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VALHI INC /DE/  
Form DEF 14A  
April 08, 2002

SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by Registrant: [ X ]  
Filed by a Party other than the Registrant: [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement [ ] Confidential, for Use of  
[ X ] Definitive Proxy Statement the Commission Only (as  
[ ] Definitive Additional Materials permitted by Rule 14a-6(e)(2))  
[ ] Soliciting Materials Pursuant to Section 240.14a-11(c) or Section  
240.14a-12

Valhi, Inc.

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [ X ] No fee required.  
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- 1) Title of each class of securities to which transaction applies:
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- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth amount on which the filing fee is calculated and state how it was determined):
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VALHI, INC.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697

April 1, 2002

To Our Stockholders:

You are cordially invited to attend the 2002 Annual Meeting of Stockholders of Valhi, Inc., which will be held on Monday, May 13, 2002, at 1:30 p.m., local time, at Valhi's corporate offices at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas. The matters to be acted upon at the meeting are described in the attached Notice of Annual Meeting of Stockholders and Proxy Statement.

Whether or not you plan to attend the meeting, please complete, date, sign and return the enclosed proxy card or voting instruction form in the accompanying envelope as promptly as possible to ensure that your shares are represented and voted in accordance with your wishes. Your vote, whether given by proxy or in person at the meeting, will be held in confidence by the inspector of election as provided in Valhi's bylaws.

Sincerely,

/s/ Harold C. Simmons  
Harold C. Simmons  
Chairman of the Board and  
Chief Executive Officer

VALHI, INC.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 13, 2002

To the Stockholders of Valhi, Inc.:

NOTICE IS HEREBY GIVEN that the 2002 Annual Meeting of Stockholders (the "Meeting") of Valhi, Inc., a Delaware corporation ("Valhi"), will be held on Monday, May 13, 2002, at 1:30 p.m., local time, at the corporate offices of Valhi at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas for

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the following purposes:

- (1) To elect seven directors to serve until the 2003 Annual Meeting of Stockholders and until their successors are duly elected and qualified or their earlier removal, resignation or death; and
- (2) To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

The board of directors of Valhi set the close of business on March 18, 2002 as the record date (the "Record Date") for the Meeting. Only holders of Valhi's common stock, par value \$0.01 per share, at the close of business on the Record Date are entitled to notice of, and to vote at, the Meeting. Valhi's stock transfer books will not be closed following the Record Date. A complete list of stockholders entitled to vote at the Meeting will be available for examination during normal business hours by any stockholder of Valhi, for purposes related to the Meeting, for a period of ten days prior to the Meeting at Valhi's corporate offices located at the address set forth above.

You are cordially invited to attend the Meeting. Whether or not you plan to attend the Meeting in person, please complete, date and sign the accompanying proxy card or voting instruction form and return it promptly in the enclosed envelope to ensure that your shares are represented and voted in accordance with your wishes. You may revoke your proxy by following the procedures set forth in the accompanying proxy statement. If you choose, you may still vote in person at the Meeting even though you previously submitted your proxy.

In accordance with Valhi's bylaws, your vote, whether given by proxy or in person at the Meeting, will be held in confidence by the inspector of election for the Meeting.

By Order of the Board of Directors,

/s/ A. Andrew R. Louis  
A. Andrew R. Louis, Secretary

Dallas, Texas  
April 1, 2002

VALHI, INC.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697

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PROXY STATEMENT  
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GENERAL INFORMATION

This proxy statement and the accompanying proxy card or voting instruction

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form are being furnished in connection with the solicitation of proxies by and on behalf of the board of directors (the "Board of Directors") of Valhi, Inc., a Delaware corporation ("Valhi"), for use at the 2002 Annual Meeting of Stockholders of Valhi to be held on Monday, May 13, 2002 and at any adjournment or postponement thereof (the "Meeting"). The accompanying Notice of Annual Meeting of Stockholders (the "Notice") sets forth the time and place and the purposes of the Meeting. The Notice, this proxy statement, the accompanying proxy card or voting instruction form and Valhi's Annual Report to Stockholders, which includes Valhi's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (the "Annual Report"), are first being mailed to the holders of Valhi's common stock, par value \$0.01 per share ("Valhi Common Stock"), on or about April 5, 2002. Valhi's executive offices are located at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

### QUORUM, VOTING RIGHTS AND PROXY SOLICITATION

The record date set by the Board of Directors for the determination of stockholders entitled to notice of and to vote at the Meeting was the close of business on March 18, 2002 (the "Record Date"). As of the Record Date, there were 114,773,617 shares of Valhi Common Stock issued and outstanding. Each share of Valhi Common Stock entitles its holder to one vote on all matters to be acted on at the Meeting. The presence, in person or by proxy, of the holders of a majority of the shares of Valhi Common Stock entitled to vote at the Meeting is necessary to constitute a quorum for the conduct of business at the Meeting. Shares of Valhi Common Stock that are voted to abstain from any business coming before the Meeting and broker/nominee non-votes will be counted as being in attendance at the Meeting for purposes of determining whether a quorum is present.

If a quorum is present, a plurality of the affirmative votes of the outstanding shares of Valhi Common Stock represented and entitled to be voted at the Meeting is necessary to elect a director of Valhi. The accompanying proxy card or voting instruction form provides space for a stockholder to withhold authority to vote for any of the nominees of the Board of Directors. Neither shares as to which the authority to vote on the election of directors has been withheld nor broker/nominee non-votes will be counted as affirmative votes to elect director nominees to the Board of Directors. However, since director nominees need only receive the vote of a plurality of the shares represented at the Meeting and entitled to vote, a vote withheld from a particular nominee will not affect the election of such nominee.

Except as applicable laws may otherwise provide, the approval of any other matter that may properly come before the Meeting will require the affirmative vote of a majority of the shares represented and entitled to vote at the Meeting. Shares of Valhi Common Stock that are voted to abstain from any other business coming before the Meeting and broker/nominee non-votes will not be counted as votes for or against any such other matter.

Unless otherwise specified, the agents designated in the proxy card or voting instruction form will vote the shares represented by a proxy at the Meeting "FOR" the election of the nominees for director and, to the extent allowed by the federal securities laws, in the discretion of the agents on any other matter that may properly come before the Meeting.

Contran Corporation ("Contran") and certain related persons and entities held approximately 94% of the outstanding shares of Valhi Common Stock as of the Record Date and have indicated their intention to have such shares represented at the Meeting and voted "FOR" the election of each of the nominees for director of the Board of Directors. If such shares are represented and voted as indicated at the Meeting, a quorum will be present and all the nominees for director will be elected as directors of Valhi.

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Computershare Investor Services, L.L.C. or its successor ("Computershare"), the transfer agent and registrar for Valhi Common Stock as of the Record Date, has been appointed by the Board of Directors to ascertain the number of shares represented, receive proxies and ballots, tabulate the vote and serve as inspector of election at the Meeting. All proxies, ballots and voting instructions delivered to Computershare that identify the vote of a particular stockholder shall be kept confidential by Computershare in accordance with the terms of Valhi's bylaws. Each holder of record of Valhi Common Stock giving the proxy enclosed with this proxy statement may revoke it at any time prior to the voting of such stock at the Meeting by delivering to Computershare a written revocation of the proxy, delivering to Computershare a duly executed proxy bearing a later date or by voting in person at the Meeting. Attendance by a stockholder at the Meeting will not in itself constitute the revocation of such stockholder's proxy.

This proxy solicitation is being made by and on behalf of the Board of Directors. Valhi will pay all expenses related to the solicitation, including charges for preparing, printing, assembling and distributing all materials delivered to stockholders. In addition to solicitation by mail, directors, officers and regular employees of Valhi may solicit proxies by telephone or in person for which such persons will receive no additional compensation. Upon request, Valhi will reimburse banking institutions, brokerage firms, custodians, trustees, nominees and fiduciaries for their reasonable out-of-pocket expenses incurred in distributing proxy materials and voting instructions to the beneficial owners of Valhi Common Stock held of record by such entities.

### ELECTION OF DIRECTORS

The bylaws of Valhi provide that the Board of Directors shall consist of not less than five and not more than nine persons, as determined from time to time by the Board of Directors in its discretion. The number of directors is currently set at seven. The directors elected at the Meeting will hold office until the 2003 Annual Meeting of Stockholders and until their successors are duly elected and qualified or their earlier removal, resignation or death.

All of the nominees are currently directors of Valhi whose terms will expire at the Meeting. All of the nominees have agreed to serve if elected. If any nominee is not available for election at the Meeting, a proxy will be voted "FOR" an alternate nominee to be selected by the Board of Directors, unless the stockholder executing such proxy withholds authority to vote for such nominee. The Board of Directors believes that all of its present nominees will be available for election at the Meeting and will serve if elected.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE FOLLOWING NOMINEES FOR DIRECTOR.

Nominees for Director. The following information has been provided by the respective nominees for election as directors of Valhi for terms expiring at the 2003 Annual Meeting of Stockholders.

Thomas E. Barry, age 58, has served as a director of Valhi since 2000. Dr. Barry is vice president for executive affairs at Southern Methodist University and has been professor of marketing in the Edwin L. Cox School of Business at Southern Methodist University since prior to 1997. Dr. Barry is also a director of Keystone Consolidated Industries, Inc., a steel fabricated wire products, industrial wire and carbon steel rod company affiliated with Contran ("Keystone"). Additionally, he serves as a member of Valhi's audit committee and management development and compensation committee (the "MD&C Committee").

Norman S. Edelcup, age 66, has served as a director of Valhi and/or certain of Valhi's predecessors since 1975. Since 2001, Mr. Edelcup has served as senior vice president of Florida Savings Bancorp. He also serves as a trustee for the

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Baron Funds, a mutual fund group. Mr. Edelcup served as senior vice president of Item Processing of America, Inc., a processing service bureau ("IPA"), from 1999 to 2000 and as chairman of the board of IPA from prior to 1997 to 1999. Additionally, he serves as chairman of Valhi's audit committee and MD&C Committee.

Edward J. Hardin, age 59, has served as a director of Valhi since 2000. Mr. Hardin is also a director of CompX International Inc. ("CompX"), a majority owned indirect subsidiary of Valhi that manufactures ergonomic computer support systems, precision ball bearing slides and security products. Mr. Hardin has been a partner of the law firm of Rogers & Hardin LLP since its formation in 1976. Mr. Hardin serves as a director of Westrup, Inc., a manufacturer of seed processing machinery, and as chairman of the board of the Harvard Center for the Study of World Religions. Additionally, he serves as a member of Valhi's audit committee.

Glenn R. Simmons, age 74, has served as a director of Valhi and/or certain of Valhi's predecessors since 1980. Mr. Simmons has been vice chairman of the board of Valhi and Contran, a diversified holding company, since prior to 1997. Mr. Simmons is a director of Valhi's majority owned subsidiary, NL Industries, Inc. ("NL"), a titanium dioxide pigments company; chairman of the board of CompX and Keystone; a director of Titanium Metals Corporation ("TIMET"), a company engaged in the titanium metals industry of which Tremont Corporation ("Tremont") owns approximately 39%; and a director of Tremont, Valhi's majority owned indirect subsidiary that in addition to its holdings in TIMET owns approximately 21% of NL and interests in land development entities. Mr. Simmons has been an executive officer and/or director of various companies related to Valhi and Contran since 1969. Mr. Simmons serves as a member of Valhi's executive committee and is a brother of Harold C. Simmons.

Harold C. Simmons, age 70, has served as a director of Valhi and/or certain of Valhi's predecessors since 1980. Mr. Simmons has been chairman of the board and chief executive officer of Valhi and Contran since prior to 1997 and was president of Valhi and Contran from prior to 1997 to 1998. Mr. Simmons is chairman of the board of NL and a director of Tremont. Mr. Simmons has been an executive officer and/or director of various companies related to Valhi and Contran since 1961. Mr. Simmons serves as chairman of Valhi's executive committee and is a brother of Glenn R. Simmons.

J. Walter Tucker, Jr., age 76, has served as a director of Valhi and/or certain of Valhi's predecessors since 1982. Mr. Tucker has been the president, treasurer and a director of Tucker & Branham, Inc., a mortgage banking, insurance and real estate company, and vice chairman of the board and a director of Keystone since prior to 1997. Mr. Tucker has been an executive officer and/or director of various companies related to Valhi and Contran since 1982.

Steven L. Watson, age 51, has served as a director of Valhi since 1998. Mr. Watson has been president of Valhi and Contran, and a director of Contran, since 1998. Mr. Watson is also a director of CompX, Keystone, NL, TIMET and Tremont. From prior to 1997 to 1998, Mr. Watson served as vice president and secretary of Valhi and Contran. Mr. Watson has served as an executive officer and/or director of various companies related to Valhi and Contran since 1980. Mr. Watson serves as a member of Valhi's executive committee.

### MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors held three meetings and took action by written

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consent in lieu of meetings on six occasions in 2001. Each of the directors participated in all of such meetings and of the meetings of the committees on which they served at the time they served.

The Board of Directors has established and delegated authority to the following standing committees.

**Audit Committee.** The audit committee assists the Board of Directors in fulfilling its oversight responsibilities relating to the financial accounting and reporting practices of Valhi. The audit committee's primary responsibilities are to serve as an independent and objective party to review Valhi's auditing, accounting and financial reporting processes. For further information on the role of the audit committee, see "Independent Auditor Matters--Audit Committee Report." The current members of the audit committee are Norman S. Edelpcup (chairman), Edward J. Hardin and Dr. Thomas E. Barry. The audit committee held two meetings in 2001.

**Management Development and Compensation Committee.** The principal responsibilities of the MD&C Committee are to review and approve grants of stock options and other awards under the Valhi, Inc. 1997 Long-Term Incentive Plan (the "1997 Plan"), to review and administer the Valhi, Inc. 1987 Stock Option--Stock Appreciation Rights Plan, as amended (the "1987 Plan"), and the 1997 Plan and to review and administer such other compensation matters as the Board of Directors may direct from time to time. For further information on the role of the MD&C Committee, see "Report on Executive Compensation." The current members of the MD&C Committee are Norman S. Edelpcup (chairman) and Dr. Thomas E. Barry. The MD&C Committee held one meeting in 2001.

**Executive Committee.** The principal responsibilities of the executive committee are to take such actions as are required to manage Valhi, within the limits provided by Delaware statutes and the Board of Directors. The current members of the executive committee are Harold C. Simmons (chairman), Glenn R. Simmons and Steven L. Watson. The executive committee did not hold any meetings in 2001.

The Board of Directors does not have a nominating committee or any committee performing a similar function. All matters that would be considered by such a committee are acted upon by the full Board of Directors. The Board of Directors will consider recommendations by stockholders of Valhi with respect to the election of directors if such recommendations are submitted in writing to the secretary of Valhi and received not later than December 31 of the year prior to the next annual meeting of stockholders. Such recommendations should be accompanied by a full statement of qualifications and confirmation of the nominee's willingness to serve.

It is anticipated that the members of the standing committees will be elected at the annual meeting of the Board of Directors immediately following the Meeting. The Board of Directors has previously established, and from time to time may establish, other committees to assist it in the discharge of its responsibilities.

### EXECUTIVE OFFICERS

Set forth below is certain information relating to the current executive officers of Valhi. Each executive officer serves at the pleasure of the Board of Directors. Biographical information with respect to Harold C. Simmons, Glenn R. Simmons and Steven L. Watson is set forth under "Election of Directors--Nominees

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for Director."

| Name                       | Age | Position(s)                                       |
|----------------------------|-----|---|
| Harold C. Simmons.....     | 70  | Chairman of the Board and Chief Executive Officer |
| Glenn R. Simmons.....      | 74  | Vice Chairman of the Board                        |
| Steven L. Watson.....      | 51  | President   |
| William J. Lindquist.....  | 44  | Senior Vice President                             |
| Bobby D. O'Brien.....      | 44  | Vice President and Treasurer                      |
| J. Mark Hollingsworth..... | 50  | Vice President and General Counsel                |
| Gregory M. Swalwell.....   | 45  | Vice President and Controller                     |
| Eugene K. Anderson.....    | 66  | Vice President and Assistant Treasurer            |
| A. Andrew R. Louis.....    | 41  | Secretary   |
| Kelly D. Luttmer.....      | 38  | Tax Director                                      |

William J. Lindquist has served as senior vice president of Valhi and Contran, and a director of Contran, since 1998. From prior to 1997 to 1998, Mr. Lindquist served as vice president and tax director of Valhi and Contran. Mr. Lindquist has served as an executive officer and/or director of various companies related to Valhi and Contran since 1980.

Bobby D. O'Brien has served as vice president of Valhi and Contran since prior to 1997 and treasurer of Valhi and Contran since 1997. Mr. O'Brien has served in financial and accounting positions with various companies related to Valhi and Contran since 1988.

J. Mark Hollingsworth has served as vice president of Valhi and Contran since 1998 and as general counsel of Valhi and Contran since prior to 1997. Mr. Hollingsworth has served as legal counsel to various companies related to Valhi and Contran since 1983.

Gregory M. Swalwell has served as vice president of Valhi and Contran since 1998 and controller of Valhi and Contran since prior to 1997. Mr. Swalwell has served in accounting positions with various companies related to Valhi and Contran since 1988.

Eugene K. Anderson has served as vice president and assistant treasurer of Valhi and Contran since prior to 1997. Mr. Anderson has served as an executive officer of various companies related to Valhi and Contran since 1980.

A. Andrew R. Louis has served as secretary of Valhi and Contran since 1998. From prior to 1997 to 1998, Mr. Louis served as corporate counsel of Valhi and Contran. Mr. Louis has served as legal counsel of various companies related to Valhi and Contran since 1995.

Kelly D. Luttmer has served as tax director of Valhi and Contran since 1998. Since prior to 1997 to 1998, Ms. Luttmer served as assistant tax manager of Valhi and Contran. Ms. Luttmer has served in tax accounting positions with various companies related to Valhi and Contran since 1989.

SECURITY OWNERSHIP

Ownership of Valhi and Its Parents. The following table and footnotes set forth as of the Record Date the beneficial ownership, as defined by regulations



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of the Securities and Exchange Commission (the "SEC"), of Valhi Common Stock held by each person or group of persons known to Valhi to own beneficially more than 5% of the outstanding shares of Valhi Common Stock, each director of Valhi, each executive officer of Valhi named in the Summary Compensation Table below (a "named executive officer") and all directors and executive officers of Valhi as a group. See footnote (4) below for information concerning individuals and entities that may be deemed to own indirectly and beneficially those shares of Valhi Common Stock directly held by Contran, National City Lines, Inc. ("National") and Valhi Group, Inc. ("VGI"). Except as set forth below, no securities of Valhi's parent companies are beneficially owned by any director or executive officer of Valhi. All information is taken from or based upon ownership filings made by such persons with the SEC or upon information provided by such persons.

| Name of Beneficial Owner  | Valhi Common S                                |
|---|---|
| -----   | -----   |
| Name of Beneficial Owner  | Amount and Nature of Beneficial Ownership (1) |
| -----   | -----   |
| Contran Corporation and subsidiaries:                             |   |
| Contran Corporation (3).....                                      | 2,805,700 (4) (5)                             |
| National City Lines, Inc. (3).....                                | 10,891,009 (4)                                |
| Valhi Group, Inc. (3).....  | 93,739,554 (4)                                |
| Thomas E. Barry.....  | 4,000 (6)                                     |
| Norman S. Edelcup.....  | 29,000 (6)                                    |
| Edward J. Hardin.....   | 7,000 (6)                                     |
| Glenn R. Simmons.....   | 203,183 (4) (6) (7)                           |
| Harold C. Simmons.....  | 80,383 (4) (5) (8)                            |
| J. Walter Tucker, Jr.....   | 243,750 (4) (6) (9)                           |
| Steven L. Watson.....   | 188,635 (4) (6)                               |
| William J. Lindquist.....   | 168,000 (4) (6)                               |
| Bobby D. O'Brien.....   | 83,000 (4) (6)                                |
| Gregory M. Swalwell.....  | 94,166 (4) (6)                                |
| All directors and executive officers as a group (14 persons)..... | 1,335,563 (4) (5) (6) (7) (8) (9)             |

\* Less than 1%.

(1) Except as otherwise noted, the listed individuals and group have sole investment power and sole voting power as to all shares of Valhi Common Stock set forth opposite their names. The number of shares and percentage of ownership of Valhi Common Stock for each person or group assumes the exercise by such person or group (exclusive of others) of stock options that such person or group may exercise within 60 days subsequent to the Record Date.

(2) The percentages are based on 114,773,617 shares of Valhi Common Stock outstanding as of the Record Date. For purposes of calculating the outstanding shares of Valhi Common Stock as of the Record Date, 1,186,200 shares of Valhi Common Stock held by a subsidiary of NL, a majority owned subsidiary of Valhi, and 1,000,000 shares of Valhi Common Stock held by Valmont Insurance Company, a wholly owned subsidiary of Valhi ("Valmont"), are excluded from the amount of Valhi Common Stock outstanding. Pursuant to Delaware corporate law, Valhi treats these excluded shares as treasury stock for voting purposes.

(3) The business address of Contran, National and VGI is Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

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- (4) National, NOA, Inc. ("NOA") and Dixie Holding Company ("Dixie Holding") are the direct holders of approximately 73.3%, 11.4% and 15.3%, respectively, of the outstanding common stock of VGI. Contran and NOA are the direct holders of approximately 85.7% and 14.3%, respectively, of the outstanding common stock of National. Contran and Southwest Louisiana Land Company, Inc. ("Southwest") are the direct holders of approximately 49.9% and 50.1%, respectively, of the outstanding common stock of NOA. Dixie Rice Agricultural Corporation, Inc. ("Dixie Rice") is the direct holder of 100% of the outstanding common stock of Dixie Holding. Contran is the holder of 100% of the outstanding common stock of Dixie Rice and approximately 88.9% of the outstanding common stock of Southwest. 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 (the "Trusts"), of which Mr. Simmons is the sole trustee. As sole trustee of the Trusts, Mr. Simmons has the power to vote and direct the disposition of the shares of Contran stock held by the Trusts. Mr. Simmons, however, disclaims beneficial ownership of any Contran shares that the Trusts hold.

Harold C. Simmons is the chairman of the board and chief executive officer of VGI, National, NOA, Dixie Holding, Dixie Rice, Southwest and Contran. By virtue of the holding of the offices, the stock ownership and his service as trustee, all as described above, Mr. Simmons may be deemed to control such entities, and Mr. Simmons and certain of such entities may be deemed to possess indirect beneficial ownership of the shares of Valhi Common Stock directly held by certain of such other entities. Mr. Simmons, however, disclaims beneficial ownership of the shares of Valhi Common Stock beneficially owned, directly or indirectly, by any of such entities, NL or Valmont.

Glenn R. Simmons, Steven L. Watson and William J. Lindquist are directors of Contran and all of Valhi's executive officers are executive officers of Contran. Each of such persons disclaims beneficial ownership of the shares of Valhi Common Stock that Contran directly or indirectly beneficially holds.

The Harold Simmons Foundation, Inc. (the "Foundation") directly holds approximately 0.5% of the outstanding shares of Valhi Common Stock. The Foundation is a tax-exempt foundation organized for charitable purposes. Harold C. Simmons is the chairman of the board and chief executive officer of the Foundation and may be deemed to control the Foundation. Mr. Simmons, however, disclaims beneficial ownership of any shares of Valhi Common Stock held by the Foundation.

The Combined Master Retirement Trust (the "Master Trust") directly holds approximately 0.1% of the outstanding shares of Valhi Common Stock. Valhi established the Master Trust to permit the collective investment by master trusts that maintain assets of certain employee benefit plans Valhi and related companies adopt. Harold C. Simmons is the sole trustee of the Master Trust and a member of the trust investment committee for the Master Trust. J. Walter Tucker, Jr. is also a member of the trust investment committee for the Master Trust. The Board of Directors selects the trustee and members of the trust investment committee for the Master Trust. Harold C. Simmons, Glenn R. Simmons, Steven L. Watson, William J. Lindquist, Bobby D. O'Brien, Gregory M. Swalwell and the other Valhi executive officers are participants in one or more of the employee benefit plans that invest through the Master Trust. Each of such persons disclaims beneficial ownership of the shares of Valhi Common Stock held by the Master Trust, except to the extent of his or her individual vested beneficial interest in the assets held by the Master Trust.

The business address of NOA, Dixie Holding, the Master Trust and the Foundation is Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas,

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Texas 75240-2697. The business address of Dixie Rice is 600 Pasquiere Street, Gueydan, Louisiana 70542. The business address of Southwest is 402 Canal Street, Houma, Louisiana 70360.

- (5) The shares of Valhi Common Stock shown as owned by Contran include approximately 0.4% of the outstanding Valhi Common Stock that is directly held by the Contran Deferred Compensation Trust No. 2 (the "CDCT No. 2"). U.S. Bank National Association serves as trustee of the CDCT No. 2. Contran established the CDCT No. 2 as an irrevocable "rabbi trust" to assist Contran in meeting certain deferred compensation obligations that it owes to Harold C. Simmons. If the CDCT No. 2 assets are insufficient to satisfy such obligations, Contran must satisfy the balance of such obligations. Pursuant to the terms of the CDCT No. 2, Contran retains the power to vote the shares held by the CDCT No. 2, retains dispositive power over such shares and may be deemed the indirect beneficial owner of such shares. Mr. Simmons, however, disclaims such beneficial ownership of the shares beneficially owned, directly or indirectly, by the CDCT No. 2, except to the extent of his interest as a beneficiary of the CDCT No. 2.
  
- (6) The shares of Valhi Common Stock shown as beneficially owned by such person or group include the following number of shares such person or group has the right to acquire upon the exercise of stock options granted pursuant to the 1987 Plan or 1997 Plan that such person or group may exercise within 60 days subsequent to the Record Date:

| Name of Beneficial Owner  | Shares of<br>Issuable<br>of S<br>On or B |
|---|--|
| Thomas E. Barry.....  |  |
| Norman S. Edelcup.....  |  |
| Edward J. Hardin.....   |  |
| Glenn R. Simmons.....   |  |
| J. Walter Tucker, Jr.....   |  |
| Steven L. Watson.....   |  |
| William J. Lindquist.....   |  |
| Bobby D. O'Brien.....   |  |
| Gregory M. Swalwell.....  |  |
| All other executive officers of Valhi as a group (4 persons)..... |  |

- (7) The shares of Valhi Common Stock shown as beneficially owned by Glenn R. Simmons include 800 shares his wife holds in her retirement account, with respect to which he disclaims beneficial ownership.
  
- (8) The shares of Valhi Common Stock shown as beneficially owned by Harold C. Simmons include 77,000 shares his wife holds, with respect to which he disclaims beneficial ownership.
  
- (9) The shares of Valhi Common Stock shown as beneficially owned by J. Walter Tucker, Jr. include 200,000 shares his wife holds, with respect to which he disclaims beneficial ownership, and 17,250 shares held by a corporation of which he is the sole stockholder.

Valhi understands that Contran and related entities may consider acquiring or disposing of shares of Valhi Common Stock through open-market or privately negotiated transactions, depending upon future developments, including, but not limited to, the availability and alternative uses of funds, the performance of

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Valhi Common Stock in the market, an assessment of the business of and prospects for Valhi, financial and stock market conditions and other factors deemed relevant by such entities. Valhi may similarly consider acquisitions of shares of Valhi Common Stock and acquisitions or dispositions of securities issued by related entities.

Valhi does not presently intend, and understands that Contran does not presently intend, to engage in any transaction or series of transactions that would result in Valhi Common Stock becoming eligible for termination of registration under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or ceasing to be traded on a national securities exchange.

Ownership of NL and CompX. The following table and footnotes set forth the beneficial ownership, as of the Record Date, of the common stock, par value \$0.125 per share, of NL ("NL Common Stock") and the class A common stock, par value \$0.01 per share, of CompX ("CompX Class A Common Stock") held by each director of Valhi, each named executive officer and all directors and executive officers of Valhi as a group. All information is taken from or based upon ownership filings made by such persons with the SEC or upon information provided by such persons.

| Name of Beneficial Owner<br>-----   | NL Common Stock                                     |                                | CompX Class A C                                    |         |
|---|---|--------------------------------|--|---------|
|   | Amount and Nature<br>of Beneficial<br>Ownership (1) | Percent of<br>Class<br>(1) (2) | Amount and Natur<br>of Beneficial<br>Ownership (1) |         |
| Thomas E. Barry.....  | -0- (4)   | -0-                            | -0-  | (5)     |
| Norman S. Edelcup.....  | -0- (4)   | -0-                            | 2,000  | (5)     |
| Edward J. Hardin.....   | -0- (4)   | -0-                            | 8,200  | (5) (6) |
| Glenn R. Simmons.....   | 10,000 (4) (6)                                      | *                              | 50,900   | (5) (6) |
| Harold C. Simmons.....  | 81,475 (4) (6) (7)                                  | *                              | 20,000   | (5) (7) |
| J. Walter Tucker, Jr.....   | -0- (4)   | -0-                            | -0-  | (5)     |
| Steven L. Watson.....   | 7,000 (4) (6)                                       | *                              | 11,200   | (5) (6) |
| William J. Lindquist.....   | -0- (4)   | -0-                            | 8,000  | (5) (6) |
| Bobby D. O'Brien.....   | -0- (4)   | -0-                            | 8,300  | (5) (6) |
| Gregory M. Swalwell.....  | -0- (4)   | -0-                            | 4,000  | (5) (6) |
| All directors and executive<br>officers of Valhi as a<br>group (14 persons) ..... | 98,975 (4) (6) (7)                                  | *                              | 127,000  | (5) (6) |

\* Less than 1%.

(1) Except as otherwise noted, the listed individuals and group have sole investment power and sole voting power as to all shares set forth opposite their names. The number of shares and percentage of ownership for each person or group assumes the exercise by such person or group (exclusive of others) of stock options that such person or group may exercise within 60 days subsequent to the Record Date.

(2) The percentages are based on 48,820,984 shares of NL Common Stock outstanding as of the Record Date.

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- (3) The percentages are based on 5,103,280 shares of CompX Class A Common Stock outstanding as of the Record Date.
- (4) Valhi and Tremont are the direct holders of approximately 61.7% and 20.9%, respectively, of the outstanding NL Common Stock. Tremont Group, Inc. ("TGI"), Valhi and Tremont Holdings, LLC ("TRE Holdings") are the direct holders of approximately 80.0%, 0.1% and 0.1%, respectively, of the outstanding common stock of Tremont. Valhi and TRE Holdings are the direct holders of 80.0% and 20.0%, respectively, of the outstanding common stock of TGI. NL is the sole member of TRE Holdings. See footnotes (2), (4) and (5) to the "Ownership of Valhi and Its Parents" table above for certain information concerning Valhi and the individuals and entities that may be deemed to own indirectly and beneficially shares of NL Common Stock that Valhi and Tremont directly hold. Harold C. Simmons and all other directors and executive officers of Valhi disclaim beneficial ownership of all of the shares of NL Common Stock that Valhi and Tremont directly hold.
- (5) Valcor, Inc., a wholly owned subsidiary of Valhi ("Valcor"), owns 100% of the CompX class B common stock, par value \$0.01 per share ("CompX Class B Common Stock" and together with the CompX Class A Common Stock, the "CompX Common Stock"). Each share of CompX Class B Common Stock entitles the holder to one vote on all matters except the election of directors on which each share is entitled to ten votes. Valhi holds approximately 7.3% of the outstanding CompX Class A Common Stock. As a result, Valhi holds, directly and indirectly through Valcor, approximately 68.7% of the combined voting power of the CompX Common Stock (approximately 95.5% for the election of directors). In certain instances, shares of CompX Class B Common Stock are automatically convertible into shares of CompX Class A Common Stock. See footnotes (2), (4) and (5) to the "Ownership of Valhi and Its Parents" table above for certain information concerning individuals and entities that may be deemed to own indirectly and beneficially shares of CompX Common Stock that Valcor and Valhi hold directly. Harold C. Simmons and all other directors and executive officers of Valhi disclaim beneficial ownership of all of the shares of CompX Common Stock that Valhi and Valcor directly hold.
- (6) The shares of NL Common Stock or CompX Class A Common Stock shown as beneficially owned by such person or group include the following number of shares such person or group has the right to acquire upon the exercise of stock options granted pursuant to NL or CompX stock option plans that such person or group may exercise within 60 days subsequent to the Record Date:

| Name of Beneficial Owner   | Shares of NL Common Stock<br>Issuable Upon the Exercise<br>of Stock Options<br>On or Before May 17, 2002 | Shares of Co<br>Stock Issu<br>Exercise o<br>On or Be |
|--|--|--|
| Edward J. Hardin.....  | -0-  |  |
| Glenn R. Simmons.....  | 8,000  |  |
| Harold C. Simmons.....   | 8,000  |  |
| Steven L. Watson.....  | 2,000  |  |
| William J. Lindquist.....  | -0-  |  |
| Bobby D. O'Brien.....  | -0-  |  |
| Gregory M. Swalwell.....   | -0-  |  |
| All other executive officers of Valhi<br>as a group (4 persons)..... | -0-  |  |

- (7) The shares of NL Common Stock and CompX Class A Common Stock shown as

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beneficially owned by Harold C. Simmons include 69,475 and 20,000 shares, respectively, held by his wife, with respect to which shares he disclaims beneficial ownership.

Ownership of Tremont and TIMET. The following table and footnotes set forth the beneficial ownership, as of the Record Date, of the common stock, par value \$1.00 per share, of Tremont ("Tremont Common Stock") and the common stock, par value \$0.01 per share, of TIMET ("TIMET Common Stock") held by each director of Valhi, each named executive officer and all directors and executive officers of Valhi as a group. All information has been taken from or based upon ownership filings made by such persons with the SEC or upon information provided by such persons.

| Name of Beneficial Owner<br>-----  | Tremont Common Stock                                |                                | TIMET Common Stock                                  |                                |
|--|---|--------------------------------|---|--------------------------------|
|  | Amount and Nature<br>of Beneficial<br>Ownership (1) | Percent of<br>Class<br>(1) (2) | Amount and Nature<br>of Beneficial<br>Ownership (1) | Percent of<br>Class<br>(1) (2) |
| Thomas E. Barry.....   | -0- (4)   | -0-                            | -0- (5)   |                                |
| Norman S. Edelcup.....   | -0- (4)   | -0-                            | -0- (5)   |                                |
| Edward J. Hardin.....  | -0- (4)   | -0-                            | -0- (5)   |                                |
| Glenn R. Simmons.....  | 19 (4)  | *                              | 7,000 (5)   |                                |
| Harold C. Simmons.....   | -0- (4)   | -0-                            | -0- (5)   |                                |
| J. Walter Tucker, Jr.....  | 875 (4) (6)   | *                              | -0- (5)   |                                |
| Steven L. Watson.....  | 4,474 (4)   | *                              | 14,500 (5) (7)                                      |                                |
| William J. Lindquist.....  | -0- (4)   | -0-                            | -0- (5)   |                                |
| Bobby D. O'Brien.....  | -0- (4)   | -0-                            | -0- (5)   |                                |
| Gregory M. Swalwell.....   | -0- (4)   | -0-                            | -0- (5)   |                                |
| All directors and executive<br>officers of Valhi as a group<br>(14 persons)..... | 5,368 (4) (6)                                       | *                              | 21,600 (5) (7)                                      |                                |

\* Less than 1%.

- (1) Except as otherwise noted, the listed individuals and group have sole investment power and sole voting power as to all shares set forth opposite their names. The number of shares and percentage of ownership for each person or group assumes the exercise by such person or group (exclusive of others) of stock options that such person or group may exercise within 60 days subsequent to the Record Date are outstanding.
- (2) The percentages are based on 6,424,858 shares of Tremont Common Stock outstanding as of the Record Date.
- (3) The percentages are based on 31,861,338 shares of TIMET Common Stock outstanding as of the Record Date.
- (4) TGI, Valhi and TRE Holdings are the holders of approximately 80.0%, 0.1% and 0.1%, respectively, of the outstanding common stock of Tremont. Valhi and TRE Holdings are the direct holders of 80.0% and 20.0%, respectively, of the outstanding common stock of TGI. NL is the sole member of TRE Holdings. Valhi and Tremont are the direct holders of approximately 61.7%

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and 20.9%, respectively, of the outstanding NL Common Stock. See footnotes (2), (4) and (5) to the "Ownership of Valhi and Its Parents" table above for certain information concerning Valhi and the individuals and entities that may be deemed to own indirectly and beneficially shares of Tremont Common Stock that TGI directly holds. Harold C. Simmons and all other directors and executive officers of Valhi disclaim beneficial ownership of all of the shares of Tremont Common Stock any of these entities directly hold.

- (5) Tremont and the Master Trust directly hold approximately 38.5% and 3.1%, respectively, of the outstanding TIMET Common Stock. See footnote (4) above and footnotes (2), (4) and (5) to the "Ownership of Valhi and Its Parents" table above for certain information concerning individuals and entities that may be deemed to own indirectly and beneficially shares of TIMET Common Stock that Tremont and the Master Trust hold directly. Harold C. Simmons and all other directors and executive officers of Valhi disclaim beneficial ownership of all of the shares of TIMET Common Stock that Tremont and the Master Trust directly hold.
- (6) The shares of Tremont Common Stock shown as beneficially owned by J. Walter Tucker include 525 shares held by a corporation of which he is the sole stockholder.
- (7) The shares of TIMET Common Stock shown as beneficially owned by Steven L. Watson include 5,000 shares he has the right to acquire upon the exercise of stock options granted pursuant to a TIMET stock option plan that he may exercise within 60 days subsequent to the Record Date.

### COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS AND OTHER INFORMATION

Compensation of Directors. During 2001, Dr. Thomas E. Barry, Norman S. Edelcup, Edward J. Hardin and J. Walter Tucker, Jr., directors of Valhi who were not also employees of Valhi or an affiliate of Valhi (collectively, the "Nonemployee Directors"), received an annual retainer of \$16,000 paid in quarterly installments, plus a fee of \$1,000 per day for attendance at board meetings and as a daily rate for other services rendered on behalf of the Board of Directors and/or the standing committees thereof. Nonemployee directors who were members of the audit committee or MD&C Committee also received an annual retainer of \$1,000, paid in quarterly installments, for each of these committees on which they served. Nonemployee Directors are also reimbursed for reasonable expenses incurred in attending meetings and in the performance of other services rendered on behalf of the Board of Directors and/or its committees.

In February 2001, each of the Nonemployee Directors also received his annual 2001 noncash compensation granted under the 1997 Plan consisting of 1,000 shares of Valhi Common Stock and stock options exercisable for 2,000 shares of Valhi Common Stock. The annually granted stock options have an exercise price equal to the closing sales price of Valhi Common Stock on the date of grant, have a term of 10 years and fully vest on the first anniversary of the date of grant. Valhi grants the annual Nonemployee Director stock and stock options on the third business day after Valhi issues a press release reporting its full-year earnings for the prior year.

Contran and certain of its subsidiaries, including Valhi, have entered into certain intercorporate services agreements (collectively, the "ISAs") pursuant to which Contran, among other things, provides the services of all or

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certain of the named executive officers, to certain of Contran's subsidiaries, including Valhi and its subsidiaries. For a discussion of these ISAs, see "Compensation Committee Interlocks and Insider Participation--Relationships with Related Parties--Intercompany Services Agreements."

Summary of Cash and Certain Other Compensation of Executive Officers. The Summary Compensation Table set forth below provides information concerning annual and long-term compensation paid or accrued by Valhi and its subsidiaries for services rendered to Valhi and its subsidiaries during 2001, 2000 and 1999 by Valhi's chief executive officer and each of the four other most highly compensated individuals (based on salary and bonus paid by Valhi or ISA charges to Valhi) who were executive officers of Valhi at December 31, 2001.

Harold C. Simmons was an employee of Contran for all of 2001, 2000 and 1999. For 2001 and the second half of 2000, Steven L. Watson, William J. Lindquist and Bobby D. O'Brien were employees of Contran. For the first half of 2000 and all of 1999, Messrs. Watson, Lindquist and O'Brien were employees of Valhi. For all of 2001, Mr. Gregory M. Swalwell was an employee of Contran. For all of 2000 and 1999, Mr. Swalwell was an employee of Valhi. In 2001, pursuant to the ISAs, Contran, among other things, provided to Valhi and certain of Valhi's subsidiaries the services of all of the named executive officers. Pursuant to the ISAs, the employer of an executive officer charged the other party to the ISA a fee for such officer's services rendered under the ISA. For a discussion of these ISAs, see "Compensation Committee Interlocks and Insider Participation--Relationships with Related Parties--Intercompany Services Agreements."

SUMMARY COMPENSATION TABLE

| Name and<br>Principal Position                       | Year | Annual Compensation (2) |             | Long Term<br>Compensation (1)                 |
|--|------|-------------------------|-------------|---|
|  |      | Salary                  | Bonus       | Awards<br>Shares<br>Underlying<br>Options (#) |
| Harold C. Simmons.....                               | 2001 | \$3,485,000 (3)         | \$ -0- (3)  | 2,000 (4)                                     |
| Chairman of the Board and Chief<br>Executive Officer | 2000 | 2,992,469 (3)           | -0- (3)     | 2,000 (4)                                     |
|  | 1999 | 2,982,563 (3)           | -0- (3)     | 2,000 (4)                                     |
| Steven L. Watson.....<br>President                   | 2001 | 1,040,335 (3)           | -0- (3)     | 2,000 (4)                                     |
|  |      |                         |             | 2,000 (5)                                     |
|  | 2000 | 862,663 (3)             | -0- (3)     | 5,000 (6)                                     |
|  | 1999 | 312,322 (3)             | 694,048 (3) | 2,000 (5)                                     |
|  |      |                         |             | 5,000 (6)                                     |
| William J. Lindquist.....<br>Senior Vice President   | 2001 | 432,000 (3)             | -0- (3)     | -0-   |
|  | 2000 | 374,000 (3)             | -0- (3)     | -0-   |
|  | 1999 | 250,615 (3)             | 448,863 (3) | 30,000 (8)                                    |
| Bobby D. O'Brien.....                                | 2001 | 455,000 (3)             | -0- (3)     | -0-   |



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|                               |      |             |             |            |
|-------------------------------|------|-------------|-------------|------------|
| Vice President and Treasurer  | 2000 | 373,000 (3) | -0- (3)     | -0-        |
|                               | 1999 | 175,832 (3) | 168,799 (3) | 30,000 (8) |
| Gregory M. Swalwell.....      | 2001 | 407,000 (3) | -0- (3)     | -0-        |
| Vice President and Controller | 2000 | 129,575 (3) | 126,758 (3) | 25,000 (8) |
|                               | 1999 | 115,269 (3) | 108,064 (3) | 30,000 (8) |

- 
- (1) No shares of restricted stock were granted to the named executive officers nor payouts made to the named executive officers pursuant to long-term incentive plans during the last three years. Therefore, the columns for such compensation have been omitted.
  - (2) Other annual compensation for each of the named executive officers included perquisites, which perquisites were less than the level required for reporting pursuant to SEC rules. Therefore, the column for other annual compensation has been omitted.
  - (3) For 2001, the amounts shown in the table as salary compensation for the named executive officers represent the portion of the fees Valhi and its subsidiaries paid to Contran pursuant to the ISAs with respect to services such officers rendered to Valhi and its subsidiaries, plus director fees paid to Messrs. Simmons Watson by Valhi's subsidiaries.

For 2000 and 1999, the amounts shown in the table as salary compensation for Mr. Simmons represent the portion of the fees Valhi and its subsidiaries paid to Contran pursuant to the ISAs with respect to services he rendered to Valhi and its subsidiaries, plus director fees paid to him by Valhi's subsidiaries.

For 2000, the amounts shown in the table as salary compensation for Messrs. Watson, Lindquist and O'Brien represent the full amount paid by Valhi and its subsidiaries for services such individuals rendered to Valhi during the first half of 2000, less the portion of such compensation that is attributable to the services such executive officers rendered to Contran and certain entities related to Contran, for which Contran credited Valhi pursuant to the ISA between Contran and Valhi (the "Contran/Valhi ISA"), plus the portion of such compensation that is attributable to the services such executive officers rendered to Valhi and its subsidiaries during the second half of 2001, for which Contran charged Valhi and its subsidiaries pursuant to the ISAs. For 2000, the amount shown in the table as salary compensation for Mr. Watson also includes director fees paid to him by Valhi's subsidiaries.

For 2000 for Mr. Swalwell and 1999 for Messrs. Watson, Lindquist, O'Brien and Swalwell, the amounts shown in the table as compensation represent the full amount paid by Valhi and its subsidiaries for services such individuals rendered to Valhi and its subsidiaries during each respective period, less the portion of such compensation that is attributable to the services such executive officers rendered to Contran and certain entities related to Contran, for which Contran credited Valhi pursuant to the Contran/Valhi ISA. The net salary and bonus amounts shown for each such individual for each such period reflect the reduction for the amount credited to Valhi by Contran for such individuals, which has been allocated proportionately between each individual's base salary and bonus.

The components of the salary and bonus compensation shown in the table for each of the named executive officers are as follows.

1999

2000

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|                                  |    |           |              |    |
|----------------------------------|----|-----------|--------------|----|
| Harold C. Simmons                |    |           |              |    |
| Contran/Valhi ISA Fee.....       | \$ | 1,000,000 | \$ 1,000,000 | \$ |
| Contran/NL ISA Fee.....          |    | 950,000   | 950,000      |    |
| Contran/Tremont ISA Fee.....     |    | 980,000   | 980,000      |    |
| Contran/CompX ISA Fee.....       |    | -0-       | -0-          |    |
| NL Cash Directors Fees.....      |    | 20,000    | 20,000       |    |
| NL Director Stock.....           |    | 14,563    | 22,719       |    |
| Tremont Cash Directors Fees..... |    | 18,000    | 19,750       |    |
|                                  |    | -----     | -----        |    |
|                                  | \$ | 2,982,563 | \$ 2,992,469 | \$ |
|                                  |    | =====     | =====        |    |
| Steven L. Watson                 |    |           |              |    |
| Valhi Salary.....                | \$ | 337,500   | \$ 200,000   | \$ |
| Valhi Bonus.....                 |    | 750,000   | -0-          |    |
| Net Contran/Valhi ISA Fee.....   |    | (81,130)  | 573,000      |    |
| Contran/NL ISA Fee.....          |    | -0-       | -0-          |    |
| Contran/Tremont ISA Fee.....     |    | -0-       | -0-          |    |
| Contran/CompX ISA Fee.....       |    | -0-       | -0-          |    |
| NL Cash Directors Fees.....      |    | -0-       | 9,500        |    |
| NL Director Stock.....           |    | -0-       | 22,719       |    |
| Tremont Cash Directors Fees..... |    | -0-       | 4,500        |    |
| TIMET Cash Directors Fees.....   |    | -0-       | 19,350       |    |
| TIMET Director Stock.....        |    | -0-       | 1,969        |    |
| CompX Cash Directors Fees.....   |    | -0-       | 22,000       |    |
| CompX Director Stock.....        |    | -0-       | 9,625        |    |
|                                  |    | -----     | -----        |    |
|                                  | \$ | 1,006,370 | \$ 862,663   | \$ |
|                                  |    | =====     | =====        |    |
| William J. Lindquist             |    |           |              |    |
| Valhi Salary.....                | \$ | 279,166   | \$ 150,000   | \$ |
| Valhi Bonus.....                 |    | 500,000   | -0-          |    |
| Net Contran/Valhi ISA Fee.....   |    | (79,688)  | 224,000      |    |
| Contran/NL ISA Fee.....          |    | -0-       | -0-          |    |
| Contran/Tremont ISA Fee.....     |    | -0-       | -0-          |    |
| Contran/CompX ISA Fee.....       |    | -0-       | -0-          |    |
|                                  |    | -----     | -----        |    |
|                                  | \$ | 699,478   | \$ 374,000   | \$ |
|                                  |    | =====     | =====        |    |
| Bobby D. O'Brien                 |    |           |              |    |
| Valhi Salary.....                | \$ | 208,333   | \$ 125,000   | \$ |
| Valhi Bonus.....                 |    | 200,000   | -0-          |    |
| Net Contran/Valhi ISA Fee.....   |    | (63,702)  | 248,000      |    |
| Contran/NL ISA Fee.....          |    | -0-       | -0-          |    |
| Contran/Tremont ISA Fee.....     |    | -0-       | -0-          |    |
| Contran/CompX ISA Fee.....       |    | -0-       | -0-          |    |
|                                  |    | -----     | -----        |    |
|                                  | \$ | 344,631   | \$ 373,000   | \$ |
|                                  |    | =====     | =====        |    |
| Gregory M. Swalwell              |    |           |              |    |
| Valhi Salary.....                | \$ | 133,333   | \$ 153,333   | \$ |
| Valhi Bonus.....                 |    | 125,000   | 150,000      |    |
| Net Contran/Valhi ISA Fee.....   |    | (35,000)  | (47,000)     |    |
| Contran/NL ISA Fee.....          |    | -0-       | -0-          |    |
| Contran/Tremont ISA Fee.....     |    | -0-       | -0-          |    |
| Contran/CompX ISA Fee.....       |    | -0-       | -0-          |    |
|                                  |    | -----     | -----        |    |
|                                  | \$ | 223,333   | \$ 256,333   | \$ |

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- (a) Includes for 2001 amounts Contran charged pursuant to ISAs to Medite Corporation, an indirect wholly owned subsidiary of Valhi, and Waste Control Specialists LLC, an indirect subsidiary of Valhi.
- (4) Represents shares of NL Common Stock underlying stock options NL granted to this named executive officer.
- (5) Represents shares of CompX Class A Common Stock underlying stock options CompX granted to this named executive officer.
- (6) Represents shares of TIMET Common Stock underlying stock options TIMET granted to this named executive officer.
- (7) All other compensation for the last three years for each of the following named executive officers consisted of matching contributions pursuant to Valhi's deferred incentive plan (the "DIP"); accruals to unfunded reserve accounts attributable to certain limits under the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the DIP and Valhi's former defined benefit pension plan; and interest accruals on the balance of such accounts, all of which amounts are payable upon the named executed officer's retirement, the termination of his employment with Valhi or to his beneficiaries upon his death; as follows:

| Named Executive Officer  | Year | Employer's<br>DIP<br>Contributions | Unfunded Reserve Account Accrual                              |   |
|--------------------------|------|------------------------------------|---|---|
|                          |      |                                    | Accruals Related<br>to DIP and<br>Pension Plan<br>Limitations | Interest Accrued<br>Above 120% of<br>AFR Rate (a) |
| Steven L. Watson.....    | 2001 | \$ -0- (b)                         | \$ -0-  | \$ 52,481   |
|                          | 2000 | 10,200                             | -0-   | 75,137  |
|                          | 1999 | 9,600                              | 128,985   | 49,043  |
| William J. Lindquist.... | 2001 | -0- (b)                            | -0-   | 37,635  |
|                          | 2000 | 9,024                              | -0-   | 53,882  |
|                          | 1999 | 9,600                              | 70,209  | 35,819  |
| Bobby D. O'Brien.....    | 2001 | \$ -0- (b)                         | \$ -0-  | 3,380   |
|                          | 2000 | 7,524                              | -0-   | 4,839   |
|                          | 1999 | 9,600                              | 27,121  | 2,611   |
| Gregory M. Swalwell..... | 2001 | -0- (b)                            | -0-   | 793   |
|                          | 2000 | 10,200                             | -0-   | 1,136   |
|                          | 1999 | 9,600                              | 9,620   | 518   |

- (a) The agreements for these unfunded reserve accounts provide that the balance of such accounts accrue interest compounded quarterly. Pursuant to the rules of the SEC, the amounts shown represent the portion of the interest accruals to the unfunded reserve accounts that exceeds 120% of the applicable federal long-term rate as prescribed by the Code (the "AFR Rate"). The AFR Rate used for such computations was the 120% AFR Rate for quarterly compounding in effect for the month of the respective quarter that the interest accrual was credited to the account.

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(b) Since all of Valhi's employees became employees of Contran effective January 1, 2001, Valhi did not make any contributions to the DIP in 2001.

(8) Represents shares of Valhi Common Stock underlying stock options Valhi granted to this named executive officer.

Grants of Stock Options. The following table provides information, with respect to the named executive officers, concerning the grant of stock options during 2001 under the 1997 Plan and the stock option plans of NL, TIMET and CompX. Neither Valhi nor any of its parent or subsidiary corporations has granted any stock appreciation rights ("SARs"). In addition, neither Valhi nor any of its parent or subsidiary corporations granted any stock options to Messrs. Lindquist, O'Brien or Swalwell in 2001.

OPTION GRANTS IN 2001

Individual Grants

| Name                  | Number of Shares of Underlying Options Granted (#) | Percent of Total Options Granted to Employees In 2001 (2) | Exercise or Base Price Per Share | Expiration Date | Potential Realized Assumed Annual Stock Price Appreciation for Options (5%) |
|-----------------------|--|---|----------------------------------|-----------------|---|
| Harold C. Simmons     |  |   |                                  |                 |   |
| NL Stock Options..... | 2,000 (3)  | 0.41%   | \$20.51 (3)                      | 02/01/06        | \$ 11,340 (4)   |
| Steven L. Watson      |  |   |                                  |                 |   |
| NL Stock Options..... | 2,000 (3)  | 0.41%   | 20.51 (3)                        | 02/01/06        | 11,340 (4)  |
| TIMET Stock Options.. | 5,000 (5)  | 16.67%  | 14.21 (5)                        | 05/22/11        | 44,700 (4)  |
| CompX Stock Options.. | 2,000 (6)  | 0.61%   | 12.15 (6)                        | 05/10/11        | 15,280 (4)  |

(1) Pursuant to the rules of the SEC, the amounts under these columns reflect calculations at assumed 5% and 10% annual appreciation rates and, therefore, are not intended to forecast future appreciation, if any, of the respective underlying common stocks. The potential realizable value to the optionees was computed as the difference between the appreciated value, at the expiration dates of the stock options, of the applicable underlying common stock obtainable upon exercise of such stock options over the aggregate exercise price of such stock options.

The amount of gain to the optionees is dependent on the amount of increase in the price of the applicable underlying common stock, which would benefit all the respective stockholders proportionately. These potentially realizable values are based solely on arbitrarily assumed rates of appreciation required by applicable SEC regulations. Actual gains, if any, on stock option exercises are dependent on the future performance of the applicable common stock, overall market conditions and the timing of the exercise thereof by each respective optionee. There can be no assurance that the amounts reflected in the table will be achieved.

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- (2) With respect to NL, TIMET and CompX stock options, the percent of total options granted to employees is based on the number of shares underlying stock options the respective issuer granted to its employees and directors in 2001 as shown in the following table.

| Issuer     | Shares of th<br>Stock Underly<br>Granted in |
|------------|---|
| NL.....    |   |
| TIMET..... |   |
| CompX..... |   |

- (3) This stock option represents stock options NL annually grants to its nonemployee directors. This stock option is exercisable for shares of NL Common Stock and becomes exercisable on the first anniversary of its date of grant. The exercise price for this stock option can be paid in already owned shares of NL Common Stock, provided such tendered shares were held by the optionee for at least six months.

- (4) The appreciated value per share on the respective stock option's expiration date, based on the exercise price as the fair market value per share of the underlying common stock, would be as follows:

| Issuer     | Fair Market<br>Value on<br>Date of Grant | Term of<br>Option in<br>Years | 5% Assumed<br>Annual Rate of<br>Appreciation |
|------------|--|-------------------------------|--|
| NL.....    | \$20.51                                  | 5                             | \$26.18                                      |
| TIMET..... | 14.21                                    | 10                            | 23.15  |
| CompX..... | 12.15                                    | 10                            | 19.79  |

- (5) This stock option represents stock options TIMET annually grants to its nonemployee directors. This stock option is exercisable for shares of TIMET Common Stock and becomes exercisable on the first anniversary of its date of grant.

- (6) This stock option represents stock options CompX annually grants to its nonemployee directors. This stock option is exercisable for shares of CompX Class A Common Stock and becomes exercisable at a rate of 20% on each of the first five anniversary dates of the date of grant. The exercise price for this stock option can be paid in already owned shares of CompX Class A Common Stock, provided such tendered shares were held by the optionee for at least six months.

Stock Option Exercises and Holdings. The following table provides information, with respect to the named executive officers, concerning the value of unexercised stock options exercisable for Valhi, NL and TIMET Common Stock and CompX Class A Common Stock held as of December 31, 2001. In 2001, no named executive officer exercised any stock options. Neither Valhi nor any of its parent or subsidiary corporations has granted any SARs.

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DECEMBER 31, 2001 OPTION VALUES

| Name                     | Number of Shares Underlying<br>Unexercised Options at<br>December 31, 2001 (#) |               | Value of<br>In-the-<br>at Decemb |
|--------------------------|--|---------------|----------------------------------|
|                          | Exercisable  | Unexercisable | Exercisabl                       |
| Harold C. Simmons        |  |               |                                  |
| Valhi Stock Options..... | 500,000  | -0-           | \$ 3,160,00                      |
| NL Stock Options.....    | 6,000  | 2,000         | 7,08                             |
|                          | 506,000  | 2,000         | 3,167,08                         |
| Steven L. Watson         |  |               |                                  |
| Valhi Stock Options..... | 260,000  | 20,000        | 1,606,24                         |
| NL Stock Options.....    | -0-  | 2,000         | -0                               |
| TIMET Stock Options..... | 5,000  | 5,000         | 26                               |
| CompX Stock Options..... | 6,400  | 7,600         | -0                               |
|                          | 271,400  | 34,600        | 1,606,50                         |
| William J. Lindquist     |  |               |                                  |
| Valhi Stock Options..... | 227,000  | 38,000        | 1,316,08                         |
| CompX Stock Options..... | 6,000  | 4,000         | -0                               |
|                          | 233,000  | 42,000        | 1,316,08                         |
| Bobby D. O'Brien         |  |               |                                  |
| Valhi Stock Options..... | 167,000  | 38,000        | 913,76                           |
| CompX Stock Options..... | 6,000  | 4,000         | -0                               |
|                          | 173,000  | 42,000        | 913,76                           |
| Gregory M. Swalwell      |  |               |                                  |
| Valhi Stock Options..... | 97,000   | 48,000        | 495,06                           |
| CompX Stock Options..... | 3,000  | 2,000         | -0                               |
|                          | 100,000  | 50,000        | 495,06                           |

(1) The aggregate amount is based on the difference between the exercise price of the individual stock options and the closing sales price of such underlying common stock as reported on the New York Stock Exchange Composite Tape on December 31, 2001. Such closing sales prices were: \$12.70 per share for Valhi Common Stock, \$15.27 per share for NL Common Stock, \$3.99 per share for TIMET Common Stock and \$12.97 per share for CompX Class A Common Stock.

Pension Plan. Effective January 1, 2001, all of Valhi's Pension Plan (the "Pension Plan") assets were transferred to Contran and Contran assumed all of Valhi's obligations under the Pension Plan. Accordingly, Valhi no longer incurs costs for a pension plan after December 31, 2000.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires Valhi's executive officers, directors and persons who own more than 10% of a registered class of Valhi's equity securities to file reports of ownership with the SEC, the New York Stock Exchange, Inc. and Valhi. Based solely on the review of the copies of such forms and written representations by certain reporting persons received, Valhi

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believes that for 2001 its executive officers, directors and 10% stockholders complied with all applicable filing requirements under section 16(a).

### REPORT ON EXECUTIVE COMPENSATION

During 2001 the Nonemployee Directors and the MD&C Committee administered matters regarding compensation of Valhi's executive officers. This report is submitted by such individuals in their respective capacities, as set forth below.

The Board of Directors, with directors other than Nonemployee Directors abstaining, considered and approved the terms of the Contran/Valhi ISA, pursuant to which Contran provided to Valhi the services of all of Valhi's executive officers. Effective January 1, 2001, all of Valhi's employees became employees of Contran. The amount of the fee Valhi pays under the Contran/Valhi ISA with respect to each of its executive officers and others who provides services to Valhi while employed by Contran represents, in the view of the Board of Directors, the reasonable equivalent of "compensation" for such services.

The Nonemployee Directors, in considering the fee Valhi pays under the Contran/Valhi ISA with respect to Valhi's chief executive officer, took into account the chief executive officer's unique experience and knowledge. The Nonemployee Directors also considered the significant role the chief executive officer has in establishing Valhi's policies and directing strategic transactions involving Valhi and its subsidiaries. The Nonemployee Directors, in considering the fee Valhi pays under the Contran/Valhi ISA with respect to each of Valhi's other executive officers, considered the overall fee charged under the Contran/Valhi ISA for the services such officers provide Valhi. No specific formulas, guidelines or comparable positions were considered in determining the amount of such fee, nor was there any specific relationship between Valhi's current or future performance and the level of such fee.

The MD&C Committee, which is comprised solely of the Nonemployee Directors, review and approve actions related to grants of stock options to Valhi's executive officers pursuant to the 1997 Plan. It is Valhi's policy that its executive officers' performance on behalf of Valhi be related to the performance of Valhi's equity securities and have a commonality of interest with the stockholders of Valhi, which objectives are generally met through the periodic grant of stock options, since the amount realized from options depends entirely on the appreciation of the stock underlying such options. Therefore, unless the price of Valhi's equity securities increases over the term of the stock options, the executive officer will receive no compensation from the options.

The size of each executive officer's grant of stock options is based upon the recommendation of management as modified and/or approved by the chief executive officer in his best business judgment. When it is deemed appropriate to grant stock options, annual performance reviews are an important factor in determining management's recommendation, which is primarily based on each executive's individual performance and to a lesser extent on Valhi's overall performance. Individual performance is typically measured by the ability an executive demonstrates in performing, in a timely and cost efficient manner, the functions of his or her position on behalf of Valhi, including routine corporate activities and the development and implementation of strategic transactions and policies. Additionally, an executive's sustained performance, experience and potential for growth are assessed. No specific financial or budget tests were applied in the measurement of individual performance. Valhi's overall performance is typically measured by Valhi's historical financial results and

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the level of success with respect to the development and implementation of strategic transactions. No specific overall performance measures were utilized and there is no specific relationship between overall performance measures and an executive's incentive compensation. Additionally, there was no specific weighing of the factors considered in the determination of incentive compensation paid to executive officers.

In granting stock options to Valhi's executive officers, the MD&C Committee considers the policies and factors set forth in this report, the recommendation of the chief executive officer and the number of unexpired stock options previously granted to each individual. In 2001, the MD&C Committee did not grant any stock options other than the annual stock option grants to the Nonemployee Directors.

Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over \$1.0 million paid to the company's chief executive officer and four other most highly compensated executive officers. It is Valhi's general policy to structure the performance-based portion of the compensation of its executive officers in a manner that enhances Valhi's ability to deduct fully such compensation.

The foregoing report is submitted by the following individuals in the capacities indicated:

Norman S. Edelcup  
Nonemployee Director and chairman of  
the MD&C Committee

Dr. Thomas E. Barry  
Nonemployee Director and member  
of the MD&C Committee

Edward J. Hardin  
Nonemployee Director

J. Walter Tucker, Jr.  
Nonemployee Director

### CERTAIN RELATIONSHIPS AND TRANSACTIONS

Relationships with Related Parties. As set forth under the caption "Security Ownership," Harold C. Simmons, through Contran, may be deemed to control Valhi. Valhi and other entities that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, tax sharing agreements, joint ventures, partnerships, loans, options, advances of funds on open account and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions that resulted in the acquisition by one related party of an equity interest in another related party. Valhi continuously considers, reviews and evaluates and understands that Contran and related entities consider, review and evaluate transactions of the type described above. Depending upon the business, tax and other objectives then relevant, it is possible that Valhi might be a party to one or more of such transactions in the future. In connection with these activities Valhi may consider issuing additional equity securities or incurring additional indebtedness. Valhi's acquisition activities have in the past and may in the future include participation in the acquisition or restructuring activities conducted by other companies that may be deemed to be controlled by Mr. Simmons.



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

Each of the executive officers of Valhi is also currently serving as an executive officer of certain other companies related to Valhi and it is expected that each will continue to do so in 2002. Such management interrelationships and intercorporate relationships may lead to possible conflicts of interest. These possible conflicts may arise from the duties of loyalty owed by persons acting as corporate fiduciaries to two or more companies under circumstances in which such companies may have adverse interests. No specific procedures are in place that govern the treatment of transactions among Valhi and its related entities, although such entities may implement specific procedures as appropriate for particular transactions. In addition, under applicable principles of law, in the absence of stockholder ratification or approval by directors who may be deemed disinterested, transactions involving contracts among companies under common control must be fair to all companies involved. Furthermore, directors of companies owe fiduciary duties of good faith and fair dealing to all stockholders of the companies for which they serve.

Intercorporate Services Agreements. Valhi and certain related corporations have entered into certain ISAs. Pursuant to each ISA, the parties to the ISA, in exchange for agreed upon fees and reimbursements of costs, agreed to render certain services to the other, which services may include executive officer services rendered to one party by employees of the other. The fees paid pursuant to the ISAs are generally based upon the estimated percentage of time individual employees, including executive officers, devote to certain matters on behalf of the recipient of the services and the employer's cost in providing such services. Each of the ISAs automatically extend on a quarter-to-quarter basis, subject to termination by either party pursuant to written notice delivered 30 days prior to a quarter-end, and may be amended by mutual agreement.

Under the Contran/Valhi ISA, Contran renders certain management, financial, tax, administrative and aircraft maintenance services to Valhi, including the services of all of Valhi's executive officers. Valhi paid Contran fees of \$3,990,000 for services rendered under the ISA in 2001.

The ISA between Contran and Tremont provides that Contran will make available certain management, financial, tax and administrative services to Tremont, including the services of certain of Valhi's executive officers. Tremont paid Contran fees of \$1,326,000 for such services rendered in 2001. Tremont also paid director's fees and expenses directly to Messrs. Glenn and Harold Simmons and Mr. Watson.

The ISA between Contran and NL provides that Contran will make available certain management, financial, tax and administrative services to NL, including the services of certain of Valhi's executive officers, and NL provides certain administrative support services to Contran. NL paid Contran net fees of \$1,195,000 for services rendered under the ISA in 2001, which represented \$1,490,000 for services Contran rendered to NL less \$295,000 for certain administrative support services NL rendered to Contran. NL also paid director's fees and expenses directly to Messrs. Glenn and Harold Simmons and Mr. Watson.

The ISA between Contran and CompX provides that Contran will make available certain management, financial, tax and administrative services to CompX, including the services of certain of Valhi's executive officers. CompX paid Contran fees of \$1,208,000 for such services rendered in 2001. CompX also paid director's fees and expenses directly to Messrs. Glenn Simmons and Watson.

The ISA between Contran and Waste Control Specialists LLC, an indirect subsidiary of Valhi ("WCS"), provides that Contran will make available certain management, financial, tax and administrative services to WCS, including the

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services of certain of Valhi's executive officers. WCS paid Contran fees of \$500,000 for such services rendered in 2001.

The ISA between Contran and Medite Corporation, an indirect wholly owned subsidiary of Valhi ("Medite"), provides that Contran will make available certain management, financial, tax and administrative services to Medite, including the services of certain of Valhi's executive officers. Medite paid Contran fees of \$243,000 for such services rendered in 2001.

Trust Loan Agreement. In May 2001, a wholly owned subsidiary of NL Environmental Management Services, Inc. ("EMS"), a majority-owned subsidiary of NL, loaned \$20 million to one of the Trusts, the Harold C. Simmons Family Trust No. 2 ("Family Trust No. 2"), under a \$25 million revolving credit agreement. The loan was approved by special committees of NL's and EMS' boards of directors. The loan bears interest at the prime rate (6% at December 31, 2001), is due on demand with sixty days notice and is collateralized by 13,749 shares, or approximately 35%, of Contran's outstanding Class A voting common stock and 5,000 shares, or 100%, of Contran's Series E Cumulative preferred stock, both of which are owned by the Family Trust No. 2. The value of this collateral is dependent in part on the value of Valhi as Contran's interest in Valhi is one of Contran's more substantial assets. At December 31, 2001, \$5 million was available for additional borrowing by the Family Trust No. 2. At December 31, 2001, the outstanding loan balance was \$20 million.

Insurance Matters. Tall Pines Insurance Company ("Tall Pines"), Valmont and EWI RE, Inc. ("EWI Inc.") provide for or broker certain of Valhi's insurance policies. Tall Pines is a wholly owned captive insurance company of Tremont. Valmont is a wholly owned captive insurance company of Valhi. During 2001, one of the daughters of Harold C. Simmons and a wholly owned subsidiary of Contran owned, directly or indirectly, 57.8% and 42.2%, respectively, of the outstanding common stock of EWI Inc. and of the membership interests of EWI Inc.'s management company, EWI RE, Ltd. (collectively with EWI Inc., "EWI"). Through December 31, 2000, a son-in-law of Harold C. Simmons managed the operations of EWI. Subsequent to December 31, 2000, pursuant to an agreement that terminates on December 31, 2002, such son-in-law provides advisory services to EWI as requested by EWI, for which the son-in-law is paid \$11,875 per month and receives certain other benefits under EWI's benefit plans. Consistent with insurance industry practices, Tall Pines, Valmont and EWI Inc. receive commissions from the insurance and reinsurance underwriters for the policies that they provide or broker. During 2001, Valhi and its subsidiaries paid approximately \$14.4 million for policies provided or brokered by Tall Pines, Valmont and/or EWI Inc. These amounts principally included payments for reinsurance and insurance premiums paid to unrelated third parties, but also included commissions paid to Tall Pines, Valmont and EWI Inc. In Valhi's opinion, the amounts that Valhi and its subsidiaries paid for these insurance policies are reasonable and similar to those they could have obtained through unrelated insurance companies and/or brokers. Valhi expects that these relationships with Tall Pines, Valmont and EWI will continue in 2002.

Sale of EWI. In January 2002, NL purchased EWI from its previous owners for an aggregate cash purchase price of approximately \$9.0 million. The purchase was approved by a special committee of NL's board of directors consisting of two of its independent directors, and the purchase price was negotiated by the special committee based upon its consideration of relevant factors, including but not limited to, due diligence performed by independent consultants and an appraisal of EWI conducted by an independent third party selected by the special committee.

Law Firm Relationship. Contran and its affiliates, including CompX, engaged and paid to Rogers & Hardin, LLP, a law firm of which Valhi's director Edward J. Hardin is a partner, in the aggregate approximately \$240,000 in fees for services Rogers & Hardin LLP rendered to such entities in 2001. The aggregate

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amount paid includes approximately \$10,300 in fees that CompX paid to Rogers & Hardin, LLP for services rendered to CompX in 2001. Valhi and its subsidiaries presently expect, and understands that Contran and its other affiliates presently expect, to continue their relationship with Rogers & Hardin LLP in 2002.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the yearly change in the cumulative total stockholder return on Valhi Common Stock against the cumulative total return of the S&P 500 Stock Index and the S&P Manufacturing (Diversified) Index for the period of five fiscal years commencing December 31, 1996 and ending December 31, 2001. The graph shows the value at December 31 of each year assuming an original investment of \$100 and the reinvestment of dividends to stockholders.

[PERFORMANCE GRAPH GOES HERE]

|   | December 31, |        |        |        |      |
|---|--------------|--------|--------|--------|------|
|   | 1996         | 1997   | 1998   | 1999   | 2000 |
| Valhi, Inc.....                               | \$100        | \$ 151 | \$ 186 | \$ 175 | \$ 1 |
| S&P 500 Index.....                            | 100          | 133    | 171    | 208    | 1    |
| S&P Manufacturing<br>(Diversified) Index..... | 100          | 119    | 138    | 170    | 2    |

INDEPENDENT AUDITOR MATTERS

Independent Auditors. The firm of PricewaterhouseCoopers LLP served as Valhi's independent auditors for the year ended December 31, 2001. Valhi's audit committee has appointed PricewaterhouseCoopers LLP to review Valhi's quarterly unaudited consolidated financial statements to be included in its Quarterly Reports on Form 10-Q for the first three quarters of 2002. Valhi expects PricewaterhouseCoopers LLP will be considered for appointment to audit Valhi's annual consolidated financial statements for the year ending December 31, 2002. Representatives of PricewaterhouseCoopers LLP are not expected to attend the Meeting.

Audit Committee Report. The audit committee of the Board of Directors is composed of three directors, all of whom are independent within the meaning of New York Stock Exchange listing standards. The audit committee operates under a written charter the Board of Directors adopted, a copy of which was attached as Exhibit A to Valhi's proxy statement for its 2001 annual meeting of stockholders. Valhi's management is responsible for preparing Valhi's consolidated financial statements in accordance with accounting principles

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generally accepted in the United States of America. Valhi's independent auditors are responsible for auditing Valhi's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The audit committee serves as an independent and objective party to review Valhi's auditing, accounting and financial reporting processes.

The audit committee has reviewed and discussed Valhi's audited consolidated financial statements for the year ended December 31, 2001 with Valhi's management and independent auditors. The audit committee discussed with the independent auditors the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committees), received written disclosures from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with the independent auditors their independence. The audit committee also considered whether the independent auditors' provision of non-audit services to Valhi and its subsidiaries is compatible with such auditors' independence. Additionally, the audit committee discussed with Valhi's management and the independent auditors such other matters as the committee deemed appropriate. Based on the audit committee's review of Valhi's audited consolidated financial statements and the audit committee's discussions with Valhi's management and independent auditors, the audit committee recommended to the Board of Directors that Valhi's audited consolidated financial statements for the year ended December 31, 2001 be included in Valhi's Annual Report on Form 10-K for the year ended December 31, 2001, which has been filed with the SEC.

Norman S. Edelcup  
Chairman of the Audit Committee

Dr. Thomas E. Barry  
Member of the Audit Committee

Edward J. Har  
Member of the

Audit and Other Fees. The following table shows the aggregate fees PricewaterhouseCoopers LLP has billed or is expected to bill Valhi and its subsidiaries for services rendered for 2001.

| Entity                            | Audit Fees (1) | Financial Information<br>Systems Design and<br>Implementation Fees | A |
|-----------------------------------|----------------|--|---|
| Valhi, Inc.....                   | \$ 144,500     | \$ -0-   |   |
| NL Industries, Inc.....           | 512,911        | -0-  |   |
| Tremont Corporation.....          | 60,200         | -0-  |   |
| CompX International Inc.....      | 200,770        | -0-  |   |
| Waste Control Specialists LLC.... | 41,000         | -0-  |   |
|                                   | -----          | -----  |   |
| Subtotal.....                     | 959,381        | -0-  |   |
|                                   | -----          | -----  |   |
| Titanium Metals Corporation (5).. | 502,500        | -0-  |   |
|                                   | -----          | -----  |   |
| Total.....                        | \$ 1,461,881   | \$ -0-   |   |
|                                   | =====          | =====  |   |

(1) Includes, without duplication, (a) fees for the audit of the entity's consolidated financials statements for the year ended December 31, 2001, (b) if applicable, fees for reviews of the unaudited quarterly financial statements appearing in the corporation's Forms 10-Q for each of the first

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three quarters of 2001 and (c) the estimated out-of-pocket costs PricewaterhouseCoopers LLP incurred in such audits and reviews. The entity reimburses PricewaterhouseCoopers LLP for such out-of-pocket costs.

- (2) Consists exclusively of audit fees incurred in auditing Valhi's deferred incentive plan.
- (3) Primarily related to NL's pension plan audits and tax consulting services.
- (4) Includes \$85,071 for audits of benefit plans that CompX or its subsidiaries sponsor.
- (5) Valhi accounts for its interest in TIMET by the equity method.
- (6) Includes \$66,750 of tax consulting services, \$25,000 for compensation studies and \$21,000 for advice on accounting for potential investments.

### OTHER MATTERS

The Board of Directors knows of no other business that will be presented for consideration at the Meeting. If any other matters properly come before the Meeting, the persons designated as agents in the enclosed proxy card or voting instruction form will vote on such matters in accordance with their best judgment.

### STOCKHOLDER PROPOSALS FOR ANNUAL MEETING IN 2003

Stockholders may submit proposals on matters appropriate for stockholder action at Valhi's annual stockholder meetings, consistent with rules adopted by the SEC. Such proposals must be received by Valhi not later than December 6, 2002 to be considered for inclusion in the proxy statement and form of proxy relating to the Annual Meeting of Stockholders in 2003. Proposals should be addressed to: Corporate Secretary, Valhi, Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697.

### 2001 ANNUAL REPORT ON FORM 10-K

A copy of Valhi's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as filed with the SEC, is included as part of the annual report mailed to Valhi's stockholders with this proxy statement.

### ADDITIONAL COPIES

The SEC recently approved a new rule concerning the delivery of annual reports and proxy statements. It permits a single set of these reports to be sent to any household at which two or more stockholders reside if they appear to be members of the same family. Each stockholder continues to receive a separate proxy card. This procedure, referred to as householding, reduces the volume of duplicate information stockholders receive and reduces mailing and printing expenses. A number of brokerage firms have instituted householding. Certain beneficial stockholders who share a single address may have received a notice sent earlier this year that only one annual report and proxy statement will be sent to that address unless a stockholder at that address gave contrary instructions. Valhi will promptly deliver a separate copy of Valhi's 2001 annual report or this proxy statement to any stockholder at a shared address to which a single copy of such documents were delivered, upon written or oral request of such stockholder.

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To obtain copies of the Valhi's 2001 annual report or this proxy statement without charge, please mail your request to A. Andrew R. Louis, Corporate Secretary, at Valhi, Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697, or call him at 972.233.1700.

VALHI, INC.

Dallas, Texas  
April 1, 2002

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VALHI, INC.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697

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Proxy -Valhi, Inc.  
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PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF VALHI, INC.  
FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 13, 2002

The undersigned hereby appoints Harold C. Simmons, Glenn R. Simmons and Steven L. Watson, and each of them, proxy and attorney-in-fact for the undersigned, with full power of substitution, to vote on behalf of the undersigned at the 2002 Annual Meeting of Stockholders (the "Meeting") of Valhi, Inc., a Delaware corporation ("Valhi"), to be held at the offices of Valhi at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas on Monday, May 13, 2002, at 1:30 p.m. (local time), and at any adjournment or postponement of said Meeting, all of the shares of common stock, par value \$0.01 per share, of Valhi standing in the name of the undersigned or that the undersigned may be entitled to vote on the proposals set forth, and in the manner directed, on this proxy.

THIS PROXY MAY BE REVOKED AS SET FORTH IN THE VALHI PROXY  
STATEMENT THAT ACCOMPANIED THIS PROXY.

This proxy, if properly executed, will be voted in the manner directed on this proxy. If no direction is made, this proxy will be voted "FOR" all nominees for election as directors named in proposal 1 and, to the extent allowed by federal securities laws, in the discretion of the proxies as to all other matters that may properly come before the Meeting and any adjournment or postponement thereof.

PLEASE SIGN, DATE AND MAIL THIS PROXY PROMPTLY IN THE ENCLOSED ENVELOPE.  
SEE REVERSE SIDE.

Valhi, Inc.

Use a BLACK pen. Print in CAPITAL letters inside the grey areas as shown in this example

[A] [B] [C] [1] [2] [3] [X]

[ ] Mark this box with an X if you have made changes to your name or address

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details above.

-----  
Annual Meeting Proxy Card  
-----

A. Election of Directors

1. The board of directors recommends a vote FOR the listed nominee.

|                          | For | Withhold |
|--------------------------|-----|----------|
| 01-Thomas E. Barry       | [ ] | [ ]      |
| 02-Norman S. Edelcup     | [ ] | [ ]      |
| 03-Edward J. Hardin      | [ ] | [ ]      |
| 04-Glenn R. Simmons      | [ ] | [ ]      |
| 05-Harold C. Simmons     | [ ] | [ ]      |
| 06-J. Walter Tucker, Jr. | [ ] | [ ]      |
| 07-Steven L. Watson      | [ ] | [ ]      |

B. Issues

The board of directors recommends a vote FOR the following proposal.

2. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Meeting and any adjournment or postponement thereof.

[ ] FOR    [ ] AGAINST    [ ] ABSTAIN

C. Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.

NOTE: Please sign exactly as the name that appears on this card. Joint owners should each sign. When signing other than in an individual capacity, please fully describe such capacity. Each signatory hereby revokes all proxies heretofore given to vote at said Meeting and any adjournment or postponement thereof.

| Signature 1 | Signature 2 | Date (dd/mm/yyyy)          |
|-------------|-------------|----------------------------|
| -----       | -----       | [ ][ ]/[ ][ ]/[ ][ ][ ][ ] |