations promulgated thereunder.

"ERISA AFFILIATE" means any Person who is a member of a group which is under common control with the Borrower, who together with the Borrower is treated as a single employer within the meaning of Section 414(b) and (c) of the IRC.

"EVENT OF DEFAULT" means each of the events set forth in SUBSECTION 8.1.

"EXCESS CASH FLOW" means, for any period, the greater of (A) zero (0); or (B) without duplication, the total of the following for Borrower, each calculated for such period: (1) cash distributions from the LLC; plus (2) net income determined in accordance with GAAP, provided that in determining net income, Borrower's expenses for the purchase of sugarbeets shall not exceed the Beet Payment (as defined in the Company Agreement) and Borrower's other expenses shall not exceed $5,000 in any month; plus, (3) to the extent included in the calculation of net income, the sum of (A) interest paid in kind, (B) amortization and depreciation expenses and (C) other non-cash charges, including amortization of fees paid in connection with consummation of the transactions contemplated by the Loan Documents and the Formation Agreement (excluding accruals for cash expenses made in the ordinary course of business); less, (4) to the extent included in the calculation of net income, the sum of (A) the income of any Person in which Borrower has an ownership interest unless such income is received by Borrower in a cash distribution, and (B) gains or losses from Asset Dispositions; less (5) Capital Expenditures (to the extent permitted

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by SUBSECTION 6.2 of this Agreement and to the extent actually made in cash and/or due to be made in cash within such period); less (6) any principal
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payment on the Obligations pursuant to SUBSECTIONS 2.1(A), 2.1(B) AND 2.4(C), any interest expense paid on the Obligations pursuant to SUBSECTION 2.2(B), any fees paid in connection with the Obligations pursuant to SUBSECTION 2.3, and any other amounts paid in connection with the Obligations pursuant to SUBSECTIONS 9.3 AND 9.4; less (7) aggregate distributions in respect of income taxes, to the
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extent permitted pursuant to SUBSECTION 7.5.

"FISCAL YEAR" means each twelve month period ending on the last day of September 30 in each year.

"FORMATION AGREEMENT" means the Formation Agreement dated as of the date of this Agreement entered into among the LLC, Borrower and The Amalgamated Sugar Company.

"FORMATION DOCUMENTS" means the Formation Agreement, the Company Agreement, and each other agreement or document entered into in connection with the formation and operation of the LLC, including any agreements relating to the LLC Indebtedness.

"GAAP" means U.S. generally accepted accounting principles applied on a consistent basis.

"HAZARDOUS MATERIAL" means all or any of the following: (A) substances that are defined or listed in, or otherwise classified pursuant to, any Environmental Laws or regulations as "hazardous substances", "hazardous materials", "hazardous wastes", "toxic substances" or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity or "EP toxicity"; (B) oil, petroleum or petroleum derived substances, natural gas, natural gas liquids or synthetic gas and drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources; (C) any flammable substances or explosives or any radioactive materials; and (D) asbestos in any form or electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million.

"INDEBTEDNESS", as applied to any Person, means without duplication: (A) all indebtedness for borrowed money; (B) obligations under leases which in accordance with GAAP constitute Capital Leases; (C) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money; (D) any obligation owed for all or any part of the deferred purchase price of property or services if the purchase price is due more than six months from the date the obligation is incurred or is evidenced by a note or similar written instrument; (E) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the

indebtedness secured thereby shall have been assumed by that Person or is nonrecourse to the credit of that Person, and (F) any mandatorily redeemable capital stock or other equity interest.

"INTELLECTUAL PROPERTY" means all present and future designs, patents, patent rights and applications therefor, trademarks and registrations or applications therefor, trade names, inventions, copyrights and all applications and registrations therefor, software or computer programs, license rights, trade secrets, methods, processes, know-how, drawings, specifications, descriptions, and all memoranda, notes and records with respect to any research and development, whether now owned or hereafter acquired, all goodwill associated with any of the foregoing, and proceeds of all of the foregoing, including, without limitation, proceeds of insurance policies thereon.

"INVENTORY" means all "inventory" (as defined in the UCC) now owned or

hereafter acquired, wherever located including finished goods, raw materials, work in process and other materials and supplies used or consumed in a Person's business including goods which are returned or repossessed. Notwithstanding the foregoing, Inventory shall not include any sugarbeets.

"IRC" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute and all rules and regulations promulgated thereunder.

"LENDER" means Valhi, Inc. together with its successors and permitted assigns pursuant to SUBSECTION 9.1.

"LENDER'S ACCOUNT" has the meaning assigned to that term in SUBSECTION 2.4(A).

"LIABILITIES" shall have the meaning given that term in accordance with GAAP and shall include Indebtedness.

"LIEN" means any lien, mortgage, pledge, security interest, charge or encumbrance of any kind, whether voluntary or involuntary, (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any agreement to give any security interest).

"LLC" means The Amalgamated Sugar Company LLC, a Delaware limited liability company.

"LLC INDEBTEDNESS" means the LLC's Indebtedness pursuant to its working capital loan agreement with United States National Bank of Oregon and First Security Bank of Utah, N.A., as in effect on the Closing Date.

"LOAN" or "LOANS" means the Tranche A Loan and the Tranche B Loan.

"LOAN DOCUMENTS" means this Agreement, the Notes and all other instruments, documents and agreements executed by or on behalf of Borrower and delivered concurrently herewith or at any time hereafter to or for the benefit of Lender in connection with the Loans and other transactions contemplated by this Agreement, all as amended, restated, supplemented or otherwise modified from time to time.

"MATERIAL ADVERSE EFFECT" means a material adverse effect upon (A) the business, operations, properties, assets or condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole or (B) the ability of Borrower to perform its obligations under any Loan Document to which it is a party or of Lender to enforce or collect any of the Obligations.

"NET WORTH" means, as of any date, the difference between (A) the total assets of the Borrower and (B) the sum of the total Liabilities of Borrower, minority interests in Subsidiaries, and capital stock or equity interests of the Borrower or any Subsidiary which by its terms is mandatorily redeemable by any Person, in each case as those terms are used in accordance with GAAP.

"NOTE" means a Note evidencing the Tranche A Loan or a Note evidencing the Tranche B Loan.

"OBLIGATIONS" means all obligations, liabilities and indebtedness of every nature of Borrower from time to time owed to Lender under the Loan Documents including the principal amount of all debts, claims and indebtedness, accrued and unpaid interest and all fees, costs and expenses, whether primary, secondary, direct, contingent, fixed or otherwise, heretofore, now and/or from time to time hereafter owing, due or payable.

"PERMITTED ENCUMBRANCES" means the following types of Liens: (A) Liens (other than Liens relating to Environmental Claims or ERISA) for taxes, assessments or other governmental charges not yet due and payable; (B) statutory

Liens of landlords, carriers, warehousemen, mechanics, materialmen and other similar liens imposed by law, which are incurred in the ordinary course of business for sums not more than thirty (30) days delinquent; (C) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money); (D) easements, rights-of-way, restrictions, and other similar charges or encumbrances not interfering in any material respect with the ordinary conduct of the business of Borrower or any of its Subsidiaries; (E) Liens for purchase money obligations, provided that (I) the
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purchase of the asset subject to any such Lien is permitted under SUBSECTION 6.2, (II) the Indebtedness secured by any such Lien is permitted under SUBSECTION 7.1, and (III) such Lien encumbers only the asset so purchased; and (F) Liens in favor of Lender.

"PERSON" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof.

"PRO FORMA" means the unaudited balance sheet of Borrower as of the Closing Date, after giving effect to the transactions contemplated by this Agreement and the Formation Documents. The Pro Forma is annexed hereto as SCHEDULE 1.1(C).

"PROJECTIONS" means Borrower's forecasted: (A) balance sheets; (B) profit and loss statements; (C) cash flow statements; and (D) capitalization statements, all prepared on a basis consistent with the historical financial statements of The Amalgamated Sugar Company, together with appropriate supporting details and a statement of underlying assumptions.

"RESTRICTED JUNIOR PAYMENT" means: (A) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock, or any other equity interest of Borrower or any of its Subsidiaries now or hereafter outstanding, except a dividend or distribution payable solely in shares or equity interests of such class; (B) any payment or prepayment of principal of, premium, if any, or interest on, or any redemption, conversion, exchange, retirement, defeasance, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any Indebtedness other than the Loans or any shares of any class of stock or any equity interest of Borrower or any of its Subsidiaries now or hereafter outstanding; (C) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock, or equity interests, of Borrower or any of its Subsidiaries now or hereafter outstanding; and (D) any payment by Borrower or any of its Subsidiaries of any management fees or similar fees to any Affiliate, whether pursuant to a management agreement or otherwise.

"SCHEDULED INSTALLMENT" has the meaning assigned to that term in SUBSECTION 2.1(A).

"SUBSIDIARY" means, with respect to any Person, any corporation, limited liability company, partnership, association or other business entity of which more than 50% of the total voting power of shares of stock (or equivalent ownership or controlling interest) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other subsidiaries of that Person or a combination thereof. For all purposes of this Agreement, the LLC is a Subsidiary of Borrower.

"TANGIBLE NET WORTH" means an amount equal to: (A) Borrower's Net Worth; less (B) Borrower's intangible assets (determined in conformity with GAAP)
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including, without limitation, goodwill, trademarks, tradenames, licenses, organizational costs, deferred amounts, covenants not to compete, unearned income and restricted funds; less (C) all obligations owed to Borrower or any of its Subsidiaries by any Affiliate of Borrower or any of its Subsidiaries; and less (D) all loans by Borrower to officers, stockholders or employees of Borrower.

"TERMINATION DATE" means the date this Agreement is terminated as specified in the manner set forth in SUBSECTION 2.5.

"TRANCHE A LOAN" means the loan made by Lender to Borrower in the initial principal amount of $100,000,000 pursuant to SUBSECTION 2.1(A).

"TRANCHE B LOAN" means the loan made by Lender to Borrower in the initial principal amount of $80,000,000 pursuant to SUBSECTION 2.1(B).

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of Utah, as amended from time to time, and any successor statute.

1.2 ACCOUNTING TERMS. For purposes of this Agreement, all accounting terms not otherwise defined herein shall have the meanings assigned to such terms in conformity with GAAP. Financial statements and other information furnished to Lender pursuant to SUBSECTION 5.1 shall be prepared in accordance with GAAP (as in effect at the time of such preparation) on a consistent basis. In the event any "Accounting Changes" (as defined below) shall occur and such changes affect financial covenants, standards or terms in this Agreement, then Borrower and Lender agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the financial condition of Borrower shall be the same after such Accounting Changes as if such Accounting Changes had not been made, and until such time as such an amendment shall have been executed and delivered by Borrower and Lender, (A) all financial covenants, standards and terms in this Agreement shall be calculated and/or construed as if such Accounting Changes had not been made, and (B) Borrower shall prepare footnotes to each Compliance Certificate and the financial statements required to be delivered hereunder that show the differences between the financial statements delivered (which reflect such Accounting Changes) and the basis for calculating financial covenant compliance (without reflecting such Accounting Changes). "ACCOUNTING CHANGES" means: (A) changes in accounting principles required by GAAP and implemented by Borrower; (B) changes in accounting principles recommended by Borrower's certified public accountants; and (C) changes in carrying value of Borrower's assets, liabilities or equity accounts resulting from any adjustments that, in each case, were applicable to, but not included in, the Pro Forma.

1.3 OTHER DEFINITIONAL PROVISIONS. References to "Sections", "subsections", "Exhibits" and "Schedules" shall be to Sections, subsections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. Any of the terms defined in SUBSECTION 1.1 may, unless the context otherwise requires, be used in the singular or the plural depending on the reference. In this Agreement, words importing any gender include the other genders; herein and hereunder means in this Agreement or under this Agreement, except as specifically provided to the contrary; the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to agreements and other contractual instruments shall be deemed to include subsequent amendments, assignments, and other modifications thereto, but only to the extent such amendments, assignments

and other modifications are not prohibited by the terms of this Agreement or any other Loan Document; references to Persons include their respective permitted successors and assigns or, in the case of governmental Persons, Persons succeeding to the relevant functions of such Persons; and all references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations.

SECTION 2 LOANS AND COLLATERAL

2.1 LOANS.

(A) TRANCHE A LOAN. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of Borrower herein set forth, Lender agrees to lend to the Borrower on the Closing Date the Tranche A Loan in the initial principal amount of $100,000,000. The Tranche A Loan shall be funded in one drawing and any amount of the Tranche A Loan repaid may not be reborrowed. Borrower shall make monthly Scheduled Installments of principal and interest on the Tranche A Loan on the dates and in the amounts set forth below (or such lesser principal amount of the Tranche A Loan as shall then be outstanding). "SCHEDULED INSTALLMENT" of the Tranche A Loan means, for the last day of each month commencing with January 31, 1997, an amount equal to $1,659,601.75 (subject to adjustment upon any adjustment of the interest rate pursuant to SUBSECTION 2.2(A)(3)).

(B) TRANCHE B LOAN. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of Borrower herein set forth, Lender agrees to lend to the Borrower on the Closing Date the Tranche B Loan in the initial principal amount of $80,000,000. The Tranche B Loan shall be funded in one drawing and any amount of the Tranche B Loan repaid may not be reborrowed. Borrower shall make one scheduled installment of principal of the Tranche B Loan on December 31, 2003.

(C) NOTES.

(1) Borrower shall execute and deliver to Lender a Tranche A Term Note to evidence the Tranche A Loan, such Tranche A Term Note to be in the principal amount of the Tranche A Loan and substantially in the form attached hereto and Exhibit A.

(2) Borrower shall execute and deliver to Lender a Tranche B Term Note to evidence the Tranche B Loan, such Tranche B Term Note to be in the principal amount of the Tranche B Loan and substantially in the form attached hereto as Exhibit B.

(3) In the event of an assignment under SUBSECTION 9.1, Borrower shall, upon surrender of the assigning Lender's Notes, issue new Notes to the Lender's assignees.

2.2 INTEREST

(A) RATE OF INTEREST.

(1) The outstanding principal balance of the Tranche A Loan shall bear interest at a rate per annum (meaning 360 days) equal to 9.99 percent.

(2) Prior to January 1, 1999, the outstanding principal balance of the Tranche B Loan 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 Tranche B Loan shall bear interest at a rate per annum (meaning 360 days) equal to 12.99 percent.

(3) After the occurrence and during the continuance of an Event of Default, each Loan and all other Obligations shall, at Lender's option, bear interest at a rate per annum (meaning 360 days) equal to two percent (2.0%) plus the interest rate otherwise applicable to such Loan hereunder (the "DEFAULT RATE").

(B) COMPUTATION AND PAYMENT OF INTEREST. Interest on the Loans 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. Notwithstanding the foregoing, interest on fifty percent (50%) of the outstanding principal balance of the Tranche B Loan shall accrue and shall not be payable until December 31, 2003, and such accrued amounts shall bear interest, compounded annually, at the rates set forth in SUBSECTION 2.2(A)(2).

(C) INTEREST LAWS.

Notwithstanding any provision to the contrary contained in this Agreement or the other Loan Documents, Borrower shall not be required to pay, and Lender shall not be permitted to collect, any amount of interest in excess of the maximum amount of interest permitted by law ("EXCESS INTEREST"). If any Excess Interest is provided for or determined by a court of competent jurisdiction to have been provided for in this Agreement or in any of the other Loan Documents, then in such event: (1) the provisions of this subsection shall govern and control; (2) Borrower shall not be obligated to pay any Excess Interest; (3) any Excess Interest that Lender may have received hereunder shall be, at Lender's option, (A) applied as a credit against the outstanding principal balance of the Obligations or accrued and unpaid interest (not to exceed the maximum amount permitted by law), (B) refunded to the payor thereof, or (C) any combination of the foregoing; (4) the interest rate(s) provided for in this Agreement shall be automatically reduced to the maximum lawful rate allowed from time to time under applicable law (the "MAXIMUM RATE"), and this Agreement and the other Loan Documents shall be deemed to have been and shall be, reformed and modified to reflect such reduction; and (5) Borrower shall not have any action against Lender for any damages arising out of the payment or collection of any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any Obligations is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on such Obligations shall remain at the Maximum Rate until Lender shall have received the amount of interest which Lender would have received during such period on such Obligations had the rate of interest not been limited to the Maximum Rate during such period.

2.3 FEES.

(A) CLOSING FEE. Borrower shall pay to Lender on the Closing Date a closing fee in the amount of $3,600,000. If at least $100,000,000 of the principal amount of the Loans is refinanced and prepaid in full (in addition to Scheduled Installments and mandatory prepayments) on or prior to June 30, 1997, then Lender shall refund to Borrower a portion of such closing fee equal to 2% of the refinanced amount. If at least $100,000,000 of the principal amount of

the Loans is refinanced and prepaid in full (in addition to Scheduled Installments and mandatory prepayments) after June 30, 1997 but on or prior to September 30, 1997, then Lender shall refund to Borrower a portion of such closing fee equal to 1.5% of the refinanced amount. If at least $100,000,000 of the principal amount of the Loans is refinanced and prepaid in full (in addition to Scheduled Installments and mandatory prepayments) after September 30, 1997 but on or prior to December 31, 1997, then Lender shall refund to Borrower a portion of such closing fee equal to 1% of the refinanced amount. If any

principal amount of the Loans is refinanced and prepaid after December 31, 1997, then no amount of such closing fee shall be refunded.

(B) FINANCING FEE. Borrower shall pay to Lender a financing fee in the following amounts at the following dates: $1,000,000 will be due on June 30, 1997; $500,000 will be due on September 30, 1997; $500,000 will be due on December 31, 1997; and $1,000,000 will be due on each March 31, June 30, September 30 and December 31, commencing March 31, 1998. Such financing fee shall terminate and Borrower shall have no obligation to pay any such fee (other than to the extent such financing fee has previously accrued and become due) on or after the date upon which at least $100,000,000 of the principal amount of the Loans is refinanced and prepaid in full (in addition to Scheduled Installments and mandatory prepayments).

(C) OTHER FEES AND EXPENSES. Borrower shall pay to Lender, for its own account, all charges for returned items and all other bank charges incurred by Lender.

2.4 PAYMENTS AND PREPAYMENTS.

(A) MANNER AND TIME OF PAYMENT. If Lender elects to bill Borrower for any amount due hereunder, such amount shall be immediately due and payable with interest thereon as provided in this Agreement. All payments made by Borrower with respect to the Obligations shall be made without deduction,

defense, setoff or counterclaim. All payments to Lender hereunder shall, unless otherwise directed by Lender, be made in accordance with the terms and conditions of this Agreement by delivery of such payment to Lender's Account ("LENDER'S ACCOUNT"), ABA No. 071 000 039, Account No. 78-27296, at Bank of America, Illinois, Chicago, Illinois, Reference: Valhi, Inc. for the benefit of Snake River Sugar Company. Proceeds remitted to Lender's Account shall be credited to the Obligations on the Business Day on which received by Lender in Lender's Account in immediately available funds; provided, however, for the purpose of calculating interest on the Obligations, such funds shall be deemed received on the first Business Day thereafter.

(B) MANDATORY PREPAYMENTS.

(1) PROCEEDS OF ASSET DISPOSITIONS. (A) Immediately upon receipt by Borrower of any net cash proceeds of any Asset Disposition (in one or a series of related transactions), which net cash proceeds exceed $50,000 (it being understood that if such proceeds exceed $50,000, the entire amount and not just the portion above $50,000 shall be subject to this SUBSECTION 2.4(B)(1)), Borrower shall prepay the Obligations in an amount equal to such proceeds.

(2) PREPAYMENTS FROM EXCESS CASH FLOW. On or prior to the end

of any month in which Borrower has received any Excess Cash Flow, Borrower shall prepay the Obligations in an amount equal to 100% of Excess Cash Flow for such month. Concurrently with the making of any such payment, Borrower shall

deliver to Lender a certificate of Borrower's chief executive officer or chief financial officer demonstrating its calculation of the amount required to be paid.

(C) VOLUNTARY PREPAYMENTS. Borrower may, at any time upon not less than ten Business Days' prior notice to Lender, prepay the Obligations. The Obligations may be prepaid or repaid in full or part without any penalty.

(D) PAYMENTS ON BUSINESS DAYS. 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.

(E) APPLICATION OF PREPAYMENTS. Any prepayments pursuant to this SUBSECTION 2.4 shall be applied, FIRST, to all fees, costs and expenses incurred by Lender with respect to this Agreement, the other Loan Documents or the Collateral; SECOND, to all fees due and owing to Lender; THIRD, to accrued and unpaid interest on the Obligations; FOURTH, to the principal amounts of the Tranche A Loan, in the inverse order of maturity; FIFTH, to the principal amounts of the Tranche B Loan, and SIXTH, to any other indebtedness or obligations of Borrower owing to Lender.

2.5 TERM OF THIS AGREEMENT. This Agreement shall be effective until December 31, 2003 (the "TERMINATION DATE"). Upon acceleration in accordance with SECTION 8.2 or on the Termination Date, all Obligations shall become immediately due and payable without notice or demand. Notwithstanding any termination, until all Obligations (other than continuing indemnity obligations) have been fully paid and satisfied, Lender shall be entitled to retain security interests in and liens upon all Collateral, and even after payment of all Obligations hereunder, Borrower's obligation to indemnify Lender in accordance with the terms hereof shall continue.

2.6 STATEMENTS. Lender shall render a monthly statement of account to Borrower within twenty (20) days after the end of each month. Such statement of account shall constitute an account stated unless Borrower makes written objection thereto within ten (10) days from the date such statement is mailed to Borrower. Borrower promises to pay all of its Obligations as such amounts become due or are declared due pursuant to the terms of this Agreement.

2.7 GRANT OF SECURITY INTEREST. To secure the prompt and complete payment, performance and observance of the Obligations, including all renewals, extensions, restructurings and refinancings of any or all of the Obligations, Borrower hereby grants to Lender a continuing security interest, lien and mortgage in and to all right, title and interest of Borrower in the following property of Borrower, whether now owned or existing or hereafter acquired or arising and regardless of where located (all being collectively referred to as

the "COLLATERAL"): (A) Accounts; (B) Inventory; (C) general intangibles (as defined in the UCC); (D) documents (as defined in the UCC) or other receipts covering, evidencing or representing goods; (E) instruments (as defined in the UCC), including any membership interest in the LLC and any other capital stock or other equity interests in any Person held by Borrower; (F) chattel paper (as defined in the UCC); (G) Equipment; (H) Intellectual Property; (I) all deposit accounts of Borrower maintained with any bank or financial institution; (J) all cash and other monies and property of Borrower in the possession or under the control of Lender or any participant; (K) 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 property described above or are otherwise necessary or helpful in the collection thereof or realization thereon; and (L) proceeds of all or any of the property described above, including, without limitation, the proceeds of any insurance policies covering any of the above described property.

2.8 TAXES.

(A) NO DEDUCTIONS. Any and all payments or reimbursements made hereunder or under any of the other Loan Documents shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto; excluding, however, the following: (I) taxes imposed on the net income of Lender by the jurisdiction under the laws of which Lender is organized or doing business or any political subdivision thereof, and (II) similar taxes (including, without limitation franchise taxes or gross receipts taxes) imposed in lieu of income taxes, in each case by the jurisdiction under the laws of which Lender is organized or any political subdivision thereof (all such taxes, levies, imposts, deductions, charges or withholdings and all liabilities with respect thereto excluding such taxes imposed on net income, herein "TAX LIABILITIES"). If Borrower shall be required by law to deduct any such Tax Liabilities from or in respect of any sum payable hereunder to Lender, then the sum payable hereunder shall be increased as may be necessary so that, after making all required deductions, Lender receives an amount equal to the sum it would have received had no such deductions been made.

(B) CHANGES IN TAX LAWS. In the event that, subsequent to the Closing Date, (1) any changes in any existing law, regulation, treaty or directive or in the interpretation or application thereof, (2) any new law, regulation, treaty or directive enacted or any interpretation or application thereof, or (3) compliance by Lender with any request or directive (whether or not having the force of law) from any governmental authority, agency or instrumentality:

(A) does or shall subject Lender to any tax of any kind whatsoever with respect to this Agreement, the other Loan Documents or any Loans made under this Agreement or change the basis of taxation of payments to Lender of principal, fees, interest or any other amount payable hereunder (except for net income taxes, or franchise taxes imposed in lieu of net income taxes, imposed generally by federal, state or local taxing authorities with respect to interest or commitment or other fees payable hereunder or changes in the rate of tax on the overall net income of Lender); or

(B) does or shall impose on Lender any other condition or increased cost in connection with the transactions contemplated hereby or participations herein; and the result of any of the foregoing is to increase the cost to Lender of continuing any Loan made under this Agreement, as the case may be, or to reduce any amount receivable hereunder, then, in any such case, Borrower shall promptly pay to Lender, upon its demand, any additional amounts necessary to compensate Lender, on an after-tax basis, for such additional cost or reduced amount receivable, as determined by Lender with respect to this

Agreement or the other Loan Documents. If Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrower of the event by reason of which Lender has become so entitled. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lender to Borrower shall, absent manifest error, be final, conclusive and binding for all purposes.

2.9 USE OF PROCEEDS AND MARGIN SECURITY. Borrower shall use the proceeds of all Loans for proper business purposes consistent with all applicable laws, statutes, rules and regulations. No portion of the proceeds of any Loan shall be used by Borrower for the purpose of purchasing or carrying of margin stock within the meaning of Regulation G or Regulation U, or use the proceeds of any loan in any manner that might cause the borrowing or the application of such proceeds to violate Regulation T or Regulation X or any other regulation of the Board of Governors of the Federal Reserve System, or to violate the Exchange Act.

SECTION 3 CONDITIONS TO LOANS

3.1 CONDITIONS TO LOANS. The obligations of Lender to make Loans on the Closing Date are subject to satisfaction of all of the conditions set forth below.

(A) CLOSING DELIVERIES. Lender shall have received, in form and substance satisfactory to Lender, all documents, instruments and information identified on SCHEDULE 3.1(A) and all other agreements, notes, certificates, orders, authorizations, financing statements, mortgages and other documents which Lender may at any time reasonably request.

(B) SECURITY INTERESTS. Lender shall have received satisfactory evidence that all security interests and liens granted to Lender pursuant to this Agreement or the other Loan Documents have been duly perfected and constitute first priority liens on the Collateral, subject only to Permitted Encumbrances, including delivery of all certificates representing membership interests in the LLC.

(C) CAPITAL CONTRIBUTION AND WORKING CAPITAL BORROWINGS. At least two Business Days prior to the Closing Date, Lender shall have received satisfactory evidence of the receipt by Borrower of cash proceeds of the issuance of interests in the Borrower in an amount not less than $88,000,000. On the Closing Date, Lender shall have received satisfactory evidence of the formation of the LLC and the receipt by the LLC of the maximum amount of borrowings permitted under the LLC Indebtedness.

(D) REPRESENTATIONS AND WARRANTIES. The representations and warranties contained herein and in the Loan Documents shall be true, correct and complete in all material respects on and as of the Closing Date.

(E) FEES. Borrower shall have paid the fees payable on the Closing Date referred to in SUBSECTION 2.3(A).

(F) NO DEFAULT. No event shall have occurred and be continuing that

would constitute an Event of Default or a Default.

(G) PERFORMANCE OF AGREEMENTS. Borrower shall have performed in all material respects all agreements and satisfied all conditions which any Loan Document provides shall be performed by it on or before that Closing Date.

(H) NO PROHIBITION. No order, judgment or decree of any court, arbitrator or governmental authority shall purport to enjoin or restrain Lender from making any Loans.

(I) NO LITIGATION. There shall not be pending or, to the knowledge of Borrower, threatened, any action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration by, against or affecting Borrower or the LLC or any property of the Borrower or the LLC (other than as set forth in the Formation Agreement), and there shall have occurred no development in any such action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration, that in each case, in the opinion of Lender, could reasonably be expected to have a Material Adverse Effect.

SECTION 4 BORROWER'S REPRESENTATIONS AND WARRANTIES

To induce Lender to enter into this Agreement, and to make Loans, Borrower represents and warrants to Lender that the following statements are true, correct and complete:

4.1 ORGANIZATION, POWERS, CAPITALIZATION.

(A) ORGANIZATION AND POWERS. Borrower is a cooperative corporation duly organized, validly existing and in good standing under the laws of Oregon and qualified to do business in all states where such qualification is required. Borrower has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and proposed to be conducted and to enter into each Loan Document.

(B) CAPITALIZATION. As of the Closing Date, the authorized capital stock of Borrower is as set forth on SCHEDULE 4.1(B). All issued and outstanding shares of capital stock of Borrower are duly authorized and validly issued, fully paid, nonassessable, free and clear of all Liens and such shares were issued in compliance with all applicable state and federal laws concerning the issuance of securities. As of the Closing Date, the capital stock of Borrower is owned by the Persons and in the amounts set forth on SCHEDULE 4.1(B). As of the Closing Date, no shares of the capital stock of Borrower, other than those described above, are issued and outstanding. Except as set forth on SCHEDULE 4.1(B), as of the Closing Date, there are no preemptive or other outstanding rights, options, warrants, conversion rights or similar agreements or understandings for the purchase or acquisition from Borrower of any shares of capital stock or other securities of Borrower.

4.2 AUTHORIZATION OF BORROWING, NO CONFLICT. Borrower has the power and authority to incur the Obligations and to grant security interests in the Collateral. On the Closing Date, the execution, delivery and performance of the

Loan Documents by Borrower will have been duly authorized by all necessary action. The execution, delivery and performance by Borrower of each Loan Document to which it is a party and the consummation of the transactions contemplated by this Agreement and the other Loan Documents by Borrower do not contravene and will not be in contravention of any applicable law, the corporate charter or bylaws of Borrower or any agreement or order by which Borrower or Borrower's property is bound. This Agreement is, and the other Loan Documents, including the Notes, when executed and delivered will be, the legally valid and binding obligations of the Borrower, each enforceable against the Borrower, as applicable, in accordance with their respective terms.

4.3 FINANCIAL CONDITION. All financial statements concerning Borrower and the LLC which have been or will hereafter be furnished by Borrower and the LLC to Lender pursuant to this Agreement have been or will be prepared in accordance with GAAP consistently applied throughout the periods involved (except as disclosed therein) and do or will present fairly in all material respects the financial condition of the Persons covered thereby as at the dates thereof and the results of their operations for the periods then ended. The Pro Forma was prepared by Borrower based on the unaudited balance sheet of The Amalgamated Sugar Company dated September 30, 1996. The Projections delivered and to be delivered have been and will be prepared by Borrower in light of the past operations of the business of Borrower and the LLC, and such Projections represent and will represent the good faith estimate of Borrower and its board members concerning the most probable course of its business as of the date such Projections are prepared and delivered. The Projections have been reviewed by

Eide Helmeke PLLP and such firm has issued a review report on such Projections which has been delivered to Lender.

4.4 INDEBTEDNESS AND LIABILITIES. Borrower has no (A) Indebtedness except pursuant to this Agreement and the Loan Documents; or (B) Liabilities other than as reflected on the Pro Forma or as incurred in the ordinary course of business following the date of the Pro Forma.

4.5 NAMES. Snake River Sugar Company is the only name, tradename, fictitious name or business name under which Borrower currently conducts business or under which Borrower (or any predecessor in interest of Borrower) has at any time during the past five years conducted business.

4.6 LOCATIONS; FEIN. The Borrower's principal place of business and the location of Borrower's books and records is 525 Good Avenue, Nyssa, Oregon 97913, and such location is Borrower's sole office and location for its business and the Collateral. Borrower's federal employer identification number is set forth on the signature page of this Agreement.

4.7 TITLE TO PROPERTIES; LIENS. Borrower has good, sufficient and legal title, subject to Permitted Encumbrances, to all of its properties and assets. Except for Permitted Encumbrances, all such properties and assets are free and clear of Liens.

4.8 LITIGATION; ADVERSE FACTS. There are no judgments outstanding against Borrower or affecting any property of Borrower nor is there any action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration now pending or, to the best knowledge of Borrower after due inquiry, threatened, against or affecting Borrower or any property of Borrower which

could reasonably be expected to result in any Material Adverse Effect. Borrower has not received any opinion or memorandum or legal advice from legal counsel to the effect that it is exposed to any liability which could reasonably be expected to result in any Material Adverse Effect.

4.9 PAYMENT OF TAXES. All material tax returns and reports of Borrower required to be filed by it have been timely filed, and all taxes, assessments, fees and other governmental charges upon Borrower and upon its properties, assets, income and franchises which are shown on such returns as due and payable have been paid when due and payable. None of the United States income tax returns of Borrower are under audit. No tax liens have been filed and no claims (except as otherwise permitted by SUBSECTION 5.6) are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of Borrower in respect of any taxes or other governmental charges are in accordance with GAAP.

4.10 PERFORMANCE OF AGREEMENTS. Borrower is not in material default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any material contractual obligation of Borrower, and, to the best of Borrower's knowledge, no condition exists that, with the giving of notice or the lapse of time or both, would constitute such a material default.

4.11 EMPLOYEE BENEFIT PLANS. Borrower and each ERISA Affiliate is in compliance in all material respects with all applicable provisions of ERISA, the IRC and all other applicable laws and the regulations and interpretations thereof with respect to all Employee Benefit Plans. No material liability has been incurred by Borrower or any ERISA Affiliate which remains unsatisfied for any funding obligation, taxes or penalties with respect to any Employee Benefit Plan.

4.12 INTELLECTUAL PROPERTY. As of the Closing Date, Borrower does not own, and is not licensed to use and does not otherwise have the right to use, any Intellectual Property, other than its corporate name.

4.13 BROKER'S FEES. No broker's or finder's fee or commission will be payable by Borrower with respect to the issuance and sale of the Notes or any of the transactions contemplated by this Agreement.

4.14 ENVIRONMENTAL COMPLIANCE. Borrower has been and is currently in compliance with all applicable Environmental Laws, including obtaining and maintaining in effect all permits, licenses or other authorizations required by applicable Environmental Laws, the noncompliance with which could have a Material Adverse Effect. There are no claims, liabilities, investigations, litigation, administrative proceedings, whether pending or threatened, or judgments or orders relating to any Hazardous Materials asserted or threatened against Borrower or relating to any real property currently or formerly owned, leased or operated by Borrower.

4.15 SOLVENCY. As of and from and after the date of this Agreement, Borrower: (A) owns and will own assets the fair salable value of which are (I) greater than the total amount of its liabilities (including contingent liabilities) and (II) greater than the amount that will be required to pay probable liabilities as they mature; (B) has capital that is not unreasonably

small in relation to its business as presently conducted or any contemplated or undertaken transaction; and (C) does not intend to incur and does not believe that it will incur debts beyond its ability to pay such debts as they become due.

4.16 DISCLOSURE. No representation or warranty of Borrower contained in this Agreement, the financial statements, the other Loan Documents, or any other document, certificate or written statement furnished to Lender by or on behalf of Borrower for use in connection with the Loan Documents contains any untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. The Projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by Borrower to be reasonable at the time made, it being recognized by Lender that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. There is no material fact known to Borrower that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed in this Agreement or in such other documents, certificates and statements furnished to Lender for use in connection with the transactions contemplated by this Agreement.

4.17 INSURANCE. Borrower maintains adequate insurance policies for public liability, property damage for its business and properties, product liability, and business interruption, no notice of cancellation has been received with respect to such policies and Borrower is in compliance with all conditions contained in such policies.

4.18 COMPLIANCE WITH LAWS. Borrower is not in violation of any law, ordinance, rule, regulation, order, policy, guideline or other requirement of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of its business or the ownership of its properties, including, without limitation, any violation relating to any use, release, storage, transport or disposal of any Hazardous Material, which violation would subject Borrower or any of its officers to criminal liability or have a Material Adverse Effect and no such violation has been alleged.

4.19 BANK ACCOUNTS. SCHEDULE 4.19 sets forth the account numbers and locations of all bank accounts of Borrower as of the Closing Date.

4.20 SUBSIDIARIES. Borrower has no Subsidiaries other than the LLC.

4.21 EMPLOYEE MATTERS. (A) no employee of Borrower is subject to any collective bargaining agreement, (B) no petition for certification or union election is pending with respect to the employees of Borrower and no union or collective bargaining unit has sought such certification or recognition with respect to the employees of Borrower and (C) there are no strikes, slowdowns, work stoppages or controversies pending or, to the best knowledge of Borrower after due inquiry, threatened between Borrower and its employees, other than employee grievances arising in the ordinary course of business, which could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Borrower is not a party to any employment contract.

4.22 GOVERNMENTAL REGULATION. Borrower is not, and after giving effect to

the application of the proceeds of the Loan will not be, subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or the Investment Company Act of 1940 or to any federal or state statute or regulation limiting its ability to incur indebtedness for borrowed money.

SECTION 5 AFFIRMATIVE COVENANTS

Borrower covenants and agrees that until payment in full of all Obligations, unless Lender shall otherwise give its prior written consent, Borrower shall perform, and shall cause each of its Subsidiaries to perform, all covenants in this SECTION 5 applicable to such Person.

5.1 FINANCIAL STATEMENTS AND OTHER REPORTS. Borrower will maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of financial statements in conformity with GAAP. Borrower will deliver to Lender the financial statements and other reports described below.

(A) MONTHLY FINANCIALS. As soon as available and in any event within thirty (30) days after the end of each month, Borrower will deliver (1) the unaudited consolidated and consolidating balance sheet of Borrower and its Subsidiaries as at the end of such month and the related unaudited consolidated and consolidating statements of income, partners' equity and cash flow for such month and for the period from the beginning of the then current Fiscal Year to the end of such month, and (2) a schedule of the outstanding Indebtedness for borrowed money of Borrower and its Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan.

(B) YEAR-END FINANCIALS. As soon as available and in any event within ninety (90) days after the end of each Fiscal Year, Borrower will deliver: (1) the audited consolidated balance sheet of Borrower and its Subsidiaries as at the end of such year and the related audited consolidated statements of income, shareholders' equity and cash flow for such Fiscal Year; (2) a schedule of the outstanding Indebtedness of Borrower and its Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan; and (3) a report with respect to the financial statements from a firm of independent certified public accountants selected by Borrower, which report shall be unqualified as to going concern and scope of audit of Borrower and its Subsidiaries and shall state that (A) such consolidated financial statements present fairly the consolidated financial position of Borrower and its Subsidiaries as at the dates indicated and the results of their operations and cash flow for the periods indicated in conformity with GAAP applied on a basis consistent with prior years and (B) that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards; and (4) copies of the consolidating financial statements of Borrower and its Subsidiaries, including (A) consolidating balance sheets of Borrower and its Subsidiaries as at the end of such Fiscal Year showing intercompany eliminations and (B) related consolidating statements of earnings of Borrower and its Subsidiaries showing intercompany eliminations.

(C) ACCOUNTANTS' CERTIFICATION AND REPORTS. Together with each delivery of audited consolidated financial statements of Borrower and its Subsidiaries pursuant to SUBSECTION 5.1(B), Borrower will deliver (1) a written statement by its independent certified public accountants (A) stating that the

examination has included a review of the terms of this Agreement as same relate to accounting matters and (B) stating whether, in connection with the examination, any condition or event that constitutes a Default or an Event of Default has come to their attention and, if such a condition or event has come to their attention, specifying the nature and period of existence thereof. Promptly upon receipt thereof, Borrower will deliver copies of all significant reports submitted to Borrower by independent public accountants in connection with each annual, interim or special audit of the financial statements of Borrower made by such accountants, including the comment letter submitted by such accountants to management in connection with their annual audit.

(D) COMPLIANCE CERTIFICATE. Together with the delivery of each set of financial statements referenced in subparts (A) and (B) of this SUBSECTION 5.1, Borrower will deliver to Lender a Compliance Certificate evidencing the Borrower's continued compliance with its obligations and agreements in this Agreement, together with copies of the calculations and work-up employed to determine Borrower's compliance or noncompliance with the financial covenants set forth in SECTION 6.

(E) MANAGEMENT REPORT. Together with each delivery of financial statements of Borrower and its Subsidiaries pursuant to subdivisions (A) and (B) of this SUBSECTION 5.1, Borrower will deliver a management report: (1) describing the operations and financial condition of Borrower and its Subsidiaries for the month then ended and the portion of the current Fiscal Year then elapsed (or for the Fiscal Year then ended in the case of year-end financials); (2) setting forth in comparative form the corresponding figures for the corresponding periods of the previous Fiscal Year and the corresponding figures from the most recent Projections for the current Fiscal Year delivered to Lender pursuant to SUBSECTION 5.1(L); and (3) discussing the reasons for any significant variations. The information above shall be presented in reasonable detail and shall be certified by the chief financial officer of Borrower to the effect that such information fairly presents in all material respects the results of operations and financial condition of Borrower and its Subsidiaries as at the dates and for the periods indicated.

(F) GOVERNMENT NOTICES. Borrower will deliver to Lender promptly after receipt copies of all material notices, requests, subpoenas, inquiries or other writings received from any governmental agency concerning any Employee Benefit Plan, the violation or alleged violation of any Environmental Laws, the storage, use or disposal of any Hazardous Material, the violation or alleged violation of the Fair Labor Standards Act or Borrower's payment or non-payment of any taxes including any tax audit.

(G) EVENTS OF DEFAULT, ETC. Promptly upon any officer of Borrower obtaining knowledge of any of the following events or conditions, Borrower shall deliver a certificate of Borrower's chief executive officer specifying the nature and period of existence of such condition or event and what action Borrower has taken, is taking and proposes to take with respect thereto: (1) any condition or event that constitutes an Event of Default or Default; (2) any notice of default that any Person has given to Borrower or any of its Subsidiaries or any other action taken with respect to a claimed default; or (3) any Material Adverse Effect.

(H) TRADE NAMES. Borrower and each of its Subsidiaries will give Lender at least thirty (30) days advance written notice of any change of name or of any new trade name or fictitious business name. Borrower's use of any trade name or fictitious business name will be in compliance with all laws regarding the use of such names.

(I) LOCATIONS. Borrower will give Lender at least thirty (30) days advance written notice of any change in Borrower's principal place of business or any change in the location of its books and records or the Collateral or of any new location for its books and records or the Collateral.

(J) BANK ACCOUNTS. Borrower will give Lender prompt notice of any new bank accounts Borrower or any of its Subsidiaries intends to establish prior to its their opening same.

(K) LITIGATION. Promptly upon any officer of Borrower or its Subsidiaries obtaining knowledge of (1) the institution of any action, suit, proceeding, governmental investigation or arbitration against or affecting Borrower or any of its Subsidiaries or any property of Borrower or any of its Subsidiaries not previously disclosed by Borrower to Lender or (2) any material development in any action, suit, proceeding, governmental investigation or arbitration at any time pending against or affecting Borrower or any of its Subsidiaries or any property of Borrower or any of its Subsidiaries which is reasonably likely to have a Material Adverse Effect, Borrower will promptly give notice thereof to Lender and provide such other information as may be reasonably available to them to enable Lender and its counsel to evaluate such matter.

(L) PROJECTIONS. As soon as available and in any event no later than 90 days prior to the start of Borrower's Fiscal Year, Borrower will deliver consolidated and consolidating Projections of Borrower and its Subsidiaries for the forthcoming Fiscal Year, month by month.

(M) LLC NOTICES AND FINANCIALS. Borrower shall promptly deliver copies of all notices given or received by the LLC to Borrower, any other member of the LLC, or any lender to the LLC with respect to noncompliance with any term or condition of the LLC's organizational documents and loan agreements (including the LLC Indebtedness), and shall promptly notify Lender of any potential or actual event of default with respect to the LLC Indebtedness.

Borrower shall promptly deliver to Lender all financial statements of the LLC required to be delivered to the members of the LLC pursuant to the Company Agreement.

(N) OTHER INFORMATION. With reasonable promptness, Borrower will deliver such other information and data with respect to Borrower, the LLC or the Collateral as Lender may reasonably request from time to time.

5.2 ACCESS TO ACCOUNTANTS. Borrower authorizes Lender to discuss the financial condition and financial statements of Borrower and its Subsidiaries with Borrower's independent public accountants upon reasonable notice to Borrower of its intention to do so, and authorizes such accountants to respond to all of Lender's inquiries.

5.3 INSPECTION. Borrower shall permit Lender and any authorized representatives designated by Lender to visit and inspect any of the properties of Borrower or any of its Subsidiaries, upon reasonable notice and at reasonable times, including its and their financial and accounting records, and to make copies and take extracts therefrom, and to discuss its and their affairs,

finances and business with its and their officers and independent public accountants, at such reasonable times during normal business hours and as often as may be reasonably requested.

5.4 COLLATERAL RECORDS. Borrower shall keep full and accurate books and records relating to the Collateral and shall mark such books and records to indicate Lender's security interests in the Collateral.

5.5 CORPORATE EXISTENCE, ETC.. Borrower will, and will cause each of its Subsidiaries to, at all times preserve and keep in full force and effect its corporate existence, as the case may be, and all rights and franchises material to its business. Borrower will promptly notify Lender of any change in its or any of its Subsidiaries' ownership or corporate structure. Borrower shall take such action as shall be necessary such that each of the representations and warranties set forth in SECTION 4 of this Agreement continues to be true and correct in all material respects.

5.6 PAYMENT OF TAXES. Borrower will, and will cause each of its Subsidiaries to, pay all taxes, assessments and other governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon provided that no such tax need be paid if Borrower or one of its Subsidiaries is contesting same in good faith by appropriate proceedings promptly instituted and diligently conducted and if Borrower or such Subsidiary has established appropriate reserves as shall be required in conformity with GAAP.

5.7 MAINTENANCE OF PROPERTIES; INSURANCE. Borrower will maintain or cause to be maintained in good repair, working order and condition all material properties used in the business of Borrower and its Subsidiaries and will make or cause to be made all appropriate repairs, renewals and replacements thereof. Borrower will maintain or cause to be maintained, with financially sound and reputable insurers, public liability and property damage insurance with respect to its business and properties and the business and properties of its Subsidiaries against loss or damage of the kinds customarily carried or maintained by corporations of established reputation engaged in similar businesses and in amounts reasonably acceptable to Lender. Within 15 days of the Closing Date, Borrower shall cause Lender to be named as loss payee on all insurance policies relating to any Collateral and as additional insured under all liability policies, in each case pursuant to appropriate endorsements in form and substance satisfactory to Lender and shall collaterally assign to Lender as security for the payment of the Obligations any business interruption insurance of Borrower. Borrower shall apply any proceeds received from any policies of insurance relating to any Collateral to the Obligations as set forth in SUBSECTION 2.4(B)(1).

5.8 COMPLIANCE WITH LAWS. Borrower will, and will cause each of its Subsidiaries to, comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority as now in effect and which may be imposed in the future in all jurisdictions in which Borrower or any of its Subsidiaries is now doing business or may hereafter be doing business, other than those laws the noncompliance with which would not have a Material Adverse Effect.

5.9 FURTHER ASSURANCES. Borrower shall, and shall cause each of its Subsidiaries to, from time to time, execute such guaranties, financing or continuation statements, documents, security agreements, reports and other documents or deliver to Lender such instruments, certificates of title or other documents as Lender at any time may reasonably request to evidence, perfect or otherwise implement the guaranties and security for repayment of the Obligations provided for in the Loan Documents. At Lender's request, Borrower shall cause any Subsidiaries of Borrower promptly to guaranty the Obligations and to grant to Lender security interests in the real, personal and mixed property of such Subsidiary to secure the Obligations.

5.10 COLLATERAL LOCATIONS. Borrower will keep the Collateral at the locations specified in SECTION 4.6. With respect to any new location (which in any event shall be within the continental United States), Borrower will execute such documents and take such actions as Lender deems necessary to perfect and protect the security interests of the Lender in the Collateral prior to the transfer or removal of any Collateral to such new location.

5.11 BAILEES. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of Borrower's agents or processors, Borrower shall, upon the request of Lender, notify such warehouseman, bailee, agent or processor of the security interests in favor of Lender created hereby and shall instruct such Person to hold all such Collateral for Lender's account subject to Lender's instructions.

5.12 COLLECTION OF ACCOUNTS AND PAYMENTS. Within 15 days of the Closing, Borrower shall establish lockboxes and blocked accounts (collectively, "BLOCKED ACCOUNTS") in Borrower's name with such banks (collectively, "COLLECTING BANKS") as are acceptable to Lender (subject to irrevocable instructions acceptable to Lender as hereinafter set forth) to which the all account debtors shall directly remit all payments on Accounts and in which Borrower will immediately deposit all payments constituting proceeds of Collateral (including any distributions received from the LLC) in the identical form in which such payment was made, whether by cash or check. The Collecting Banks shall acknowledge and agree, in a manner satisfactory to Lender, that all payments made to the Blocked Accounts are the sole and exclusive property of Lender, and that the Collecting Banks have no right of setoff against the Blocked Accounts and that all such payments received will be promptly transferred to Lender's Account. Borrower hereby agrees that all payments received by Lender, whether by cash, check, wire transfer or any other instrument, made to such Blocked Accounts or otherwise received by Lender and whether on the Accounts or as proceeds of other Collateral or otherwise will be the sole and exclusive property of Lender. Borrower shall irrevocably instruct each Collecting Bank that each Collecting Bank shall promptly transfer all payments or deposits to the Blocked Accounts into Lender's Account. Borrower, and any of its Affiliates, employees, Lenders or other Persons acting for or in concert with Borrower, shall, acting as trustee for Lender, receive, as the sole and exclusive property of Lender, any monies, checks, notes, drafts or any other payments relating to and/or proceeds of Accounts or other Collateral which come into the possession or under the control of Borrower or any of Borrower's Affiliates, employees, agents or other Persons acting for or in concert with Borrower, and immediately upon receipt thereof, Borrower or such Persons shall remit the same or cause the same to be remitted, in kind, to the Blocked Accounts or to Lender at its address set forth in SUBSECTION 9.6 below.

5.13 REFINANCING. Borrower shall use its best efforts (including payment of any reasonable commitment fees and expenses) to cause at least $100 million

of the Loans to be refinanced (other than through Scheduled Installments and mandatory prepayments) as soon as reasonably practicable. In connection with such refinancing, Borrower shall agree to any reasonable commercial loan terms and conditions, provided, however, that this SUBSECTION 5.13 shall not require Borrower to agree to pay interest in excess of commercially reasonable terms and conditions.

SECTION 6 FINANCIAL COVENANTS

Borrower covenants and agrees that so long as any of the Loans remain in effect and until payment in full of all Obligations (other than continuing indemnity obligations), Borrower shall comply with and shall cause each of its Subsidiaries to comply with all covenants in this SECTION 6 applicable to such Person.

6.1 TANGIBLE NET WORTH. Borrower shall maintain Tangible Net Worth of at least $88 million at the end of each monthly accounting period.

6.2 CAPITAL EXPENDITURE LIMITS. Borrower will make no Capital Expenditures and will not enter into any Capital Lease. The aggregate amount of all Capital Expenditures of Borrower's Subsidiaries (excluding trade-ins and excluding Capital Expenditures in respect of replacement assets to the extent funded with casualty insurance proceeds) will not exceed $35,000,000 in any Fiscal Year of the Company plus the two previous Fiscal Years (provided than, for purposes of this SUBSECTION 6.2, Capital Expenditures for each Fiscal Year prior to January 1, 1997 shall be deemed to be an amount equal to $12,000,000). In the event that any Subsidiary of Borrower enters into a Capital Lease or other contract with respect to fixed assets, for purposes of calculating Capital Expenditures under this subsection only, the amount of the Capital Lease or contract initially capitalized on such Subsidiary's balance sheet prepared in accordance with GAAP shall be considered expended in full on the date that such Subsidiary enters into such Capital Lease or contract.

SECTION 7. NEGATIVE COVENANTS

Borrower covenants and agrees that so long as any of the Loans remain in effect and until payment in full of all Obligations (other than continuing indemnity obligations), unless Borrower has received the prior written consent of Lender:

7.1 INDEBTEDNESS AND LIABILITIES. Borrower shall not directly or indirectly create, incur, assume, guaranty, or otherwise become or remain directly or indirectly liable, on a fixed or contingent basis, with respect to, any Indebtedness except the Obligations and except for Borrower's guarantee dated as of the date of this Agreement of certain obligations to Henry's Fork Financial, Inc. of Snake River Farms II, an Idaho limited liability company (`the Guarantee''). Borrower shall not incur any Liabilities except for the Guarantee and for trade payables and normal accruals in the ordinary course of business not yet due and payable or with respect to which Borrower is contesting in good faith the amount or validity thereof by appropriate proceedings and then only to the extent that Borrower has established adequate reserves therefor, if appropriate under GAAP.

7.2 GUARANTIES. Except for the Guarantee and for endorsements of instruments or items of payment for collection in the ordinary course of business, Borrower shall not guaranty, endorse, or otherwise in any way become or be responsible for any obligations of any other Person, whether directly or

indirectly by agreement to purchase the indebtedness of any other Person or through the purchase of goods, supplies or services, or maintenance of working capital or other balance sheet covenants or conditions, or by way of stock purchase, capital contribution, advance or loan for the purpose of paying or discharging any indebtedness or obligation of such other Person or otherwise.

7.3 TRANSFERS, LIENS AND RELATED MATTERS.

(A) TRANSFERS. Except as a result of condemnation or casualty loss, Borrower shall not sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to any of the Collateral or the assets of Borrower, except that Borrower may (I) sell inventory in the ordinary course of business; and (II) make Asset Dispositions if all of the following conditions are met: (1) the market value of assets sold or otherwise disposed of in any single transaction or series of related transactions does not exceed $1,000,000 and the aggregate market value of assets sold or otherwise disposed of in any Fiscal Year does not exceed $5,000,000; (2) the consideration received is at least equal to the fair market value of such assets; (3) the sole consideration received is cash or Cash Equivalents; (4) the net proceeds of such Asset Disposition are applied as required by SUBSECTION 2.4(B); (5) after giving effect to the sale or other disposition of the assets included within the Asset Disposition and the repayment of the Obligations with the proceeds thereof, Borrower is in compliance on a pro forma basis with the covenants set forth in SECTION 6 recomputed for the most recently ended month for which information is available and is in compliance with all other terms and conditions contained in this Agreement; and (6) no Default or Event of Default shall result from such sale or other disposition.

(B) LIENS. Except for Permitted Encumbrances, Borrower shall not directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any of the Collateral or the assets of such Person or any proceeds, income or profits therefrom.

(C) NO NEGATIVE PLEDGES. Borrower shall not enter into or assume any agreement (other than the Loan Documents) prohibiting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired.

(D) NO RESTRICTIONS ON SUBSIDIARY DISTRIBUTIONS TO BORROWER. Borrower shall not directly or indirectly create or otherwise cause or suffer to exist or become effective or enter into any agreement permitting or providing for, whether at the time of entering into such agreement or upon the occurrence of an event subsequent to such time, any consensual encumbrance or restriction of any kind on the ability of any Subsidiary to: (1) pay dividends or make any other distribution on any of such Subsidiary's capital stock or equity interest owned by Borrower or any Subsidiary of Borrower; (2) subject to subordination provisions, pay any indebtedness owed to Borrower or to any other Subsidiary; (3) make loans or advances to Borrower or any other Subsidiary; or (4) transfer any of its property or assets to Borrower or any other Subsidiary, other than pursuant to the LLC Indebtedness.

7.4 INVESTMENTS AND LOANS. Borrower shall not make or permit to exist investments in or loans to any other Person, except: (1) Cash Equivalents; (2)

loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business in an aggregate outstanding amount not in excess of $10,000 at any time; (3) Investments received by or issued to Borrower or any Subsidiary of Borrower on account or in settlement of any claim of Borrower or such Subsidiary against any other Person in any bankruptcy or similar insolvency proceeding involving such Person, and (4) loans to Valhi, Inc. in the aggregate principal amount of $250,000,000.

7.5 <u>RESTRICTED JUNIOR PAYMENTS</u>. Borrower shall not directly or indirectly declare, order, pay, make or set apart any sum for any Restricted Junior Payment, or permit any Subsidiary (including the LLC) to directly or indirectly declare, order, pay, make or set apart any sum for any Restricted Junior Payment, except that:

(A) The LLC may make Restricted Junior Payments with respect to its membership interests to the extent set forth in the Company Agreement and with respect to the purchase of sugarbeets from Borrower, so long as such expenses do not exceed the amounts set forth in the contract set forth as Exhibit D-7 to the Formation Agreement); and

(B) so long as before and after giving effect to each such distribution, no Event of Default shall have occurred and be continuing, the Borrower may make payments to its members in connection with the purchase of sugarbeets from Borrower's members, so long as such payments do not exceed the amounts to be received from the LLC pursuant to the Memorandum of Agreement set forth as Exhibit D-7 to the Formation Agreement), <u>provided</u>, that not less than three Business Days prior to the date of any such payments, Borrower shall have delivered to Lender a certificate of the Borrower's chief executive officer setting forth in such form and with such specificity as shall be reasonably satisfactory to Lender the calculation of the amount of each such payments; and

(C) so long as before and after giving effect to each such distribution, no Event of Default shall have occurred and be continuing, following the completion of Borrower's audit for its Fiscal Year, Borrower may make tax distributions to its members in an amount not to exceed 30% of the taxable income realized by such members during such completed Fiscal Year, <u>provided</u>, that not less than three Business Days prior to the date of any such distribution, Borrower shall have delivered to Lender a certificate of the Borrower's chief executive officer setting forth in such form and with such specificity as shall be reasonably satisfactory to Lender the calculation of the amount of each such distribution.

7.6 <u>RESTRICTION ON FUNDAMENTAL CHANGES</u>. Borrower shall not: (A) enter into any transaction of merger or consolidation; (B) liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution); (C) convey, sell, lease, sublease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets, or the capital stock of any of its Subsidiaries or the membership interest in the LLC, whether now owned or hereafter acquired; or (D) acquire by purchase or otherwise all or any substantial part of the business or assets of, or stock or other evidence of beneficial ownership of, any Person.

7.7 <u>CHANGES TO CERTAIN DOCUMENTS</u>. Borrower shall not amend, restate, supplement or otherwise modify (A) any term or provision of its articles of incorporation or by-laws, or (B) any of the Formation Documents, except for any of the foregoing which would not singly or in the aggregate have, in Lender's good faith opinion (based upon reasonable commercial standards of fair dealing), a material and adverse affect on (I) Borrower's ability to perform and satisfy

its obligations and liabilities under this Agreement or any of the other Loan Documents or (II) any right or remedies of Lender under this Agreement or any of the other Loan Documents and in any event (1) which would not result in any increase in the amount of any payment or distribution by Borrower to any Affiliate or member of Borrower restricted pursuant to the terms hereof, including, without limitation, any Restricted Junior Payment and (2) are not otherwise expressly prohibited by the terms of any of the Loan Documents. Borrower shall not permit the LLC to amend, restate, supplement or otherwise modify any provision of the documents related to the LLC Indebtedness; provided, however that the foregoing shall not prevent any amendment, restatement, supplement, modification or waiver which (A) does no more than extend the

maturity date of the LLC Indebtedness, or (B) would not singly or in the aggregate have, in Lender's good faith opinion (based upon reasonable commercial standards of fair dealing), a material and adverse affect on Borrower's ability to perform and satisfy its obligations and liabilities under this Agreement or any of the other Loan Documents.

7.8 TRANSACTIONS WITH AFFILIATES AND MEMBERS. Borrower shall not directly or indirectly, enter into or permit to exist any transaction (including the purchase, sale or exchange of property or the rendering of any service) with any Affiliate or with any officer, director, employee or member of Borrower, except for (A) the purchase of sugarbeets from Borrower's members, other than pursuant to the terms of the contract attached hereto as Exhibit C, and (B) transactions (other than the purchase of sugarbeets) in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms which are fully disclosed to Lender and which are no less favorable to Borrower than it would obtain in a comparable arm's length transaction with an unaffiliated Person.

7.9 ENVIRONMENTAL LIABILITIES. Borrower shall not: (A) violate any applicable Environmental Law; (B) dispose of any Hazardous Materials (except in accordance with applicable law) into or onto or from, any real property owned, leased or operated by Borrower; or (C) permit any Lien imposed pursuant to any Environmental Law to be imposed or to remain on any real property owned, leased or operated by Borrower.

7.10 CONDUCT OF BUSINESS. From and after the Closing Date, Borrower shall not engage in any business other than businesses of the type engaged in by Borrower on the Closing Date, or cease to conduct its operations or its business for any reason. Borrower shall, and shall cause the LLC to, comply with all provisions of the Formation Documents, and Borrower shall not permit the LLC to take any action requiring consent of any member of the LLC pursuant to the Company Agreement.

7.11 COMPLIANCE WITH ERISA. Borrower shall not establish any new Employee Benefit Plan or amend any existing Employee Benefit Plan if the liability or increased liability resulting from such establishment or amendment is material. Borrower shall not fail to establish, maintain and operate each Employee Benefit Plan in compliance in all material respects with the provisions of ERISA, the IRC and all other applicable laws and the regulations and interpretations thereof.

7.12 TAX CONSOLIDATIONS. Borrower shall not file or consent to the filing of any consolidated income tax return with any Person.

7.13 SUBSIDIARIES. Borrower shall not establish, create or acquire any new

Subsidiaries.

7.14 FISCAL YEAR. Borrower shall not change its Fiscal Year.

7.15 PRESS RELEASE; PUBLIC OFFERING MATERIALS. Borrower shall not disclose the name of Lender in any press release or in any prospectus, proxy statement or other materials filed with any governmental entity relating to a public offering of the capital stock of Borrower or any Subsidiary of Borrower.

7.16 BANK ACCOUNTS. Borrower shall not establish any new bank accounts, or amend or terminate any Blocked Account or lockbox agreement without Lender's prior written consent.

SECTION 8 DEFAULT, RIGHTS AND REMEDIES

8.1 EVENT OF DEFAULT. "EVENT OF DEFAULT" shall mean the occurrence or existence of any one or more of the following:

(A) PAYMENT. Failure to make payment of any principal payment within 3 Business Days following the due date or any failure to make payment of any other Obligations within 5 days following the due date; or

(B) DEFAULT IN OTHER AGREEMENTS. (1) Failure of Borrower or any of its Subsidiaries to pay when due any principal on any Indebtedness within 3 Business Days following the due date, or failure of Borrower or any of its Subsidiaries to pay when due any interest on any Indebtedness within 5 days following the due date, (2) breach or default of Borrower under the Guarantee, or (3) breach or default of Borrower or any of its Subsidiaries with respect to any Indebtedness; if such failure to pay, breach or default entitles the holder to cause such Indebtedness having an individual principal amount in excess of $50,000 or having an aggregate principal amount in excess of $100,000 to become or be declared due prior to its stated maturity; or

(C) BREACH OF CERTAIN PROVISIONS. Failure of Borrower to perform or comply with any term or condition contained in SUBSECTIONS 5.1 (A), (B) and (C), 5.3 or 5.5 or contained in SECTION 6 or SECTION 7; or

(D) BREACH OF WARRANTY. Any representation, warranty, certification or other statement made by Borrower in any Loan Document or in any statement or certificate at any time given by such Person in writing pursuant or in connection with any Loan Document is false in any material respect on the date made; or

(E) OTHER DEFAULTS UNDER LOAN DOCUMENTS. Borrower defaults in the performance of or compliance with any term contained in this Agreement or the other Loan Documents and such default is not remedied or waived within ten (10) days after receipt by Borrower of notice from Lender of such default (other than occurrences described in other provisions of this SUBSECTION 8.1 for which a

different grace or cure period is specified or which constitute immediate Events of Default); or

(F) CHANGE IN CONTROL. A Change in Control shall occur; or

(G) INVOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC. (1) A court enters a decree or order for relief with respect to the Borrower or the LLC or any of Borrower's Subsidiaries in an involuntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (2) the continuance of any of the following events for ninety (90) days unless dismissed, bonded or discharged: (A) an involuntary case is commenced against the Borrower, the LLC or any of the Borrower's Subsidiaries, under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (B) a decree or order of a court for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Borrower, the LLC or any of the LLC's Subsidiaries, or over all or a substantial part of their respective property, is entered; or (C) an interim receiver, trustee or other custodian is appointed without the consent of the Borrower, the LLC or any of the Borrower's Subsidiaries, for all or a substantial part of the property of the Borrower, the LLC or any such Subsidiary; or

(H) VOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC. (1) An order for relief is entered with respect to the Borrower, the LLC or any of the Borrower's Subsidiaries or the Borrower, the LLC or any of the Borrower's Subsidiaries commences a voluntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law or consents to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or (2) the Borrower, the LLC or any of the Borrower's Subsidiaries makes any assignment for the benefit of creditors; or (3) the board of directors of the Borrower or any of its Subsidiaries (including the managers of the LLC) adopts any resolution or otherwise authorizes action to approve any of the actions referred to in this SUBSECTION 8.1(H); or

(I) LIENS. Any lien, levy or assessment is filed or recorded with respect to or otherwise imposed upon all or any part of the Collateral or the assets of Borrower or any of its Subsidiaries (including the LLC) by the United States or any department or instrumentality thereof or by any state, county, municipality or other governmental agency (other than Permitted Encumbrances) and such lien, levy or assessment is not stayed, vacated, paid or discharged within ten (10) days; or

(J) JUDGMENT AND ATTACHMENTS. Any money judgment, writ or warrant of attachment, or similar process involving (1) an amount in any individual case in excess of $25,000 or (2) an amount in the aggregate at any time in excess of $50,000 (in either case not adequately covered by insurance as to which the insurance company has acknowledged coverage) is entered or filed against Borrower or any of its Subsidiaries (including the LLC) or any of their respective assets and remains undischarged, unvacated, unbonded or unstayed for a period of thirty (30) days or in any event later than five (5) days prior to the date of any proposed sale thereunder; or

(K) DISSOLUTION. Any order, judgment or decree is entered against Borrower or any of its Subsidiaries (including the LLC) decreeing the dissolution or split up of Borrower or that Subsidiary and such order remains undischarged or unstayed for a period in excess of twenty (20) days; or

(L) SOLVENCY. Borrower ceases to be solvent (as represented by Borrower in SUBSECTION 4.15) or admits in writing its present or prospective inability to pay its debts as they become due; or

(M) INJUNCTION. Borrower or any of its Subsidiaries (including the LLC) is enjoined, restrained or in any way prevented by the order of any court or any administrative or regulatory agency from conducting all or any material part of its business and such order continues for more than thirty (30) days; or

(N) INVALIDITY OF LOAN DOCUMENTS. Any of the Loan Documents for any reason, other than a partial or full release in accordance with the terms thereof, ceases to be in full force and effect or is declared to be null and void, or Borrower denies that it has any further liability under any Loan Documents to which it is party, or gives notice to such effect; or

(O) FAILURE OF SECURITY. Lender does not have or ceases to have a valid and perfected first priority security interest in the Collateral (subject to Permitted Encumbrances), in each case, for any reason other than the failure of Lender to take any action within its control; or

(P) DAMAGE, STRIKE, CASUALTY. Any material damage to, or loss, theft or destruction of, any Collateral, whether or not insured, or any strike, lockout, labor dispute, embargo, condemnation, act of God or public enemy, or other casualty which causes, for more than fifteen (15) consecutive days (or, in the case of any strike, for more than thirty (30) consecutive days), the cessation or substantial curtailment of revenue producing activities at any facility of Borrower or any of its Subsidiaries (including the LLC) if any such event or circumstance could reasonably be expected to have a Material Adverse Effect; or

(Q) LICENSES AND PERMITS. The loss, suspension or revocation of, or failure to renew, any license or permit now held or hereafter acquired by Borrower or any of its Subsidiaries, (including the LLC) if such loss, suspension, revocation or failure to renew could reasonably be expected to have a Material Adverse Effect; or

(R) TAX STATUS. The Borrower ceases to be an agricultural cooperative taxed as an association or partnership for federal and applicable state income taxes.

8.2 ACCELERATION. Upon the occurrence of any Event of Default described in the foregoing SUBSECTIONS 8.1(G) or 8.1(H), all Obligations shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly

waived by Borrower. Upon the occurrence and during the continuance of any other Event of Default, Lender may, by written notice to Borrower, declare all or any portion of the Obligations to be, and the same shall forthwith become, immediately due and payable.

8.3 REMEDIES. If any Event of Default shall have occurred and be continuing, in addition to and not in limitation of any rights or remedies available to Lender at law or in equity, Lender 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 UCC (whether or not the UCC applies to the affected Collateral) and may also (A) notify any or all obligors on Accounts to make all payments directly to Lender; (B) require Borrower to, and Borrower hereby agrees that it will, at its expense and upon request of Lender forthwith, assemble all or part of the Collateral as directed by Lender and make it available to Lender at a place to be designated by Lender which is reasonably convenient to both parties; (C) withdraw all cash in the Blocked Accounts and apply such monies in payment of the Obligations in the manner provided in SUBSECTION 8.6; (D) without notice or demand or legal process, enter upon any premises of Borrower and take possession of the Collateral; 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 the Lender's offices or elsewhere, at such time or times, for cash, on credit or for future delivery, and at such price or prices and upon such other terms as Lender may deem commercially reasonable. Borrower agrees that, to the extent notice of sale shall be required by law, at least ten (10) days notice to Borrower 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. At any sale of the Collateral, if permitted by law, Lender may bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) for the purchase of the Collateral or any portion thereof for the account of Lender. Lender shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Borrower shall remain liable for any deficiency. Lender 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. To the extent permitted by law, Borrower hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter enacted. Lender shall not be required to proceed against any Collateral but may proceed against Borrower directly. Borrower agrees that, in view of the nature of the Collateral, the foregoing is commercially reasonable.

8.4 APPOINTMENT OF ATTORNEY-IN-FACT. Borrower hereby constitutes and appoints Lender as Borrower's attorney-in-fact with full authority in the place and stead of Borrower and in the name of Borrower, Lender or otherwise, from time to time in Lender's discretion to take any action and to execute any instrument that Lender may deem necessary or advisable to accomplish the purposes of this Agreement, including, (A) 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 any of the Collateral; (B) to adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereunder or allow any credit or discount thereon; (C) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with CLAUSE (A) above; (D) to file any claims or take any action or institute any proceedings that Lender may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Lender with respect to any of the Collateral; and (E) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, assignments, verifications and notices in connection with Accounts and other documents relating to the Collateral. The appointment of Lender as Borrower's attorney and Lender's rights and powers are coupled with an interest and are irrevocable until payment in full and complete performance of all of the Obligations.

8.5 LIMITATION ON DUTY OF LENDER WITH RESPECT TO COLLATERAL. Beyond the safe custody thereof, Lender shall have no duty with respect to any Collateral in its possession or control (or in the possession or control of any agent or bailee) or with respect to any income thereon or the preservation of rights against prior parties or any other rights pertaining thereto. Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which Lender accords its own property. Lender shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by Lender in good faith.

8.6 APPLICATION OF PROCEEDS. Upon the occurrence and during the continuance of an Event of Default, (A) Borrower irrevocably waives the right to direct the application of any and all payments at any time or times thereafter received by Lender from or on behalf of Borrower, and Borrower hereby irrevocably agrees that Lender shall have the continuing exclusive right to apply and to reapply any and all payments received at any time or times after the occurrence and during the continuance of an Event of Default against the Obligations in such manner as Lender may deem advisable notwithstanding any previous entry by Lender upon any books and records and (B) the proceeds of any sale of, or other realization upon, all or any part of the Collateral shall be applied: FIRST, to all fees, costs and expenses incurred by Lender with respect to this Agreement, the other Loan Documents or the Collateral; SECOND, to all fees due and owing to Lender; THIRD, to accrued and unpaid interest on the Obligations; FOURTH, to the principal amounts of the Obligations outstanding; and FIFTH, to any other indebtedness or obligations of Borrower owing to Lender.

8.7 LICENSE OF INTELLECTUAL PROPERTY. Borrower hereby assigns, transfers and conveys to Lender, effective upon the occurrence of any Event of Default hereunder, the non-exclusive right and license to use all Intellectual Property owned or used by Borrower together with any goodwill associated therewith, all to the extent necessary to enable Lender to realize on the Collateral and 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 Lender 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 Borrower by Lender.

8.8 WAIVERS, NON-EXCLUSIVE REMEDIES. No failure on the part of Lender to exercise, and no delay in exercising and no course of dealing with respect to, any right under this Agreement or the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise by Lender of any right under this Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right. The rights in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other remedies provided by law.

SECTION 9 MISCELLANEOUS

9.1 ASSIGNMENTS AND PARTICIPATIONS. Lender may assign its rights and delegate its obligations under this Agreement and further may assign, or sell participations in, all or any part of the Loans, the Notes or any other interest herein to an affiliate or to another Person. In the case of an assignment authorized under this SUBSECTION 9.1, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as it would if it were a Lender hereunder. Borrower hereby acknowledges and agrees that any assignment will give rise to a direct obligation of Borrower to the assignee and that the assignee shall be considered to be a "Lender". Lender may furnish any information concerning Borrower and its Subsidiaries in its possession from time to time to assignees and participants (including prospective assignees and participants).

9.2 SET OFF. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default, Lender, each assignee of Lender's interest, and each participant is hereby authorized by Borrower at any time or from time to time, without notice to Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all balances held by it at any of its offices for the account of Borrower or any of its Subsidiaries (regardless of whether such balances are then due to Borrower or its Subsidiaries) and any other property at any time held or owing by that Lender or assignee to or for the credit or for the account of Borrower against and on account of any of the Obligations then outstanding; provided, that no participant shall exercise such right without the prior written consent of Lender.

Borrower hereby agrees, to the fullest extent permitted by law, that any Lender, assignee or participant may exercise its right of setoff with respect to amounts in excess of its pro rata share of the Obligations (or, in the case of a participant, in excess of its pro rata participation interest in the Obligations) and that such Lender, assignee or participant, as the case may be, shall be deemed to have purchased for cash in the amount of such excess, participations in each other Lender's or holder's share of the Obligations.

9.3 EXPENSES AND ATTORNEYS' FEES. Whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to promptly pay all fees, costs and expenses incurred by Lender in connection with any matters contemplated by or arising out of this Agreement or the other Loan Documents including the following, and all such fees, costs and expenses shall be part of the Obligations, payable on demand and secured by the Collateral: (A) reasonable fees, costs and expenses (including attorneys' fees, allocated costs of internal counsel and fees of environmental consultants, accountants and other professionals retained by Lender) incurred in connection with the administration of the Loan Documents, the Loans, and any amendments, waivers, consents, forbearances and other modifications relating thereto or any subordination or intercreditor agreements; (B) reasonable fees, costs and expenses incurred in creating, perfecting and maintaining perfection of Liens in favor of Lender; (C) fees, costs, expenses and bank charges, including bank charges for returned checks, incurred by Lender in establishing, maintaining and handling lock box accounts, blocked accounts or other accounts for collection of the Collateral; and (D) reasonable fees, costs, expenses (including attorneys' fees and allocated costs of internal counsel) and costs of settlement incurred in collecting upon or enforcing rights against the Collateral or incurred in any action to enforce this Agreement or the other Loan Documents or to collect any payments due from Borrower under this Agreement or any other Loan Document or incurred in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement, whether in the nature of a "workout" or in connection with any insolvency or bankruptcy proceedings or otherwise.

9.4 INDEMNITY. In addition to the payment of expenses pursuant to

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SUBSECTION 9.3, whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to indemnify, pay and hold Lender, and the officers, directors, employees, agents, consultants, auditors, persons engaged by Lender to evaluate or monitor the Collateral, affiliates and attorneys of Lender and such holders (collectively called the "INDEMNITIES") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable fees and disbursements of counsel

for such Indemnities in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitee shall be designated a party thereto) that may be imposed on, incurred by, or asserted against that Indemnitee, in any manner relating to or arising out of this Agreement or the other Loan Documents, the consummation of the transactions contemplated by this Agreement, the statements contained in the letters of intent and commitment letters, if any, delivered by Lender, Lender's agreement to make the Loans hereunder, the use or intended use of the proceeds of any of the Loans or the exercise of any right or remedy hereunder or under the other Loan Documents (the "INDEMNIFIED LIABILITIES"); provided that Borrower shall
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have no obligation to an Indemnitee hereunder with respect to Indemnified Liabilities arising from the gross negligence or willful misconduct of that Indemnitee as determined by a court of competent jurisdiction.

9.5 AMENDMENTS AND WAIVERS. This Agreement together with the other Loan
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Documents constitutes the entire agreement between Lender and Borrower, and no amendment, modification, termination or waiver of any provision of this Agreement or of the other Loan Documents, or consent to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by Lender and Borrower. Each amendment, modification, termination or waiver shall be effective only in the specific instance and for the specific purpose for which it was given.

9.6 NOTICES. Unless otherwise specifically provided herein, all notices
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shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied or sent by overnight courier service or United States mail and shall be deemed to have been given: (A) if delivered in person, when delivered; (B) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 4:00 p.m. (Dallas time) or, if not, on the next succeeding Business Day; (C) if delivered by overnight courier, two days after delivery to such courier properly addressed; or (D) if by U.S. Mail, four Business Days after depositing in the United States mail, with postage prepaid and properly addressed:

If to Borrower: SNAKE RIVER SUGAR COMPANY
525 Good Avenue
Nyssa, Oregon 97913
Attn: Chairman
Telecopy No.:

With a copy to: Jones, Waldo, Holbrook & McDonough
1500 First Interstate Plaza
170 South Main Street
Salt Lake City, Utah 84101
Attn: Randon Wilson
Telecopy No.: (801) 328-0537

If to Lender: VALHI, INC.

Three Lincoln Centre
Suite 1700
5430 LBJ Freeway
Dallas, Texas 75240
Attn: General Counsel
Telecopy No.: (972) 450-4278

With a copy to: BARTLIT BECK HERMAN PALENCHAR & SCOTT
511 16th Street, Suite 700
Denver, Colorado 80202
Attn: James L. Palenchar
Telecopy No.: (303) 592-3140

or to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this SUBSECTION 9.6.

9.7 SURVIVAL OF WARRANTIES AND CERTAIN AGREEMENTS. All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement and the making of the Loans hereunder. Notwithstanding anything in this Agreement or implied by law to the contrary, the agreements of Borrower set forth in SUBSECTIONS 9.3 AND 9.4 shall survive the payment of the Loans and the termination of this Agreement.

9.8 INDULGENCE NOT WAIVER. No failure or delay on the part of Lender in the exercise of any power, right or privilege, or any course of dealing between the Borrower and Lender, 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 other or further exercise thereof or of any other right, power or privilege.

9.9 MARSHALING; PAYMENTS SET ASIDE. Lender shall not be under any obligation to marshal any assets in favor of Borrower or any other party or against or in payment of any or all of the Obligations. To the extent that Borrower makes a payment or payments to Lender or Lender enforces its security interests or exercise its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the Obligations or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor, shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

9.10 ENTIRE AGREEMENT. This Agreement, each Note, and the other Loan Documents embody the final, entire agreement among the parties hereto and supersede any and all prior commitments, agreements, representations, and understandings, whether written or oral, relating to the subject matter hereof and may not be contradicted or varied by evidence of prior, contemporaneous, or subsequent oral agreements or discussions of the parties hereto. There are no oral agreements among the parties hereto.

9.11 INDEPENDENCE OF COVENANTS. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or

condition exists.

9.12 SEVERABILITY. The invalidity, illegality or unenforceability in any jurisdiction of any provision in or obligation under this Agreement or the other Loan Documents shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement, or the other Loan Documents or of such provision or obligation in any other jurisdiction.

9.13 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.

9.14 APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF UTAH, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

9.15 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns except that Borrower may not assign its rights or obligations hereunder without the prior written consent of Lender.

9.16 NO FIDUCIARY RELATIONSHIP; LIMITATION OF LIABILITIES.

(A) No provision in this Agreement or in any of the other Loan Documents and no course of dealing between the parties shall be deemed to create any fiduciary duty by Lender to Borrower.

(B) Neither Lender, nor any affiliate, officer, director, shareholder, employee, attorney, or agent of Lender shall have any liability with respect to, and Borrower hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, or consequential damages suffered or incurred by Borrower in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents. Borrower hereby waives, releases, and agrees not to sue Lender or any of Lender's affiliates, officers, directors, employees, attorneys, or agents for punitive damages in respect of any claim in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the transactions contemplated hereby.

9.17 CONSENT TO JURISDICTION. BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF DALLAS, STATE OF TEXAS AND IRREVOCABLY AGREES THAT, SUBJECT TO LENDER'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TERM NOTE OR THE OTHER LOAN DOCUMENTS SHALL BE LITIGATED IN SUCH COURTS. BORROWER ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NON-EXCLUSIVE 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, THE TERM NOTE, THE OTHER LOAN DOCUMENTS OR THE OBLIGATIONS.

9.18 WAIVER OF JURY TRIAL. BORROWER AND LENDER HEREBY WAIVE THEIR

RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS. BORROWER AND LENDER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. BORROWER AND LENDER 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.

9.19 CONSTRUCTION. Borrower and Lender each acknowledge that it has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement and the other Loan Documents with its legal counsel and that this Agreement and the other Loan Documents shall be construed as if jointly drafted by Borrower and Lender.

9.20 COUNTERPARTS; EFFECTIVENESS. This Agreement and any amendments, waivers, consents, or supplements may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one and the same instrument. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

9.21 NO DUTY. All attorneys, accountants, appraisers, and other professional Persons and consultants retained by Lender shall have the right to act exclusively in the interest of Lender and shall have no duty of disclosure, duty of loyalty, duty of care, or other duty or obligation of any type or nature whatsoever to Borrower or any other Person.

Witness the due execution hereof by the respective duly authorized officers of the undersigned as of the date first written above.

SNAKE RIVER SUGAR COMPANY

By: _____________________

Title: __________________

FEIN: ___________________

VALHI, INC.

By: ______________________

EXHIBIT 21.1 SUBSIDIARIES OF THE REGISTRANT

Name of Corporation	Jurisdiction of Incorporation or Organization	% of Voting Securities Held (2)
Amcorp, Inc.	Delaware	100%
The Amalgamated Sugar Company	Utah	100
Amalgamated Research, Inc.	Idaho	100
Valcor, Inc.	Delaware	100
Medite Corporation	Delaware	100
CompX International Inc.	Delaware	100
Waterloo Furniture Components Limited	Canada	100
Sybra, Inc.	Michigan	100
Other wholly-owned		
Valmont Insurance Company	Vermont	100
New England Insurance Services Company	Vermont	100
Henry Forks Financial, Inc.	Delaware	100
Impex Realty Holding, Inc.	Delaware	100
Medco FSC, Inc.	U.S. Virgin Islands	100
NL Industries, Inc. (1)	New Jersey	56
Andrews County Holdings, Inc.	Delaware	100
Waste Control Specialists LLC	Delaware	50
Greenhill Technologies Inc.	Delaware	50

<FN>

(1) Subsidiaries of NL are incorporated by reference to Exhibit 21.1 of NL's Annual Report on Form 10-K for the year ended December 31, 1996

(File No. 1-640).

(2) Held by the Registrant or the indicated subsidiary of the Registrant.

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in Valhi, Inc.'s (i) Registration Statement (Form S-8 Nos. 33-53633, 33-48146, 33-41507 and 33-21758) and related Prospectus pertaining to the Valhi, Inc. 1987 Incentive Stock Option - - Stock Appreciation Rights Plan, and (ii) Registration Statement (Form S-8 No. 33-41508) and related Prospectus pertaining to the Valhi, Inc. 1990 Non-Employee Director Stock Option Plan, of our report dated March 7, 1997, on our audits of the consolidated financial statements and financial statement schedules of Valhi, Inc. and Subsidiaries included in this Annual Report on Form 10-K for the year ended December 31, 1996.

COOPERS & LYBRAND L.L.P.

Dallas, Texas
March 20, 1997

Exhibit 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in Valhi, Inc.'s (i) Registration Statement (Form S-8 Nos. 33-53633, 33-48146, 33-41507 and 33-21758) and related Prospectus pertaining to the Valhi, Inc. 1987 Incentive Stock Option - - Stock Appreciation Rights Plan, and (ii) Registration Statement (Form S-8 No. 33-41508) and related Prospectus pertaining to the Valhi, Inc. 1990 Non-Employee Director Stock Option Plan, of our report dated January 31, 1997, relating to the financial statements of The Amalgamated Sugar Company for each of the years in the three year period ended December 31, 1996, which report is included in this Annual Report on Form 10-K of Valhi, Inc. for the year ended December 31, 1996.

KPMG PEAT MARWICK LLP

Salt Lake City, Utah
March 20, 1997

Exhibit 23.3

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report related to Medite Corporation dated January 27, 1996, included in this Annual Report on Form 10-K of Valhi, Inc. for the year ended December 31, 1996, into Valhi, Inc.'s previously filed (i) Registration Statement (Form S-8 Nos. 33-53633, 33-48146, 33-41507 and 33-21758) and related Prospectus pertaining to the Valhi, Inc. 1987 Incentive Stock Option - Stock Appreciation Rights Plan, and (ii) Registration Statement (Form S-8 No. 33-41508) and related Prospectus pertaining to the Valhi, Inc. 1990 Non-Employee Director Stock Option Plan.

ARTHUR ANDERSEN LLP

Portland, Oregon,
March 20, 1997

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VALHI, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VALHI, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS NOTED BELOW AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS. SUCH SUMMARY FINANCIAL INFORMATION HAS BEEN RECLASSIFIED TO PRESENT THE RESULTS OF OPERATIONS OF (i) MEDITE CORPORATION AS DISCONTINUED OPERATIONS and (ii) THE AMALGAMATED SUGAR COMPANY ON THE EQUITY METHOD.
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<PERIOD-START>	JAN-01-1996	JAN-01-1996	JAN-01-1996
<PERIOD-END>	MAR-31-1996	JUN-30-1996	SEP-30-1996
<CASH>	142,468	144,669	160,613
<SECURITIES>	0	0	0
<RECEIVABLES>	249,645	258,206	243,427
<ALLOWANCES>	5,199	4,698	5,509
<INVENTORY>	467,842	373,642	318,257
<CURRENT-ASSETS>	872,378	788,665	439,861
<PP&E>	1,195,631	1,210,003	1,206,277
<DEPRECIATION>	345,163	359,429	348,725
<TOTAL-ASSETS>	2,495,730	2,417,988	2,368,890
<CURRENT-LIABILITIES>	598,036	561,657	570,532
<BONDS>	1,105,284	1,078,667	1,038,682
<PREFERRED-MANDATORY>	0	0	0
<PREFERRED>	0	0	0
<COMMON>	1,247	1,248	1,248
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<TOTAL-LIABILITY-AND-EQUITY>	2,495,730	2,417,988	2,368,890
<SALES>	289,203	603,404	902,681
<TOTAL-REVENUES>	289,203	603,404	902,681
<CGS>	211,704	449,296	685,265
<TOTAL-COSTS>	211,704	449,296	685,265
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<INTEREST-EXPENSE>	25,309	50,078	74,976
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<INCOME-TAX>	4,178	8,483	5,411
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VALHI, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS NOTED BELOW AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS. SUCH SUMMARY FINANCIAL INFORMATION HAS BEEN RECLASSIFIED TO PRESENT THE RESULTS OF OPERATIONS OF (i) MEDITE CORPORATION AS DISCONTINUED OPERATIONS and (ii) THE AMALTAMATED SUGAR COMPANY ON THE EQUITY METHOD.
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<PERIOD-START>	JAN-01-1995	JAN-01-1995	JAN-01-1995	JAN-01-1995
<PERIOD-END>	MAR-31-1995	JUN-30-1995	SEP-30-1995	DEC-31-1995
<CASH>	134,126	165,953	171,337	170,908
<SECURITIES>	26,516	2,387	0	0
<RECEIVABLES>	261,266	271,760	269,539	228,785
<ALLOWANCES>	4,710	5,054	5,116	4,972
<INVENTORY>	470,460	384,647	324,099	518,304
<CURRENT-ASSETS>	922,189	857,368	807,572	931,566
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<DEPRECIATION>	260,905	278,953	294,178	315,827
<TOTAL-ASSETS>	2,549,715	2,493,593	2,447,112	2,572,213
<CURRENT-LIABILITIES>	622,790	548,419	506,660	662,336
<BONDS>	1,123,698	1,102,119	1,083,383	1,084,284
<PREFERRED-MANDATORY>	0	0	0	0
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<COMMON>	1,245	1,245	1,246	1,246
<OTHER-SE>	216,995	237,775	255,775	273,045
<TOTAL-LIABILITY-AND-EQUITY>	2,549,715	2,493,593	2,447,112	2,572,213
<SALES>	297,801	629,319	933,565	1,219,547
<TOTAL-REVENUES>	297,801	629,319	933,565	1,219,547
<CGS>	209,425	437,766	648,882	841,847
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<LOSS-PROVISION>	(19)	277	430	557
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<NET-INCOME>	12,415	29,772	43,500	68,515
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VALHI, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS NOTED BELOW AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS. SUCH SUMMARY FINANCIAL INFORMATION HAS BEEN RECLASSIFIED TO PRESENT THE RESULTS OF OPERATIONS OF (i) MEDITE CORPORATION AS DISCONTINUED OPERATIONS and (ii) THE AMALGAMATED SUGAR COMPANY ON THE EQUITY METHOD.
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