

3SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2002  
-----

Commission file number 1-5467  
-----

-----  
VALHI, INC.  
-----

(Exact name of Registrant as specified in its charter)

Delaware  
-----

87-0110150  
-----

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

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

Registrant's telephone number, including area code:

(972) 233-1700  
-----

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

Yes  No   
--- -

Number of shares of common stock outstanding on July 31, 2002: 115,118,917

VALHI, INC. AND SUBSIDIARIES

INDEX

	Page number
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements.	

Consolidated Balance Sheets - December 31, 2001 and June 30, 2002	3
Consolidated Statements of Income - Three months and six months ended June 30, 2001 and 2002	5
Consolidated Statements of Comprehensive Income - Six months ended June 30, 2001 and 2002	6
Consolidated Statements of Cash Flows - Six months ended June 30, 2001 and 2002	7
Consolidated Statement of Stockholders' Equity - Six months ended June 30, 2002	9
Notes to Consolidated Financial Statements	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	23
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings.	43
Item 6. Exhibits and Reports on Form 8-K.	44

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 2001 ----	June 30, 2002 ----
Current assets:		
Cash and cash equivalents .....	\$ 154,413	\$ 195,470
Restricted cash equivalents .....	63,257	54,405
Marketable securities .....	18,465	17,022
Accounts and other receivables .....	162,310	191,236
Refundable income taxes .....	3,564	7,194
Receivable from affiliates .....	844	4,443
Inventories .....	262,733	209,698
Prepaid expenses .....	11,252	7,900
Deferred income taxes .....	12,999	12,431
	-----	-----
Total current assets .....	689,837	699,799
	-----	-----
Other assets:		
Marketable securities .....	186,549	181,525
Investment in affiliates .....	211,115	192,829
Receivable from affiliate .....	20,000	20,000
Loans and other receivables .....	105,940	108,663
Mining properties .....	12,410	13,705
Prepaid pension costs .....	18,411	22,266
Unrecognized net pension obligations .....	5,901	5,901
Goodwill .....	349,058	358,079
Other intangible assets .....	2,440	4,813
Deferred income taxes .....	3,818	3,829
Other .....	30,109	39,854
	-----	-----
Total other assets .....	945,751	951,464

Property and equipment:		
Land .....	28,721	30,682
Buildings .....	163,995	177,373
Equipment .....	569,001	635,221
Construction in progress .....	9,992	18,787
	771,709	862,063
Less accumulated depreciation .....	253,450	304,998
	518,259	557,065
	\$2,153,847	\$2,208,328

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

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2001 ----	June 30, 2002 ----
Current liabilities:		
Notes payable .....	\$ 46,201	\$ --
Current maturities of long-term debt .....	64,972	96,251
Accounts payable .....	114,474	71,980
Accrued liabilities .....	166,488	153,972
Payable to affiliates .....	38,148	31,979
Income taxes .....	9,578	9,034
Deferred income taxes .....	1,821	1,976
	441,682	365,192
Noncurrent liabilities:		
Long-term debt .....	497,215	576,408
Accrued OPEB costs .....	50,146	48,490
Accrued pension costs .....	33,823	33,132
Accrued environmental costs .....	54,392	55,545
Deferred income taxes .....	268,468	288,339
Other .....	32,642	31,544
	936,686	1,033,458
Minority interest .....	153,151	158,445
Stockholders' equity:		
Common stock .....	1,258	1,260
Additional paid-in capital .....	44,982	46,822
Retained earnings .....	656,408	645,154
Accumulated other comprehensive income:		
Marketable securities .....	86,654	88,535
Currency translation .....	(79,404)	(40,755)
Pension liabilities .....	(11,921)	(14,134)

Treasury stock .....	(75,649)	(75,649)
	-----	-----
Total stockholders' equity .....	622,328	651,233
	-----	-----
	\$ 2,153,847	\$ 2,208,328
	=====	=====

Commitments and contingencies (Note 1)

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2002	2001	2002
	----	----	----	----
Revenues and other income:				
Net sales .....	\$ 276,270	\$ 279,051	\$565,105	\$ 532,798
Other, net .....	63,640	16,793	107,731	31,733
	-----	-----	-----	-----
	339,910	295,844	672,836	564,531
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales .....	200,010	222,651	402,701	424,046
Selling, general and administrative .....	48,757	43,666	97,950	90,715
Interest .....	15,666	15,930	32,776	30,363
	-----	-----	-----	-----
	264,433	282,247	533,427	545,124
	-----	-----	-----	-----
Equity in earnings (losses) of:				
Titanium Metals Corporation ("TIMET") .....	12,877	(2,717)	13,002	(14,557)
Other .....	(136)	(14)	522	312
	-----	-----	-----	-----
Income before income taxes .....	88,218	10,866	152,933	5,162
Provision for income taxes .....	31,953	1,591	55,675	394
Minority interest in after-tax earnings .....	8,597	2,903	18,029	2,107
	-----	-----	-----	-----
Net income .....	\$ 47,668	\$ 6,372	\$ 79,229	\$ 2,661
	=====	=====	=====	=====
Earnings per share:				
Basic .....	\$ .41	\$ .05	\$ .69	\$ .02
	=====	=====	=====	=====
Diluted .....	\$ .41	\$ .05	\$ .68	\$ .02
	=====	=====	=====	=====
Cash dividends per share .....	\$ .06	\$ .06	\$ .12	\$ .12
	=====	=====	=====	=====

Shares used in the calculation of per share amounts:

Basic earnings per common share .....	115,169	115,257	115,166	115,250
Dilutive impact of outstanding stock options .....	931	357	886	517
	-----	-----	-----	-----
Diluted earnings per share .....	116,100	115,614	116,052	115,767
	=====	=====	=====	=====

VALHI, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Six months ended June 30, 2001 and 2002

(In thousands)

	2001	2002
	----	----
Net income .....	\$ 79,229	\$ 2,661
	-----	-----
Other comprehensive income (loss), net of tax:		
Marketable securities adjustment:		
Unrealized gains arising during the period .....	2,053	1,881
Less reclassification for gains included in net income .....	(33,190)	--
	-----	-----
	(31,137)	1,881
Currency translation adjustment .....	(22,507)	38,649
Pension liabilities adjustment .....	(332)	(2,213)
	-----	-----
Total other comprehensive income (loss), net .....	(53,976)	38,317
	-----	-----
Comprehensive income .....	\$ 25,253	\$ 40,978
	=====	=====

VALHI, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2001 and 2002

(In thousands)

	2001	2002
	----	----
Cash flows from operating activities:		

Net income .....	\$ 79,229	\$ 2,661
Depreciation, depletion and amortization .....	37,132	29,936
Legal settlements, net .....	(10,307)	--
Securities transaction gains, net .....	(50,803)	(1,915)
Proceeds from disposal of marketable securities (trading) .....	--	8,659
Noncash interest expense .....	4,179	2,031
Deferred income taxes .....	10,147	4,753
Minority interest .....	18,029	2,107
Other, net .....	(3,634)	(7,388)
Equity in:		
TIMET .....	(13,002)	14,557
Other .....	(522)	(312)
Distributions from:		
Manufacturing joint venture .....	4,950	2,250
Other .....	1,300	361
	-----	-----
	76,698	57,700
Change in assets and liabilities:		
Accounts and other receivables .....	(23,797)	(17,993)
Inventories .....	20,994	69,096
Accounts payable and accrued liabilities .....	(22,453)	(60,190)
Accounts with affiliates .....	15,662	(6,366)
Income taxes .....	4,347	(3,270)
Other, net .....	(2,400)	4,749
	-----	-----
Net cash provided by operating activities ....	69,051	43,726
	-----	-----
Cash flows from investing activities:		
Capital expenditures .....	(27,150)	(19,973)
Purchases of:		
Business unit .....	--	(9,149)
NL common stock .....	(2,718)	(3,272)
CompX common stock .....	(2,650)	--
Tremont common stock .....	(198)	--
Proceeds from disposal of marketable securities (available for sale) .....	16,802	--
Loans to affiliate .....	(20,000)	--
Property damaged by fire:		
Insurance proceeds .....	5,500	--
Other, net .....	(1,000)	--
Change in restricted cash equivalents, net .....	428	421
Other, net .....	(573)	2,505
	-----	-----
Net cash used by investing activities .....	(31,559)	(29,468)
	-----	-----

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Six months ended June 30, 2001 and 2002

(In thousands)

	2001	2002
	----	----
Cash flows from financing activities:		
Indebtedness:		



VALHI, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of presentation:

The consolidated balance sheet of Valhi, Inc. and Subsidiaries (collectively, the "Company") at December 31, 2001 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 2002, and the consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the interim periods ended June 30, 2001 and 2002, have been prepared by the Company, without audit, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been made.

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

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

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

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

Note 2 - Business segment information:

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

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



	June 30,		June 30,	
	2001	2002	2001	2002
	(In millions)			
Net sales:				
Chemicals .....	\$220.1	\$226.9	\$446.2	\$429.3
Component products .....	53.3	51.1	112.9	99.6
Waste management .....	2.9	1.1	6.0	3.9
	-----	-----	-----	-----
Total net sales .....	\$276.3	\$279.1	\$565.1	\$532.8
	=====	=====	=====	=====
Operating income:				
Chemicals .....	\$ 38.8	\$ 21.7	\$ 84.2	\$ 41.0
Component products .....	5.3	2.2	12.3	4.3
Waste management .....	(4.4)	(2.1)	(7.6)	(4.1)
	-----	-----	-----	-----
Total operating income .....	39.7	21.8	88.9	41.2
General corporate items:				
Legal settlements gains, net .....	--	.5	30.7	2.4
Securities transactions, net .....	50.8	--	50.8	1.9
Interest and dividend income .....	9.4	8.4	19.7	16.9
Foreign currency transaction gain				
	--	6.3	--	6.3
Gain on disposal of fixed assets				
	--	1.6	--	1.6
Insurance gain .....	.7	--	.7	--
Expenses, net .....	(9.4)	(9.0)	(18.6)	(20.5)
Interest expense .....	(15.7)	(16.0)	(32.8)	(30.4)
	-----	-----	-----	-----
	75.5	13.6	139.4	19.4
Equity in:				
TIMET .....	12.9	(2.7)	13.0	(14.5)
Other .....	(.2)	--	.5	.3
	-----	-----	-----	-----
Income before income taxes .....	\$ 88.2	\$ 10.9	\$152.9	\$ 5.2
	=====	=====	=====	=====

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

In July 2002, Valhi proposed a merger of Valhi and Tremont pursuant to which stockholders of Tremont (including NL, to the extent of NL's ownership interest in the Tremont shares held by Tremont Group), other than Valhi, would receive between 2 and 2.5 shares of Valhi common stock for each Tremont share held. Tremont has formed a special committee of its board of directors consisting of members unrelated to Valhi to review the proposal. There can be no assurance that any such merger will be completed or completed on the proposed terms.

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

Note 3 - Marketable securities:

December 31,      June 30,  
2001                      2002

-----

-----

(In thousands)

Current assets:

Halliburton Company common stock

(available-for-sale) .....	\$ 8,138	\$ 9,903
Halliburton Company common stock (trading) .....	6,744	--
Restricted debt securities (available-for-sale) ....	3,583	7,119
	-----	-----
	\$ 18,465	\$ 17,022
	=====	=====

Noncurrent assets (available-for-sale):

The Amalgamated Sugar Company LLC .....	\$170,000	\$170,000
Restricted debt securities .....	16,121	10,860
Other common stocks .....	428	665
	-----	-----
	\$186,549	\$181,525
	=====	=====

At June 30, 2002, Valhi held approximately 621,000 shares of Halliburton common stock (aggregate cost of \$5 million) with a quoted market price of \$15.94 per share, or an aggregate market value of \$10 million. Valhi's LYONS debt obligations are exchangeable at any time, at the option of the LYON holder, for such shares of Halliburton common stock, and the carrying value of such Halliburton shares is limited to the accreted LYONS obligations. Such Halliburton shares are held in escrow for the benefit of the holders of the LYONS. Valhi receives the regular quarterly dividend on all of the Halliburton shares held, including shares held in escrow. Such Halliburton shares are classified as a current asset at June 30, 2002 because the related LYONS obligations, which are redeemable at the option of the holders in October 2002, are classified as a current liability at such date. During the first six months of 2002, the Company sold approximately 515,000 Halliburton shares classified as trading securities in market transactions for aggregate proceeds of \$8.7 million. See Notes 9 and 12.

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

Note 4 - Inventories:

December 31,                  June 30,  
2001                                  2002  
-----                                  -----  
(In thousands)

Raw materials:

Chemicals .....	\$ 79,162	\$ 34,855
Component products .....	9,677	7,907
	-----	-----
	88,839	42,762
	-----	-----

In process products:

Chemicals .....	9,675	10,431
Component products .....	12,619	13,726
	-----	-----
	22,294	24,157
	-----	-----

Finished products:

Chemicals .....	117,976	104,242
Component products .....	8,494	9,329
	-----	-----
	126,470	113,571
	-----	-----
Supplies (primarily chemicals) .....	25,130	29,208
	-----	-----
	\$262,733	\$209,698
	=====	=====

Note 5 - Accrued liabilities:

December 31,	June 30,
2001	2002
----	----

(In thousands)

Current:

Employee benefits .....	\$ 39,974	\$ 38,595
Environmental costs .....	64,165	56,503
Interest .....	5,162	1,149
Deferred income .....	9,479	2,946
Other .....	47,708	54,779
	-----	-----
	\$166,488	\$153,972
	=====	=====

Noncurrent:

Insurance claims and expenses .....	\$ 19,182	\$ 18,379
Employee benefits .....	8,616	8,911
Deferred income .....	1,333	1,952
Other .....	3,511	2,302
	-----	-----
	\$ 32,642	\$ 31,544
	=====	=====

Note 6 - Accounts and other receivables:

December 31,	June 30,
2001	2002
----	----

(In thousands)

Accounts receivable .....	\$ 166,126	\$ 194,481
Notes receivable .....	2,484	3,324
Accrued interest .....	26	23
Allowance for doubtful accounts .....	(6,326)	(6,592)
	-----	-----
	\$ 162,310	\$ 191,236
	=====	=====

Note 7 - Other assets:

December 31,                      June 30,  
2001                                      2002  
-----                                      -----  
(In thousands)

Investment in affiliates:

TiO2 manufacturing joint venture .....	\$138,428	\$136,178
TIMET .....	60,272	44,285
Other .....	12,415	12,366
	-----	-----
	\$211,115	\$192,829
	=====	=====

Loans and other receivables:

Snake River Sugar Company:

Principal .....	\$ 80,000	\$ 80,000
Interest .....	22,718	25,314
Other .....	5,706	6,673
	-----	-----
	108,424	111,987

Less current portion .....	2,484	3,324
	-----	-----

Noncurrent portion .....	\$105,940	\$108,663
	=====	=====

Other noncurrent assets:

Restricted cash equivalents .....	\$ 4,713	\$ 7,619
Waste disposal operating permits .....	2,527	2,141
Refundable insurance deposits .....	1,609	1,864
Deferred financing costs .....	1,120	9,627
Other .....	20,140	18,603
	-----	-----
	\$ 30,109	\$ 39,854
	=====	=====

At June 30, 2002, Tremont held 12.3 million shares of TIMET common stock with a quoted market price of \$3.50 per share, or an aggregate of \$43 million. At June 30, 2002, TIMET reported total assets of \$642.7 million and stockholders' equity of \$257.4 million. TIMET's total assets at June 30, 2002 include current assets of \$288.0 million, property and equipment of \$265.4 million and goodwill and other intangible assets of \$54.0 million. TIMET's total liabilities at June 30, 2002 include current liabilities of \$108.5 million, long-term debt of \$18.7 million, accrued OPEB and pension costs of \$39.0 million and convertible preferred securities of \$201.2 million. During the first six months of 2002, TIMET reported net sales of \$198.7 million, an operating loss of \$11.7 million and a net loss of \$48.4 million (first six months of 2001 - net sales of \$244.0 million, operating income of \$46.8 million and net income of \$25.9 million).

Note 8 - Goodwill and other intangible assets:

Goodwill.

	Operating segment		
	Chemicals	Component products	Total
	(In millions)		
Balance at December 31, 2001 .....	\$307.2	\$ 41.9	\$349.1
Goodwill acquired during the period .....	7.6	--	7.6
Changes in foreign exchange rates .....	--	1.4	1.4
	-----	-----	-----

Balance at June 30, 2002 .....	\$314.8	43.3	\$358.1
	=====	=====	=====

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

Other intangible assets.

	December 31, 2001	June 30, 2002
	----	----
	(In millions)	
Patents:		
Cost .....	\$3.4	\$3.5
Less accumulated amortization .....	1.0	1.1
	----	----
Net .....	2.4	2.4
	----	----
Customer list:		
Cost .....	--	2.6
Less accumulated amortization .....	--	.2
	----	----
Net .....	--	2.4
	----	----
	\$2.4	\$4.8
	=====	=====

The patent intangible asset relates to the estimated fair value of certain patents acquired in connection with the acquisition of certain business units by CompX, and the customer list intangible asset relates to NL's acquisition of EWI discussed in Note 2. The patent intangible asset was, and will continue to be after adoption of SFAS No. 142 effective January 1, 2002, amortized by the straight-line method over the lives of the patents (approximately 10.75 years remaining at June 30, 2002), with no assumed residual value at the end of the life of the patents. The customer list intangible asset will be amortized by the straight-line method over the estimated seven-year life of such intangible asset (approximately 6.5 years remaining at June 30, 2002), with no assumed residual value at the end of the life of the intangible asset. Amortization expense of intangible assets was approximately \$120,000 in the first six months of 2001 and approximately \$305,000 in the first six months of 2002, and amortization expense of intangible assets is expected to be approximately \$620,000 in each of calendar 2002 through 2006.

Note 9 - Notes payable and long-term debt:

	December 31, 2001	June 30, 2002
	----	----
	(In thousands)	
Notes payable -		
Kronos - non-U.S. bank credit agreements .....	\$ 46,201	\$ --
	=====	=====
Long-term debt:		
Valhi:		

Snake River Sugar Company .....	\$250,000	\$250,000
LYONs .....	25,472	26,651
Bank credit facility .....	35,000	35,000
Other .....	2,880	2,880
	-----	-----
	313,352	314,531
	-----	-----
Subsidiaries:		
NL Senior Secured Notes .....	194,000	--
Kronos International:		
Senior Secured Notes .....	--	283,005
Bank credit facility .....	--	39,649
CompX bank credit facility .....	49,000	30,000
Valcor Senior Notes .....	2,431	2,431
Other .....	3,404	3,043
	-----	-----
	248,835	358,128
	-----	-----
	562,187	672,659
	-----	-----
Less current maturities .....	64,972	96,251
	-----	-----
	\$497,215	\$576,408
	=====	=====

In June 2002, Kronos International ("KII"), which conducts NL's TiO2 operations in Europe, issued euro 285 million principal amount (\$280 million when issued) of its 8.875% Senior Secured Notes due 2009. The KII Senior Secured Notes are collateralized by a pledge of the stock or other ownership interests of KII's first-tier operating subsidiaries. The KII Senior Secured Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among other things, restricts the ability of KII and its subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. The KII Senior Secured Notes are redeemable, at KII's option, on or after December 30, 2005 at redemption prices ranging from 104.437% of the principal amount, declining to 100% on or after December 30, 2008. In addition, on or before June 30, 2005, KII may redeem up to 35% of its Senior Secured Notes with the net proceeds of a qualified public equity offering at 108.875% of the principal amount. In the event of a change of control of KII, as defined, KII would be required to make an offer to purchase its Senior Secured Notes at 101% of the principal amount. KII would also be required to make an offer to purchase a specified portion of its Senior Secured Notes at par value in the event KII generates a certain amount of net proceeds from the sale of assets outside the ordinary course of business, and such net proceeds are not otherwise used for specified purposes within a specified time period. The interest rate on the KII Senior Secured Notes will increase by up to 75 basis points if KII fails to file a registration statement with the U.S. Securities and Exchange Commission, have such registration statement declared effective and complete a subsequent tender offer to exchange the currently outstanding KII Senior Secured Notes for substantially identical, registered publicly-traded Senior Secured Notes within specified time periods.

Also in June 2002, KII's operating subsidiaries in Germany, Belgium and Norway entered into a new, three-year euro 80 million revolving bank credit facility, of which euro 13 million (\$13 million) and NOK 200 million (\$26 million) was borrowed at closing and used, along with available cash on hand, to repay and terminate Kronos' short-term non-U.S. bank credit agreements. Borrowings may be denominated in euros, Norwegian kroner, U.S. dollars or other currencies as mutually agreed upon, and bear interest at the applicable interbank market rate plus 1.75% (weighted average interest rate of 7.6% on outstanding borrowings at June 30, 2002). The facility also provides for the issuance of letters of credit up to euro 5 million. The new KII bank credit agreement is collateralized by the accounts receivable and inventories of the borrowers, plus a limited pledge of all of the other assets of the Belgian borrower. The new KII bank credit agreement contains certain restrictive covenants which, among other things, restricts the ability of the borrowers to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity.

In March 2002, NL redeemed \$25 million principal amount of the NL Senior Secured Notes at par value, using available cash on hand. In addition, NL used a portion of the net proceeds from the issuance of the KII Senior Secured Notes to redeem in full the remaining \$169 million principal amount of the NL Senior Secured Notes. In accordance with the terms of the indenture governing the NL Senior Secured Notes, on June 28, 2002, NL irrevocably placed on deposit with the NL Senior Secured Note trustee funds in an amount sufficient to pay in full the redemption price plus all accrued and unpaid interest due on the July 28, 2002 redemption date. Immediately thereafter, NL was released from its obligations under such indenture, the indenture was discharged and all collateral was released to NL. Because NL had been released as being the primary obligor under the indenture as of June 30, 2002, the NL Senior Secured Notes were eliminated from the balance sheet as of that date along with the funds placed on deposit with the trustee to effect the July 28, 2002 redemption. NL recognized a loss on the early extinguishment of debt of approximately \$2 million in the second quarter of 2002, consisting primarily of the interest on the NL Senior Secured Notes for the period from July 1 to July 28, 2002. Such loss is recognized as a component of interest expense. See Note 14.

Note 10 - Accounts with affiliates:

	December 31, 2001 ----	June 30, 2002 ----
	(In thousands)	
Current receivables from affiliates:		
Income taxes receivable from Contran .....	\$ --	\$ 4,274
TIMET .....	677	67
Other .....	167	102
	-----	-----
	\$ 844	\$ 4,443
	=====	=====
Noncurrent receivable from affiliate - loan to Contran family trust .....	\$20,000	\$20,000
	=====	=====
Payables to affiliates:		
Valhi demand loan from Contran .....	\$24,574	\$22,484
Income taxes payable to Contran .....	6,410	--
Louisiana Pigment Company .....	6,362	8,622
Contran - trade items .....	501	790
TIMET .....	286	2
Other, net .....	15	81
	-----	-----
	\$38,148	\$31,979
	=====	=====

Note 11 - Provision for income taxes:

	Six months ended June 30,	
	2001 ----	2002 ----
	(In millions)	
Expected tax expense .....	\$53.5	\$ 1.8
Incremental U.S. tax and rate differences on		

Equity in earnings of non-tax group companies .....	1.9	.3
Non-U.S. tax rates .....	(3.6)	(.7)
Change in NL's and Tremont's deferred income tax valuation allowance, net .....	(1.8)	(1.5)
No tax benefit for goodwill amortization .....	2.9	--
U.S. state income taxes, net .....	1.8	.1
Other, net .....	1.0	.4
	-----	-----
	\$55.7	\$ .4
	=====	=====
Comprehensive provision for income taxes allocated to:		
Net income .....	\$55.7	\$ .4
Other comprehensive income:		
Marketable securities .....	(16.2)	1.3
Currency translation .....	(2.6)	3.2
Pension liabilities .....	(.4)	(1.5)
	-----	-----
	\$36.5	\$ 3.4
	=====	=====

Note 12 - Other income:

	Six months ended June 30,	
	2001	2002
	----	----
	(In thousands)	
Securities earnings:		
Dividends and interest .....	\$ 19,718	\$16,930
Securities transactions, net .....	50,803	1,915
	-----	-----
	70,521	18,845
Legal settlement gains, net .....	30,723	2,355
Noncompete agreement income .....	2,000	2,000
Currency transactions, net .....	1,193	3,890
Pension settlement gain .....	--	677
Insurance gain .....	650	--
Other, net .....	2,644	3,966
	-----	-----
	\$107,731	\$31,733
	=====	=====

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

Note 13 - Minority interest:

	December 31,	June 30,
	2001	2002
	----	----



(In thousands)

Minority interest in net assets:

NL Industries .....	\$ 68,566	\$ 73,568
Tremont Corporation .....	32,610	31,118
CompX International .....	44,767	46,156
Subsidiaries of NL .....	7,208	7,603
	-----	-----
	\$153,151	\$158,445
	=====	=====

Six months ended  
June 30,

2001	2002
----	----

(In thousands)

Minority interest in net earnings (losses):

NL Industries .....	\$11,623	\$ 3,550
Tremont Corporation .....	3,448	(2,489)
CompX International .....	2,005	676
Subsidiaries of NL .....	953	370
	-----	-----
	\$18,029	\$ 2,107
	=====	=====

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

Note 14 - Accounting principles newly adopted in 2002:

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

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

the reporting unit goodwill over its implied fair value (up to a maximum impairment equal to the carrying value of the goodwill). The implied fair value of reporting unit goodwill would be the amount equal to the excess of the estimated fair value of the reporting unit over the amount that would be allocated to the tangible and intangible net assets of the reporting unit (including unrecognized intangible assets) as if such reporting unit had been acquired in a purchase business combination accounted for in accordance with GAAP as of the date of the impairment testing.

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

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

As shown in the following table, the Company would have reported net income of \$87.1 million, or \$.75 per diluted share, in the first six months of 2001 (\$51.6 million, or \$.44 per diluted share, in the second quarter of 2001) if the goodwill amortization included in the Company's reported net income had not been recognized.

	Three months ended		Six months ended	
	June 30,		June 30,	
	-----	-----	-----	-----
	2001	2002	2001	2002
	----	----	----	----
	(In millions, except per share amounts)			
Net income as reported .....	\$ 47.6	\$ 6.4	\$ 79.2	\$ 2.7
Adjustments:				
Goodwill amortization .....	4.3	--	8.5	--
Incremental income taxes .....	(.1)	--	(.1)	--
Minority interest in goodwill				
amortization .....	(.2)	--	(.5)	--
	-----	-----	-----	-----
Adjusted net income .....	\$ 51.6	\$ 6.4	\$ 87.1	\$ 2.7
	=====	=====	=====	=====
Diluted net income per share as				
reported .....	\$ .41	\$ .05	\$ .68	\$ .02
Adjustments:				
Goodwill amortization .....	.03	--	.07	--
Incremental income taxes .....	--	--	--	--
Minority interest in goodwill				
amortization .....	--	--	--	--
	-----	-----	-----	-----
Adjusted diluted net income				
per share .....	\$ .44	\$ .05	\$ .75	\$ .02
	=====	=====	=====	=====

Impairment of long-lived assets. The Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective January 1, 2002. SFAS No. 144 retains the fundamental provisions of existing GAAP with respect to the recognition and measurement of long-lived asset impairment contained in SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Lived-Lived Assets to be Disposed Of. However, SFAS No. 144 provides new guidance intended to address certain implementation issues associated with SFAS No. 121, including expanded guidance with respect to appropriate cash flows to be used to determine whether recognition of any long-lived asset impairment is required, and if required how to measure the

amount of the impairment. SFAS No. 144 also requires that net assets to be disposed of by sale are to be reported at the lower of carrying value or fair value less cost to sell, and expands the reporting of discontinued operations to include any component of an entity with operations and cash flows that can be clearly distinguished from the rest of the entity. Adoption of SFAS No. 144 did not have a significant effect on the Company.

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

Note 15 - Accounting principles not yet adopted:

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

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

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

RESULTS OF OPERATIONS:

General

The Company reported net income of \$6.4 million, or \$.05 per diluted share,

in the second quarter of 2002 compared to net income of \$47.6 million, or \$.41 per diluted share, in the second quarter of 2001. Excluding the effects of the items discussed below, the Company would have reported net income of \$1.6 million in the second quarter of 2002 compared to net income of \$10.8 million in the second quarter of 2001. For the first six months of 2002, the Company reported net income of \$2.7 million, or \$.02 per diluted share, compared to net income of \$79.2 million, or \$.68 per diluted share, in the first six months of 2001. Excluding the effects of the items discussed below, the Company would have reported net income of \$1.0 million in the first six months of 2002 compared to net income of \$28.0 million in the first six months of 2001.

The Company's equity in losses of TIMET in the first six months of 2002 includes losses in the first quarter of \$10.6 million (\$5.4 million net of income taxes and minority interest), related to the Company's pro-rata share of TIMET's \$27.5 million impairment charge for an other than temporary decline in value of certain preferred securities held by TIMET. Legal settlement gains in the second quarter and first six months of 2002 of \$500,000 and \$2.4 million (\$224,000 and \$1.2 million, net of income taxes and minority interest, respectively) relate to legal settlements with certain of NL's former insurance carriers, and securities transactions gains in the first six months of 2002 of \$1.9 million (\$1.2 million net of income taxes) relate to the first quarter disposal of certain shares of Halliburton Company common stock held by the Company. Currency transaction gains in the second quarter of 2002 include gains of \$6.3 million (\$4.7 million net of income taxes and minority interest) related to the extinguishment of certain intercompany indebtedness of NL. The Company's results in the second quarter of 2001 include aggregate net securities transaction gains of \$50.8 million (\$33.2 million net of income taxes and minority interest) related principally to the disposal of additional Halliburton shares. The Company's equity in earnings of TIMET in the second quarter of 2001 includes \$15.7 million (\$7.5 million net of income taxes and minority interest) related to TIMET's previously-reported settlement with Boeing. The Company's results in the first six months of 2001 include the previously-reported first quarter legal settlement gains aggregating \$30.7 million (\$18.4 million net of income taxes and minority interest).

As discussed in Note 14 to the Consolidated Financial Statements, beginning in 2002 the Company no longer recognizes periodic amortization of goodwill in its results of operations. The Company would have reported net income of approximately \$51.6 million in the second quarter of 2001 and approximately \$87.1 million in the first six months of 2001, or about \$4.0 million and \$7.9 million higher, respectively, if the goodwill amortization included in the Company's reported net income had not been recognized. Of such \$7.9 million difference in the first six months of 2001, approximately \$7.2 million and \$1.3 million relates to amortization of goodwill attributable to the Company's chemicals and component products operating segments, respectively, approximately \$100,000 relates to incremental income taxes and approximately \$500,000 relates to minority interest associated with the goodwill amortization recognized by certain of the Company's less-than-wholly-owned subsidiaries.

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

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission including, but not limited to, future supply and demand for the Company's products, the extent of the dependence of certain of the Company's businesses on certain market sectors (such as the dependence of TIMET's titanium metals business on the aerospace

industry), the cyclicity of certain of the Company's businesses (such as NL's TiO2 operations and TIMET's titanium metals operations), the impact of certain long-term contracts on certain of the Company's businesses (such as the impact of TIMET's long-term contracts with certain of its customers and such customers' performance there under and the impact of TIMET's long-term contracts with certain of its vendors on its ability to reduce or increase supply or achieve lower costs), customer inventory levels (such as the extent to which NL's customers may, from time to time, accelerate purchases of TiO2 in advance of anticipated price increases or defer purchases of TiO2 in advance of anticipated price decreases, or the relationship between inventory levels of TIMET's customers and such customer's current inventory requirements and the impact of such relationship on their purchases from TIMET), changes in raw material and other operating costs (such as energy costs), the possibility of labor disruptions, general global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO2), competitive products and substitute products, customer and competitor strategies, the impact of pricing and production decisions, competitive technology positions, the introduction of trade barriers, fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro and the Canadian dollar), operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions), recoveries from insurance claims and the timing thereof, potential difficulties in integrating completed acquisitions, the ability of the Company to renew or refinance credit facilities, uncertainties associated with new product development (such as TIMET's ability to develop new end-uses for its titanium products), environmental matters (such as those requiring emission and discharge standards for existing and new facilities), government laws and regulations and possible changes therein (such as a change in Texas state law which would allow the applicable regulatory agency to issue a permit for the disposal of low-level radioactive wastes to a private entity such as Waste Control Specialists, or changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products), the ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters of NL, Tremont and TIMET) and possible future litigation. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

#### Chemicals

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

	Three months ended			Six months ended		
	June 30, 2001	2002	% Change	June 30, 2001	2002	% Change
	----	----	-----	----	----	-----
	(In millions, except percentages)					
Net sales .....	\$220.1	\$226.9	+3%	\$446.2	\$429.3	-4%
Operating income .....	38.8	21.7	-44%	84.2	41.0	-51%

Chemicals operating income declined in the second quarter and first six months of 2002 compared to the same periods of 2001 due primarily to lower average selling prices for titanium dioxide pigments ("TiO2"), offset in part by higher TiO2 sales and production volumes. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, NL's average TiO2 selling prices in the second quarter of 2002 were 14% lower than the second quarter of 2001, and were 15% lower in the first six months of 2002 compared to the same period in 2001. While NL's average TiO2 selling prices had generally been declining during all of 2001 and the first quarter of 2002, the rate of

decline abated during the second quarter of 2002, and NL's average TiO2 selling prices in the second quarter of 2002 were flat compared to the first quarter of the year, with increases in European and export markets offset by declines in North American markets.

NL's TiO2 sales volumes in the second quarter of 2002, the highest quarterly sales volumes in NL's history, were 17% higher than the second quarter of 2001. NL's TiO2 sales volumes in the first six months of 2002 were 13% higher than the first six months of 2001. NL's TiO2 production volumes in the second quarter of 2002 were 14% higher than the second quarter of 2001, and were 6% higher in the first six months of 2002 compared to the same period in 2001. The increases in NL's TiO2 production volumes were due in part to the effect of the previously-reported fire at NL's Leverkusen, Germany TiO2 facility in March 2001. As previously reported, NL settled its insurance claim related to the Leverkusen fire during the fourth quarter of 2001. NL recognized \$19.3 million of business interruption insurance proceeds during the fourth quarter of 2001, of which \$16.6 million was attributable to recovery of unallocated period costs and lost margin related to the first, second and third quarters of 2001.

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

NL has substantial operations and assets located outside the United States (principally Germany, Belgium, Norway and Canada). A significant amount of NL's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, primarily the euro, other major European currencies and the Canadian dollar. In addition, a portion of NL's sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of NL's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Including the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices (in billing currencies) in the second quarter of 2002 decreased 13% compared to the second quarter of 2001, and decreased 15% during the first six months of 2002. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased TiO2 sales slightly in the second quarter of 2002, and decreased TiO2 sales slightly in the first six months of 2002, as compared to the same periods in 2001. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted NL's foreign currency-denominated operating expenses. NL's operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were lower during 2002 as compared to 2001. Overall, the net impact of currency exchange rate fluctuations decreased NL's TiO2 operating income by \$3.6 million and \$2.5 million in the second quarter and first six months of 2002, respectively, as compared to the same periods in 2001.

Chemicals operating income, as presented above, is stated net of amortization of Valhi's purchase accounting adjustments made in conjunction with its acquisitions of its interest in NL. Such adjustments result in additional depreciation, depletion and amortization expense beyond amounts separately reported by NL. Such additional non-cash expenses reduced chemicals operating income, as reported by Valhi, by approximately \$12.8 million in the first six months of 2001 and approximately \$5.8 million in the first six months of 2002 as compared to amounts separately reported by NL. The decline from 2001 to 2002 in such additional non-cash expenses relates primarily to ceasing to periodically amortize goodwill beginning in 2002 (the 2001 amount included \$7.2 million related to goodwill amortization). See Note 14 to the Consolidated Financial Statements.

#### Component Products

	Three months ended			Six months ended		
	June 30, 2001	June 30, 2002	% Change	June 30, 2001	June 30, 2002	% Change
	----	----	-----	----	----	-----
	(In millions, except percentages)					
Net sales .....	\$ 53.3	\$ 51.1	-4%	\$112.9	\$ 99.6	-12%
Operating income .....	5.3	2.2	-59%	12.3	4.3	-65%

Component products sales and operating income decreased in the second quarter and first six months of 2002 compared to the same periods in 2001 as the manufacturing recession continued to negatively impact CompX's operating results. Sales of slide and ergonomic products decreased 4% and 16%, respectively, in the second quarter of 2002 compared to the second quarter of 2001, with year-to-date declines of 16% and 19%, respectively. While sales of security products increased 3% in the second quarter of 2002 compared to the same period in 2001, in part due to new business development and increased orders in advance of implementation of certain price increases effective July 1, 2002, sales of security products were down 4% in the first six months of 2002 compared to the same period in 2001. Operating income comparisons were negatively impacted by increases in certain raw material costs, primarily steel, changes in product mix as well as the adverse impact of reduced selling prices resulting from competitive pressures. Operating income comparisons were favorably impacted by ceasing to periodically amortize goodwill, which amounted to approximately \$700,000 and \$1.3 million in the second quarter and first six months of 2001, respectively (none in 2002), as well as the impact of certain cost reductions that were implemented. See Note 14 to the Consolidated Financial Statements.

CompX has substantial operations and assets located outside the United States (principally in Canada, The Netherlands and Taiwan). A portion of CompX's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar, the euro and the New Taiwan dollar. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of CompX's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. Excluding the effect of currency, component products sales decreased 5% in the second quarter of 2002 as compared to the same period in 2001, and operating income decreased 49%. Excluding the effect of currency, component products sales decreased 11% in the first six months of 2002 as compared to the same period in 2001, and operating income decreased 59%.

CompX currently expects that soft market conditions will continue for the near term in the office furniture market, the primary end-use market for CompX's products. As a result, sales volumes are expected to remain at depressed levels for at least the remainder of the year. Competitive pricing pressures are also expected to continue. In addition, the worldwide steel price increase that followed the steel tariff imposed this year by the United States government is expected to continue to negatively impact component products margins on CompX's

slide and ergonomic products, where steel is the primary raw material. CompX intends to continue to focus on cost control measures to minimize the affect of the anticipated lower sales volumes, pricing pressures and raw material cost increases. In connection with these cost improvement initiatives, CompX may consider strategies that could result in capacity reductions, consolidation of existing facilities and production rebalancing which, depending on the outcome, may result in future restructuring charges.

Waste Management

	Three months ended June 30,		Six months ended June 30,	
	----- 2001	----- 2002	----- 2001	----- 2002
	----	----	----	----
	(In millions)			
Net sales .....	\$2.9	\$1.1	\$6.0	\$3.9
Operating loss .....	(4.4)	(2.1)	(7.6)	(4.1)

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

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

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

TIMET

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



generally increases earnings (or reduces losses) attributable to TIMET as reported by Tremont.

	Three months ended June 30,		Six months ended June 30,	
	2001	2002	2001	2002

(In millions)

TIMET historical:

Net sales .....	\$120.0	\$ 94.3	\$244.0	\$198.7
Operating income (loss):				
Boeing settlement, net .....	\$ 62.7	\$ --	\$ 62.7	\$ --
Fixed asset impairment .....	(10.8)	--	(10.8)	--
Tungsten accrual .....	(2.8)	--	(3.8)	--
Other, net .....	(.5)	(7.0)	(1.3)	(11.7)
	-----	-----	-----	-----
	48.6	(7.0)	46.8	(11.7)
Impairment of convertible preferred securities .....	--	--	--	(27.5)
Other general corporate, net .....	2.3	(.3)	4.0	(.8)
Interest expense .....	(1.1)	(.7)	(2.6)	(1.5)
	-----	-----	-----	-----
	49.8	(8.0)	48.2	(41.5)
Income tax benefit (expense) .....	(17.5)	(.6)	(16.9)	.8
Minority interest .....	(2.7)	(3.7)	(5.3)	(7.7)
	-----	-----	-----	-----
Net income (loss) .....	\$ 29.6	\$ (12.3)	\$ 26.0	\$ (48.4)
	=====	=====	=====	=====
Equity in earnings (losses) of TIMET .....	\$ 12.9	\$ (2.7)	\$ 13.0	\$ (14.5)
	=====	=====	=====	=====

Excluding the effect of TIMET's previously-reported legal settlement with Boeing, its impairment charge related to certain equipment and its accruals for the tungsten matter discussed below, TIMET reported lower sales, and a higher operating loss, in the second quarter and first six months of 2002 compared to the same periods in 2001. During the second quarter of 2002, TIMET's mill products sales volumes decreased 30% compared to the second quarter of 2001, and its sales volumes of melted products decreased 40% during the same period. During the first six months of 2002, TIMET's mill products sales volumes decreased 23% compared to the same period in 2001, and its sales volumes of melted products decreased 39%. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, TIMET's average selling prices for mill products in the second quarter of 2002 were 4% higher compared to the second quarter of 2001, while selling prices for its melted products increased 3%. TIMET's average selling prices for mill products in the first six months of 2002 were 4% higher compared to the same period in 2001, while selling prices for its melted products increased 5%. TIMET's operating income comparisons were favorably impacted by TIMET ceasing to periodically amortize goodwill recognized on its separate-company books, which amounted to approximately \$1.1 million and \$2.3 million in the second quarter and first six months of 2001 (none in 2002). TIMET's operating income comparisons were negatively impacted by lower operating rates in 2002, with estimated capacity utilization declining from 75% to 55% in the second quarter of 2002 compared to the second quarter of 2001 (year-to-date decline from 70% to 60%).

Under TIMET's previously-reported amended long-term agreement with Boeing, Boeing has advanced TIMET \$28.5 million for 2002, and Boeing will advance TIMET \$28.5 million annually from 2003 through 2007. The agreement is structured as a take-or-pay agreement such that Boeing, beginning in calendar year 2002, will

forfeit a proportionate part of the \$28.5 million annual advance, or effectively \$3.80 per pound, in the event that its orders for delivery for such calendar year are less than 7.5 million pounds. TIMET can only be required, however, to deliver up to 3 million pounds per quarter. Based on TIMET's actual deliveries to Boeing of approximately 900,000 pounds during the first six months of 2002 and TIMET's contractual maximum obligation of delivering 6 million pounds during the remainder of 2002, TIMET recognized \$2.2 million of income in the second quarter of 2002 related to the take-or-pay provisions for the 600,000 pounds of material that TIMET is no longer obligated to provide to Boeing under the agreement. TIMET currently expects that Boeing will purchase about 1.5 million pounds of product under its agreement during all of 2002. At that level, TIMET currently expects to recognize about \$21 million of additional income during the remainder of 2002 related to the take-or-pay provisions of the contract. These earnings related to the take-or-pay provisions distort TIMET's operating income percentages as there is no corresponding amount reported in TIMET's sales.

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

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

The economic slowdown that began in 2001 in the economies of the U.S. and other regions of the world combined with the events of September 11, 2001 have resulted in the major commercial airframe and jet engine manufacturers substantially reducing their forecast of engine and aircraft deliveries over the next few years and their production levels in 2002. TIMET expects that aggregate industry mill product shipments will decrease in 2002 by approximately 18% to about 45,000 metric tons and that demand for mill products for the commercial aerospace sector could decline by up to 40% in 2002, primarily due to a combination of reduced aircraft production rates and excess inventory accumulated throughout the aerospace supply chain. Excess inventory accumulation typically leads to order demand for titanium products falling below actual consumption. TIMET believes that demand for titanium is likely to recover more gradually than it previously anticipated, based primarily on recent projections of large commercial aircraft deliveries by The Airline Monitor. Based on The Airline Monitor's current forecast and TIMET's projected changes in supply chain inventory levels, TIMET anticipates a cyclical trough in titanium demand may occur in 2003 with a gradual recovery beginning thereafter. Adverse world events, including terrorist activities and conflicts in the Middle East, the financial health of airlines and economic growth in the U.S. and other regions of the world, could significantly and adversely affect the timing of the commercial aerospace recovery.

Although the current business environment makes it particularly difficult to predict TIMET's future performance, TIMET expects sales revenue for the third quarter of 2002 to range between \$75 million and \$85 million. Mill product sales volumes are expected to be about 2,000 metric tons with melted product shipments of about 600 metric tons. Interest expense should be about \$1 million while minority interest on TIMET's Convertible Preferred Securities should approximate \$3.3 million. With these estimates, TIMET expects an operating loss in the third quarter of 2002 before special items of between \$4 million and \$7 million, and a net loss before special items of between \$8 million and \$12 million.

TIMET expects its sales for all of 2002 will decline to approximately \$375 million, reflecting the combined effects of decreases in sales volume, softening of market selling prices and changes in customer and product mix. Mill product sales volumes are expected to decline approximately 25% relative to 2001 to about 9,100 metric tons, and melted product sales volumes are expected to decline by 40% to about 2,600 metric tons. The sales volumes decline in 2002 is principally driven by an anticipated reduction in TIMET's commercial aerospace sales volumes of about 35% compared to 2001, partly offset by sales volume growth to other markets. Selling prices on new orders for titanium products are expected to soften throughout 2002. However, about one-half of TIMET's commercial aerospace volumes are under long-term agreements that provide TIMET with price stability on that portion of its business. Overall, TIMET currently expects to report an operating loss before special items for all of 2002 of between \$25 million and \$35 million in 2002, and a net loss of between \$40 million and \$50 million.

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

As a consequence of uncertainties surrounding both the titanium and commercial aerospace industries and broader economic conditions, TIMET expects to take actions to reduce its cost and working capital over the remainder of 2002. TIMET plans to reduce the operating rate of its sponge production facility to about 70% of capacity in the last half of the year, and it recently targeted an additional reduction in its company-wide employment levels of 10% to 15% by year-end. At June 30, 2002, TIMET employed approximately 2,250 individuals. These actions could result in restructuring or other charges in 2002. TIMET also believes assessments of the recoverability of its long-lived assets, that may also result in charges for asset impairments, could occur in the balance of 2002. TIMET will consider all relevant factors in determining whether an impairment exists. The timing and effect of these actions is somewhat uncertain, and accordingly the effect of such items has not been included in TIMET's forecasts outlined above. Such potential future charges, if any, could be material to TIMET.

#### General corporate and other items

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

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

coverages are expected.

Securities transactions. Securities transactions gains in the first six months of 2002 relate to the first quarter disposal of certain shares of Halliburton Company common stock held by the Company that were classified as trading securities. See Notes 3 and 12 to the Consolidated Financial Statements. The remaining Halliburton shares held by the Company are held in escrow for the benefit of the holders of the Company's LYONS debt obligation, which are exchangeable at any time, at the option of the holder, for such Halliburton shares. Any exchanges of the LYONS in 2002 or thereafter would result in a securities transaction gain for financial reporting purposes.

Other general corporate income items. The \$6.3 million foreign currency transaction gain in the second quarter of 2002 relates to the extinguishment of certain intercompany indebtedness of NL. The gain on disposal of fixed assets relates to the sale of certain real estate held by Tremont. See Note 12 to the Consolidated Financial Statements.

General corporate expenses. Net general corporate expenses in the second quarter of 2002 were slightly lower than the second quarter of 2001, as higher environmental and legal expenses of NL were more than offset by the effect of lower compensation-related expenses of Tremont. Net general corporate expenses in the first six months of 2002 were higher than the same period in 2001, as higher environmental and legal expenses of NL more than offset the lower compensation-related expenses of Tremont. NL's \$20 million of proceeds from the disposal of its specialty chemicals business unit related to its agreement not to compete in the rheological products business is being recognized as a component of general corporate income (expense) ratably over the five-year non-compete period ending in the first quarter of 2003 (\$2 million recognized in the first six months of 2001 and 2002). See Note 12 to the Consolidated Financial Statements. Net general corporate expenses in the remainder of 2002 are currently expected to continue to be somewhat higher compared to the same periods in 2001.

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

Provision for income taxes. The principal reasons for the difference between the Company's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 11 to the Consolidated Financial Statements. Income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of the Company's pre-tax earnings can result in fluctuations in the effective income tax rate.

During the first six months of 2002, NL reduced its deferred income tax asset valuation allowance by approximately \$3.0 million, primarily as a result of utilization of certain income tax attributes for which the benefit had not previously been recognized. In this regard, no income tax was recognized on NL's \$6.3 million general corporate foreign currency transaction gain, as NL offset such income tax by utilizing certain income tax attributes, the benefit of which had not previously been recognized. During the first six months of 2002, Tremont increased its deferred income tax asset valuation allowance (at the Valhi consolidated level) by a net \$1.5 million primarily because Tremont concluded certain tax attributes do not currently meet the "more-likely-than-not" recognition criteria.

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

Minority interest. See Note 13 to the Consolidated Financial Statements. Minority interest in NL's subsidiaries relates principally to NL's

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

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

In July 2002, Valhi proposed a merger of Valhi and Tremont pursuant to which stockholders of Tremont (including NL, to the extent of NL's ownership interest in the Tremont shares held by Tremont Group), other than Valhi, would receive between 2 and 2.5 shares of Valhi common stock for each Tremont share held. See Note 2 to the Consolidated Financial Statements. There can be no assurance that any such merger will be completed or completed on the proposed terms. If the merger is completed, the Company would no longer report minority interest in Tremont's net assets or net earnings (losses).

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

#### LIQUIDITY AND CAPITAL RESOURCES:

##### Consolidated cash flows

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

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

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

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

activities.

Investing and financing activities. Approximately 60% of the Company's consolidated capital expenditures in the first six months of 2002 relates to NL, 38% relate to CompX and substantially all of the remainder relates to Waste Control Specialists. Approximately \$2.2 million of NL's capital expenditures relates to the ongoing reconstruction of NL's Leverkusen, Germany TiO2 production facility that was damaged by fire during 2001. NL expects such reconstruction will be completed by the end of 2002. During the first six months of 2002, NL purchased \$3.3 million of its common stock in market transactions, and NL purchased the EWI insurance brokerage services operations for \$9 million. See Note 2 to the Consolidated Financial Statements.

During the first six months of 2002, (i) Valhi repaid a net \$2.1 million of its short-term demand loans from Contran, (ii) CompX repaid a net \$19 million of its revolving bank credit facility, (iii) NL repaid all of its existing short-term notes payable denominated in euros and Norwegian kroner (\$53 million when repaid) using primarily proceeds from borrowing (\$39 million) under KII's new revolving bank credit facility and (iv) NL redeemed \$194 million principal amount of its Senior Secured Notes, primarily using the proceeds from the new euro 285 million (\$280 million when issued) borrowing of KII. See Note 9 to the Consolidated Financial Statements.

At June 30, 2002, unused credit available under existing credit facilities approximated \$148.5 million, which was comprised of \$70 million available to CompX under its revolving credit facility, \$42 million available to NL (primarily under KII's new revolving credit facility) and \$36.5 million available to Valhi under its revolving bank credit facility. Provisions contained in certain of the Company's credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity for reasons other than payment defaults or defaults from failing to comply with typical financial covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. The terms of Valhi's revolving bank credit facility could require Valhi to either reduce outstanding borrowings or pledge additional collateral in the event the fair value of the existing pledged collateral falls below specified levels. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. Other than operating leases, neither Valhi nor any of its subsidiaries or affiliates are parties to any off-balance sheet financing arrangements.

#### Chemicals - NL Industries

At June 30, 2002, NL had cash, cash equivalents and marketable debt and other securities of \$251 million, including restricted balances of \$75 million, and NL had \$42 million available for borrowing (primarily under KII's new revolving credit facility).

NL's board of directors has authorized NL to purchase up to 4.5 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. Through June 30, 2002, NL had purchased 3.5 million of its shares pursuant to such authorizations for an aggregate of \$57 million, including approximately 228,000 shares purchased during the first six months of 2002 for an aggregate of \$3.3 million.

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

Certain of NL's U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including non-income related items and interest. NL's 1998 U.S. federal income tax return is currently being examined by the U.S. tax authorities, and NL has granted an extension of the statute of limitations for assessments until September 30, 2003. While EMS' 1998 U.S. federal income tax return is not currently being examined, EMS, at the request of the U.S. tax authorities, has also granted an extension of the statute of limitations for assessment until September 30, 2003 for such return. Based on the course of the examination to date, NL anticipates that the U.S. tax authorities may propose a substantial tax deficiency. NL has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately euro 10.4 million (\$10 million at June 30, 2002). NL has filed protests to the assessments for the years 1991 to 1997. NL is in discussions

with the Belgian tax authorities and believes that a significant portion of the assessments are without merit. No assurance can be given that these tax matters will be resolved in NL's favor in view of the inherent uncertainties involved in court proceedings. NL believes that it has provided adequate accruals for additional taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

NL has been named as a defendant, potentially responsible party, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, NL evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed NL's obligation. NL believes it has provided adequate accruals (\$102 million at June 30, 2002) for reasonably estimable costs of such matters, but NL's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocation of such costs among PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately \$150 million. NL's estimates of such liabilities have not been discounted to present value, and other than certain previously-reported settlements with respect to certain of NL's former insurance carriers, NL has not recognized any insurance recoveries. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. NL is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage allegedly arising from the sale of lead pigments and lead-based paints, including cases in which plaintiffs purport to represent a class and cases brought on behalf of government entities. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is no assurance that NL will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, NL believes that the pending lead pigment and lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and to effectively overturn the precedent set by court decisions in which NL and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions currently barred by statutes of limitations. NL currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on its consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future.

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

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

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

#### Waste management - Waste Control Specialists

At June 30, 2002, Waste Control Specialists' indebtedness, as amended, consists principally of (i) a \$4.6 million term loan due in November 2004 and (ii) \$15.6 million of other borrowings under a \$16.5 million revolving credit facility that also matures in 2004. All of such indebtedness is owed to a wholly-owned subsidiary of Valhi, and is therefore eliminated in the Company's consolidated financial statements. Waste Control Specialists may borrow additional amounts during the remainder of 2002 under its \$16.5 million revolving credit facility.

#### TIMET

At June 30, 2002, TIMET had net debt of approximately \$13.0 million (\$20.4 million of debt and \$7.4 million of cash and equivalents). At June 30, 2002, TIMET had approximately \$139 million available for borrowing under its worldwide credit facilities. TIMET's U.S. credit facility, a \$125 million asset-based revolving credit agreement, expires in February 2003. TIMET is currently negotiating with its lender to extend the maturity date of this agreement on substantially similar terms, although there can be no assurance that TIMET will be able to renew the facility on such terms. The U.S. credit agreement allows the lender to modify the borrowing base formulas at its discretion, subject to certain conditions. In this regard, during the second quarter of 2002, the lenders reassessed its borrowing-base formulas and reduced the rate at which TIMET may borrow against its inventory and equipment. This change reduced TIMET's U.S. borrowing availability by about \$7 million. In the event the lender exercises such discretion in the future, such event could have a material adverse impact on TIMET's liquidity.

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

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

#### Tremont Corporation

Tremont is primarily a holding company which, at June 30, 2002, owned



approximately 39% of TIMET and 21% of NL. At June 30, 2002, the market value of the 12.3 million shares of TIMET and the 10.2 million shares of NL held by Tremont was approximately \$43 million and \$156 million, respectively.

As previously reported, in July 2000 Tremont entered into a voluntary settlement agreement with the Arkansas Department of Environmental Quality and certain other potentially responsible parties ("PRPs") pursuant to which Tremont and the other PRPs will undertake certain investigatory and remediation activities at a former mining site located in Hot Spring County, Arkansas. Tremont currently believes that it has accrued adequate amounts (\$4.6 million at June 30, 2002) to cover its share of probable and reasonably estimable environmental obligations. Tremont expects to spend \$1.8 million in the second half of 2002 for remediation efforts related to this site.

Tremont has received a demand from Halliburton to assume the defense of, and indemnify Halliburton with respect to, the alleged liability of Atlas Bradford Corporation as one of several PRPs in connection with a Texas State Superfund Site known as the Force Road Oil and Vacuum Truck Company Site located in Arcola, Texas. Atlas Bradford allegedly disposed of wastes from its Bryan, Texas petroleum services operations at the Force Road Site. As part of a 1990 restructuring resulting in the separation of Tremont from Baroid Corporation, a wholly-owned subsidiary of Tremont received title to the Bryan property. Halliburton is the successor to Baroid. Tremont has declined to assume the defense of the Force Road Site matter and has rejected Halliburton's indemnity claim with respect thereto. Tremont believes that any liability in the Force Road Site matter represents an obligation retained by Baroid in connection with its historical petroleum services business. At present, Tremont has no information that would enable it to determine whether or not it might eventually have any liability for the Force Road Site, or what the potential magnitude, if any, of such liability might be. Tremont intends to vigorously defend itself against any and all allegations of such liability in this matter. Tremont sold the Bryan property in 1994. Tremont's Chairman and Chief Executive Officer is also a member of the board of directors of Halliburton and intends to recuse himself from any involvement in this matter.

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

In February 2001, Tremont entered into a \$13.4 million reducing revolving credit facility with EMS, NL's majority-owned environmental management subsidiary. Such intercompany loan between EMS and Tremont (\$12.2 million outstanding at June 30, 2002), collateralized by 10.2 million shares of NL common stock owned by Tremont, is eliminated in Valhi's consolidated financial statements.

Tremont's loan from EMS and its dividends from NL are currently Tremont's primary sources of cash at the Tremont parent company level. Tremont's principal cash uses at its parent company level are dividends, administrative expenses, interest on the loan from EMS and payments related to its previously-reported environmental remediation efforts. The loan from EMS matures March 31, 2003. Tremont believes that its cash outflows at the Tremont parent company level during the balance of 2002 will increase relative to the first half of 2002, and that it will be required to increase its parent company cash resources prior to December 31, 2002 in order to meet its near term obligations, even after Tremont parent company receives a \$1 million dividend from its wholly-owned insurance

subsidiary later in the year. To increase its liquidity, Tremont has requested as amendment to the terms of its loan from EMS to, among other things, increase the amount of borrowing availability and extend the maturity date. However, Tremont understands that there may be certain regulatory issues that will be required to be satisfactorily addressed in order for the amendment to be successfully completed, and such amendment would require the approval of the independent directors of both Tremont and NL. Tremont has also discussed the possibility of a loan from Contran with officers of Contran. Based on such discussions, Tremont believes such a loan from Contran could, if necessary, be achieved on mutually agreeable terms. Tremont has other alternatives available to either conserve or increase its liquidity including, among other things, borrowings collateralized by Tremont's common stock of TIMET, the reduction or suspension of Tremont's quarterly dividend payments and the sale, in whole or in part, of assets, including Tremont's investments in TIMET and NL. There is no assurance that any of these options or alternatives can be successfully completed.

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

Valhi has proposed a merger pursuant to which Tremont would become a wholly-owned subsidiary of Valhi. See Note 2 to the Consolidated Financial Statements.

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

#### General corporate - Valhi

Valhi's operations are conducted primarily through its subsidiaries (NL, CompX, Tremont and Waste Control Specialists). Accordingly, Valhi's long-term ability to meet its parent company level corporate obligations is dependent in large measure on the receipt of dividends or other distributions from its subsidiaries. NL increased its quarterly dividend from \$.035 per share to \$.15 per share in the first quarter of 2000, and NL further increased its quarterly dividend to \$.20 per share in the fourth quarter of 2000. At the current \$.20 per share quarterly rate, and based on the 30.1 million NL shares held by Valhi at June 30, 2002, Valhi would receive aggregate annual dividends from NL of approximately \$24.1 million. Tremont Group, Inc. owns 80% of Tremont Corporation. Tremont Group is owned 80% by Valhi and 20% by NL. Tremont's quarterly dividend is currently \$.07 per share. At that rate, and based upon the 5.1 million Tremont shares owned by Tremont Group at June 30, 2002, Tremont Group would receive aggregate annual dividends from Tremont of approximately \$1.4 million. Tremont Group intends to pass-through the dividends it receives from Tremont to its shareholders (Valhi and NL). Based on Valhi's 80% ownership of Tremont Group, Valhi would receive \$1.2 million in annual dividends from Tremont Group as a pass-through of Tremont Group's dividends from Tremont. CompX's quarterly dividend is currently \$.125 per share. At this current rate and based on the 10.4 million CompX shares held by Valhi and its wholly-owned subsidiary Valcor at June 30, 2002, Valhi/Valcor would receive annual dividends from CompX of \$5.2 million. Various credit agreements to which certain subsidiaries or affiliates are parties contain customary limitations on the payment of dividends, typically a percentage of net income or cash flow; however, such restrictions in the past have not significantly impacted Valhi's ability to service its parent company level obligations. Valhi has not guaranteed any indebtedness of its subsidiaries or affiliates. To the extent that one or more of Valhi's subsidiaries were to become unable to maintain its

current level of dividends, either due to restrictions contained in the applicable subsidiary's credit agreements or otherwise, Valhi parent company's liquidity could become adversely impacted. In such an event, Valhi might consider reducing or eliminating its dividend or selling interests in subsidiaries or other assets.

At June 30, 2002, Valhi had \$6.5 million of parent level cash and cash equivalents, had \$35 million of outstanding borrowings under its revolving bank credit agreement and had \$22.5 million of short-term demand loans payable to Contran. In addition, Valhi had \$36.5 million of borrowing availability under its bank credit facility. During the first quarter of 2002, Valhi sold in market transactions 515,000 shares of Halliburton common stock that had been classified as trading securities for an aggregate of \$8.7 million, and used a majority of the proceeds to reduce its outstanding borrowings from Contran. In January and February 2002, the size of Valhi's bank credit facility was increased by an aggregate of \$17.5 million to \$72.5 million.

Valhi's LYONs do not require current cash debt service. Exchanges of LYONs for Halliburton stock result in the Company reporting income related to the disposition of the Halliburton stock for both financial reporting and income tax purposes, although no cash proceeds are generated by such exchanges. Valhi's potential cash income tax liability that would have been triggered at June 30, 2002, assuming exchanges of all of the outstanding LYONs for Halliburton stock at such date, was approximately \$9 million.

At June 30, 2002, the LYONs had an accreted value equivalent to approximately \$42.90 per Halliburton share, and the market price of the Halliburton common stock was \$15.94 per share. The LYONs, which mature in October 2007, are redeemable at the option of the LYON holder in October 2002 for an amount equal to \$636.27 per \$1,000 principal amount at maturity, or an aggregate of \$27.4 million. Such October 2002 redemption price is equivalent to about \$44 per Halliburton share. If the market value of Halliburton common stock equals or exceeds \$44 per share in October 2002, the Company does not expect a significant amount of LYONs would be tendered to the Company for redemption at that date. To the extent the Company was required to redeem the LYONs in October 2002 for cash and the market price of Halliburton was less than \$44 per share, the Company would likely sell the Halliburton shares underlying the LYONs tendered in order to raise a portion of the cash redemption price due to the LYON holder, and the Company would be required to use other resources to makeup the shortfall due to the LYONs holder.

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

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

Certain covenants contained in Snake River's third-party senior debt allow Snake River to pay periodic installments of debt service payments (principal and interest) under Valhi's \$80 million loan to Snake River prior to its maturity in 2010, and such loan is subordinated to Snake River's third-party senior debt. At June 30, 2002, the accrued and unpaid interest on the \$80 million loan to Snake River aggregated \$25.3 million. Such accrued and unpaid interest is classified as a noncurrent asset at June 30, 2002. The Company currently believes it will ultimately realize both the \$80 million principal amount and the accrued and unpaid interest, whether through cash generated from the future operations of

Snake River and the LLC or otherwise (including any liquidation of Snake River/LLC). Following the repayment of Snake River's third-party senior debt in April 2009, Valhi believes it will receive significant debt service payments on its loan to Snake River as the cash flows that Snake River previously would have been using to fund debt service on its third-party senior debt (\$14.5 million in 2002) would then become available, and would be required, to be used to fund debt service payments on its loan from Valhi. Prior to the repayment of the third-party senior debt, Snake River might also make debt service payments to Valhi, if permitted by the terms of the senior debt.

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

The Company routinely compares its liquidity requirements and alternative uses of capital against the estimated future cash flows to be received from its subsidiaries, and the estimated sales value of those units. As a result of this process, the Company has in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, repurchase indebtedness in the market or otherwise, modify its dividend policies, consider the sale of interests in subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of such steps or other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

The Company and related entities routinely evaluate acquisitions of interests in, or combinations with, companies, including related companies, perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to the Company's current businesses. The Company intends to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing the indebtedness of the Company, its subsidiaries and related companies. From time to time, the Company and related entities also evaluate the restructuring of ownership interests among their respective subsidiaries and related companies.

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings.

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

In late July 2002, three separate complaints were filed in the Court of Chancery of the State of Delaware, New Castle County, against Tremont, Valhi and members of Tremont's board of directors (Crandon Capital Partners, et al. v. J. Landis Martin, et al., CA No. 19785-NC, Andrew Neyman v. J. Landis Martin, et al., CA No. 19787-NC, and Herman M. Weisman Revocable Trust v. J. Landis Martin, et al., CA No. 19792-NC). The complaints, purported class actions, generally allege, among other things, that the terms of the proposed merger of Valhi and Tremont are unfair, and that defendants have violated their fiduciary duties. The complaints seek, among other things, an order enjoining consummation of the proposed merger and the award of unspecified damages, including attorney's fees and other costs. The Company believes, and understands each of the other defendants believe, that the complaints are without merit, and the Company intends, and understands that each of the other defendants intend, to defend against the actions vigorously.

In re: Lead Paint Litigation (Superior Court of New Jersey, Middlesex County, Case Code 702). Two additional municipalities have filed suit in this previously-reported case. NL has moved to dismiss all claims of all 25 municipalities.

Brownsville Independent School District v. Lead Industries Association, et al. (District Court of Cameron County, Texas, No. 2002-052081 B). In May 2002, NL was served with a complaint seeking compensatory and punitive damages jointly and severally from the former lead pigment manufacturers and LIA for property damage. NL has denied all allegations of liability.

Spring Branch Independent School District v. Lead Industries Association, et al. (District Court of Harris County, Texas, No. 2000-31175). In June 2002, the trial court granted NL's motion for summary judgment. The time for appeal has not yet expired.

City of Milwaukee v. NL Industries, Inc., and Mautz Paint (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV003066). A trial date of October 27, 2003 has been set.

Smith, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004490). A trial date of July 7, 2003 for the first of the four plaintiff families has been set.

Quitman County School District v. Lead Industries Association, et al., (Circuit Court of Quitman County, Mississippi, Case No. 2001-0106). Defendants removed this case to federal court. In July 2002, the United States District Court for the Northern District of Mississippi denied plaintiff's motion to remand the case to state court, and the case will remain pending in that federal court as case number 2:02CV004-P-B.

El Paso Independent School District v. Lead Industries Association, et al., (District Court of El Paso County, Texas (No. 2002-2675)). In August 2002, NL was served with a complaint seeking compensatory and exemplary damages from NL and twelve other former lead pigment and/or paint manufacturers for alleged property damages due to the presence of lead paint in the school district's buildings. The complaint alleges product liability, strict liability, negligence, fraudulent misrepresentation, breach of warranties, statutory deceptive trade practices, conspiracy, fraud, concert of action, exemplary damages, and indemnity causes of action. The time for NL to answer the complaint has not yet expired.

The parties in the previously-reported Brownsville Independent School District, Liberty Independent School District, Houston Independent School District, and Harris County, Texas cases have reached an agreement in principle to abate, or stay, those cases pending appellate review of the trial court's dismissal of the Spring Branch Independent School District case or certain other events. The agreement is subject to completion and to approval by the various courts involved.

Pulliam v. NL (Superior Court, Marion County, Indiana, No. 49F12-0104-CT-001301). In May 2002, the court granted NL's motion to strike the plaintiffs' allegations that the case should be certified as a class action.

Dew, et al. v. Bill Richardson, et al. (U.S. District Court for the Western District of Kentucky, No. 5:00CV-221-M). NL and NLO, Inc. answered the complaint in this previously-reported case in May 2002, denying all allegations of wrongdoing and liability. Pre-trial proceedings and discovery continue.

United States of America v. NL Industries, Inc. et al., (U.S. District Court for the Southern District of Illinois, No. 91-CV00578). In July 2002, NL executed a consent decree with the United States in this previously-reported matter, and NL is awaiting the execution of the consent decree by the United States. The decree embodies the previously-reported agreement in principle with the United States pursuant to which NL will pay approximately \$31.5 million, including \$1 million in penalties, to settle its liabilities at this site.

NL has received a request from the U.S. EPA with respect to the on-site portion of the previously-reported clean-up at NL's formerly-owned facility in Chicago, Illinois, requesting that NL perform additional work. NL intends to discuss the request with the U.S. EPA.

Since the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, NL has been named as a defendant in asbestos and/or silica cases in various jurisdictions brought on behalf of approximately

3,575 additional personal injury claimants. Included in the foregoing total is one case in Mississippi state court involving approximately 3,005 plaintiffs (Lawrence Graves, et al. vs. Monstanto Company, et al., Circuit Court, Second Judicial District, Jones County, Mississippi, Civil Action No. 2002-141-CV4).

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

(a) Exhibits

- 3.1 - Amended and Restated Bylaws of the Registrant dated as of August 9, 2002.
- 10.1 - Indenture dated June 28, 2002, between Kronos International, Inc. and The Bank of New York, as Trustee, governing Kronos International's 8.875% Senior Secured Notes Due 2009, including form of the notes, - incorporated by reference to Exhibit 4.1 to NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended June 30, 2002.
- 10.2 - Deposit Agreement dated June 28, 2002 among NL Industries, Inc. and JP Morgan Chase Bank, as trustee - incorporated by reference to Exhibit 4.9 to NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended June 30, 2002.
- 10.3 - Satisfaction and Discharge of Indenture, Release, Assignment and Transfer, dated June 28, 2002, made by JP Morgan Chase Bank pursuant to the Indenture for NL Industries, Inc.'s 11 3/4% Senior Secured Notes due 2003 - incorporated by reference to Exhibit 4.10 to NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended June 30, 2002.
- 10.4 - Purchase and Sale Agreement (for titanium products) between The Boeing Company, acting through its division, Boeing Commercial Airplanes, and Titanium Metals Corporation (as amended and restated effective April 19, 2001) - incorporated by reference to Exhibit No. 10.2 to TIMET's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended June 30, 2002.
- 10.5 - Purchase and Sale Agreement between Rolls-Royce plc and Titanium Metals Corporation dated December 22, 1998 - incorporated by reference to Exhibit No. 10.3 to TIMET's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended June 30, 2002.
- 10.6 - Administrative Settlement for Interim Remedial Measures, Site Investigation and Feasibility Study dated July 7, 2000 between the Arkansas Department of Environmental Quality, Halliburton Energy Services, Inc., M-I, LLC and TRE Management Company - incorporated by reference to Exhibit 10.1 to Tremont's Quarterly Report on Form 10-Q (File No. 1-10126) for the quarter ended June 30, 2002.
- 99.1 - Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 - Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

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

None.

SIGNATURES

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

VALHI, INC.

-----  
(Registrant)

Date August 13, 2002  
-----

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

Date August 13, 2002  
-----

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

AMENDED AND RESTATED  
BYLAWS

OF

VALHI, INC.  
a Delaware Corporation  
(Amended and Restated as of August 9, 2002)

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS.....	i
ARTICLE I. REGISTERED AGENT AND OFFICES.....	1
Section 1.1. Registered Agent and Office.....	1
Section 1.2. Other Offices.....	1
ARTICLE II. MEETINGS OF STOCKHOLDERS.....	1
Section 2.1. Place and Time of Meetings.....	1
Section 2.2. Business to be Transacted at Meetings.....	1
Section 2.3. Notice.....	2
Section 2.4. List of Stockholders.....	2
Section 2.5. Quorum.....	2
Section 2.6. Proxies.....	2
Section 2.7. Order of Business.....	2
Section 2.8. Appointment of Inspectors of Election.....	3
Section 2.9. Confidential Voting.....	3
Section 2.10. Action Without a Meeting.....	3
Section 2.11. Fixing A Record Date.....	3
Section 2.12. Telephone Meetings.....	4
Section 2.13. Minutes.....	4
ARTICLE III. DIRECTORS.....	4
Section 3.1. Number, Qualifications and Term of Office.....	4
Section 3.2. Nomination of Director Candidates.....	4
Section 3.3. Removals.....	5
Section 3.4. Vacancies.....	5
Section 3.5. Annual Meeting.....	5
Section 3.6. Other Meetings and Notice.....	5
Section 3.7. Quorum.....	5
Section 3.8. Committees.....	5
Section 3.9. Committee Rules.....	6
Section 3.10. Telephonic Meetings.....	6
Section 3.11. Presumption of Assent.....	6
Section 3.12. Action Without a Meeting.....	6
Section 3.13. Compensation.....	6
Section 3.14. Minutes.....	6
ARTICLE IV. OFFICERS.....	6
Section 4.1. Number.....	6
Section 4.2. Election and Term of Office.....	6
Section 4.3. The Chairman of the Board.....	6
Section 4.4. The Vice Chairman of the Board.....	7
Section 4.5. The President.....	7
Section 4.6. The Chief Executive Officer.....	7
Section 4.7. The Chief Financial Officer.....	7
Section 4.8. Vice Presidents.....	7
Section 4.9. The Secretary and Assistant Secretary.....	7
Section 4.10. The Treasurer and Assistant Treasurer.....	8
Section 4.11. Vacancies.....	8
Section 4.12. Other Officers, Assistant Officers and Agents.....	8
Section 4.13. Normal Duties and Responsibilities of Officers.....	8
ARTICLE V. INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND OTHERS.....	8
Section 5.1. Indemnification.....	8
Section 5.2. Advancement of Expenses.....	8
Section 5.3. Expenses of Contested Indemnification Claims.....	8
Section 5.4. Indemnification Not Exclusive.....	9
Section 5.5. Survival of Indemnification and Advancement of Expenses.....	9
Section 5.6. Employees, Agents and Others.....	9
Section 5.7. Contract Right.....	9
Section 5.8. Insurance.....	9



Section 5.9. Certain References Under Article V.....	9
ARTICLE VI. CERTIFICATES OF STOCK.....	9
Section 6.1. Form.....	9
Section 6.2. Transfers.....	9
Section 6.3. Lost or Destroyed Certificates.....	9
Section 6.4. Registered Stockholders.....	10
ARTICLE VII. CERTAIN BUSINESS COMBINATIONS.....	10
ARTICLE VIII. GENERAL PROVISIONS.....	10
Section 8.1. Dividends.....	10
Section 8.2. Moneys.....	10
ARTICLE IX. NOTICES.....	10
Section 9.1. General.....	10
Section 9.2. Waivers.....	11
Section 9.3. Attendance as Waiver.....	11
Section 9.4. Omission of Notice to Stockholders.....	11

AMENDED AND RESTATED  
BYLAWS

OF

VALHI, INC.  
a Delaware Corporation  
(Amended and Restated as of August 9, 2002)

-----  
ARTICLE I.  
REGISTERED AGENT AND OFFICES

Section 1.1. Registered Agent and Office. The registered agent and office of the corporation shall be such person or entity and located at such place within the state of Delaware as the board of directors may from time to time determine.

Section 1.2. Other Offices. The corporation may also have offices at such other places, both within and without the state of Delaware, as the corporation's board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II.  
MEETINGS OF STOCKHOLDERS

Section 2.1. Place and Time of Meetings. All meetings of the stockholders shall be held on such date and at such time and place, within or without the state of Delaware, as shall be determined, from time to time, by the board of directors or by means of remote communication. The place at which a meeting of stockholders shall be held shall be stated in the notice and call of the meeting or a duly executed waiver of notice thereof. Special meetings of stockholders may be called by the chairman of the board, the president, the board of directors or the holders of at least 10 percent of the shares of the corporation that would be entitled to vote at such a meeting. If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by facsimile transmission to the chairman of the board, the president or the secretary of the corporation. No business may be transacted at such special meeting other than specified in such notice. Nothing contained in this Section shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

Section 2.2. Business to be Transacted at Meetings. At a meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a special meeting, business must be specified in the notice of the meeting (or any supplement thereto). To be properly brought before an annual meeting, business must be (a) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors or (c)

otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must, in addition to any requirements imposed by federal securities law or other applicable laws, have given timely notice thereof in writing to the secretary of the corporation. To be timely for an annual meeting, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, no later than (i) if the corporation mailed notice of the last annual meeting or publicly disclosed the date of such meeting and the annual meeting for the current year has not changed more than thirty days from such date (as if in the current year), forty-five days before the earlier of the date (as if in the current year) of such mailing or public disclosure or (ii) otherwise ninety days prior to the annual meeting. A stockholder's notice to the secretary with regard to an annual meeting shall set forth as to each order of business that the stockholder proposes to bring before the meeting (a) a brief description of such business desired to be brought before the meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation that are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. The chairman of the meeting may refuse to bring before a meeting any business not properly brought before the meeting in compliance with this section.

Section 2.3. Notice. Notice of the time and place of an annual meeting of stockholders and notice of the time, place and purpose or purposes of a special meeting of the stockholders shall be given by remote communications or by mailing written or printed notice of the same not less than 10, nor more than 60, days prior to the meeting, with postage prepaid, to each stockholder of record of the corporation entitled to vote at such meeting, and addressed to the stockholder's last known post office address or to the address appearing on the corporate books of the corporation.

Section 2.4. List of Stockholders. The officer or agent having charge of the stock transfer books of the corporation shall make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, specifying the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least 10 days prior to the meeting on a reasonably accessible electronic network or, during ordinary business hours, at the principal place of business of the corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. The original stock transfer books shall be the only evidence as to who are the stockholders entitled to examine such list or transfer book or to vote at any such meeting of stockholders.

Section 2.5. Quorum. The holders of a majority of the votes entitled to be cast at any meeting of stockholders, counted as a single class if there be more than one class of stock entitled to vote at such meeting, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders except as otherwise provided by statute or by the certificate of incorporation. Once a quorum is present at a meeting of the stockholders, the stockholders represented in person or by proxy at the meeting may conduct such business as may be properly brought before the meeting until it is adjourned, and the subsequent withdrawal from the meeting by any stockholder or the refusal of any stockholder represented in person or by proxy to vote shall not affect the presence of a quorum at the meeting. If a quorum is not present, the chairman of the meeting or the holders of the shares present in person or represented by proxy at the meeting, and entitled to vote thereat, shall have the power, by the affirmative vote of the holders of a majority of such shares, to adjourn the meeting to another time and/or place. Unless the adjournment is for more than thirty days or unless a new record date is set for the adjourned meeting, no notice of the adjourned meeting need be given to any stockholder provided that the time and place of the adjourned meeting were announced at the meeting at which the adjournment was taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting.

Section 2.6. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent in corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. A telegram, telex, cablegram or reliable electronic transmission executed or duly authorized by the stockholder, or a photographic, photostatic, facsimile or reliable reproduction of a writing executed or duly authorized by the

stockholder shall be treated as an execution in writing for purposes of this section. No proxy shall be valid after three years from the date of its execution unless otherwise provided in the proxy. Each proxy shall be revocable unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest.

Section 2.7. Order of Business. The order of business at each such stockholders meeting shall be as determined by the chairman of the meeting. One of the following persons, in the order in which they are listed (and in the absence of the first, the next, and so on), shall serve as chairman of the meeting: the chairman of the board, vice chairman of the board, president, vice presidents (in the order of their seniority if more than one) and secretary. The chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the voting polls.

Section 2.8. Appointment of Inspectors of Election. The board of directors shall appoint one or more inspectors of election ("inspectors") to act at such meeting or any adjournment or postponement thereof and make a written report thereof. The board of directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is so appointed or if no inspector or alternate is able to act, the chairman of the board, the vice chairman of the board or the president shall appoint one or more inspectors to act at such meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors may be directors, officers or employees of the corporation.

Section 2.9. Confidential Voting. All proxies, ballots and vote tabulations that identify the particular vote of a stockholder shall be kept confidential, except that disclosure may be made (i) to allow the inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements, including the pursuit or defense of judicial actions; or (iii) when expressly requested by such stockholder. Nothing in this section shall prohibit the inspector from making available to the corporation, during the period prior to any annual or special meeting, information as to which stockholders have not voted and periodic status reports on the aggregate vote.

Section 2.10. Action Without a Meeting.

(a) Any action to be taken at a meeting of the stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted.

(b) Every written consent of the stockholders shall bear the date of signature of each stockholder who signs the consent. No written consent shall be effective to take the action that is the subject of the consent unless, within 60 days after the date of the earliest dated consent delivered to the corporation as provided below, a consent or consents signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take the action that is the subject of the consent are delivered to the corporation by delivery to its registered office, its principal place of business, or an officer or agent of the corporation having custody of the books in which proceedings of meetings of the stockholders are recorded. Such delivery shall be made by hand or by certified or registered mail, return receipt requested, and in the case of delivery to the corporation's principal place of business, shall be addressed to the president of the corporation.

(c) A telegram, cablegram or electronic transmission by a stockholder, or a photographic, photostatic, facsimile or other reliable reproduction of a writing signed or transmitted by a stockholder, shall be regarded as signed by the stockholder for the purposes of this section.

(d) Prompt notice of the taking of any action by stockholders without

a meeting by less than unanimous written consent shall be given to those stockholders who did not consent in writing to the action and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the corporation.

Section 2.11. Fixing A Record Date. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action.

If the board of directors does not so fix a record date:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed.

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 2.12. Telephone Meetings. Stockholders may participate in and hold a meeting by means of conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 2.13. Minutes. The stockholders shall cause regular minutes of their proceedings to be kept, and such minutes shall be placed in the minute book of the corporation.

### ARTICLE III. DIRECTORS

Section 3.1. Number, Qualifications and Term of Office. The business and affairs of the corporation shall be managed by a board of directors. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding, the board of directors shall consist of one or more members. The number of members of the board of directors shall be fixed from time to time (i) by the board of directors pursuant to a resolution adopted by a majority of the entire board of directors or (ii) by the stockholders pursuant to a resolution adopted by a majority of the holders of shares of the corporation entitled to vote for the election of directors; provided, however, that if the stockholders have acted to fix the number of directors, any action by the board of directors to fix another number shall only become effective on or after the first annual meeting of stockholders that follows such stockholder action. Each director shall be elected at the annual meeting of the stockholders, except as provided in Section 3.4, and each director elected shall hold office until the next annual meeting of stockholders and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term expires.

Section 3.2. Nomination of Director Candidates. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding, nominations for the election of directors may be made by the board of directors or by any stockholder entitled to vote for the election of directors. Any stockholder entitled to vote for the election of a director at a meeting may nominate persons for whom such stockholder may vote only if written notice of such stockholder's intent to make such nomination is given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation not later than (a) with respect to an election to be held at an annual meeting of stockholders, (i) if the corporation mailed notice of the last annual meeting or publicly disclosed the date of such meeting and the annual meeting for the current year has not changed more than thirty days from such date (as if in the current year), forty-five days before the earlier of the date (as if in the current year) of such mailing or public disclosure or (ii) otherwise ninety days prior to the annual meeting and (b) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons intended to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had such requirements been applicable and each nominee been nominated, or intended to be nominated, by the board of directors; and (e) the consent of each nominee to serve as a director of the corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with this section.

Section 3.3. Removals. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding, each director may be removed from office at any time by the stockholders, with or without cause, by the affirmative vote of the holders of at least a majority of the voting power of all of the shares of the corporation entitled to vote for the election of such director.

Section 3.4. Vacancies. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding and except as otherwise required by law, all vacancies in the board of directors, whether caused by resignation, death or otherwise, may be filled by a majority of the remaining directors though less than a quorum; provided, however, that any vacancy resulting from an increase in the number of directors that is the result of a resolution adopted by the stockholders of the corporation may be filled by the stockholders of the corporation in accordance with the laws of the state of Delaware, any other applicable provisions of the certificate of incorporation and these bylaws. Each director so chosen shall hold office for the unexpired term of his or her predecessor and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal.

Section 3.5. Annual Meeting. The annual meeting of the board of directors may be held without notice immediately after the annual meeting of stockholders at the location of the stockholders' meeting. If not held immediately after the annual meeting of the stockholders, the annual meeting of the board of directors shall be held as soon thereafter as may be convenient.

Section 3.6. Other Meetings and Notice. Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board of directors. Special meetings of the board of directors may be called by or at the request of the chairman of the board, the vice chairman of the board or the president and shall be called by the chairman of the board on the written request of a majority of directors, in each case on at least twenty-four hours notice to each director.

Section 3.7. Quorum. A majority of the total number of directors shall be necessary at all meetings to constitute a quorum for the transaction of business. If a quorum shall not be present at any meeting of the board of

directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. At such adjourned meeting at which a quorum shall be present, any business may be transacted that might have been transacted at the meeting as originally notified and called.

Section 3.8. Committees. Standing or temporary committees consisting of one or more directors of the corporation may be appointed by the board of directors from time to time, and the board of directors may from time to time invest such committees with such powers as it may see fit, subject to limitations imposed by statute and such conditions as may be prescribed by the board of directors. An executive committee may be appointed by resolution passed by a majority of the entire board of directors and if appointed it shall have all the powers provided by statute, except as specially limited by the board of directors. All committees so appointed shall keep regular minutes of the transactions of their meetings and shall cause them to be recorded in books kept for that purpose in the office of the corporation, and shall report the same to the board of directors at its next meeting. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The board shall have the power at any time to change the membership of, to increase or decrease the membership of, to fill all vacancies in and to discharge any committee of the board, or any member thereof, either with or without cause.

Section 3.9. Committee Rules. Each committee of the board of directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by the resolution of the board of directors designating such committee, but in all cases the presence of at least a majority of the members of such committee shall be necessary to constitute a quorum.

Section 3.10. Telephonic Meetings. Members of the board of directors or any committee designated by the board of directors may participate in any meeting of the board of directors or such committee by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at such meeting.

Section 3.11. Presumption of Assent. A director of the corporation who is present at a meeting of the board of directors or any committee thereof at which action on any corporate matter is taken shall be deemed to have assented to the action taken unless his or her dissent shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 3.12. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all members of the board of directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board of directors or committee. Action taken pursuant to such written consent of the board of directors or of any committee thereof shall have the same force and effect as if taken by the board of directors or the committee, as the case may be, at a meeting thereof.

Section 3.13. Compensation. The board of directors shall have the authority to fix the compensation of directors.

Section 3.14. Minutes. The board of directors shall cause to be kept regular minutes of its proceedings, and such minutes shall be placed in the minute book of the corporation.

#### ARTICLE IV. OFFICERS

Section 4.1. Number. The officers of the corporation shall be a chairman of the board, a vice chairman of the board, a president, one or more vice presidents, a secretary, a treasurer, and such other officers and assistant officers as the board of directors may, by resolution, appoint. Any two or more offices may be held by the same person. In its discretion, the board of directors may choose not to fill any office for any period as it may deem advisable, except the offices of president and secretary.

Section 4.2. Election and Term of Office. The officers of the corporation shall be elected annually by the board of directors at the annual meeting of the board of directors. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until the next annual meeting of the board of directors and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 4.3. The Chairman of the Board. The chairman of the board shall preside at all meetings of the stockholders and directors. He or she shall have general and active management of the business of the corporation, shall see that all orders and resolutions of the board of directors are carried into effect and, in connection therewith, shall be authorized to delegate to the vice chairman of the board, president and other officers such of his or her powers and duties as chairman of the board at such time and in such manner as he or she may deem to be advisable. The chairman of the board shall be an ex officio member of all standing committees and he or she shall have such other powers and duties as may from time to time be assigned by the board of directors.

Section 4.4. The Vice Chairman of the Board. The vice chairman of the board shall assist the chairman of the board in the management of the business of the corporation, and, in the absence or disability of the chairman of the board, shall preside at all meetings of the stockholders and the board of directors and exercise the other powers and perform the other duties of the chairman of the board or designate the executive officers of the corporation by whom such other powers shall be exercised and other duties performed. The vice chairman of the board shall be an ex officio member of all standing committees and he or she shall have such other powers and duties as may from time to time be assigned by the board of directors or by the chairman of the board. In addition to the foregoing, the vice chairman of the board shall have such other powers, duties and authority as may be set forth elsewhere in these bylaws.

Section 4.5. The President. The president shall be the corporation's chief operating officer unless otherwise determined by the board of directors. The president shall assist the chairman of the board in the management of the business of the corporation, and, in the absence or disability of the chairman of the board and the vice chairman of the board, shall preside at all meetings of the stockholders and the board of directors and exercise the other powers and perform the other duties of the chairman of the board or designate the executive officers of the corporation by whom such other powers shall be exercised and other duties performed. The president shall be an ex officio member of all standing committees and he or she shall have such other powers and duties as may from time to time be assigned by the board of directors or by the chairman of the board. In addition to the foregoing, the president shall have such other powers, duties, and authority as may be set forth elsewhere in these bylaws. If the board of directors does not elect a chairman or vice chairman of the board, the president shall also have the duties and responsibilities, and exercise all functions, of the chairman and the vice chairman of the board as provided in these bylaws.

Section 4.6. The Chief Executive Officer. The board of directors may designate an individual, whether or not such individual is an officer of the corporation, to serve as the chief executive officer of the corporation. The chief executive officer shall have the duties and responsibilities, and exercise all functions, as the board of directors may determine.

Section 4.7. The Chief Financial Officer. The board of directors may designate an individual, whether or not such individual is an officer of the corporation, to serve as the chief financial officer of the corporation. The chief financial officer shall have the duties and responsibilities, and exercise all functions, as the board of directors may determine.

Section 4.8. Vice Presidents. Each vice president shall have such powers and discharge such duties as may be assigned from time to time by the chairman of the board, the vice chairman of the board or the president. During the absence or disability of the president, one such vice president, when designated by the board of directors, shall exercise all the functions of the president.

Section 4.9. The Secretary and Assistant Secretary. The secretary or the chairman of the board shall issue notices for all meetings. The secretary shall keep minutes of all meetings of the board of directors, the committees thereof and the stockholders, shall have charge of the seal and the corporate books and shall make such reports and perform such other duties as are incident to the office, and perform such other duties designated or properly required by the

chairman of the board, the vice chairman of the board or the president. The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation. The assistant secretary shall be vested with the same powers and duties as the secretary, and any act may be done or duty performed by the assistant secretary with like effect as though done or performed by the secretary. The assistant secretary shall have such other powers and perform such other duties as may be assigned by the chairman of the board, the vice chairman of the board or the president.

Section 4.10. The Treasurer and Assistant Treasurer. The treasurer shall have the custody of all moneys and securities of the corporation and shall keep regular books of account. He or she shall disburse the funds of the corporation in payment of just demands against the corporation, or as may be ordered by the chairman of the board, the vice chairman of the board, the president or by the board of directors, taking proper vouchers for such disbursements, and shall render to the board of directors from time to time as may be required of him or her, an account of all transactions as treasurer and of the financial condition of the corporation. The treasurer shall perform all duties incident to the office, and perform such other duties designated or properly required by the chairman of the board, the vice chairman of the board or the president. The assistant treasurer shall be vested with the same powers and duties as the treasurer, and any act may be done, or duty performed by the assistant treasurer with like effect as though done or performed by the treasurer. The assistant treasurer shall have such other powers and perform such other duties as may be assigned by the chairman of the board, the vice chairman of the board or the president.

Section 4.11. Vacancies. Vacancies in any office arising from any cause may be filled by the directors for the unexpired portion of the term with a majority vote of the directors then in office. In the case of the absence or inability to act of any officer of the corporation and of any person herein authorized to act in his or her place, the board of directors may from time to time delegate the powers or duties of such officer to any other officer or any director or other person whom it may select.

Section 4.12. Other Officers, Assistant Officers and Agents. Officers, assistant officers, and agents, if any, other than those whose duties are provided for in these bylaws shall hold their offices for such terms and shall exercise such powers and perform such duties as the board of directors may determine.

Section 4.13. Normal Duties and Responsibilities of Officers. Unless otherwise provided in these bylaws or the board of directors decides otherwise, if an officer title is one commonly used for officers of a business corporation formed under the Delaware General Corporation Law or any successor or similar statute, the assignment of such title shall constitute the delegation to such officer of the authority and duties that are normally associated with that office, subject to any specific delegation of authority and duties made to such officer by the board of directors.

#### ARTICLE V.

#### INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND OTHERS

Section 5.1. Indemnification. To the fullest extent permitted by Delaware law, the corporation shall indemnify any and all officers and directors of the corporation from and against all expenses (including attorneys' fees), liabilities or other matters arising out of their status as such or their acts, omissions or services rendered by such persons in such capacities or otherwise while serving at the request of the corporation. Unless specifically addressed in a repeal or amendment of Delaware law with regard to a corporation's ability to indemnify its officers and directors, no such repeal or amendment shall adversely affect any indemnification rights of any person existing at the time of such repeal or amendment.

Section 5.2. Advancement of Expenses. Reasonable expenses (including attorneys' fees) incurred by a director or officer who was, is or is threatened to be made a named defendant or respondent in a proceeding by reason of his or her status as a director or officer of the corporation or services rendered by such persons in such capacities or otherwise at the request of the corporation or incurred by a director or officer for prosecuting a claim under Section 5.3



shall be paid by the corporation in advance of the final disposition of such proceeding upon receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation as authorized in this Article.

Section 5.3. Expenses of Contested Indemnification Claims. If a claimant makes a claim on the corporation under Section 5.1 or 5.2 and the corporation does not pay such claim in full within thirty days after it has received such written claim, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expenses of prosecuting such claim.

Section 5.4. Indemnification Not Exclusive. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any other bylaw, agreement, vote of stockholders or directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

Section 5.5. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such person.

Section 5.6. Employees, Agents and Others. To the fullest extent of Delaware law, the corporation may grant rights of indemnification and advancement of expenses to any person who is not at the time a current director or officer of the corporation.

Section 5.7. Contract Right. Each of the rights of indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall be a contract right and any repeal or amendment of the provisions of this Article shall not adversely affect any such right of any person existing at the time of such repeal or amendment with respect to any act or omission occurring prior to the time of such repeal or amendment, and further, shall not apply to any proceeding, irrespective of when the proceeding is initiated, arising from the service of such person prior to such repeal or amendment.

Section 5.8. Insurance. To the fullest extent of Delaware law, the corporation shall have power to purchase and maintain insurance on behalf of any person, including one who is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of this Article.

Section 5.9. Certain References Under Article V. For purposes of this Article, references to "the corporation," "other enterprise," "proceeding" and "serving at the request of the corporation" shall have the meanings given such terms in Section 145 of the Delaware General Corporation Law or any successor or similar statute.

#### ARTICLE VI. CERTIFICATES OF STOCK

Section 6.1. Form. Certificates of stock shall be issued in numerical order, and each stockholder shall be entitled to a certificate signed by the chairman of the board, the president or any vice president and the secretary, any assistant secretary, the treasurer or any assistant treasurer, certifying to the number of shares owned by such stockholder. Where, however, such certificate is signed by a transfer agent or an assistant transfer agent or by a transfer clerk acting on behalf of the corporation, and a registrar or by an agent acting in the dual capacity of transfer agent and registrar, the signatures of any of the above-named officers may be facsimile signatures. In the event that any officer who has signed, or whose facsimile signature has been used on, a certificate ceases to be an officer before the certificate has been delivered, such certificate may nevertheless be adopted and issued and delivered by the

corporation, as though the officer who signed such certificate or certificates, or whose facsimile signature or signatures shall have been used thereon, had not ceased to be such officer of the corporation.

Section 6.2. Transfers. Transfers of stock shall be made only upon the transfer books of the corporation or respective transfer agents designated to transfer the several classes of stock, and before a new certificate is issued, the old certificate shall be surrendered for cancellation.

Section 6.3. Lost or Destroyed Certificates. The corporation may issue a new certificate of stock in place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation shall, except as otherwise determined by the board of directors, the chairman of the board, the president, any vice president or other authorized officer, require the owner of the lost, stolen or destroyed certificate, or his or her legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 6.4. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of another person, whether or not the corporation shall have express or other notice thereof, except as otherwise provided by the laws of the state of Delaware.

#### ARTICLE VII. CERTAIN BUSINESS COMBINATIONS

The provision of Section 203 of the Delaware General Corporation Law shall not apply to the corporation.

This Article VII shall be amended, altered or repealed only as provided in Section 203 of the Delaware General Corporation Law.

#### ARTICLE VIII. GENERAL PROVISIONS

Section 8.1. Dividends. Dividends upon the capital stock of the corporation, subject to any applicable provisions of the certificate of incorporation, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the applicable provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think in the best interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 8.2. Moneys. The chairman of the board, vice chairman of the board, president or any vice president is authorized for and on behalf of the corporation: to establish, maintain and to close depository accounts, in the corporation's name, for the deposit and withdrawal of corporation funds; to designate those individuals authorized to withdraw funds or sign checks in said depository accounts; and to execute customer agreements with respect to such depository accounts, including forms of corporate resolutions, certified with respect to the approval of the board of directors as of the date such forms of corporate resolutions are executed. The secretary or assistant secretary is, authorized for and on behalf of the corporation without further action of the board of directors to certify as to the approval of the board of directors of forms of resolutions regarding any of such depository or trading accounts as of the date the officer of the corporation executes the customer agreement with respect to each such account.

#### ARTICLE IX. NOTICES

Section 9.1. General. Whenever the provisions of any statute or these bylaws require notice to be given to any director, officer or stockholder, such

notice may be given personally or in writing by facsimile, by telegraph or by depositing the same in the United States mail with postage prepaid addressed to each director, officer or stockholder at his or her address, as the same appears in the books of the corporation, and the time when the same shall be personally given, sent by facsimile or telegraph or mailed shall be deemed to be the time of the giving of such notice.

Section 9.2. Waivers. Whenever any notice whatever is required to be given under provisions of law or of the certificate of incorporation or of these bylaws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Section 9.3. Attendance as Waiver. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 9.4. Omission of Notice to Stockholders. Any notice required to be given to any stockholder under any statutory provision, the certificate of incorporation or these bylaws need not be given to the stockholder if:

(a) notice of two consecutive annual meetings and all notices of meetings held or actions by written consent taken during the period between those annual meetings, if any, or

(b) all, and at least two, payments (if sent by first class mail) of distributions or interest on securities during a twelve month period have been mailed to that person, addressed at his or her address as shown on the share transfer records of the corporation, and have been returned undeliverable. Any action or meeting taken or held without notice to such a person shall have the same force and effect as if the notice had been duly given. If such a person delivers to the corporation a written notice setting forth his or her then current address, the requirement that notice be given to that person shall be reinstated.

ADOPTED BY THE BOARD OF DIRECTORS AS OF AUGUST 9, 2002

A. Andrew R. Louis, Secretary

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

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

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

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

/s/ Steven L. Watson

Steven L. Watson  
President and Chief Executive Officer  
August 13, 2002

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

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

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

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

/s/ Bobby D. O'Brien

Bobby D. O'Brien  
Vice President, Chief Financial Officer and Treasurer  
August 13, 2002